

# OFF-PLAN PROPERTY GUIDE

## What's inside

What is off-plan property?

Questions to ask before buying off-plan

How does an off-plan purchase work?

Where are the best places to buy off-plan?



**ALLIANCE**  
INVESTMENTS

# “England alone needs to build 340,000 new homes a year until 2031 to keep up with demand. Fewer than 300,000 homes are currently being built a year”

NATIONAL HOUSING FEDERATION, 2018

The UK housing sector is growing all the time, with the total value of property across the country standing at more than £7 trillion according to Savills – a figure almost 10 times higher than the government’s annual income. What’s more, the total value of the market has increased by more than a third in the last decade, demonstrating the scale of the housing market, its importance to the national economy, and the potential for future capital appreciation.

The market as a whole is a diverse mix of houses and apartments; private landlords and social providers; owner-occupiers and renters. The common theme that unites all types of housing is that in the UK we do not have enough of it. It is estimated that hundreds of

thousands of new homes are needed every year to meet demand, and we are not building anywhere near that many.

The gap between supply and demand defines the housing market. With homes in the busiest markets being snapped up as soon as they become available, purchasing off-plan – before construction has completed – has become increasingly popular with both owner-occupiers and buy-to-let investors looking to beat the crowds and secure their perfect property. What’s more, in the current market it is almost certain that your property will have gone up in value over the construction process, providing instant capital appreciation.

## In this guide

We have provided all the information you need about off-plan property, and aim to assist you in making an informed decision about your next purchase.



# What is 'off-plan' property?

Purchasing a property off-plan is different from buying a completed property and comes with its own pros and cons:

## **Advantages**

- You will often be able to purchase an off-plan property at a below-market rate which will be fixed as house prices around it continue to grow. This is particularly valuable in city centre markets like Manchester and Birmingham where property values are increasing rapidly.
- This means that you are likely to have achieved strong capital appreciation over the construction period which you can take advantage of by re-selling the property in the future, whether you are a homeowner or an investor.
- An off-plan purchase is often made direct from the developer which removes the middle-man from your

transaction, preventing miscommunication, saving you money on fees and making the whole process hassle-free.

- As one of the first to buy in your chosen development, you will get your choice of the best properties rather than having to pick from whatever comes to market after completion.
- Because it is not yet built, you will often have the option to customise selected fixtures and fittings over the course of the build.
- In many of the busiest markets, competition for properties is so fierce that many are snapped up immediately – with an off-plan purchase you won't miss out on your ideal property.
- Buying a brand-new property means that you are likely to avoid many maintenance costs associated with older



properties; for instance, you won't find a broken boiler in your property upon completion. What's more, your property will be covered under a new-build warranty in case anything does go wrong.

➤ Many fixtures and fittings you would normally buy separately (such as white goods) are often included with a new build property.

#### **Disadvantages**

➤ There will be a period of construction between purchasing your property and it being ready, so make sure you are happy with the projected construction time before proceeding.

➤ The construction process can sometimes be delayed which will push completion back. However, if you choose

a reliable developer with a strong track record, you can mitigate much of this risk.

➤ The final product may differ slightly from the initial CGI renders, but this is another area where choosing a developer with a history of delivering on what was promised can help assure the quality of your property.

➤ If you cancel your purchase during the build process you are likely to lose your reservation deposit. However, as long as you plan your purchase thoroughly – something which applies to any purchase, not just off-plan – then you should not have to worry about this.

➤ Your property value can change over the construction period, though if you are buying below market rate in a rapidly growing city like Manchester, then the only movement in value should be upwards.

# Questions to ask before buying off-plan

As with any property purchase, buying off-plan is a significant undertaking and you should make sure you have done your research before reserving. There is a lot to consider and we have compiled answers to some of the most common questions here:

## Is the developer reliable?

Perhaps the most important thing to research before making your off-plan purchase is the track record of the developer. A reputable company will have a strong track record of delivering what they promised on time and to the required standard, as well as being communicative throughout the process.

For instance, do they supply regular construction updates throughout the build process, and are they willing to arrange site visits to show you progress in person? If not, then it may be wise to look for a different developer, because finding the right one will automatically turn many potential downsides of buying off-plan into outright positives.

## How long is the construction process?

This will vary depending on the development and what stage you buy at, but you should make sure you are aware of how long your property will take to complete before you purchase. If it does not suit your timescale then it may not be the right option for you.

