Construction Loans

WHAT DOES A CONSTRUCTION LOAN INVOLVE?

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A construction home loan is a type of home loan designed for people who are building a home as opposed to buying an established property. It has a different loan structure to home loans designed for people buying an existing home.

A construction loan most commonly has a progressive drawn-down. That is, you draw down the loan (or increase your borrowing) as needed to pay for the construction progress payments.

The amount available to borrow will be partly based on the value of the property upon completion of the construction.

A construction loan will usually be interest only over the first 12 months and then revert to a standard principal and interest loan.

WHY YOU SHOULD GET A PRE-APPROVAL

Always approach your mortgage broker about a pre-approval for your construction loan before you go out looking at display homes. This will let you know exactly how much you're able to spend on your land and your construction costs as a combined total.

This is also a great way to ensure you don't go over budget and commit to something you cant afford.

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PROGRESS PAYMENT STAGES

1) Deposit
This is required at the time that the building contract is signed and is your authority to proceed.

2) Foundation or Base Stage
This is when site cutting is done and well as initial plumbing. It is when the foundation of the property is competed.

3) Frame stage
The next stage involved the frame being erected.

4) Lock up
The next stage involves work being completed such as all the brickwork, roofing and electrical fittings completed, which allows the property to literally be "locked up". So the windows, doors and insulation are fitted and the property becomes physically lockable.

5) Fixing or Fit-out
The next stage is when the interior of the property is installed. So this involves such things as the cupboards benches and tiling being integrated, plumbing and electrical are completed, and gutters and down pipes installed. The kitchen is generally fully installed as are bathrooms as well.

6) Completion
The completion stage is as it sounds and involves finishing the final touches on the property before it's ready to be certified and handed over to the new owners.

OFF THE PLAN

When you buy a property off the plan, it means you're buying into something that hasn't been built yet. It also means paying a sizable deposit, then waiting until it's finished before paying the balance of the purchase price. The size of the deposit will depend on the developer, but it's usually between 5% and 20%

Pro's

- Purchase price
If you get in early enough - particularly, before construction begins - the developer may potentially offer a discount on the purchase price.

-Capital Growth
There's potential for the property to increase in value during the course of construction.

-Input to design
You may get more control over the interior style of the property. Check with the developer to find out what's possible.

Con's

- Developer may go bankrupt
If the developer goes bust before completing, you may not get your deposit back. This will depend on the terms of your contract.

-Lower property value.
Your lender will only value the property a completion and sometimes the final value may be less than expected. This in turn may affect your LVR.

-Doesn't meet your expectations
When you buy off the plan, you don't get a chance to "walk through" the property before buying it - so it might turn out different to what you expected.

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