Apt. INFORM SERIES

Getting a Foot on the Property Ladder

Welcome

At Apt Wealth Partners, we are often asked for advice when it comes to buying property, particularly by first home buyers keen to get a foot on the ladder despite tough market conditions. Today, with the market (finally!) softening in many areas, home ownership is starting to feel more like a reality for many Australians.

Now, alongside our partners at Apt Wealth Home Loans, and property agency 1Group Property Advisory, we are sharing our collective knowledge, built over decades in our respective industries, to help you get a foot on the property ladder. From saving your deposit to making a purchase, this is the guide all first home buyers and property investors should have on hand.

You're about to embark on one of the most exciting adventures in life, but it can also be one of the most stressful; our advice is to arm yourself with as much knowledge as possible (you've taken a great first step today!) and professional advice from a financial planner and a mortgage broker to ensure you have a smooth transition to property ownership.
If you are ready to get professional advice from a financial planner, mortgage broker, property expert or insurance specialist, www.aptwealth.com.au can help.

In the meantime, we hope you find this guide beneficial in your search – whether that is the search for your forever home or a starter property to begin your journey.

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How much will you need?

In general, you'll need 20% of the contract sale price, plus costs as a deposit to secure a home loan and avoid paying Lender's Mortgage Insurance (LMI). If you are looking at properties worth $750,000, you'll need a deposit of $150,000 plus costs which can amount to anywhere between $20,000 - $40,000 depending on where you are buying, and can borrow up to $600,000, or 80% of the sale price. Some lenders will lend up to 90%, and a few even up to 95%, but qualifying criteria differ from lender to lender and they will require you to pay Lender's Mortgage Insurance (LMI).

From the start of 2020, The Liberal Coalition Government has pledged to offer a 5% deposit home loan option for singles who earn under $125,000 per annum (p.a.) or couples who earn under $200,000 p.a. As at the time of writing, this is yet to come into effect but you'll find more information on the proposed scheme on page 5.

"Saving the deposit is possible without sacrificing your lifestyle. Professional advice can help."

Genuine savings

You'll often hear that lenders are looking for evidence of genuine savings. Essentially, this means they'll want you to demonstrate savings behaviour over time, generally reflecting savings of at least 5% of the purchase price over a minimum of 3-6 months.

All lenders will assess your application based on your saving and spending behaviour, although assessment policies differ between lenders. Some may consider financial gifts as part of genuine savings, others may not require genuine savings, if you have sufficient cash for your property deposit. A mortgage broker can help you navigate the lender landscape and apply for the loan best suited to your situation.

Additional costs to consider

When it comes to property purchase, there are many costs to consider beyond the sale price and your deposit. Some are payable at settlement and may be covered by borrowing additional funds, but others will need to be paid upfront, prior to property settlement. Others will be ongoing property costs.

You should factor in having extra cash aside for:

- **Building and pest inspection reports:** These upfront costs usually range from $300 - $600, and they are necessary to arrange before you make an offer. After the inspections are conducted, you may decide not to make an offer based on the findings, or, if your offer is subject to satisfactory reports, it may be withdrawn. You may have to fork out this cost for more than one property.
- **Legal fees:** You should allow for around $900 - $1600 depending on your state, and whether you use a solicitor or a conveyancer. Fees are commonly split into part upfront (especially if legal advice is sought) and part payable at property settlement.
- **Council rates and strata fees:** These ongoing costs are dependent on the specific property, but are often listed on online listings, so you can get indicative costs for your search area and likely property type.
- **Moving costs:** This should include removalists, and, if you are renting and will still be in a Lease Agreement, the costs of breaking it, which vary and should be outlined in your lease document.
- **Insurances:** As a homeowner, you need to insure your home from the outset, and lenders will require that you have, at a minimum, home buildings insurance in place prior to property settlement. Insurance premiums vary based on numerous factors including the value of your home, risks associated with the area, such as flood or fire, and even what the property is made of. You are taking on significant debt, so it's also important to consider other insurances that will protect your income and ensure the mortgage can be paid.
- **Stamp duty and fees:** These are charged at property settlement, are calculated on the contract price of your home and vary state to state. Some states offer Stamp Duty concessions or exemptions, depending on the property contract price, whether you or your partner are first home buyers or have previously held an interest in a property, and other factors including if the home is established, newly built or pre-construction.