## Do I have to pay Stamp Duty on an off-plan property?

Yes, there is no difference to your Stamp Duty liability when a property is bought off-plan. You still have to pay the required amount based on the value of the property, and must do so within 30 days of the exchange as with any other residential property. Currently, the government's Stamp Duty holiday means that you will pay not the tax on any property valued up to £500,000. This holiday is active until 31st March 2021; after that, the minimum Stamp Duty threshold will revert to its previous level of £125,000. Furthermore, you should be aware that there is an additional 3% Stamp Duty surcharge if you already own a second property.

## The full breakdown of Stamp Duty costs is as follows:

### What costs do I need to be aware of beyond the purchase price?

Much like with any property purchase, buying off-plan comes with a set of additional costs which need to be taken into account. These include:

- > Ground rent – Regular payments to the leaseholder
- > Service charge – A cost payable to the building owner one complete to cover maintenance, repairs and buildings insurance

## Stamp Duty TABLE

### Rates from 8 July 2020 to 31 March 2021 (Duty Holiday)

Property or lease premium or transfer value	SDLT rate
Up to £500,000	Zero
The next £425,000 (the portion from £500,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

### Rates from 1 April 2021

Property or lease premium or transfer value	SDLT rate
Up to £125,000	Zero
The next £125,000 (the portion from £125,001 to £250,000)	2%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

**From July 2020 you buy a house for £625,000. The SDLT you owe will be calculated as follows:**

0% on the first £500,000 = £0  
5% on the remaining £125,000 = £6,250  
total SDLT = £6,250

**From May 2021 you buy a house for £275,000. The SDLT you owe will be calculated as follows:**

0% on the first £125,000 = £0  
2% on the next £125,000 = £2,500  
5% on the final £25,000 = £1,250  
total SDLT = £3,750



- Lettings and management fee (if you are letting the property out)
- Solicitor and conveyancing fees

There is no set figure for these fees as they will vary depending on various factors, so it is advisable to ensure you are aware of all costs before making your reservation.

#### **Can I get a mortgage on an off-plan property?**

Yes, off-plan properties are mortgageable, but make sure to check with your lender before making your reservation to make sure you are eligible. Following exchange of contracts, your financial advisor will tell you when to start the formal mortgage application process – normally about six months before completion.

Most developers selling off-plan property will be partnered with recommended mortgage advisors who are experts in the off-plan market.

#### **How does an off-plan purchase work?**

Much like any other property purchase you will have to put down an

initial deposit. Following that, you will either be able to pay the balance on completion or stage payments over the construction period, depending on the developer.

For more information about how staged payments work, please see page X of this guide.

#### **I am a buy-to-let investor – how do I let my property out following completion?**

Once the build process is complete you can start earning income on your investment by letting it out to a tenant. Most developments sold off-plan will have a pre-appointed lettings and management company who will begin tenancing the new homes before they have completed, meaning that people will move in straight away and you will begin generating income immediately.

While you do not have to use the developer's recommended letting and management agent, they will have been appointed based on their knowledge of the developer and the market and, consequently, are often in the best position to help you make the most of your investment.



# Staged payments and off-plan property

Whilst most housebuilders will require you to pay a deposit and then the balance on completion, some developers offer staged payment options when purchasing a property off-plan. This format offers more flexibility and the ability to negotiate a schedule that suits you. This is an example of what a staged payment process can look like:

## **Step 1 – Find the right development for you**

Once you have decided where you want to purchase a property, it is time to look around at what off-plan developments are available in the area. Each will have different amenities – such as gymnasiums, swimming pools and cinema rooms – and will be designed with a specific resident in mind. Work out what you want, and decide on the development for you.

## **Step 2 – Speak to the developer**

The next step is to get in touch with the developer to find out more specific information about everything from the price to the floor plans. This is also where you should find out more about the developer's track record and the projected construction time to make sure you are comfortable before proceeding.

## **Step 3 – Pay the reservation deposit**

Once you are happy with the property, the payment terms and the construction period, you will need to pay a small reservation deposit once you have picked your perfect property. This is usually £5,000 and is required by the developer to take your property off the market.

## **Step 4 – Appoint a solicitor**

Following your reservation, you will need to appoint a solicitor to deal with the contracts and overall conveyancing process. A reputable company will have an in-house aftersales service to answer any questions, deal with the paperwork and recommend a solicitor who has experience dealing with off-plan purchases.

