

Off Plan Sales: Is it an Elixir for Property Financing in Emerging Markets?

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SUMMARY

In most emerging markets, the middle class is burgeoning while purchasing power is diminishing due to high cost of living. The consumption level is high while the cost of borrowing to satiate that consumption appetite balloons. One of the products that the middle class seeks to buy is a property, their own property – mostly for own occupation that for investment purposes. This demand coupled with most banks luring the middle class for long-term mortgages, has made most property developers to sell off plan properties. These are also called pre-construction properties and is one way beating high cost of borrowing. Some people even call them paper properties! What is an off plan property? Let me explain it this way; a property developer has land to develop but the development requires a lot of money. The developer has less money and has to borrow from financiers to do the development. Sadly, the cost of finance is too high to be absorbed in the price of the housing units without being uncompetitive. The developer then prepares a concept of the development with nice documentations such as 3D drawings with site, floor and unit plans. Detailed information on financing terms, projected rentals, and so on is also provided. Upon approval of the plans by the approving authority, the developer offers the yet to be developed units for sale. The developer therefore raises enough funds for starting construction of the units. The construction is done in phases to sync with installment payments upon stage valuation. The developer may differentiate discount rates in line with stage of the development. The nearer the development is to completion, the less the discount given and the more expensive the units become. The buyers of off plan units don't have to pay the full purchase price in lump sum thereby reducing pecuniary risk. The discounts offered by developers are usually quite decent which makes appreciation of value of the off plan property rapid. The fact that payments are done by reasonable installments also helps one to plan well in terms of cash flow. However, as with all investments, one needs to be willing to take some risk if one wants a good return. The crux of the matter is to minimize risk by properly researching the property investment. The buyer needs to consider four key factors before buying an off plan property. The developer: One must get as much information as possible about the developer. How long have they been in business? How many developments have they successfully completed? Property type: This will depend on one's own needs and goals. Are you for investment or home or hybrid property? Do you prefer stand alone or gated community? Location: This is a very important consideration, as it will affect future value of the unit and area around the development. Is the necessary infrastructure such as utilities and roads in place? Contract: Make sure that terms and conditions of contract with the developer are clear enough and water tight. In a nutshell, off plan property can offer both the developer and owner very impressive returns due to reasonable cost of development. For the buyer, simply ask a lot of questions, see many things and use the right people.