Stamp duty and fees by State or Territory

For example, on a $750,000 established home based on settlement on 1 July 2019*

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Stamp Duty	$20,990	$40,070	$19,600	$29,740.50	$35,080	$28,935	$22,200	$37,125
Mortgage Registration Fees	$141.60	$116.18	$187	$171.20	$170	$138.51	$153	$149
Transfer Fees	$141.60	$1,366	$2,125	$324.70	$6,438	$212.22	$409	$149
Total	**$21,273.20**	**$41,552.18**	**$21,812**	**$30,236.40**	**$41,598**	**$29,285.73**	**$22,762**	**$37,423**

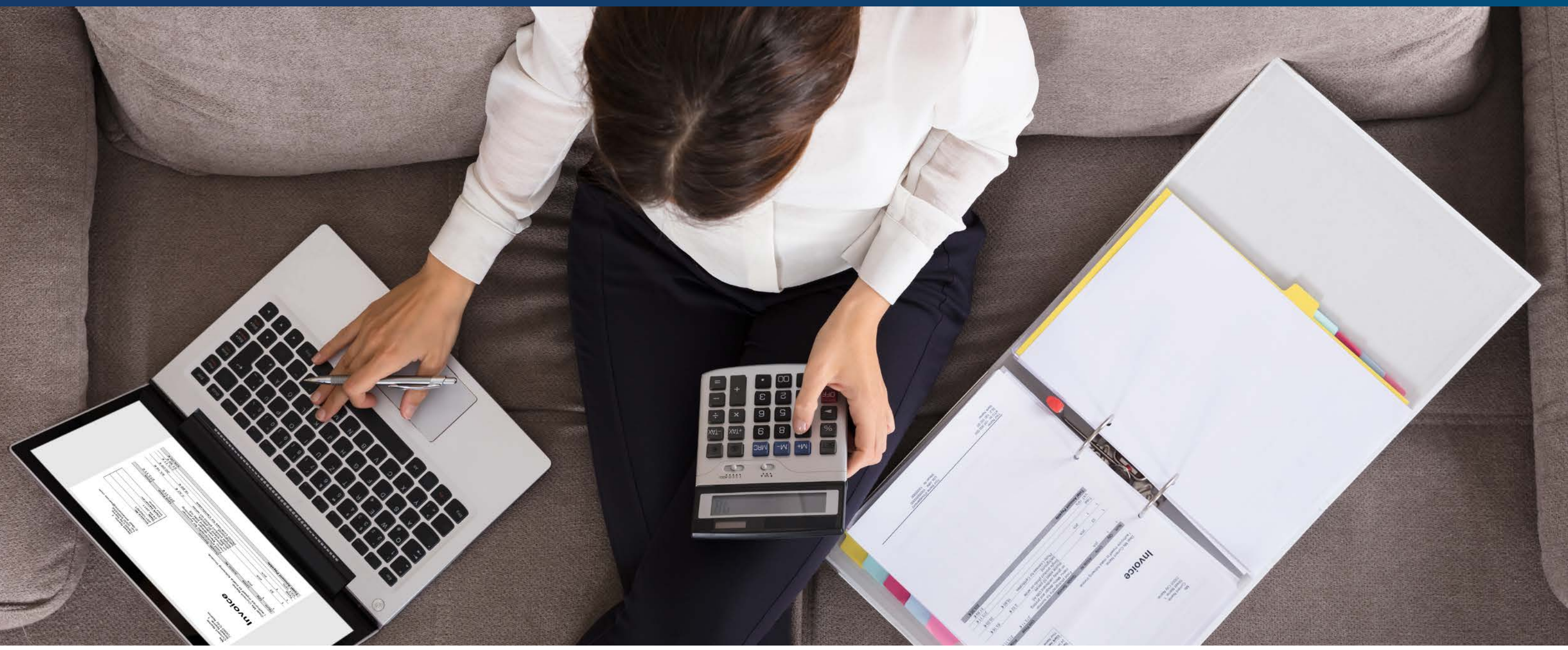
*Every attempt is made to provide accurate figures at the time of printing, but these can change and we recommend that you check with the relevant department in your state prior to purchase.

Lender's Mortgage Insurance

Lender's Mortgage Insurance (LMI) is a form of insurance your lender takes out to protect themselves, typically when they are lending you above 80% of the contract sale price. The premium is calculated on the contract purchase price and percentile value that your loan increases above 80% of the contract price. The LMI premium is a one-off charge, typically passed on at cost to you, the buyer, for payment at settlement. Most lenders will "capitalise", or add the LMI premium into your total loan, thereby allowing you to absorb the cost in your ongoing loan repayments.

