

Buying your first home

The good and bad
about buying a home

Creative ways
to enter the market

Before you buy a property in Australia

Making an offer
on a property in Australia

After moving into
your new property



You need to be able to ...

1. **Identify the pros and cons of buying a property and how these will change in different circumstances**
2. **Explain some creative ways to enter that property market that may be suitable for your future situation**
3. **Identify the steps that you need to take before buying a property in Australia**
4. **Identify and explain the main steps associated with actually buying the property**
5. **Explain the pros and cons of renovations and the impact of family breakdown on property**

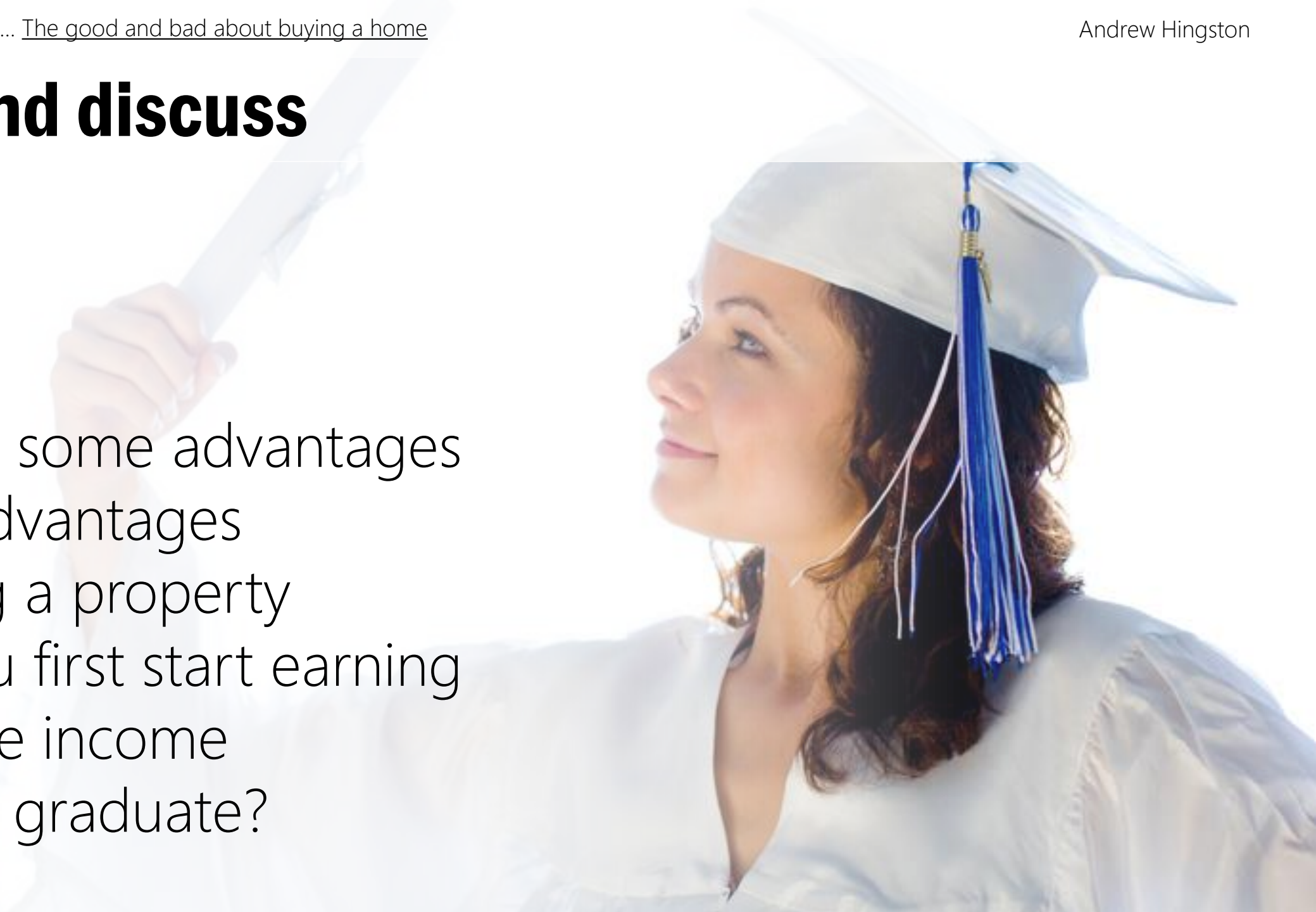


The good and bad about buying a home



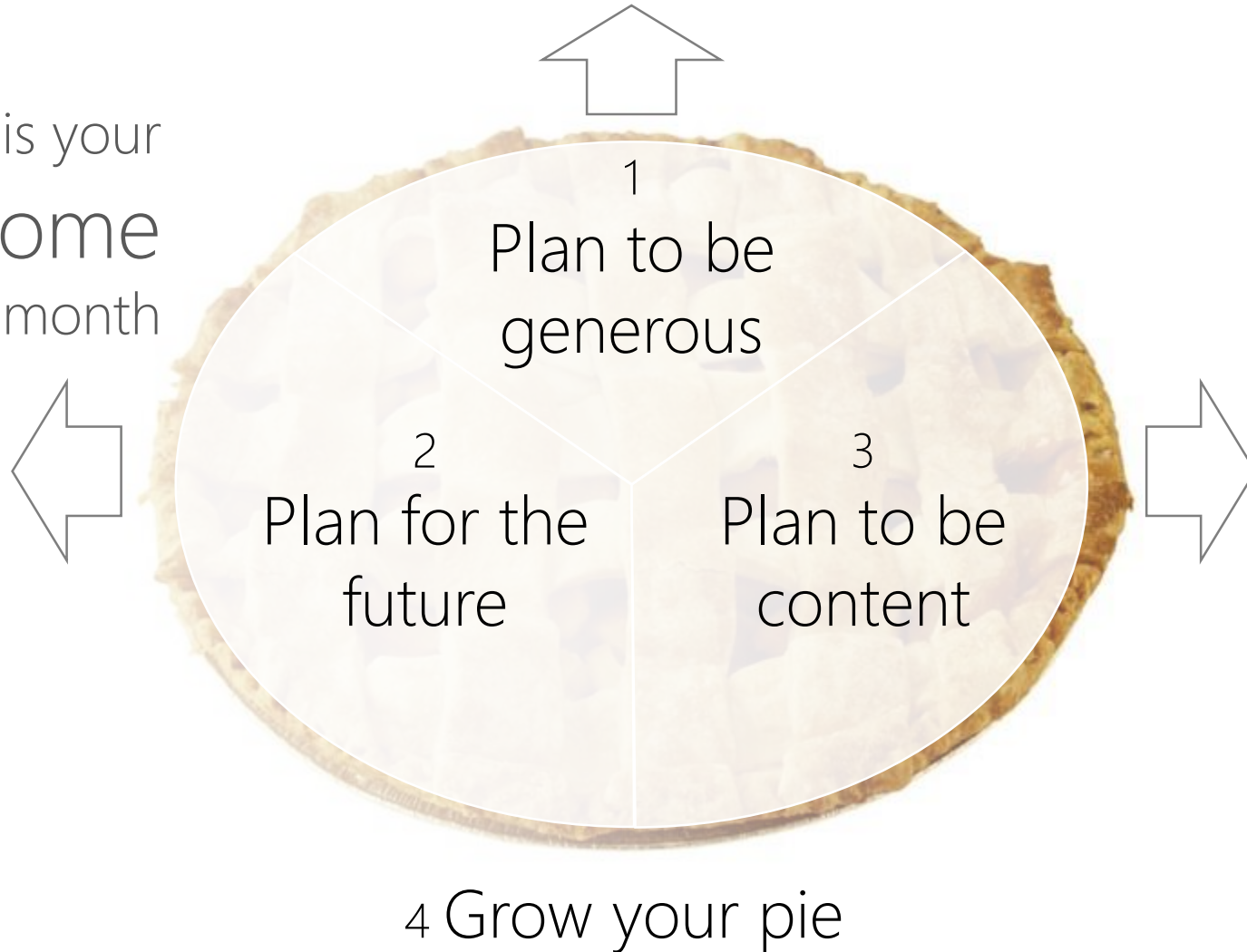
Think and discuss

What are some advantages and disadvantages of buying a property when you first start earning a full-time income after you graduate?