## **Step 5 – Arrange interim payments**

Throughout the construction period you will make payments at various stages which are prearranged with the developer before you reserve your property.

An example arrangement for a residential property would be:

- £5,000 payment to reserve your property
- 30% payable on exchange of contracts (minus the initial reservation fee)
- The balance payable on completion

Car parking is generally included as part of the initial price in a standard contract, though anything extra – such as furniture packs – are considered a separate purchase unrelated to the contract. It is also worth bearing in mind that the above example is not set in stone, and most reputable developers will allow some flexibility on a case-by-case basis.

The date you pay the final balance will depend on when the build process is concluded. Regular construction updates supplied throughout the process will allow you to plan the final payment ahead of time.

### **UK buy-to-let is booming**

Off-plan is one of the most popular options for buy-to-let investment. An increasing number of people, particularly in the busiest markets such as Manchester city centre, are choosing to rent for the long term – meaning that more and more rental homes will be needed over the coming years.

Growing demand, ever-increasing rental yields and impressive capital appreciation have made UK property one of the world's most popular investment options. The Office for National Statistics estimates that there are currently 4.5 million households in the Private Rented Sector, and this number will continue expanding as the UK's population swells in the coming decades.

Savills anticipates that average UK property value will grow 14.8% by 2023, and JLL predicted in its latest research from 2019 that Manchester and Birmingham will grow even faster than that, with house prices in both cities growing 15.9% over the same period. Those same regional markets are also projected to see rents increase by 16.5% by 2023.

### **What to consider when investing in buy-to-let**

There are significant opportunities on offer for landlords, but there is plenty to consider before making an investment. Here are few of the most important things to think about:

#### **1) Where is the population growing?**

The theory behind buy-to-let investment is simple: find out where people are moving, and purchase property there. Whereas London was previously the most popular place in the country for young professionals, the capital has fallen behind regional cities like Manchester where the City Council anticipates an extra 100,000 people moving to the city in the next 15 years. Of those, 5,000 a year are expected to move to the city centre. Likewise, Birmingham's City Council expects to see population growth of more than 100,000 over the next decade, putting enormous pressure on the city's housing market.

#### **2) How involved do you want to be?**

Once you have purchased a property, it will need to be tenanted. Following that, it will need continuing management over the course of the tenancy. This includes dealing with all the paperwork, legal certification and ongoing maintenance work. It is no wonder that so many landlords appoint a professional lettings and management agent who, for a small fee, will take care of everything and make the investment completely hands-off.

#### **3) What are the costs?**

Before purchasing, it is important to ensure you understand that costs associated with buying off-plan to avoid surprises down the road. For example, the fees associated with purchasing a property include stamp duty, the property survey, legal fees and any mortgage costs. Following that, you may incur extra costs when renting the property out, including management fees, landlords' insurance and maintenance fees.



# Where should I buy off-plan?

## Manchester

Manchester has come a long way since it kickstarted the 18th and 19th century Industrial Revolution. Today it is a diverse city notable for its strength in sectors as varied as finance, digital, advanced manufacturing and fashion. Giant corporations including the BBC, Siemens, BT and Amazon all have a significant presence in the city, and more companies will follow.

The city is also one of the UK's most impressive cultural and sporting centres. Playing host to the Manchester International Festival, two world-famous Premier League football teams and everything in between, explains why Manchester is such an attractive place to live beyond simply providing great employment opportunities.

It really is no surprise that Manchester is so popular with so many – and with business growth of 41% in the last five years, everything indicates that the city will only keep growing. What's more, its property market is following suit, making this the perfect time to buy off-plan in Manchester.

Here are three factors contributing to the future of Manchester:

### **An expanding city centre population**

Perhaps the most obvious sign of Manchester's vitality and success is its growing city centre population. The City Council's State of the City Report 2019 shows that more than 575,000 people will call the city home by the end of 2019 and, furthermore, the Council's Forecasting Model estimates that could rise as high as 637,000 by 2025.

At least 100,000 of those people will live in the city centre – an increase of approximately 5,000 people a year. Growth on that

level would put immense pressure on the available housing stock and push property values to new highs.

### **A rail revolution**

Manchester already has a superb transport network which connects it efficiently to the rest of the UK and the world, boosting business links and the city's economy. Already established as the capital of the North, Manchester is set to benefit from even more investment into the national railway networks.