The ability to utilise LMI can be seen as something of a double-edged sword, as on the one hand, by paying LMI you are able to increase your maximum loan size and property purchase price, but on the other hand, LMI can become expensive as loan size and purchase price increase. LMI premiums also vary based on the type and location of the property. As the premium is capitalised and increases your total loan, it is necessary to consider the end result of LMI on your loan to property value (remembering most lenders cap at 90%, and some at 95%). A mortgage broker can help you determine how much your LMI premium is likely to be, and how it will affect loan funds that you can use toward the property purchase.

Coming into effect January 2020, the First Home Loan Deposit Scheme may be a way to remove the requirement to pay LMI.



The First Home Loan Deposit Scheme

The First Home Loan Deposit Scheme was announced by the government during the Federal Election 2019. While details of the scheme are yet to be finalised, it will allow eligible first home buyers to purchase a property with as little as 5% deposit. Qualifying criteria will include property purchase price and the annual income of first home buyers, with guidelines currently indicating that the scheme will be offered to singles earning under $125,000 or couples under $200,000. The government has stipulated that the scheme may save first home buyers up to $10,000 in LMI premiums.

Expected to come into effect from 1 January 2020, the scheme is designed to make the property market more accessible, and while it might reach that goal, experts are warning that it could add around $53,000 to the cost of the loan overall. It is also important to note that the funds provided under the scheme will take the form of a government-guaranteed loan, and is not a grant or concession to your purchase price. That said, it still might be right for you and result in overall savings, particularly if you are currently paying rent and are itching to get into the property market. It's worth getting professional advice that takes into account your situation and goals to determine whether this will be a win for you.

Other financial support

Government grants

There are various concessions and grants available to first home buyers, ranging from the cash incentive under the First Home Owner Grant (FHOG) to stamp duty concessions or exemptions. These vary state by state, and are determined by numerous factors, including type of property, contract sale price and whether any purchaser has previously made a grant, concession or exemption claim or previously held an interest in property.

Your financial planner and mortgage broker can help you navigate your options with an understanding of your situation and goals.

Guarantor arrangements

In some cases, you may have a family member who is willing to go security guarantor for part of your loan. A security guarantee is used to increase the available property value, or equity that you are able to borrow against, and some lenders will allow this in lieu of borrowing over 80% of your purchase price, thereby avoiding the LMI premium. The guarantor, often a parent, is required to show that they could pay back the portion of the loan they are guaranteeing without entering financial hardship or having to sell the family home.

This is a big ask of anyone, so approach it carefully if you decide to have this discussion with a family member. It's important to be aware that you are asking them to take a big risk, particularly if they are nearing retirement and have less time to earn back any losses.

You should also encourage them to get independent financial and legal advice before committing, and not let emotions get in the way of making the best decision for everyone involved.

The role of a financial planner

Many of us associate financial planning with retirement, and while it is true that older Australians are more likely to have a financial planner, the reality is that it's beneficial for everyone – particularly if you have big financial goals or life events, such as buying a house, a redundancy, or even getting married.

A financial planner simply acts as your money coach, who is there to help you achieve your goals. By building a deep understanding of your personal situation and your long and short-term goals, a financial planner can help you live for today while planning for tomorrow. Apt Wealth Partners offers both traditional financial planning options as well as BeApt, a digital financial planning tool that puts the power of a financial planner in your hands.

When it comes to buying a first home, Apt advisers have the experience, connections, and wealth of knowledge to help you:

- Implement strategies to save and grow your deposit amount
- Maximise your borrowing power
- Investigate grants and subsidies that you may be able to access
- Set your long-term property and financial goals

What should you do before applying for finance?

In the wake of various inquiries into the banking industry, many lenders have significantly tightened lending criteria. To give yourself the best chance of securing the right loan for you, there are some things you can do to make yourself a more attractive candidate.

Before you apply:

Have an honest discussion with your partner

If you are buying with someone else, whether a partner, friend, or family member, it is important to have an open and honest discussion about your financial position and history. The last thing you want is to find out that your partner has a credit default when your application is rejected. Knowing about these upfront is critical. If you or your partner do have defaults on file, it doesn't have to be the end of the line. A mortgage broker can help you determine which lenders will be more likely to lend to you with your specific history. Most lenders will look at your whole story and, if the default is an outlier, securing finance is still a possibility.

