The risks and rewards when opting to buy off-plan

With the repo rate currently sitting at an unprecedented low, buyers and investors are caught between buying off-plan vs. buying an existing property. Buying off-plan, a term that refers to buying into a property or development before it has been built, is an attractive investment opportunity, however, buyers need to do their homework prior to purchase, says Grant Smee, managing director of Only Realty.

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"These developments are well packaged, well marketed and offer everything that a buyer could need in a single gated community. There is, however, the risk of a developer 'going bust' or timelines changing due to a lack of finances, sales and uncontrollable circumstances, such as the weather and, most recently, lockdown."

What you need to know

An appetite for risk will serve an off-plan buyer well. "The financial benefits of buying into a development early is a no-brainer. In fact, if everything goes to plan (and the market is right), then a buyer will make money on the property before they even move in."

A buyer puts down a small deposit (generally R10,000 – R20,000) and no further payment is required until the property is completed and transferred into their name.

New developments are generally phased, and each phase differs in price. "Phase one is normally sold at the lowest price. At this stage, there is no proof of concept or buyer confidence. Keep in mind that development financing can often only be activated once 70% of units are sold so the need to entice buyers is critical," he says.

"This is, however, standard practice so do your due diligence by researching the property developers, getting references, reading through your Offer to Purchase with a lawyer and understanding all the factors involved to ensure that you are adequately prepared."

For peace-of-mind, Smee says that when buying off-plan, buyers are covered by the Consumer Protection Act (CPA) which would give buyers a level of assurance in terms of the quality of finishes and recourse relating to any deviation from the agreed upon plans.

Buying off-plan vs. buying an existing property

Negotiating – "We are seeing a lot of buyers flocking to existing properties in sought-after areas. In a buyers' market, they can negotiate a great deal on properties that they perhaps couldn't afford before."

"Off-plan properties, on the other hand, leave little room for negotiation. Finances can, however, be saved while the property is being built and the property generally increases in value before you've even moved in."

Financing – "The property costs, including VAT and all associated fees, are 100% covered when buying off-plan. We are, however, still seeing lenient loan criteria by the banks with regards to on-plan (existing properties) with many buyers receiving 100% bonds."

Levies - “Levies are one of the most overlooked costs when buying off-plan and they must be factored in with caution. Bear in mind that levies are only pinned down once the off-plan development is registered so the price given to you during purchase is merely an estimate. In an off-plan development, you are paying a lot for amenities purely because there are so many. Many come with gyms, pools, added security, club houses, schools, etc.”

Based on this, Smee says that it may be best to look into existing properties with fewer levies and amenities to get more ‘bang for your buck’.

Think long-term – “Compare off-plan and on-plan properties before investing. Take emotion and added amenities out of the equation - do the sums and the research. There are great deals going around on existing properties too, so don’t rule this out.”

Smee’s top tips for buying off-plan

- Research, research, research!
- Price around to make sure that you are getting the best deal in your respective area.
- Get in as early as possible to secure the best possible location.
- Visit the site regularly.
- Work closely with your agent and check in regularly.
- Ask for timelines and stay on top of these.
- Ask questions.
- Get everything in writing.
- Add a clause to your contract to protect yourself should there be delays or other issues that are out of your control.
- Choose high-end finishes that will last (i.e. good locks, tiles, granite tops, etc.).
- Be rational and logical in making the final purchasing decision.
- Factor in the cost of levies.
- Beware of snags (hairline cracks, damp, etc.) and make sure that these are done upon moving in.

“Visualise the property, do your research on the area and similar properties within the area and keep the property’s future resale value in mind. Think long-term,” he concludes.