The pie

Your pie is your
total income
each month



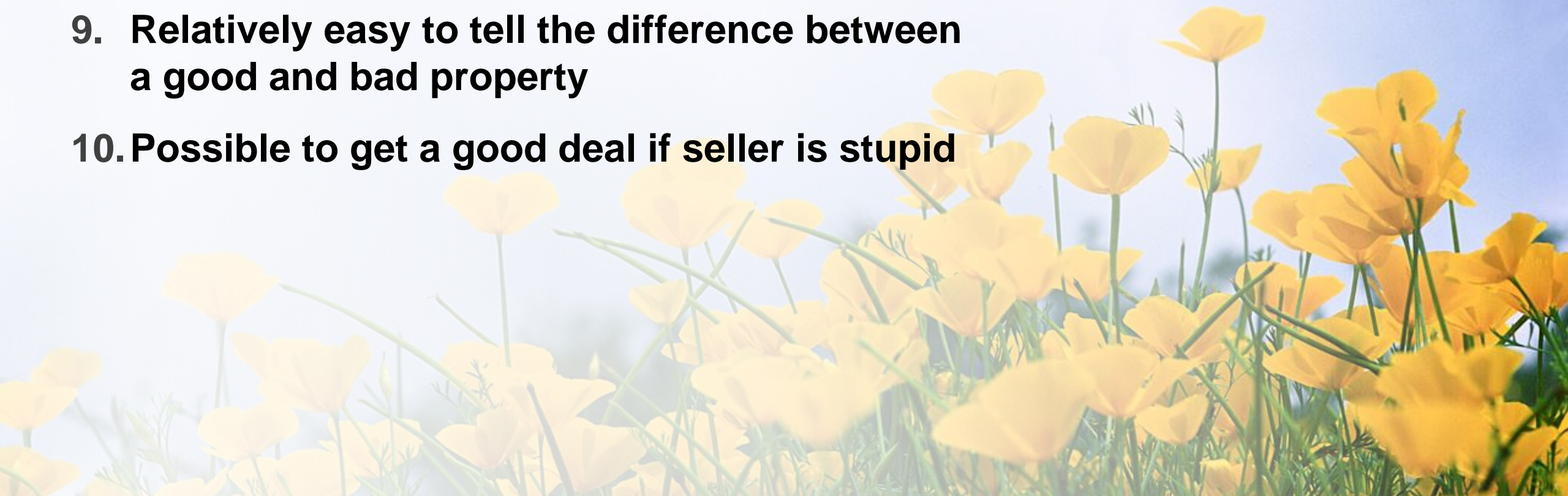
The good

1. **Keeps the rain off your head!**
2. **Long-term control over dwelling expenses**
3. **Control over dwelling**
4. **Stability in lifestyle**
5. **General increase in price**



The good ... continued

- 6. **Capital gains are not taxed (for home)**
- 7. **Cheap interest rates = geared investment**
- 8. **Tangible**
- 9. **Relatively easy to tell the difference between a good and bad property**
- 10. **Possible to get a good deal if seller is stupid**



The bad

- 1. All your eggs are in one basket**
- 2. Not diversified within residential sector**
let alone other types of property
- 3. Not diversified across asset categories**
Fixed interest, domestic shares and overseas shares
More on this later in the course
- 4. Not divisible (can't sell off 10% of asset).**
- 5. Not many low value properties**
forcing dual income commitment to pay off mortgage

The bad ... continued

6. High “entry fees” when buying a property

Stamp duty, search costs and legal fees (4%+)

7. High “exit fees” when sell the property

Advertising, agent commissions & legal fees (2%+)

8. Fees are really high compared to other investments

Buy a \$300,000 property = \$12,000 fees

Sell it for \$400,000 five years later = \$8,000 fees

Buy another property for \$500,000 = \$20,000 fees

Total wealth destroyed by fees = \$40,000

9. High fees mean lower flexibility to downgrade / upgrade.

The 'Rent v Buy' argument

A long-term geared investment (borrow money) into a diversified share portfolio (via a managed fund) will probably create more wealth over 30 years than borrowing money and buying a house.

So it could be better to just rent and to save and invest the difference between mortgage payments and rent into a good quality geared investment.

BUT

Requires savings discipline (most people aren't)

Confusing array of managed funds available

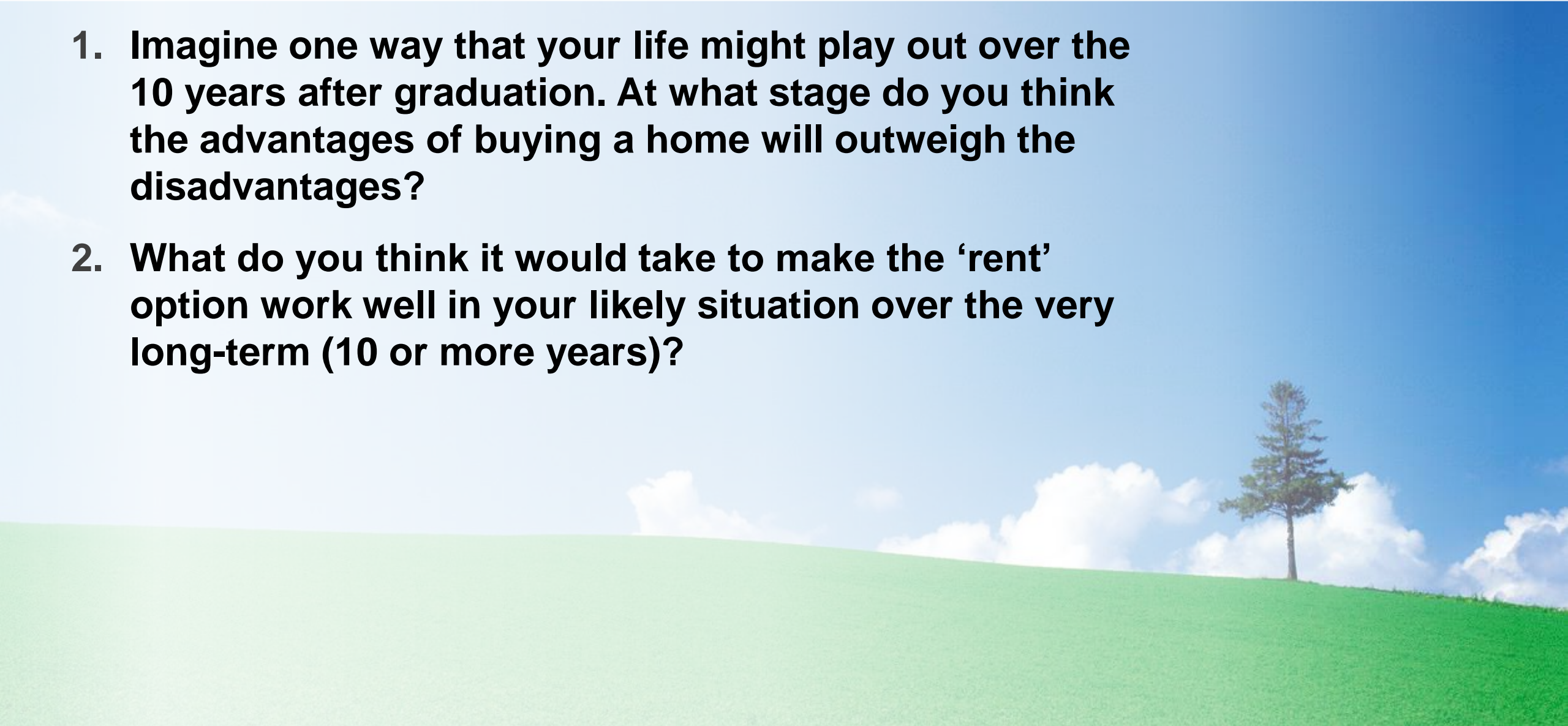
Requires patience and investment discipline