"If your credit history isn't perfect, your property dreams don't have to be over - you might just need some expert advice."

Review your credit rating

Your credit rating is basically a number that tells potential lenders how likely you are to repay your loan on time based on your history. It looks at how many accounts or credit facilities you have available to you and whether or not you are repaying them on time, as well as the number of facilities you have applied for.

There are a number of providers, such as Equifax, who will let you pull your own credit report for free. You'll receive a score between 0 – 1200, with a higher score being better. The resulting number will play a big part in determining how much, or even if, a lender is willing to lend to you.

What does your credit rating mean?

- 833+ = Excellent
- 726 – 832 = Very Good
- 622 – 725 = Good
- 510 – 621 = Average
- 0 – 509 = Below Average

What to do if you have a bad credit rating

If your credit rating is not great, it's not all over, but you may need to put the brakes on your property plans in the short-term and dedicate yourself to paying off any existing debt and paying all bills on time before you can apply. If you are in this situation, it's best to get financial advice that can help you put a plan in place to improve your credit rating and set you on a pathway to your property goals.

Reduce or cancel existing credit cards and loans

Even if you do not have any debt on your credit card, lenders will treat it as though you have used all your available credit when considering your ability to repay your loan. This is because it is a line of credit open to you, so there is nothing stopping you maxing it out at any time during the life of your loan and potentially getting into financial difficulty.

If you have credit cards, focus on paying them off before applying for a loan, and if they are already paid off, consider whether you are in a position to reduce the amount of credit or even cancel them all together.

Put post-pay in your past

Post-payment services, like AfterPay and Zip, are essentially small loans and these companies typically reserve the right to pull your credit file and report negative behaviours, such as failure to pay on time. Some providers do check your credit and others don't as, at the time of printing, they are not legally bound to do so. However, a good rule of thumb, generally, is to avoid buying things you don't need unless you can afford to pay upfront, and this is even more important when you are considering a home loan. Lenders will look at your spending habits and how many credit facilities you have applied for, and using post-payment services could well be a red flag.

Determining how much you should borrow

While the bank will determine how much to lend you, they have their own formula for affordability which is about protecting their investment, not your lifestyle. There are numerous calculators out there, but you really need to consider the type of lifestyle you want to lead after your property purchase, and this is going to be different for everyone.

You are taking on significant debt, and as such, you should expect your lifestyle to change, but it's also important that you are not sacrificing everything you love. If buying with a partner, this is also a good chance to discuss your lifestyle expectations after buying a home, and make sure you are both on the same page.

This is where a financial planner can really help, and professional advice should pay for itself in the long-term. A trusted adviser can act as your money coach, taking into account everything you want to achieve today and tomorrow, so the decisions you make now are the right ones.

Understanding home loan features

Your loan should be competitive in terms of rates and fees, but it should also suit your needs now, and into the future.

Some of the core features of home loans are discussed below, but when deciding on the right option for you, it is a good idea to engage a mortgage broker. A broker will be able to compare offers and options between lenders, as well as guide you through the features and benefits to help you get the most out of your loan. There are also a handful of lenders that offer discounted fees and/or rates to first home buyers, and your broker can help you investigate and evaluate these offers.

Maintaining an ongoing relationship with your broker is also a good idea, as they can periodically review your loan to ensure it remains competitive and in line with your needs as your lifestyle changes.

Packaged loan vs. Basic loans

A packaged loan is one that allows you to bundle other banking products with your loan to access various features, such as splitting your loan into part fixed/part variable, credit card facilities and linked offset accounts. These loans tend to incur an annual fee for packaging but do include package interest rate discounts and account fee waivers. The fee varies from lender to lender, usually around $350 - $400.

A basic loan is the no-frills option and may have cheaper rates and fees because the lender is not offering you a range of features. The loan that is right for you will really depend on your goals and needs, and a mortgage broker can help you determine the appropriate options for you.

Principal and interest vs. Interest-only repayments

In almost all cases, principal and interest repayments are best, because you are building equity in your home from the outset, reducing your loan limit and minimising interest over the life of the loan.

There are, however, occasions when an interest-only repayment term may make sense, particularly if you have a temporary period of increased outgoings or decreased income. For example, when you are building or renovating your home and paying rent during the build or taking parental leave, you may need more cash available to cover living expenses.

