

Apt. INFORM SERIES

Getting a Foot on the Property Ladder

*Part Three:
Finding and Buying Your Property*



Finding and Buying Your Property

Welcome

Welcome to the final part in the Apt Inform Series: Getting a Foot on the Property Ladder whitepaper, which is all about finding and buying your property. If you haven't read part one, which is about your home loan deposit or part two about securing finance, we recommend you start there. If you haven't already received copies of these, you can request yours by emailing info@aptwealth.com.au.



The property search and purchase is the most exciting phase, but it's also the one where you will need the clearest head. Finding and falling in love with a property is part of the experience, but you will need to think practically about the property and its value.

In this part we discuss everything you need to know to find your dream property, from how to approach an open home, to how to deal with vendor's agents, right through to making a purchase by offer or at auction.

If you are ready to get professional advice from a financial planner, mortgage broker, property expert or insurance specialist, Apt Wealth Partners can help.

Contributors

Andrew Dunbar, Director, Apt Wealth Partners

Ph: (03) 8779 5254 e: info@aptwealth.com.au

Damian Power, Personal Mortgage Advisor, Apt Wealth Home Loans

Ph: (03) 9001 0902 e: damian@aptwealth.com.au

Paul Cull, Senior Risk Specialist, Apt Wealth Partners

Ph: (03) 8779 5254 e: info@aptwealth.com.au

Julian Muldoon, Director, 1Group Property Advisory

Ph: 1300 788 368 e: julian@1group.com.au

Understanding what you are looking for

Here are some of the questions you should be able to answer before you begin your search in earnest:

How long do you want to stay in the property?

This is a key one – are you looking for your forever home, or are you happy to get a foot on the ladder and move later? The former may be more expensive today, but the latter also has the costs associated with your purchase today plus the costs of selling, without any first home buyer's relief. It can be well worth getting professional advice from a financial planner before you make this decision.

Are you prepared to renovate?

With the rise of property renovation reality shows, more and more people seem to answer 'yes' to this question, thinking it will increase the value of their investment, but the reality of renovation is very different from television portrayal. Most of it you won't be able to do yourself, it's costly and it's time consuming. You'll also need to have a good understanding of what adds value in your specific property market.

If you are a property novice, it can be a good move to consider a property that may need some small or cosmetic renovations so you can add some value, but that you're comfortable living in until it's financially viable to make changes.

What is on your wish list?

Create a list of the features you want your property to have, such as cafes and restaurants nearby, two bathrooms, a large backyard etc., and decide which are deal-breakers and which are nice to have.

You'll also need to be prepared to re-evaluate this as your search begins and the reality of what you can afford becomes clearer.

*Be prepared to re-evaluate your
wishlist as your search progresses*

Open for inspection

Although emotion will always play a role in choosing a home, it's important to also take a practical approach to open homes. Here are some key things to investigate:

Taps and water pressure – Don't be afraid to try the taps in every room, in particular the showerhead/s. Check the hot water tank for age and condition too.

Structure – A sound structure shouldn't have deep cracking in the walls and windows and doors should open freely and easily, fitting well within their jamb.

Water damage - Water damage can be incredibly expensive to repair. Look for mould, mildew, staining on walls, or even a strong odour. If the house smells like a strong fragrance from candles, or baking bread, it might be masking an odour. Make sure you check inside cabinets and cupboards too, particularly in wet spaces like under sinks.

Light – If it's 11am and lights are on in a room, don't be afraid to turn them off. You want to understand how much light comes into the room, and agents can use soft lighting and lamps to cover dark rooms.

Consider temperature year-round – If you're basking in the winter sun in the living room, how will that play out in summer? Conversely, if you are enjoying the respite from the summer heat without air-conditioning, will you freeze in winter?

Is everything as it should be? - If there is something out of place, such as a piece of furniture or a rug where you wouldn't normally expect it, it might be hiding something, so can be worth further inspection.