With the completion of HS2 high speed rail and Northern Powerhouse Rail – which will reduce journey times to London and across the North respectively – Manchester's position as a global economic hub and gateway to the UK will be consolidated and expanded.

### **Record-breaking levels of construction**

Construction levels in Manchester are at record-breaking levels, according to the Deloitte Crane Survey 2019. In the residential sector, there are twice as many units under construction as there were in 2016, and the anticipated level of delivery over the next three years is set to exceed the combined total of the last 10 years – but that still won't be enough to meet demand, meaning that property values will continue rising.

Outside of the residential sector, more than 2m sqft of office space is under construction, of which a quarter is pre-let and 85% is Grade A rated. On top of that, more than 2,000 hotel rooms and 1.1m sqft of education and research space are being built in Manchester, all of which will encourage more trade and business, creating long-term prosperity.

5,000

THE CITY CENTRE POPULATION IS GROWING BY 5,000 PEOPLE A YEAR

16%

JLL PREDICTS HOUSE PRICE GROWTH IN MANCHESTER OF 16% BY 2023

6%

AVERAGE YIELDS IN MANCHESTER CITY CENTRE

# Where should I buy off-plan?

## Birmingham

Birmingham has long been a powerhouse at the centre of the UK economy, and the city is growing more and more every year thanks to billions of pounds of investment and a comprehensive infrastructure plan.

Following a record-breaking year for office completions, as well as being in the midst of remarkable population growth, this is a great time to invest in Birmingham.

With major projects including Birmingham Smithfield, Paradise Birmingham and Arena Central underway, the city is booming. It's really no surprise that multinational companies like PwC, DLA Piper, Deutsche Bank and KPMG have relocated to Birmingham to make the most of the opportunities on offer in the city.

All of this investment is paying dividends for Birmingham's property market. As the economy and population grow, an ever-increasing number of people are looking for homes in the city – but there simply is not enough stock, and this is pushing house prices up rapidly.

Here are three of the most important factors in Birmingham's future:

### The Big City Plan

The Big City Plan is a large-scale investment programme designed to unleash the potential of Birmingham city centre. By transforming its built environment, Birmingham is catapulting itself into the ranks of world-class cities, whilst maintaining its impressive cultural assets and heritage.

Measures underway include the creation of 1.5m sqft of commercial space, 65,000 sqkm of public space, 28 km of new walking and cycling routes and 5,000 new homes. Altogether, it is estimated that this

framework will enable the creation of more than 50,000 new jobs and contribute an extra £2.1bn to the economy every year.

### HS2 high speed rail

The second pillar of Birmingham's investment plan is the HS2 high speed rail network which will better connect the city with London, Manchester and Leeds, providing another huge economic boost. Two new stations are in construction – one in the city centre and one at Curzon Street, near the Airport – bringing £1bn of investment into the city.

The economic benefits of HS2 will be huge. Birmingham City Council estimates that another 50,000 jobs will be created by the new rail line and that overall economic activity in the city will increase by £4bn a year.

### Shortage of high quality homes

The latest Birmingham Market update from Knight Frank shows that the city's population will grow by approximately 100,000 households within the next two decades thanks to its booming economy. This means that Birmingham will need to add at least 3,500 houses to its current stock every year to meet that need.

This puts reports from the Deloitte Birmingham Crane Survey 2019 of 5,000 residential units currently under construction into perspective. Despite that being a record amount, the report states that fewer than 3,000 of those units completed in 2019 – showing that even Birmingham's best year for a decade is not enough to meet the required demand. With this in mind, the shortage of homes in Birmingham is set to continue far into the future, and the value of any property within easy reach of the city centre will continue to grow in response.

16%

JLL PREDICTS HOUSE PRICE GROWTH IN BIRMINGHAM OF 16% BY 2023

10,000

BIRMINGHAM'S POPULATION HAS BEEN INCREASING BY 10,000 A YEAR OVER THE LAST DECADE

£4bn

THE ANNUAL ECONOMIC BENEFIT TO BIRMINGHAM FROM HS2

**We'd love to hear from you**  
FOR FURTHER INFORMATION ABOUT ANYTHING  
IN THIS GUIDE OR FURTHER QUESTIONS ABOUT  
AN INVESTMENT IN UK PROPERTY,  
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