There is more to life than wealth maximisation!



Q1: The good and bad of buying a home

- 1. Imagine one way that your life might play out over the 10 years after graduation. At what stage do you think the advantages of buying a home will outweigh the disadvantages?**
- 2. What do you think it would take to make the 'rent' option work well in your likely situation over the very long-term (10 or more years)?**



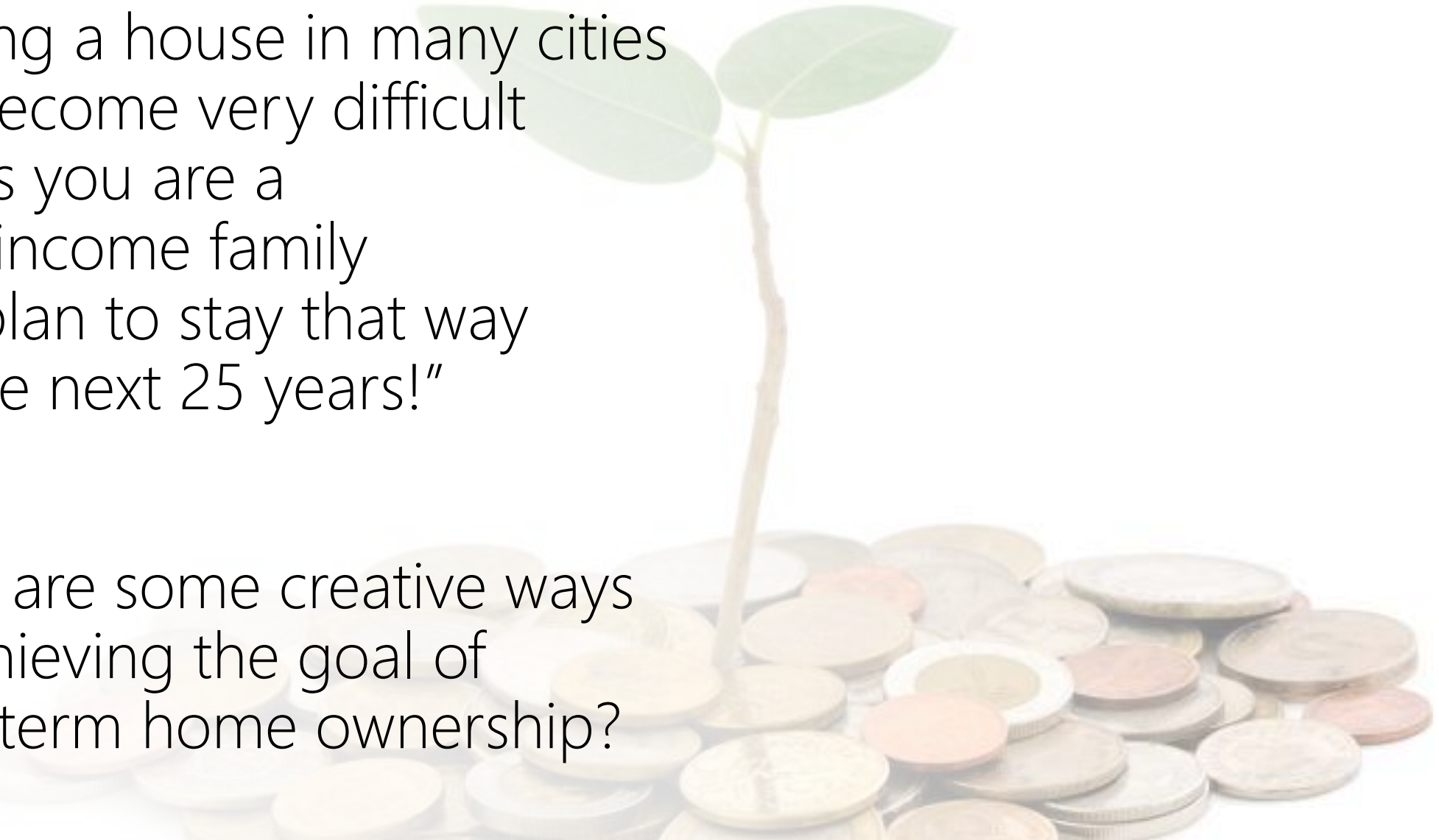
Creative ways to enter the market



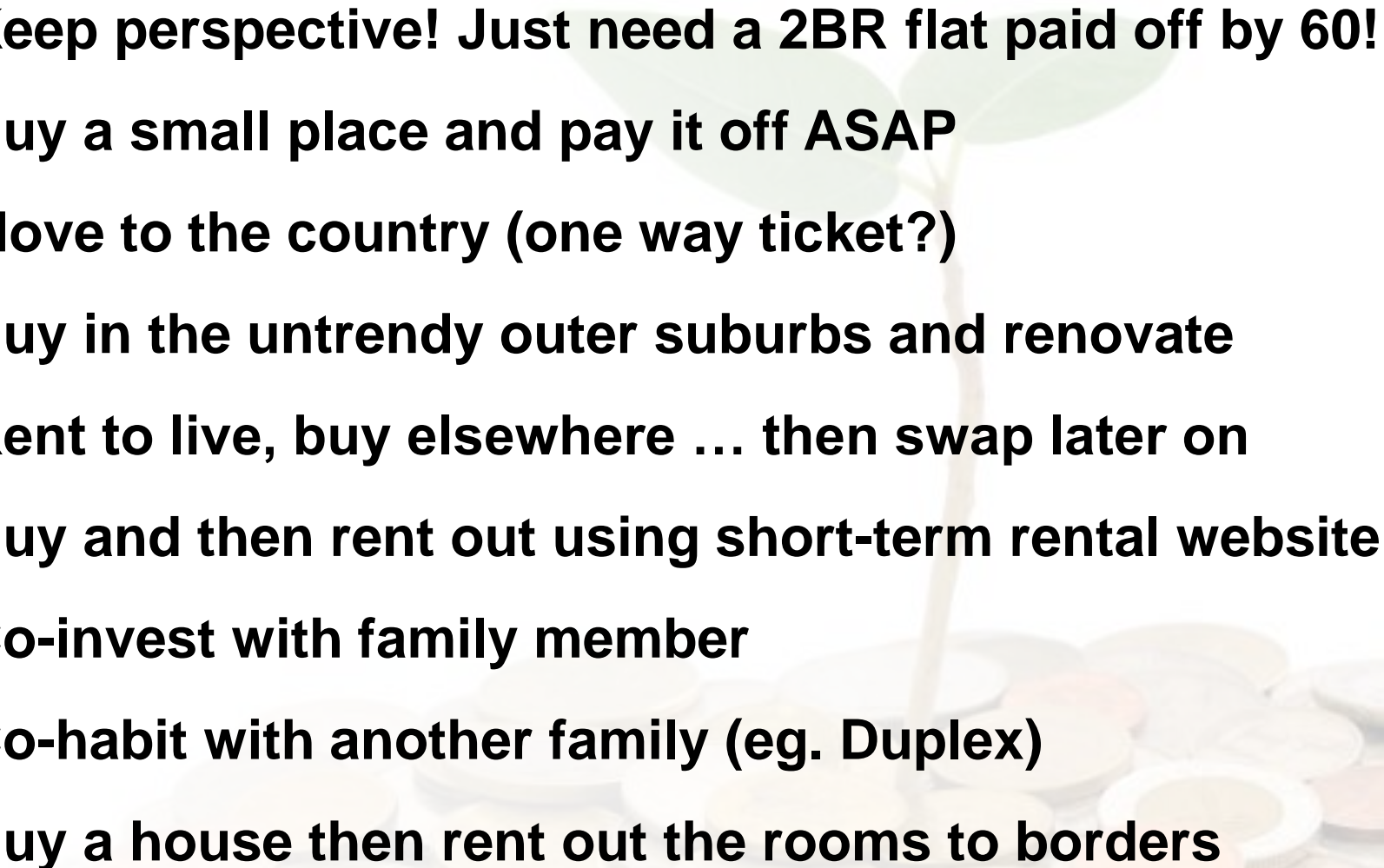
Think and discuss

“Buying a house in many cities has become very difficult unless you are a dual-income family and plan to stay that way for the next 25 years!”

What are some creative ways of achieving the goal of long-term home ownership?



Some creative alternatives

1. **Keep perspective! Just need a 2BR flat paid off by 60!**
 2. **Buy a small place and pay it off ASAP**
 3. **Move to the country (one way ticket?)**
 4. **Buy in the untrendy outer suburbs and renovate**
 5. **Rent to live, buy elsewhere ... then swap later on**
 6. **Buy and then rent out using short-term rental website**
 7. **Co-invest with family member**
 8. **Co-habit with another family (eg. Duplex)**
 9. **Buy a house then rent out the rooms to borders**
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- A small green plant with a thin stem and a few leaves is growing out of a pile of various coins. The coins are of different colors, including gold, silver, and copper, and are scattered across the bottom half of the slide. The background is a light, neutral color.