It's important to remember that while you are paying interest-only, you are not paying down the principal of the loan and may need to make higher repayments later to recover from it. Going interest-only for even a short period of time is a complex financial decision, and it's best to seek expert financial advice before going down this path.

Variable vs. Fixed rate loans

It is not possible to accurately predict what will happen to interest rates but fixing part or all of your loan for a period of up to five years can help protect you against rate rises and also may assist in budgeting, as you will know how much your regular repayments will be. With fixed rate loans, however, you typically can't make extra repayments and may incur break costs if you discharge your loan during this period.

A variable loan is largely about having the flexibility to make extra repayments and reduce the principal quicker. Variable rates tend to be lower than fixed rates, but you are vulnerable to interest rate rises. With a variable loan, you can also use redraw and offset account facilities.

It may be worth considering splitting your loan into part fixed/part variable. A mortgage broker can provide you with more guidance on the right option for you.

Offset account and redraw facilities

An offset account effectively reduces the balance on your loan for daily interest calculation purposes. If you have, for example, $20,000 in your offset account and your loan is $600,000, interest will be calculated on the effective balance of $580,000. However, you still have full access to the funds to use for any transactions you would like. As you withdraw or deposit funds, the balance amount fluctuates for interest calculation purposes.

With a redraw facility, this same $20,000 sits in the loan itself and has the equivalent impact on interest calculations, but you need to fully withdraw the funds from the loan account before you can use them for transactions. Redraw facilities often have more restrictions on access to your funds.

The lending process

The lending process works in two phases; initially you will apply for pre-approval, also known as an approval in principle, which lets a vendor know that you are in a position to buy and can make an offer.

Once you have made a successful offer, the lender will review your contract of sale and make sure the value of the property and your offer are aligned before agreeing to the loan. This second phase is usually a very quick process and often more a formalisation than any further review.

While it is unlikely, there are a few things to consider when making an offer to ensure you can protect yourself as much as possible in the event that you don't receive final approval, which will be covered off in the Making an Offer section of this guide.

Repaying your loan

The life of a home loan can be up to thirty years. It can be very difficult to imagine what you will be doing that far into the future, and it can be scary to think you'll still be paying your mortgage. The bank will usually give you a very long time to pay simply because long loan life = more interest.

While it's not possible to pay off your loan immediately (or you wouldn't need a loan!) there are some strategies you can employ to pay it off faster:

- Increasing your regular payments to an amount that is more than the minimum will have an effect. Even a small increase is noticeable over time.
- Paying more frequently (e.g. weekly instead of monthly) can shave off some of the total interest charged over the month.
- Consider using offset or redraw facilities that allow you to reduce your interest while still having access to your funds.
- Work with a financial planner to develop the best strategies to repay your loan sooner.

Protecting your biggest asset

When it comes to the insurances you'll need as a homeowner, most of us think of the obvious: Home buildings insurance, and while this is certainly a must-have, there are other insurances that are critical too.

You are taking on significant debt when you take on a home loan and for most of us this will be the biggest debt we will ever find ourselves in. It's important to think about your future and consider what might happen if you or your partner were unable to work due to accident or illness.

Although it's unpleasant to think about, when you are taking on debt of this magnitude, you also need to consider what would happen if you were to pass away. Who would be left paying your mortgage? Would your partner need to sell the property, potentially moving away from family and friends during a difficult time?

Most Australians are drastically underinsured when it comes to income protection and life insurance, with many of us relying on premiums in our superannuation, which are often fairly basic and, in many cases, wouldn't cover living expenses, let alone mortgage repayments.

When asked what their biggest financial asset is, you'll often hear people say their house, but for most of us, the real answer is our future income. Based on a 45-year working career at just the average annual income of $82,436, that's a cool $3,709,620.

How much cover do I need?

A good rule of thumb when it comes to income protection is to ensure you have enough cover to pay out 75% of your current income until you are aged sixty-five.

With life insurance, there are a few factors at play. If you are the main income earner in your family, you'll need to ensure the amount covers your loved ones to pay off the mortgage, as well as any other large expenses you are anticipating, such as the costs of raising children to age 18.

It can be worthwhile to get professional advice that takes into account your situation and goals. In many cases, Apt Wealth Partners' clients are able to secure the cover they need without it costing more than they are currently paying for the basic cover included in their superannuation.

Working with a mortgage broker

In a world where so much information is at our fingertips, it can seem easy to research and organise everything yourself, and this may be true in some cases, such as holidays, where often the best deals can be found online. But a home loan isn't two weeks in Asia; it could be the next thirty years of your life, and expert advice is critical to get the best deal now and in the longer term.