Good fences make good neighbours – Check the condition of any boundary fencing. If it's in poor condition, your new neighbours are well within their rights to seek half the costs of replacing them.

Stop, look and listen – When you are inside the property, in the garden, and out on the street front, take the time to look and listen to your surrounds. What noises do you hear? Loud traffic, planes or even just an exceptionally noisy neighbour are worth knowing about before you buy.

Visit often – Drive by the property at various times of the day and check what the sounds and sights are like. Agents will often schedule open homes in noisy areas at specific times, such as out of peak hour. You should also try to schedule a second inspection at a different time to your first one to get a feel for sound and lighting within the property.

Show someone else – another set of eyes on the property can reveal things you didn't notice the first time around.

Questions to ask the vendor's agent

Why is the vendor selling and what are their expectations?

The more you know about the vendor's situation, the better you can structure your offer. The reasons a vendor is selling can tell you something about their motivations. If it's a divorce, for example, it's likely they want a quicker sale and settlement so both parties can move on. Or, if they have already moved to a new property, they might need to sell to get out of a sticky financial situation, which can make them more open to offers.

How has the property been priced?

Understanding how the agent came to the price is an indication of whether the price they are giving you is accurate and will help you decide how much to offer. It should be based on recent sales in the area.

How long has the property been on the market?

This can tell you a lot about the kind of offer that might be accepted, especially when considered in line with the vendor's motivation for selling. In our capital cities, the average time on market is around 45 days, although it does vary. If a property has been on the market for longer than expected, there's a greater chance they'll accept a lower offer.

How will they facilitate the sales process?

For example, will they deal with you exclusively when you make your offer, or will they share your offer with other interested parties?

Dealing with vendor's agents

When dealing with the vendor's agent, you need to walk the fine line between building a professional relationship and keeping your cards close to your chest.

Do be polite and friendly. The agent will influence the vendor's decision and if they like you, they will be more likely to fight your corner.

Don't tell them you are a first home buyer. The vendor's agent does not need to know your property ladder status to sell you a home. If they think you are more experienced in the market, they'll be more likely to take your offer seriously and/or keep in touch with you about new or even off-market properties.

Do consider using a buyer's agent to help you navigate everything from dealing with agents to making the best offer.

Strata-title properties

Most apartments and some town houses come under strata title. Under strata title, you have exclusive rights to your own property, and perhaps to a separate car space and/or storage space.

Common areas, such as shared gardens, driveways, lifts, and facilities such as pools and gyms, are owned by the collective strata, otherwise known as a body corporate. There are regular and recurring levies and fees that need to be paid to the body corporate fund, to cover things like rates, insurances, and upkeep and maintenance. It's important that you find out these costs when doing your research on prospective home/s.

The strata should also have a slush or sinking fund to pay for unexpected repairs to common property, such as lifts or intercom systems. These repairs can be costly, and if the strata does not have enough in the fund, each owner is usually responsible for covering their share.

Strata: What you should know

- How much are the strata levies per quarter?
- Who manages the strata?
- How are decisions made?
- How much is currently in the slush or sinking fund?
- What restrictions apply to renovations?
- Who will need to approve renovations?

You should also request copies of:

- The by-laws, which can apply to the arrangement of everyday things from pets to barbecues, to where you can hang your washing.
- The financials, to see how money is managed and what is in the fund.
- Meeting minutes from recent meetings to give you an idea of the recent and upcoming issues as well as how the meetings are run.



Building and pest inspections

While it's important to look for any signs of damage during your own inspection, the building and pest inspection will take a detailed look at the structure and notify you of any defects, maintenance issues or safety hazards, from things like damp, to roof and insulation issues, to termites.

An issue raised in the building inspection doesn't necessarily mean you shouldn't put in an offer, but you will need to think about whether you are prepared to rectify the problems and if so, restructure your offer to take into account repair costs and time.

