Money

www.moneymag.com.au @MoneyMagAUS

18 FIRST HOME BUYER QUESTIONS ANSWERED

GET STARTED ON THE PROPERTY LADDER

GET STARTED ON THE PROPERTY LADDER

THERE'S NO DOUBT Aussies love property. Why the obsession? Maybe it's because it's easy to understand, there's low volatility (at least in areas where demand exceeds supply), you have greater control over all your returns (unlike equities) or governments tend not to play around with it as much as, say, super.

For me property has provided some great windfalls. Like most homeowners and property investors, by building equity I've been able to increase our household wealth.

Admittedly it's tough getting into the property market. Sometimes you do need to ask for a little help – my first property was bought with the help of mum and dad. And sometimes you need to dial up the risk, for example by not saving in a cash account but rather in the asset class you want to buy in. For me, shares played a big role in saving for a deposit because, let's face it, cash in a bank account is going backwards. And even if you don't have the full deposit, it still may pay to jump in sooner rather than later.
To make the quest to get onto the property ladder easier, we answer 18 key questions.

Effie Zahos,
editor,
Money *magazine*

Money

Get started on the property ladder

1 How much deposit do I need?

When it comes to deposits, every lender is different. Some will require a 10% deposit while others may accept just 5%. And if you're a first home buyer who has a parent or immediate family member prepared to go guarantor on your loan, you may not require a deposit at all.

The bigger the deposit the better. If you want to avoid lenders mortgage insurance (LMI), which can run into tens of thousands, you will need to save at least 20%.

The other advantage of a large deposit is that you'll have to borrow less and as a result your mortgage repayments will be lower, which means you will also save on interest over the life of the loan.

2 Should I buy now or wait until I have a bigger deposit?

There can be a case for buying now even with a smaller deposit so you don't risk prices growing exponentially in the time it takes you to save more.

As Chris Gray, CEO of Your Empire, says, when it comes to entering the property market the biggest cost could be that of delaying your decision.

He gives this example: If the market is growing at around 7% a year and you are saving $2000 a month from your wages, then as you save $24,000 in a year that same $500,000 property has grown by $35,000 – in other words, it's gone up by more than you will have saved.

3 What is LMI?

Lenders mortgage insurance is imposed on home buyers who borrow more than 80% of the value of the property. It protects the lender, not you, if you default on your loan. There are two mortgage insurers in Australia and some banks do self-insure to an extent. The premium depends on a number of factors including the property, its location, your application, whether you're self-employed, if it's an investment, the bank's portfolio of loans, the deposit amount and whether it was genuine savings. To give you an idea, a deposit of $68,000 for a $600,000 property would attract an LMI premium of around $11,300 for a first home buyer according to the premium estimator on the Genworth website.

4 How much can I borrow?

These days many websites, including those of many lenders, offer online calculators that will give you an idea of how much you can borrow. The figure provided by these calculators should be used only as a guide. Your lender or a mortgage broker will be able to give you a more accurate picture of how much you can borrow based on your income. Bessie Hassan, from finder.com.au, says that as a guide no more than

Get started on the property ladder

30% of your income should go towards your mortgage.

The important thing is that you should comfortably be able to meet your repayments even if interest rates were to rise. Hassan recommends factoring in a buffer of 2%-3% on top of current rates, as these historically low rates won't last forever.

5 How can my family help me?

Your family may be able to give you some support to get you on the property ladder sooner and this may mean you can avoid paying LMI if you have a small deposit. One option is for them to gift you money towards your deposit or the other costs associated with buying a home. Another is to go guarantor on your loan, or jointly buy a property with you.

6 What help can I get from the government?

You may be entitled to a first homeowner grant as well as stamp duty concessions if you're buying a home for the first time and you could save thousands. There are often conditions attached: for example, the value of the property must be under a certain amount, or you may be entitled to a particular perk only for a new property rather than an established one. Rules also vary between states and territories.

Finder's Hassan suggests you apply for the first homeowner grant at the same time you apply for your home loan. "You can lodge your application through most lenders. If you do this it will be processed faster than if you send it directly to your relevant state or territory revenue office. In most cases the grant will be processed by the time of settlement," she says.

7 What other expenses should I budget for?

Buying a home involves a range of upfront costs. It's essential that you include these in your buying budget. Stamp duty is the big one: it is a state government charge based on the purchase price of your home and in some cases the value of your mortgage. In NSW, for example, stamp duty on a property worth $600,000 would be $22,768. Most states and territories offer stamp duty concessions for first home buyers. Using that same example, a first home buyer in NSW would pay just $278.

If you're borrowing more than 80% of the property value you may also have to pay mortgage insurance (see question 3). You could also choose to add that to your mortgage.

You'll need to pay for building and pest inspections, loan application fees, conveyancing fees, strata levies if you are buying an apartment, townhouse or villa and insurance. These can easily add up to $5000-$7000 but you may be able to trim these costs simply by shopping around.

8 What is rentvesting?

If you can't afford to buy a house or unit near where you want to live, then you can look at buying an investment property in a different, more affordable location while you continue renting in the area you prefer. "While you're likely to pay a slightly higher interest rate as an investor, buying a property you can comfortably service is critical," says Sally Tindall, RateCity's money editor. Something else to be aware of if you buy your first property as an investment is that you might miss out on any concessions available to first home buyers as they are generally only available to owner-occupiers.

Get started on the property ladder

9 What should I look for in a loan?

Just as your first home is one of the biggest purchases you will ever make, your mortgage is one of the largest debts you will ever take on. So it's worth spending some time finding the loan that suits your lifestyle, both now and in the future. The rate is definitely an important consideration and Hassan says you should aim to find a home loan rate with a "3" in front of it. "But don't make your decision based on interest rate alone; factor in fees, flexibility and suitability to your lifestyle," she adds. Tindall recommends looking for a loan that allows you to make extra repayments or has an offset account. "It's one of the most productive places to invest spare cash in this low-rate climate," she says.

10 Should I go for fixed or variable?

There's no right or wrong answer. Canstar says that from a repayment point of view, history shows that borrowers have about a 50:50 chance of making the right decision. You need to consider where rates are now, whether you think they are likely to move and also your own personal situation. "If your monthly budget is tight, a fixed-rate home loan might be a good way to manage your finances," says Tindall. If you opt for a fixed loan, make sure you ask about any restrictions that may apply on additional repayments. You could also hedge your bets and have a split loan where part is fixed and part variable.

11 Should I use a mortgage broker?

It is definitely worth considering. "The mortgage market can be a minefield and a broker will help you navigate through it," says Tindall. Not only do they have access to hundreds of home loans, they know exactly what lenders are looking for so can help you find the right loan and, if your situation is not straightforward, find a lender more likely to say yes.

12 I want to buy with a friend – what do I need to know?

Make sure you get a legal co-ownership agreement setting out both parties' legal rights and obligations covering mutual goals, how a co-owner can exit the arrangement, the investment time frame, exit strategy and how differences will be resolved. The title is best held as tenants in common rather than joint tenants (see question 13). Although you own only a share of the property, when it comes to the loan all parties are jointly and severally liable for it should anyone default. Co-ownership can also limit your ability to borrow in the future. As far as managing the loan is concerned, it's a good idea to split it into the number of parties involved and have individual accounts.

13 What is the difference between joint tenant and tenants in common?

A joint tenant arrangement, usually by married or de facto couples, is where the property is held in equal shares. If one of the joint tenants dies their interest automatically passes to the other owner. Tenancy in common is the most common way to

buy a property with two or more people who are not either a married or a de-facto couple. This type of ownership allows the property to be split any which way, not necessarily into equal shares. Three people can all buy a third or it can be divided in other ways. Under this arrangement your share of the property can be left to the person of your choice when you die.

14 Should I buy off the plan?

Buying a property off the plan might be appealing to you as a first home buyer because of the potential stamp duty perks. But there are definite risks in buying an off-the-plan property, in particular oversupply. If you do want to buy this way it is vital to do your homework before going ahead.

15 Is it better to buy a house or a unit?

Affordability will definitely be a key factor when deciding between a house or unit. You also need to consider the ongoing fees. For example, with an apartment there may be body corporate fees whereas with a house you'll need to think about ongoing repairs and maintenance. In terms of making a profit when you sell, houses tend to outperform units.

16 What inspections do I need when I have found a property I want?

A building inspection that looks at the condition of the property, including the roof, plumbing and wiring and general structural issues, and can identify problems such as rising damp is a must. You'll also need a pest inspection. The cost depends on the size of the property but as a guide you're looking at $600 to $1000-plus for the two. If you are buying a strata title property you should also get a strata report done. This costs about $300.

17 I have bought a house, now what?

You'll generally have between six and eight weeks from the time you agree to buy the house to the day you get the keys. This will give you plenty of time to start preparing for the move. You might decide you want to give the house a new lick of paint or do some renovations before you move in. You should also use the time to arrange to connect any utilities such as gas and electricity as well as the phone and internet. You should also notify any relevant organisations of your new address. Also make sure you take out insurance cover.

18 What insurance do I need?

There are basically two elements of home insurance: building and contents. Building insurance generally covers the actual home as well as any other structures, such as a garage or garden shed. Your lender will probably require you to take out building insurance but you don't have to take out cover with them. Contents insurance covers all the items in your house. Think carefully about the amount you insure your building and contents for so that you're not underinsured.