A good mortgage broker will work hard to find you the best loan and guide you through the application process. This may be the first time you have applied for a home loan, but an experienced mortgage broker has been through this process countless times, supporting buyers with a broad range of situations, credit histories, and goals.

Some of the critical roles your mortgage broker should play include:

- Increasing your chances of success: A broker can give you personalised advice on increasing your attractiveness as a loan candidate, to give you a better chance of securing the right loan for you.
- Finding a loan that meets your needs: Understanding your long and short-term goals to ensure you apply for a loan with the right facilities.
- Checking with lenders first: Running your scenario by their contact at a specific lender to get a better understanding of whether you will be approved before you go through the application process.
- Helping you prepare the application: Supporting you through the process, ensuring you have the right documentation and are ready to go when it's time to make an offer.
- Coordinating the process: The broker can carry through the loan process, acting as a liaison between you and the lender, and even your conveyancer or solicitor.
- Saving you money: By considering your lifestyle and goals and applying their extensive knowledge, a mortgage broker should save you money.
- Getting you the best deal in the future: By maintaining a relationship with your broker after you have purchased the property, they'll let you know when you may be able to get a better deal in the future, and can also help you work out your options during life events, such as parental leave, renovating, or upsizing.

Mortgage broking FAQs

How much does a broker cost?

Brokers typically work on a commission basis, meaning you don't pay anything for access to their experience and expertise. If you successfully secure a loan through the broker, they will usually receive a commission from your chosen lender. Because most lenders offer the same or very similar commissions and a broker's business is only as good as their reputation, it isn't in their interests to push you towards a product that doesn't suit you.

How do you choose the right broker?

Ask trusted people for advice – ask family and friends who they used and if they were happy. The key here is 'trusted' people. People often ask this question on social media groups or online forums, but you can't be sure the advice you are receiving is genuine.

Meet with the broker – Rapport is key to a good relationship with your broker, and this can be easily determined at first meeting. You don't need to be friends with them, but you do have to trust them and have confidence that they will work in your best interests. Prepare lots of questions before you meet; make sure they can answer them and that they ask a lot about you in return.

Follow up with the broker - ask additional questions following the meeting. Making sure they are responsive and will give you the time you need before you engage them can help you to make the right decision.

Home loan FAQS

When should I apply for a loan?

It is critical that you apply for a loan prior to the property search so that you can secure approval in principle, also known as pre-approval. While it is not a 100% guarantee that the bank will lend you the money you need (they'll also consider the value of the property against the amount you want to borrow), it is a good indicator that you can buy and it puts you in a position to make an offer. You should allow at least 2-3 weeks for this process, as it can take time to get the documents together and the lender may come back to you with questions.

What documents will I need?

As with any banking product, you'll need 100 points of ID, as well as:

Proof of income: Typically a month of pay slips, your PAYG summary and at least one previous tax return. If you are or have been doing casual or temp work in your recent past, they may ask for up to two years of documentation. For self-employed applicants, they'll want to look at a minimum of two years' income, personal and business tax returns. Additionally, if you have investments that make income, such as dividends, they'll want to see these statements too.

Proof of expenses: Generally 3-6 months of bank statements, as well as up to 6 months of statements for any credit cards or loans you have.

Additional information: When reviewing your application, a lender may have additional questions and may ask you for documentation to support your responses. It can be worthwhile getting together any documentation that may support your financial position during the application process so you are ready to respond.

How many different loans should I apply for?

Just one. Never apply for multiple loans simultaneously. It will have a negative impact on your credit rating, and it may be a red flag for some lenders, meaning you could miss out on the best deal for you, potentially costing you thousands in the long-term.

Do's and don'ts of getting finance

- Do be realistic when thinking about how much you can afford.
- Do budget based on paying off your loan as soon as possible.
- Do get pre-approval before you begin your search.
- Do give yourself ample time to prepare, it takes longer than you think to get all the documents together.
- Do consider working with a broker to get the best loan for you.
- Do give the broker and/or lender an accurate indication of your financial position.
- Don't omit anything, be thorough. It will just come out later, and omissions, even if they are unintentional, can be a red flag for a lender, particularly if they have other concerns.
- Don't apply for multiple loans.
- Don't assume you are guaranteed to get a loan – there are many things a lender looks at and no one is a shoe-in.

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.

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