Buyer's agents

As a property novice, it may be worth considering engaging a buyer's agent who can help you navigate the property market and the offer process to increase your chances of success. The key to a great offer is understanding the vendor's motivations and using these to gain control of the negotiations without resorting to actions that might put the vendor and agent off.

Checklist: Before making an offer

So, you've found the property and now you want to make an offer. It's important to have all your ducks in a row:

- Have approval in principle (or pre-approval) for your finance.
- Be keenly aware of your budget limitations (not just what the bank will lend, but what you can afford!)
- Have a solicitor or conveyancer ready.
- Have a building and pest inspection report completed.
- Understand as much as you can about the vendor's motivations so you can structure the best offer possible.

Structuring your offer

When putting your offer forward, you'll obviously need to consider the price you want to offer, but there are a number of other facets to consider and you can tweak these to meet the vendor's motivations.

Deposit – Different to your home loan deposit, this refers to the amount you will put down immediately to secure the house. Under the contract of sale, this is typically 10%, but in some cases, vendors will accept 5%. Depending on the conditions of the offer, some or all of this may not be refundable, even within the cooling-off period.

Cooling-off period – This is usually a window in which you or the vendor can terminate the agreement. The standard varies from state-to-state; in NSW it is typically five days, in Victoria only three. If you require more time to do your due diligence, you can ask for a longer period. In a buyer's market, this may be accepted. In a seller's market, it's unlikely to be.



Additional withdrawal clauses - If you want to put in an offer subject to something else, e.g. the results of a pest inspection, you can add additional clauses to your offer. Again, in a seller's market, it might put the vendor off, in a buyer's one, you'll have a better chance.

Subject to finance - To protect yourself, you should also make your offer subject to finance. In some states, this is already part of the standard contract of sale, but in others it is not, so ensure you get legal and financial advice to protect yourself.

Settlement date - You can nominate a settlement date, and this is where you can use knowledge of the vendor's situation to your advantage. Typically, settlements are 30 – 90 days but if you know the vendor needs a quick sale or conversely, needs to stay in the property for a longer period, you can make your offer more attractive with a settlement date that suits the vendor.

Getting legal advice

A conveyancer or a solicitor is necessary to ensure you are meeting all the legal requirements of the sale, such as the transfer of title, and will make sure you are protected during the process. A conveyancer can do all of these things for you for a straight-forward sale, however, if you do encounter additional legal issues, you will need to engage a solicitor.

Because a solicitor can help with any and all legal aspects that arise as well as the conveyancing, they can be a better option, but do typically cost more.

You should have a solicitor or conveyancer engaged and ready to go, so when you are ready to make an offer you can do so quickly.

What to do if your offer is rejected

It can be disappointing when your first offer is rejected, but it is not uncommon. If it happens to you, the first step is always to ask the vendor's agent why.

At the end of the day, both the vendor and their agent want to sell the home, so most vendor's agents will tell you why your offer was rejected. It may be that another party made a better offer that has been accepted, and you'll just have to let it go, but if it is because of your price and the house is still on the market, you can decide on your next move.

This is where you need a clear head, and expert advice, like a buyer's agent, can really help. If it makes sense to make a higher offer from the standpoint of both market value and your financial situation then it could be wise to make your best and final offer. But it can and does happen where the vendor has unreasonable price expectations, or you simply can't afford it and you need to keep a practical head and walk away when the deal is not right for you.

Offer FAQs

How do I know how much to offer?

When thinking about how much to offer, know and stick to your upper limit. Typically, you wouldn't want to offer this amount upfront because it does not leave room for negotiation. However, if you are aware that a property is in high demand or you are buying in a seller's market, you may want to make your best offer your first one. It's not all about money – and a lowball strategy isn't always (or often!) the best one, particularly if you are buying your forever home.

Should I put a deadline on my offer?