Q2: Creative ways to enter the market

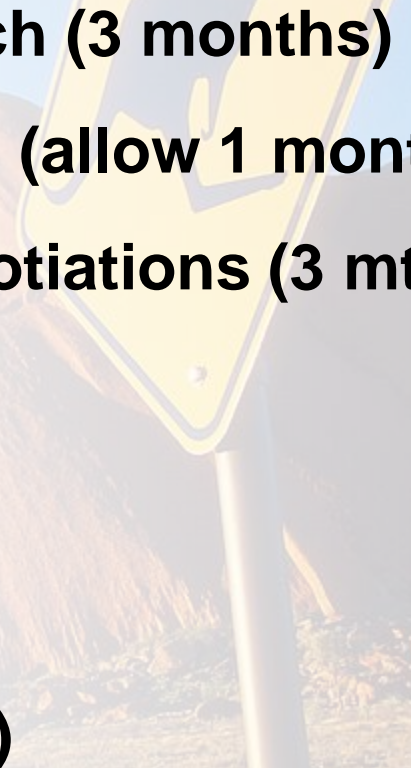
Identify some creative ways to enter the property market that may be appropriate for your likely future situation.



Before you buy a property in Australia



Process

1. **Preliminary loan and property research (3 months)**
 2. **Arrange pre-approval for a home loan (allow 1 month)**
 3. **Active property search and price negotiations (3 mths+)**
 4. **Exchange of contracts (1 day)**
 5. **Settlement (42 days later)**
 6. **Move in (1 day later)**
 7. **Renovate? (usually starts 1 year later)**
- 

Before you look ...

Talk to your bank before starting to look for a house

Plan for your deposit (\$30,000?)

Estimate a target price of your first property (\$300,000?)

Preliminary talk with bank to see if they'll lend balance

Repayments < 30% of your mthly after-tax income

Work out whether mortgage payments will cause stress

Determine realistic dwelling type

unit, townhouse, duplex, house?

Determine some realistic locations

close to CBD, work, transport, coast, parents, family?

Most young people need to go a long way SW or NW!

Getting the finances ready

Most banks lend to 90% of property value

This means you need to save at least a 10% deposit

Better to aim for at least a 10% deposit

On \$300,000 property this is \$30,000

Start saving towards this target today!

Start a savings account with just \$10 a month

If possible, try to save a lot more ... eg. \$80,000

Gives you a 'buffer' against unexpected bad events

Significantly reduces time required to repay loan



First home owner assistance in NSW

Helps boost your deposit and reduces fees

You (or spouse) cannot have owned a home previously

You must live in it for continuous 6 months in first year

First Home Buyers Assistance scheme

Zero stamp duty on homes up to \$650,000 with concessions up to \$800,000
(saves you up to \$24,740 on a \$650,000 home)

First Home Owner Grant (New Homes) scheme

Additional \$10,000 toward purchase of new home up to \$600,000 in value

First Home Super Saver Scheme (FHSSS) – still awaiting legislation

Withdraw \$30,000 (plus earnings) on voluntary super contributions to buy home

More info: <http://www.osr.nsw.gov.au/grants>

<https://www.ato.gov.au/General/New-legislation/In-detail/Super/First-home-super-saving-scheme/>

Arrange pre-approval

You do this “before” making any offers!

Decide on your bank and mortgage product

Apply for the maximum amount possible

Provide them with all paperwork / ID / payslips required

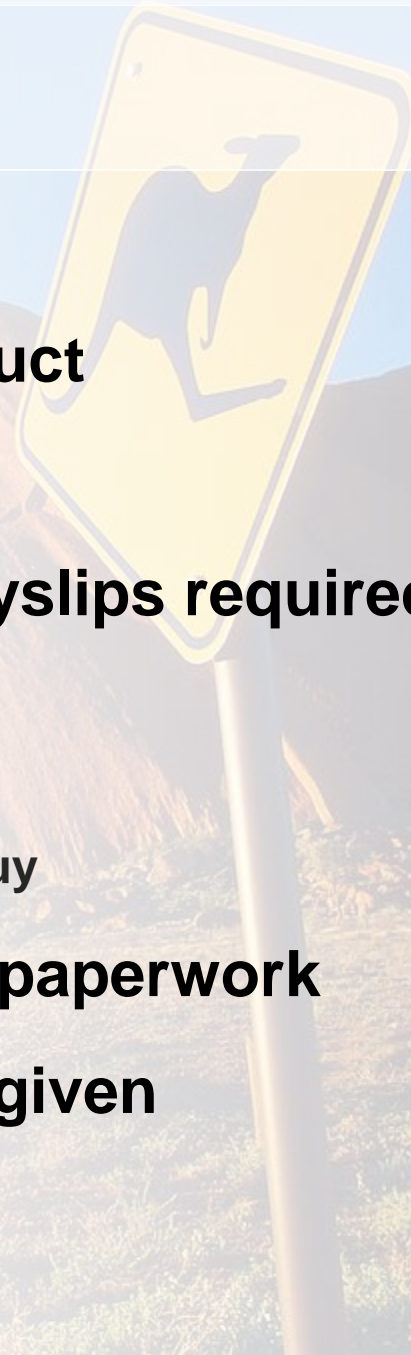
can take a few weeks to get everything together

Bank will give you “pre-approval”

subject to them being happy with property you buy

Usually given within a week of receiving paperwork

Rarely “reject” a loan after pre-approval given



Property searching tips ...

1. **Be flexible – you can't afford the suburb you want!**
2. **Use property websites**
3. **Check them out with Google satellite and street-view**
4. **Research actual sale prices (homepriceguide.com.au)**
5. **Rent in the area before buying**
6. **Jog in the area and get to know the streets**
7. **Get to know the local agents**
8. **Remember that the agent is on the seller's side**
9. **Calculate fair value of property yourself (next slide)**
10. **Be patient and avoid emotional attachment**



Fair price for a property?

Usually about 5% to 10% less than asking price

1. Net rental yield method

Total rent for one year less expenses

Divided by property price

Yields have varied over time between 3% and 5%

Yield on house is lower than unit due to value of land

Or, $\text{weekly rent} \times 1,000 = \text{property price} (\sim 5\% \text{ yield})$

2. \$ per square meter method

Price divided by number of square meters of unit or house

A more reliable measure used by bank valuers!

Varies by suburb and housing type/quality



Making an offer on a property in Australia



Before you make an offer ...

Get a pest and building inspection if it is a house (\$300)

It can be a negotiating ploy to make the offer 'conditional' on the building and pest inspection but that has some risks.

If it is a unit, get both a building inspection (if necessary) and get a strata search report.

Can get the report via a solicitor or directly

Need to engage a lawyer to look at the draft contract once you are happy with the report - get advice on the "problems" with the property (if any)

Making an offer

Remember that negotiation is a game

Find out the rules (eg. Low first offer, disinterest, be nice)

Practise your skills with a few properties that you don't want

Remember that the “nice” agent is NOT on your side!

Best to inform bank that you are making a serious offer

They may ask for front-page of contract for sale

Put an offer to the agent

Once accepted, organise cheque for deposit (10%),
section 66W signed by solicitor and sign the contract

Then exchange contracts

If auction, the contracts are exchanged at auction

After exchange ...

Tell your bank that you have exchanged contracts

Sign all necessary mortgage documents with bank

Settlement is usually 42 days after exchange of contracts

This is where you pay up the rest of the money!

Get legal advice about mortgage before signing

Lawyer or conveyancer does all other work

Arrange house insurance to start on settlement day

This will be required by your bank!

... continued

Make sure your own funds available for settlement day

Book removalist for day after settlement date to move in

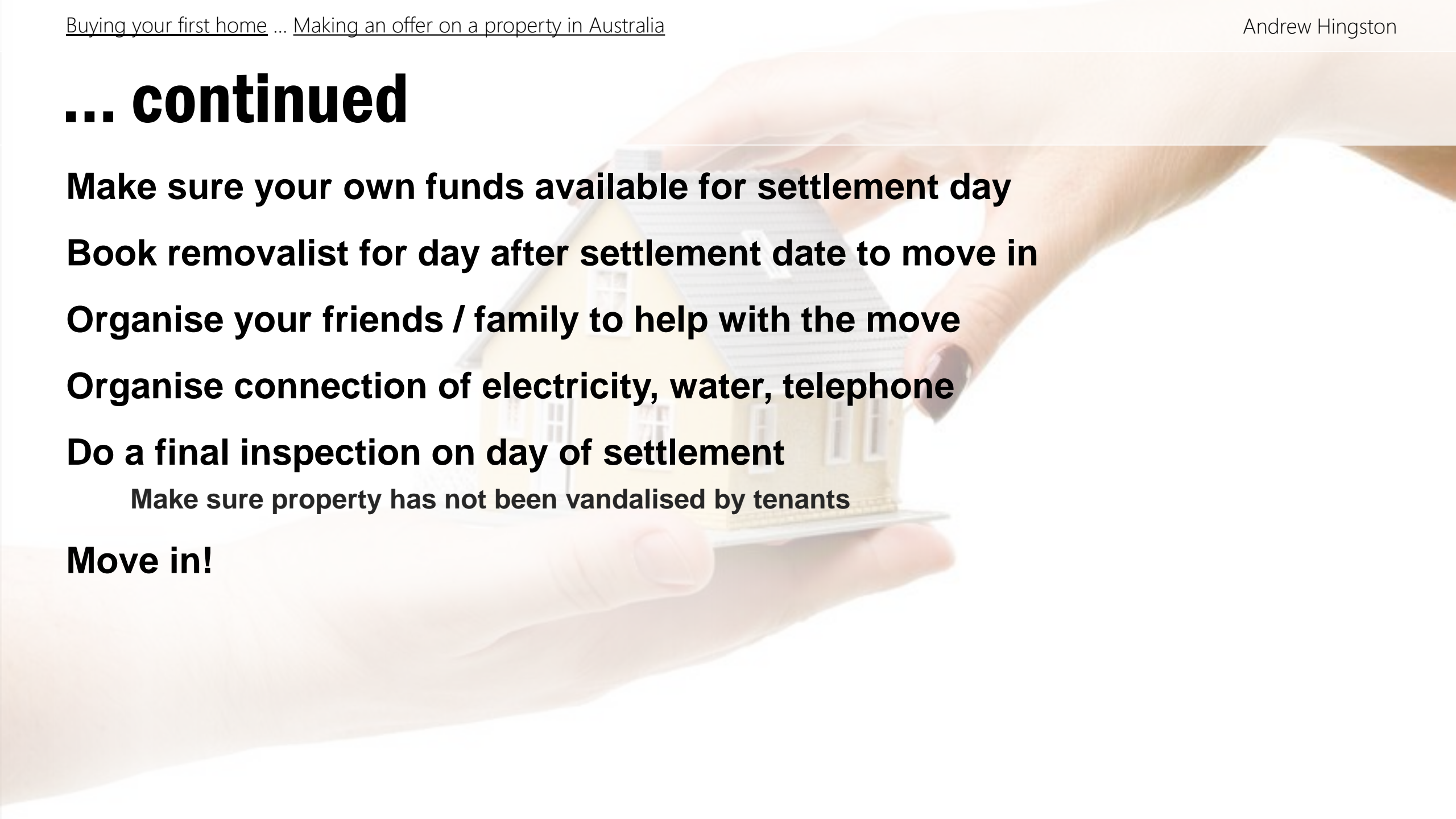
Organise your friends / family to help with the move

Organise connection of electricity, water, telephone

Do a final inspection on day of settlement

Make sure property has not been vandalised by tenants

Move in!



After moving into your new property



Think and discuss

You plan to spend \$15,000 on one of the following:

- A. Swimming pool
- B. Kitchen upgrade
- C. Bathroom renovation
- D. Landscaping and gardening

Rank these options from 1 (most) to 4 (least) in terms of how much value they will add to a typical house.

Now rank them in terms of how much satisfaction and happiness that they would bring a typical family.



Renovating

Most people invest too much in renovations

If price goes up ... how much is from renovations?

Don't be the best house in the street

Maintenance important to keep the value

Pest inspections, guttering, external painting etc.

Don't spend more than 10% of purchase price

Renovating is expensive and may not add value!

Watch out for the renovation hype!

IF \$renovations < increase \$value THEN overcapitalisation!



Already have a property?

The timing of selling a property is difficult

Uncertain time to find property to buy

+ uncertain time to sell current property

Sometimes “emotional” people buy before they sell

This is usually a big mistake!

“Bridging finance” is expensive and difficult to obtain

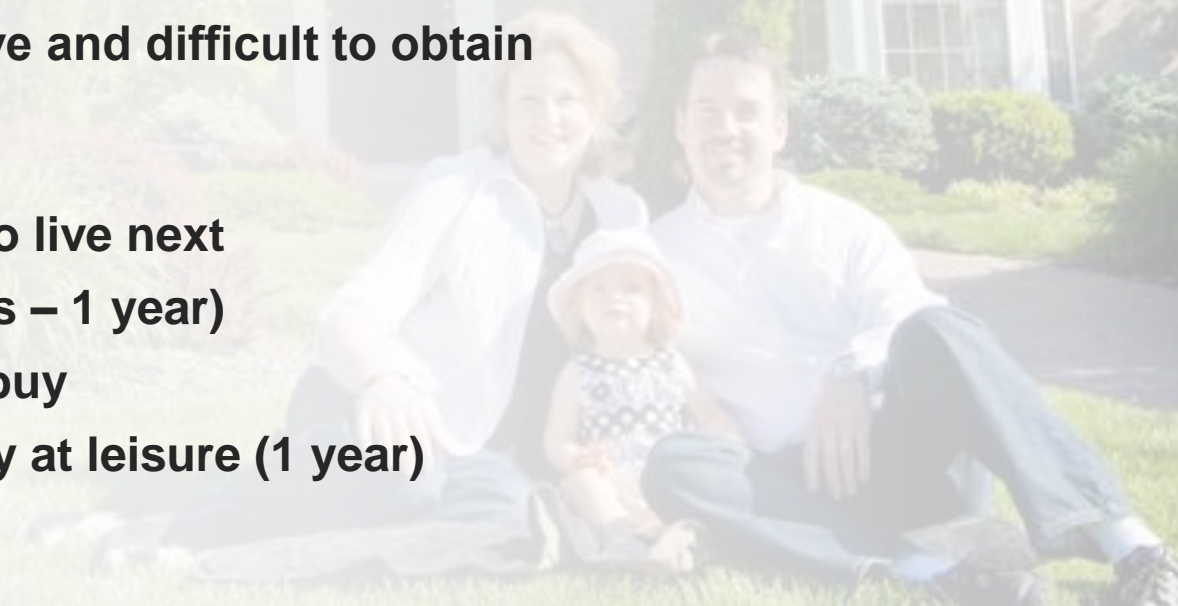
Better move:

Decide where you would like to live next

Sell current home (allow 3mths – 1 year)

Rent where you would like to buy

Search for new property to buy at leisure (1 year)



Property and divorce

Divorce can be emotionally devastating

... and financially devastating!!!

Assets are usually split 50-50

You may be forced to sell the house at a bad time in the market ...

... and then cannot afford to buy another one!

Defactos can be same as marriage for asset splitting

Financial advisers strongly recommend against buying a property with a defacto partner

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