

Build or Buy Built

We've seen increased activity this week with more traffic through open homes and more genuine buyer offers, mainly in the under \$300K price range. Interestingly, the activity is predominantly coming from the mining industry, first home buyer and investor segments. In dealing with a number of buyers this week who've been tossing up whether to build or buy an existing dwelling, some key issues specifically relevant to the current market have become apparent and are worth sharing.

Before going any further, I should make clear I'm not against building – quite the contrary. But in a flat or falling market, investors need to be particularly aware of the traps, as the risk is much higher than in a rising market. As with most things property, essentially it all comes down to not getting carried away with emotion and making good decisions based on logic.

The most important thing with packages is the purchase price. Some of the big developer's offerings look pretty attractive on face value – you get the \$10,000 Government building bonus, perhaps the First Home Buyer's Grant, stamp duty concessions for buying off the plan, plus whatever other bonuses they're throwing in, most commonly free furniture packages. The display villages look magnificent and the salespeople are convincing. They'll show you details of other recent sales to justify the price they're asking, but in some cases, the land is actually overvalued by as much as 20%.

If this is the case, there's no way you can win. Unfortunately, many people who've bought these packages over the past twelve months have found this out the hard way. Some made changes and additions to the original design to suit their tastes, adding to the original cost. Some chose to build houses that were inappropriate to the demographic of the area. Regardless, when the build was finally completed, many discovered on the final valuation they'd spent more than the property's current market value. In some cases, these buyers have struggled to settle as their banks refused to lend them what they need. One thing to keep in mind the house land packages will cost you more and take longer than you plan and may be worth less when it is completed in the current market.

Here's a simple way to make sure you're not being sold down the river. Do your own research. Take the data the developer's salespeople may give you and then take it to an independent agent. Ask them for comparable sales – every agent has them and reputable ones won't mind helping you. See if the developer's data includes all the sales, top and bottom prices, not just ones that support the price they've quoted you. Go through open homes of houses for sale close by that are up to three to five years old – see what you can get for the equivalent money. Factor in the costs involved in carrying a loan while the house is being built versus buying a house that can be lived in or rented out straight away. When you have all the facts, see how the deal stacks up. If it doesn't, walk away and watch those salespeople come running after you, offering discounts.

Only with good information can you make truly empowered decisions.

We look forward to helping you make yours.

Michael Knights