This is often touted as a great strategy to get an owner to act quickly, but be aware that there are pitfalls, and it can fall flat. A deadline works well when you are making an offer close to asking price or the property has been on the market for some time but choose your timing wisely. If you are making the offer on a Sunday, it's probably going to take more time to reach the owner and could be harder to meet your deadline. In a seller's market, a deadline can put the vendor and the agent off.

Should I offer prior to auction?

If a property is going to auction, a last-minute pre-offer can be very powerful. As at June 2019, auction clearance rates are on the decline in many Australian markets, so a Friday evening offer can create an urgency to accept.



Buying at auction

Buying at auction is a little different to making an offer, in that there is no cooling-off period and the sale is final. If you buy at auction and then cannot get the finance, you are still legally obligated to purchase the property, and the vendor can take legal action against you if you do not meet this obligation.

Even if you have pre-approval or approval in principle and you get knocked back on your final approval, you will be obligated to purchase the property. While this is unlikely, there is a small risk. One way to protect yourself is ensuring that you stay within reasonable market value – a lender won't lend you the money if they assess that you have paid over market value and that there is a chance they would not recoup their money if they were required to foreclose. In such a strong property market, this is a very rare situation, but it can and has happened, so it's best to tread carefully when making auction purchases.

Tips for bidding at auction

Auctions can be a particularly stressful way to buy a property, particularly if you are a first-time buyer. Here are our tips for bidding at auction:

Before the auction:

Know the value: Talk to the vendor's agent about price expectations and check recent sale prices for similar properties in the area so you know what a realistic price is.

Know your limits: Be clear on your price parameters – thinking about both what you can afford and what the property is worth.

Do some on-the-ground research: If possible, attend other auctions in your area to get a feel for how the auction process works and what you can expect on the day.

Decide on your approach: Research auction strategies and decide on the approach you will use. For example, you may want to consider holding off bidding until the auctioneer declares the property to be on the market. Knowing how you will approach bidding before the day is critical.

Decide on whether you want professional help: Consider seeking expert advice from an experienced buyer's agent who can help you bid at auction. If you decide to use one, you might even consider bidding by phone – being physically removed can take some of the anxiety and stress out of the situation.

Understand the registration process: Check with the vendor's agent as to the bidding registration process, so you can be prepared on the day.

At the auction:

Arrive on time: Don't arrive too long before the auction is set to begin. A long wait can work against you as tension builds.

Stick to your plan: Although the auction format is designed to feel intensely competitive, it's important that you play your own game. In this environment, it can be easy to get caught up in the moment and go into competition with another bidder, feeling like you have to 'win.'

Control the pace: The pace of the auction is intentionally frenetic to keep a sense of urgency amongst bidders. You can slow momentum by making an offer that is an odd amount. For example, if the auctioneer asks for \$20k bids, you can make one for \$20,850, for example, which will take the auctioneer a moment to calculate, allowing you to slow the pace.

Keep your poker face: Your body language can give away a great deal about your position, so try to keep it neutral. You can watch the body language of others, however, to get hints as to their position. For example, if they start to consult with their group hurriedly and/or slow the bidding down with a small increase, it's likely that they are reaching the top of their budget and it might be a good time to swoop in with a higher bid.

For more information, please read the remaining two parts in Apt Getting a Foot on the Property Ladder whitepaper series

Part 1: **Your Home Loan Deposit**

Part 2: **Getting Finance**



Apt. INFORM SERIES

CONTACT YOUR LOCAL APT ADVISER:



1800 801 277



Sydney | Melbourne | Geelong
PO BOX Q414, QVB Post Office,
Sydney NSW 1230

ABN 49 159 583 847 AFSL 436121



aptwealth.com.au
info@aptwealth.com.au

General Advice Disclaimer

The information in this document is provided by Apt Wealth Partners (AFSL 436121 ABN 49 159 583 847) and is of a general nature only. It may not be relevant to your personal needs, objectives, or financial circumstances. The circumstances of each investor are different and you should seek advice from a financial planner who can consider if the strategies and products are right for you.



PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA