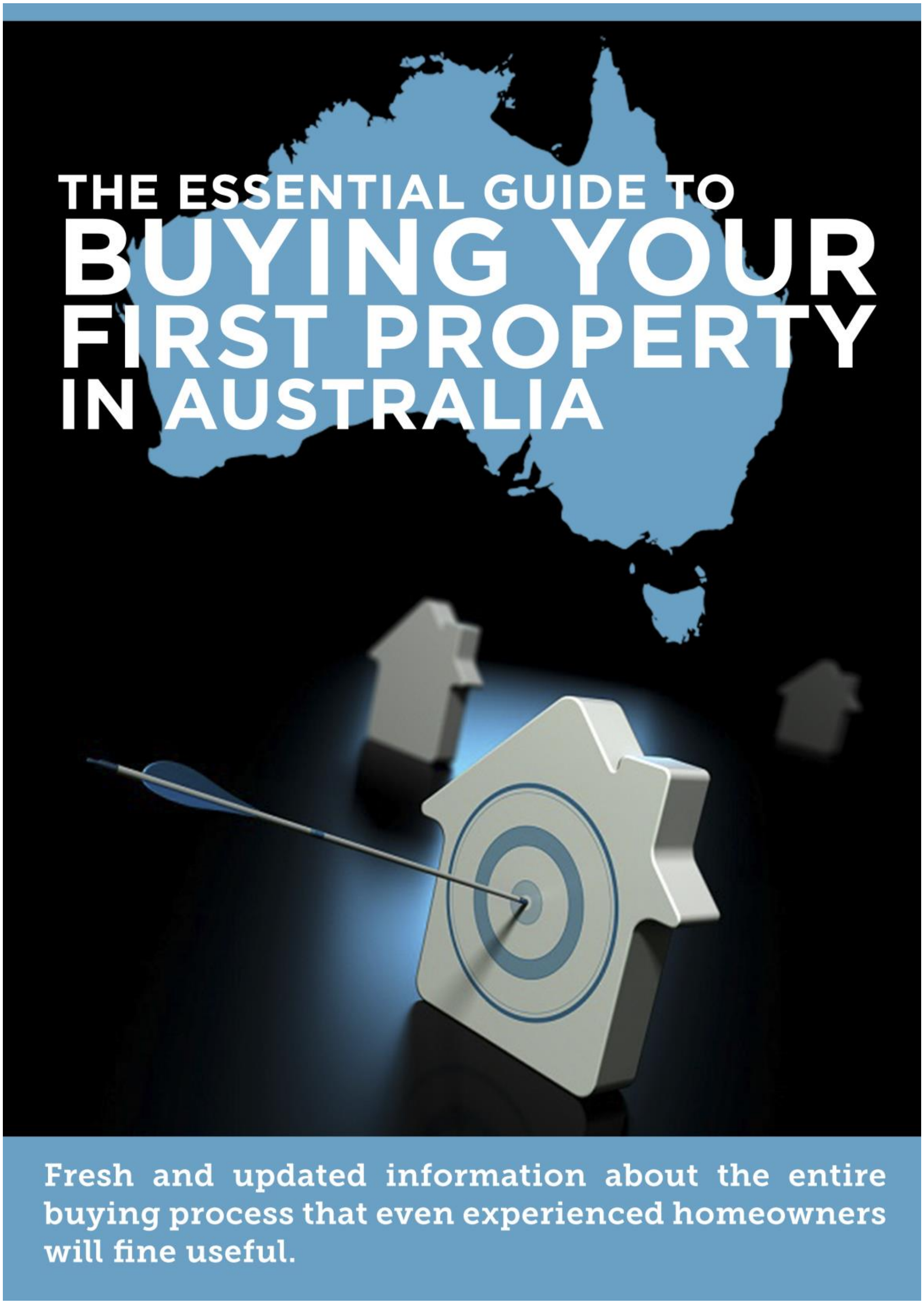
THE ESSENTIAL GUIDE TO
BUYING YOUR
FIRST PROPERTY
IN AUSTRALIA
Fresh and updated information about the entire buying process that even experienced homeowners will fine useful.

ISSUE 1.0

Table of Content

Introduction

The journey to buying your first property can be scary and overwhelming. There are so many things to learn and often it's hard to know what to do next.

I have made many mistakes myself purely out of a lack of knowledge.

When I was trying to do my first property deal I was looking to purchase a property with a rental yield of 10.4%. However, I chose the ONLY lender who wouldn't take rental income into account. I almost didn't get my loan approved because of this one mistake.

While I can't help you avoid every mistake possible I can provide you with step-by-step guidelines showing you the things you need to do in order to successfully purchase a property.

I have identified 21 major steps you need to take when looking to purchase a property and that is what I want to share with you in this book.

How To Read This Book

This book is designed to be read in 2 ways.

All the way through – Read the book all the way through so you can get an overview of what steps you will likely need to take to purchase your first property.

Read and do the next step – One of the best ways to minimise overwhelm is to stop trying to learn everything. Simply learn about the next step you need to take and then take action until that step is complete.

Each chapter comes with a printable worksheet or checklist so you can focus on taking that next step towards your goal of buying your first property.

This book won't make buying a property completely effortless but it will help dramatically decrease your sense of overwhelm and give you an action plan you can take to move towards your financial goals. I wish you the absolute best in your property journey.

#disclaimer – While I have tried to be as accurate in this book about the process of buying a property, the buying process does vary from state to state and from deal to deal. No content in this book should be seen as financial, taxation or mortgage advice. Always see a professional before making any financial decisions.

Positive Cash Flow Property Listings

If you want your first property to be a positive cash flow investment property then you may want to consider an On Property Plus membership.

Every week we list new properties with high rental yields and a good chance of being positive cash flow. Many of these properties have rental yields over 9% and one even had an estimated rental yield of over 14%!

We also provide supporting data like population growth and decline, capital growth history, previous sold history and even how long the property has been on the market for. All this helps you make a more educated buying decision.

Plus get access to tools like The Advanced Property Calculator and video tutorials showing you how to find positive cash flow properties and how to research an area like a secret agent.

Learn more about On Property Plus

Step #1: Work Out What You Can Afford

Whether you a buying your first home or purchasing an investment property setting your financial goals is a vital step to take before making any purchase.

The reason setting financial goals is so important is that you don't want to waste time looking at properties you cannot afford or properties that will not move you to where you want to be financially.

Setting your financial goals doesn't have to be hard. Here are some ways to do it.

1. Using A Mortgage Calculator Work Out What You Can Put Towards A Home Per Month
   A. Assume 33% of your income as mortgage repayments
   B. Assume the current rent you are paying as mortgage repayments
   C. Work out what you could reasonable afford in mortgage repayments

2. Minus $3,000 - $5,000 per year from that figure (for council rates etc)

3. Work Out What You Can Borrow If Interest Only

4. Work Out What You Can Borrow If Principal and Interest

REMEMBER: If you mortgage yourself to the hilt you may not be able to afford your mortgage if interest rates go up. Try to calculate what you can afford at interest rates at least 1% higher than they are today just to be safe.

Set your financial goals worksheet

Combined Annual Income

$

X

% of Income

0.33

=

$

Annual Mortgage Contribution

Or

Current Weekly Rent

$

X

Weeks in the Year

52

=

$

Annual Mortgage Contribution

Or

What could you afford per week?

$

X

Weeks in the Year

52

=

$

Annual Mortgage Contribution

Or

What could you afford per month?

$

X

Months in the Year

12

=

$

Annual Mortgage Contribution

Step 2: Work Out How You Want To Make Money In Property

This is where you choose the most suitable strategy to make money from your investment.

Most people simply purchase a home and wait for it to go up in value. However, having a strategy to make money in other ways from your property can accelerate your property portfolio.

Here are some common ways people make money from their home

1. Cosmetic renovations (cost of paint, new carpet etc)
2. Structural renovation (extensions, extra rooms etc)
3. Adding outdoor entertaining areas
4. Convert a garage into a granny flat or build one in your backyard
5. Sit tight and wait for your property to increase in value
6. Subdivision or Development
7. Positive Cash Flow Property

Knowing how you want to make money in property will help you to narrow down the areas you want to buy property in as well as what types of properties you might like to buy.

Instead of “shooting in the dark” you will have a game plan of exactly what you are looking for.

Choose an investment strategy worksheet

Talk with your spouse about whether you want to pursue an investment strategy when purchasing your home.

Talk through the below investment options and discuss whether they suit you or not

☐ Cosmetic renovations (cost of paint, new carpet etc)
☐ Structure renovation (extensions, extra rooms etc)
☐ Adding outdoor entertaining areas
☐ Convert a garage into a granny flat or build one in your backyard
☐ Sit tight and wait for your property to increase in value
☐ Subdivision or development
☐ Positive Cash Flow Property

Step #3: Speak with a mortgage broker

Now that you have a rough idea of how much you can put towards a mortgage each month it is time to call a mortgage broker

Why you shouldn't just go to your bank

At this point many people think the best step is to simply go to their local bank and ask them about their loans. This is generally a bad idea for a number of reasons

- Banks RARELY show favoritism to existing customers
- Banks can only measure you against their loans (mortgage brokers have access to over 30 different lenders)
- Every bank has different lending criteria so your bank is unlikely to have the best interest rate or the best loan for your circumstances
- Banks may check your credit file just to see if you could be approved for a loan. (Multiple checks on your credit file although not inherently bad can make it hard to get a loan).
- Banks often have trouble working in hypotheticals. (Mortgage brokers can give you estimates based on a variety of different hypothetical scenarios)

So I always advise people to speak to a mortgage broker. You can find a local mortgage broker easily through Google.

But if you want to work with a mortgage broker I know and trust then click the link below, enter your name and email address and my mortgage broker will be in contact with you.

Click here to get my mortgage broker to call you

Speak with a mortgage broker worksheet

Important things to tell your mortgage broker

☐ How much you earn per year

☐ How long you have been in your job (12+ or even 24+ months is ideal)

☐ What type of employment you have (full time, part time, casual, self-employed)

☐ What kinds debt you have (and values)

☐ What businesses you own or are on the board of

☐ Other properties you own and mortgages with other lenders

☐ Whether you pay your bills on time or often pay them late (Late payments will affect borrowing capacity)

Questions to ask your mortgage broker

☐ How much of a deposit do I need to save?

☐ If I save a 20% deposit how much am I able to borrow?

☐ If I save only a 5% or 10% deposit how does that affect my borrowing capacity and how much would Lender's Mortgage Insurance cost?

☐ How much will the extra expenses be (eg. Stamp duty, Solicitor, Mortgage Fees, Valuations etc)?

☐ What documentation will you require for me to get pre-approval?

☐ With pre-approval how long will it take to get unconditional approval once I make an offer on a property?

☐ How does the loan process differ if I purchase at auction?

☐ How does your commissions effect the loan options you provide to me? (Mortgage brokers are paid commissions by the lender at no extra cost to you)

Step #4: Save your deposit

The most effective way to save is to simply put aside your savings as soon as you are paid. Then find a way to either live off the rest or make more money so you can survive.

Here are some quick saving tips for you:

- Take it straight out of your pay
- Compare the prices of products and buy the cheaper one. Whatever you saved in price put that towards your deposit
- Shop at Aldi, Cosco or Other Discount Stores
- Lower the rent you are currently paying by moving into a cheaper property and save the difference
- Encourage your spouse to be a part of the savings process
- Track your progress in a place everyone can see
- Celebrate milestones – This will keep you motivated to keep going

And here are some quick earning tips for you:

- Sell your stuff on eBay or Gumtree
- Sell your second car and save the money
- Downgrade your car and save the money gained
- Rent out a room or a garage
- Get a second job
- Do some consulting
- Get a job where you can earn commissions
- See if anyone would be willing to help you – A guarantor means you hardly have to save any money at all

For more details view: [Top 20 Ways To Save Your House Deposit FAST!]

Save you deposit worksheet

A: Choose A Purchase Price

$	Purchase Price

Remember it can be a good idea to choose a lower entry point into the market and work your way up. This means you can save a smaller deposit and get into the market quicker.

B: Choose a % Deposit

%	% of Deposit

A lot of people choose 20% to avoid Lender's Mortgage Insurance but you can go as low as 5% so you don't have to save as much.

C: Purchase Price x % Deposit = "Deposit Goal"

Purchase Price

$

X

% Deposit

%

=

$

This is your "deposit goal"

Example 1: If you wanted to buy a $400,000 house and save 5% deposit you would do 400,000x0.05 = $20,000

Example 2: If you wanted to buy a $500,000 house and save a 20% deposit you would do 500,000x0.20 = $100,000

D: Calculate Stamp Duty

$	Stamp Duty

Use this calculator to calculate the stamp duty payable on your property.

Otherwise a rough guide is to assume 5-6% of the purchase price for stamp duty and costs

E: Deposit Goal + Stamp Duty = Savings Goal

Deposit Goal

$

+

Stamp Duty

%

=

$

This is your "savings goal"

You now have a goal to aim for!

F: Get A Monthly Savings Target

Divide your savings goal by the amount of months until you want to have your deposit saved.

1 year = 12 months

2 years = 24 months

3 years = 34 months

Savings Goal

$

÷

Months Remaining

=

$

This is your "monthly savings goal"

If this goal seems to high consider lowering your purchase price or lowering the % of the deposit you aim to save. Believe it or not but even though aiming for 20% is admirable it is unachievable for most people.

If you prefer to set weekly savings targets just divide by the number of weeks instead of months

1 year = 52 weeks

2 years = 104 weeks

3 years = 156 weeks

Step #5: Find A Good Area To Invest In

Purchasing your first property is a very personal decision to make. It needs to be a suitable property in a suitable area.

However, chances are it is not going to be your last property either so you want to make sure that you purchase in a good area so your property will retain its value and hopefully grow in value over time.

Here are some research techniques to help you avoid buying in bad areas.

- Check vacancy rates of the area using this tool (under 5% is generally considered normal)
- Check 2011 Census QuickStats for your suburb to find out the employment, demographics and types of properties people live in.
- Check Census QuickStats (choose 2006) and see if the population in 2011 is greater than in 2006 (declining population can be a red flag)
- Use This Top Suburbs tool to check capital growth for the area and median trends
- Use RipeHouse ($169/quarter) to learn about housing commission, crime levels and owner occupied vs rented areas
- Use WalkScore to find out about the local amenities in the area
- Join On Property Plus ($29.95/month) and learn more advanced research techniques plus learn how to get RPData reports (Valued at $24.95 each) absolutely free.

There is SO MUCH data you can dig into about areas that it can become overwhelming. The above tips will help minimise your risk of buying into a high risk or declining area.

Find A Good Area To Invest In WorkSheet

☐ Are vacancy rates below 5%?

☐ Is the employment in the area diversified? (Eg. Not reliant on one industry like mining)

☐ Are you comfortable with the median income of the area and demographics?

☐ Does a high percentage of the area live in properties like the one you are buying (eg. 3 Bedroom Homes)?

☐ Is the population of the area in 2011 similar to or higher than the population in 2006?

☐ Is there a consistent capital growth trend for the area?

☐ Is there a low percentage of public housing in your area?

☐ Does the area have a low crime rating?

☐ Does the area have a high Walk Score with amenities and public transport close by?

Step #6: Get Pre-Approval

Pre-approval generally happens after you have saved your deposit but before you have found a property to purchase.

When you have loan pre-approval it almost always means that the loan is approved subject to a satisfactory valuation. This saves A LOT of time when it comes time to actually buying a property and can sometimes mean the difference between purchasing your dream home or losing it to someone else who already has their finances sorted.

To get pre-approval simply talk to your mortgage broker and tell them you want to get pre-approval.

Your mortgage broker should be equipped to run your financials and help you choose the best loan option for you. They will also do most of the paperwork for you (which I love) and get you the pre-approval you are after.

NOTE: If you situation changes (job change, living arrangement change, wage change) then it is likely to void your pre-approval. Speak to your mortgage broker is anything chances in your circumstances

If you don't have a mortgage broker you can get my mortgage broker to give you a call.

Simply fill out this form.

Get Pre-Approval Checklist

☐ Contact your mortgage broker letting them know you want to get pre-approval

☐ Provide mortgage broker with the required financial and personal details

☐ Choose the most suitable loan with the help of your mortgage broker

☐ Get pre-approval

☐ Keep your mortgage broker updated if your situation changes

Step #7: Choose A Conveyancor Or Solicitor

This step can be completed after you have made and offer on a property, but like pre-approval if you get it done before you have an offer accepted it will make your life a whole lot easier.

Contracts of Sale are legal documents and thus you are going to require legal advice in order to complete the contract, edit it and everything else that is associated with it.

So what is the difference between a solicitor and a conveyancor?

First the definitions

Solicitor

"A member of the legal profession qualified to deal with conveyancing, the drawing up of wills, and other legal matters. A solicitor may also instruct barristers and represent clients in some courts"

Conveyancing

In law, conveyancing is the transfer of legal title of property from one person to another, or the granting of an encumbrance such as a mortgage or a lien.

In English

Solicitors can practice all sorts of law, Conveyancors and only do conveyancing and cannot practice law outside of that.

Like Midwives and Obstetricians (Baby Doctors)

Some people will hate me for this but I see it kind of like Midwives and Obstetricians. Midwives know a heck of a lot about pregnancy and delivering a baby and can help you with almost everything to do with delivering a healthy happy baby.

But when things get complicated or go wrong they usually aren't qualified enough and you need the expert opinion of the Obstetrician.

In the same way a conveyancor can do everything for a standard property purchase. But if things get weird, go pear shaped or for some reason go completely wrong chances are they will need to hand you over to a Solicitor who can deal with all aspects of law.

Now the prices

Conveyancors

Conveyancors are much cheaper than Solicitors. Prices do vary but many conveyancors offer their services for under $1,000 or around the $1,000 mark.

Solicitors

Solicitors are more expensive. Prices again vary but you are likely expected to pay around $2,000 - $3,000 or higher.

So which to choose?

It really depends on what you feel comfortable with. Personally I would go with a conveyancor for standard deals but would choose a solicitor when I felt the deal was going to be more complicated.

How To Find A Conveyancor or Solicitor Step By Step

☐ Google “conveyancor [area]” or “solicitor [area]”

☐ Go on the forums at PropertyInvestor.com or Somersoft.com and start a new thread asking “Any recommendations for a good {conveyancor/solicitor} in [area]?”

☐ Get at least 3 quotes (5 is preferable)

☐ Search “[company name] review” in Google – You are not looking for good reviews…just making sure there aren’t bad ones.

☐ Rank them 1st, 2nd and 3rd

☐ Let them know you are not ready to buy right now but you will contact them when you are purchasing a property

☐ Save their contact details in your phone either under contacts or in your notes section

☐ When it’s time to purchase call the 1st on your list. If #1 cannot help you move to #2 on your list and so on.

Step #8: Preliminary Cash Flow Analysis

Before you inspect any property I suggest a preliminary cash flow analysis. This is not time consuming and will take just one phone call (for investments) and no phone calls for purchasing a home to live in.

The goal of a cash flow analysis is to understand what impact this property is going to have on your monthly case flow and most importantly WHETHER OR NOT YOU CAN AFFORD IT.

I suggest doing this before visiting a property, because if the financial figures don't add up then you can avoid wasting time going to the open for inspection.

Using the internet you can quickly analyse hundreds of properties and get a good idea of an area and what you can and can't afford.

I am going to walk you through exactly how to do your cash flow analysis manually. However, I do suggest using The Advanced Property Calculator to speed things up. Access to this tool comes free with every On Property Plus membership and it will allow you to analyse the potential cash flow of any property in under 10 seconds saving you loads of time and helping you make the right decision.

Step #1: Determine Rental Income *(home owners skip to step 2)*
If this is an investment property you need to determine what the rental income will be. The easiest way to do this is to call the real estate agent, let them know you are interested in the property and ask for a rental estimate.

Times weekly rent by 52 to get annual figure. Assume 100% occupancy at this stage.

Step #2: Add Up Expenses

Mortgage repayments – I won't go into how to calculate this…that is why we have computers. I recommend this mortgage calculator which does interest only and principal and interest.

Rental agent fees – Usually about 6-12% of weekly rental income plus 110% of one weeks rent every time you need a new tenant.

Maintenance – What maintenance will you need to do on the property this year? (Broken taps, new hot water system, painting, fixing doors etc)

Vacancy – Use this vacancy rate tool to find out the vacancy rate of your area. If it is 5% then allocate 5% of annual rent as a "vacancy expense".

Council Rates – The real estate agent should be able to provide these details to do.

Water – How much water do you use or will your tenant use throughout the year? In some cases you can actually charge the tenant for water.

Other Utilities – Do you need to pay for gas, electricity, sewerage or any other utilities?

Stata/Body Corporate Fees – If you are in a unit, townhouse, villa or you share land you will likely need to pay body corporate fees for the maintenance of common grounds. These vary wildly so get the details from your real estate agent.

Land Tax – Only if you are an investor and you own a lot of land in one state.

Miscellaneous – Always good to have a buffer for miscellaneous expenses. Whatever you do DON'T make this $0.00

Step #3: Income minus expenses

Take your total annual rent *(this will be $0 if you are buying a home to live in)* and minus all of the expenses.

Are you ahead (positive cash flow) or are you in arrears (negative cash flow)?

Divide by 12 or 52 to get monthly or weekly cash flow estimates.

Can you afford this property and does it look like a good purchase/investment?

Cash Flow Analysis

Annual Rental Income

$

–

$	Mortgage Repayments
$	Rental Agent Fees
$	Vacancy
$	Council Rates
$	Water
$	Other Utilities
$	Strata/Body Corporate
$	Land Tax
$	Miscellaneous
$	Total

=

Annual Cash Flow Estimate

÷

52

=

Weekly Cash Flow Estimate

$

Step #9: Inspect The Property

The property inspection is an exciting and nerve racking time. It is common to feel overwhelmed and rushed when looking at the property.

Generally property inspections work like this:

1. The real estate agent will set a general inspection time for anyone to view the property.
2. When you turn up the real estate agent will collect your name and phone number at the door.
3. You will be free to roam through the property at your own pace for a certain amount of time. In some circumstances the real estate agent may take you through the property personally.
4. The real estate agent will approach you asking about your situation. They want to determine if you are a serious buyer (or just a sticky beak) and if you are seriously interested in this property.
5. After you leave (probably in the next day or two) you will receive a phone call from the agent asking you whether you are interested in the property or not.
6. If you are interested in the property you should request to see the property by yourself, without other potential buyers there.

You won't get a lot of time at property inspections so it is important to make that time count. Imagining where your bed will fit and what your life will be like is going to happen naturally, but what isn't so natural is analysing the property and taking enough time to look for flaws in the property.

Try to keep your cool and take your time. I find it easiest if I explain to the real estate agent up front that I am a serious buyer and I have a checklist of things to go through.

Unfortunately I cannot provide you with a checklist of items you should be looking for in a property. Your needs will be vastly different to mine so there is no one-size-fits-all checklist for general property requirements. Things like privacy, bedroom numbers and size, kitchen quality etc will come down to personal choice.

However, I can provide you with a handy checklist to help you spot common problems that you'll likely want to avoid.

This checklist should NOT be a replacement for a building and pest inspection. Rather it will reveal to you any major issues the property may have and will stop you getting too excited about that deal that seems too good to be true.

See step #15 for more details on due diligence and getting your building and pest inspection done.

Property Inspection Checklist

EXTERIOR

	YES	NO
Large Cracks		
Dry Rot		
Termite Damage		
Water Drains Away From House		
Obtain Drainage Diagram		
Obtain Sewerage Diagram		

FOUNDATIONS

	YES	NO
Cracking In Walls		
Difficulty Opening Or Closing Doors		
Cracking On Interior Roof		
Obvious Slant In Property		
Big Tree With Big Roots Close To House		

ROOF

When Was It Last Replaced?		
	YES	NO
Rust		
Missing Shingles		
Cracks		
Gutters and Downpipes Firmly Attached		
Tree Encroaching		
Other Damage		
What Damage?		

INTERIOR

	YES	NO
Any Swelling In Roof or Walls?		
Any Crack in Walls or Roof?		
Any Discolouration?		
Any Obvious Signs Of Leaks		
Check All Light Switches Work		
Check All Electrical Switches Work		
Is The Fuse Box New And In Good Condition?		
Do All Appliances Work (e.g. Oven, Dishwasher etc)		
How Old Are The Appliances?	Years	
Do All Taps Work?		
Does The Hot Water Work Well?		
Is The Hot Water Brown?		
Any Obvious Signs Of Leaking In Plumbing (check under sink)		
Are The Windows All In Good Working Condition?		
Signs Of Dry Rot, Wet Rot, Damp or Termite Damage?		
Any Cracking Paint?		

Step #10: Work Out How You Are Going To Make Money

This step can either be done after you inspect the property or it can even be done before you inspect the property.

The goal with this step is to actually take an emotional step back from the buying process and work out how this property is going to benefit you financially.

At the end of the day it is VERY UNLIKELY that your first property purchase is going to be your dream home. The more likely scenario is that this will be a stepping-stone to your next property until you eventually step up high enough to own your dream home. (My dream home is a 2-story home right on the beach).

Here are some common ways people make money from their properties

- Do a minor renovation (eg. Paint job etc) to increase value
- Do a major renovation (eg. Extension etc) to increase value
- Rent it out and generate a positive cash flow
- Hold the property and wait for the market to go up
- Build a granny flat and generate income/increase value
- Pay down debt over time instead of paying rent

The fact is most people purchase property without a second thought about it actually making money so they can step up to their next property. But you're not most people.

I suggest that if your only plan is to hold the property and hope it goes up in value at least complete step #5 so you have a better chance of your area increasing in value.

How You Are Going To Make Money Worksheet

What Is Your Planned Method For Making Money? (eg. Renovation, Buy and Hold etc)

What Research Have You Done To Ensure This Property Can Make Money Using That Method? (eg. For renovations – “renovated properties in the area are selling for $100,000 more than unrenovated properties”)

How Long Will It Take You To Achieve This Growth?

How Will You Access This Growth?

☐ Sell the property

☐ Borrow against the equity in the property

☐ Rent the property out and generate a positive cash flow

Step #11. Do Your Final Cash Flow Analysis

The process to completing your final cash flow analysis is very similar to the preliminary cash flow analysis we did in Step #8, so refer back to that chapter for more details on exactly what to do.

However, there are a couple of things that are different.

1. Completely Accurate Figures

In the preliminary cash flow analysis we can get away with having estimates. However, in this step you should get all your figures completely accurate.

The real estate agent should be able to provide you with details of the council rates, body corporate fees as well as estimates of other rates (eg. Water rates)

You can also speak to insurance agencies to get a quote on the insurance of your property and you can personally estimate what you believe maintenance will cost on the property.

2. Taxation

For many people, losses on an investment property can offset taxable income providing you with a tax return.

It is a good idea to estimate depreciation as well as any other loss and calculate what you estimated tax refund would be. This will affect your overall cash flow figure for the year and might make things look better (or worse).

Cash Flow Analysis

Annual Rental Income

$

–

$	Mortgage Repayments
$	Rental Agent Fees
$	Vacancy
$	Council Rates
$	Water
$	Other Utilities
$	Strata/Body Corporate
$	Land Tax
$	Miscellaneous
$	Total

=

Annual Cash Flow Estimate

÷

52

=

Weekly Cash Flow Estimate

$

After Tax Analysis

Annual Cash Flow Estimate

$

-

Depreciation

$

=

Taxable Income or Loss

$

x

Tax Rate (eg. 32.5%)

%

=

Tax Payable or Tax Refund

$

Final Cash Flow Analysis

Annual Cash Flow Estimate

$

+/-

Tax Payable (-) or Tax Refund (+)

$

=

Final Annual Cash Flow Estimate

$

÷

52

=

Final Weekly Cash Flow Estimate

$

Step #12. Obtain The Contract Of Sale And Give To Your Conveyancor/Solicitor

Once you have made an offer (or even before you have made an offer) and had it accepted you will need to obtain the contract of sale and give it to your solicitor/conveyancor.

This contract lays out the terms of the agreement including (but not limited to):

- Purchase price
- The deposit payable
- Settlement date
- Vacant possession or occupied with tenants
- Penalties for non-payments
- Finance and due-diligence clauses
- Much much more

It is very difficult for an average investor to understand everything contained in this document. That is why it is extremely important to consult a good solicitor or conveyancor who can help you structure the right deal with the right clauses.

Some things you may want to consider:

- Deal subject to finance approval (otherwise you get your deposit back)
- Deal subject to acceptable building and pest inspections (otherwise you get your deposit back)
- 5% deposit on signing (not the standard 10%)
- Ability to extend cooling off period

Questions To Ask Solicitor/Conveyancor

☐ Do I need a due diligence clause so I can get my deposit back if the building or pest inspection shows problems

☐ Do I need a finance clause so I can get my deposit back if I can't secure financing?

☐ Should I (or can I) lower my deposit amount to 5%?

☐ If I need to extend the cooling off period is this possible?

☐ Can I market the property for rent and get a tenant in there before settlement?

☐ Am I able to get early access to the property to do some cosmetic improvements (eg. Cleaning, painting etc)

☐ Is there anything non-standard about this contract for sale? (They may identify issues like "this isn't actually a freehold property" or "there is a covenant on this title")

Step #13: Make An Offer

Making an offer can be a daunting task. In this section I will walk you through exactly how to make an offer to buy a unit as well as tasks to complete before having an offer accepted.

You are generally not required to make an offer in a certain way by law (see Fair Trading). You can literally make an offer in (almost) any way you desire, it is only once money and contracts start to be exchanged that things start to get serious.

5 Common Ways To Make An Offer To Buy A Unit

1. Tell the agent your offer in person

2. Write it on a piece of paper and give it to the agent

3. Send an email to the agent with your offer

4. Send a text message to the agent with your offer in it

5. Phone the agent and verbally convey your offer over the phone

Some Not So Common (But Generally Still Viable) Ways To Make an Offer To Buy A Unit

1. Write the offer amount on your forehead and show it to the agent

2. Get the agent to guess the offer saying "higher" or "lower" until she lands on the right amount

3. Send the agent your offer via Snapchat or some other self-destructing communication.

5. Tweet the offer – make sure to @ the appropriate real estate agent

6. Post your offer on the agent's Facebook wall or Instagram Feed

7. Hire a skywriter plane to write the offer in the sky

8. Go to an open for inspection and hide the offer somewhere in the property, then make the agent find it. Give them clues or a map to help them

Ok I kid (about #8) but you really can make an offer in any way you desire as long as you are serious.

I have made offers verbally, through email and even through the ‘Contact the agent” forms on sites like RealEstate.com.au

Please be aware that making an offer in Queensland is a little bit different. Most offers are made in writing and when accepted form a contract for sale. Always check the laws around your particular state before making an offer.

You May Also Want To Negotiate On Terms

Your offer does not have to be just a figure straight out. You may also want to negotiate on the terms of the agreement.

For example:

- I would like to offer $500,000 with a 60 day settlement
- I would like to offer $400,000 with $300,000 paid on settlement date and $10,000/month paid each month for 10 months after settlement date
- I would like to offer $300,000 plus 3 sheep, 2 cows and a plasma TV

- I would like to offer $1,000,000 with a 30-day settlement providing a 4.5% deposit prior to settlement. I would also like the owner to provide a 100 inch Samsung LED TV free of charge.

As you can see you can negotiate however you want.

<u>However, it is most common to simply negotiate on:</u>

- Price
- Settlement date
- Cooling off period
- Amount of deposit

<u>What Happens After You Make An Offer</u>

After you make an offer the agent will take the offer back to the seller. In most cases they are obligated by law to take that offer to the seller, even if it is a low-ball offer.

Not all agents will do this and very few buyers will force their hand with the agent, still it is good to be aware of this.

Offer For Purchase

Here are some examples of written offers for purchase:

Offer #1

"To the owner,

I would hereby like to make an offer to purchase 14 Pretend Street, Cronulla, NSW, 2230 for $1,000,000 with a 60-day settlement period.

Your sincerely,

Ryan McLean

____________________(signed)

____________________(dated)"

Offer #2

"$1,000,000"

– just write that on a piece of paper and give it to the agent saying "here is my offer".

Offer #3

"Dear [agent]

I would like to make an offer on 14 Pretend Street, Cronulla, NSW, 2230 with vacant possession.

Purchase price: $800,000

Settlement Period: 30-Days

Deposit: 5%

Kind regards,

Ryan McLean"

Step #14: Sign The Contract, Pay Your 0.25% Deposit And Enter The Cooling Off Period

Once your offer has been accepted and you have decided you want to buy the property the next step is to work with your conveyancor/solicitor and sign the contract, pay a small deposit and enter the cooling off period.

In almost all cases this small deposit is non-refundable. The large deposit you pay after the cooling offer period can often be refunded if you put the right clauses in your contract.

Cooling off periods are a time when you can cancel an agreement you have entered into and it is as if you never entered into that contract.

This means if you have issues obtaining finance, if there are issues with the property or you get cold feet and just want to back out you can.

<u>Cooling off periods vary from state to state.</u>

NSW - 0.25% deposit - 5 days
QLD - 0.25% deposit - 5 days
ACT - 0.25% deposit - 5 days
VIC - 0.2% deposit - 3 days
SA - Small holding deposit - 2 days
NT - No deposit - 4 days
TAS, WA - No cooling off period

The cooling off period gives you as the buyer the ability to pull out of the deal if you need to. The cooling off period is the perfect time to do your due diligence and get finance approval done, if you haven't done it already.

Speak to your conveyancor or solicitor about the possibility of adding clauses for finance approval or satisfactory due diligence into the contract if you need more time. This should be done PRIOR to the signing of the contract and the cooling off period.

Cooling off periods can often be extended (usually the time period is doubled) however; this is rarely a guarantee (so don't bank on it).

Sign The Contract Checklist

Before Signing

☐ Do you have your 0.25% deposit available to make payment?

☐ Do you have (in cash) the amount of the full deposit due after the cooling off period ends? (Remember, banks don't lend you money for the deposit)

☐ Have you included all desired clauses in the contract of sale?

☐ Have you looked over the contract with your conveyancor/solicitor and everything looks fine?

After Signing

☐ Sign the contract

☐ Provide to real estate agent or seller's solicitor

☐ Pay your 0.25% deposit (or whatever required) in the form required (bank cheque, cash, bank transfer etc)

☐ Complete your due diligence

☐ Get complete finance approval

Step #15: Do Your Due Diligence And Get Finance Approval

<u>Due Diligence</u>

This is a step you won't want to miss.

Many first time investors think they are smart and try to save money by not getting a building and pest inspection done (approximately $300-$500 each). However, this can (and often does) have disastrous outcomes.

Even if you complete the inspection checklist in Step #9 there are still a lot of potential issues you will be unable to detect yourself.

Will you really go under the house and check that the foundation is secure? Will you go into the roof to check there is no structural damage? Will you identify potential termite damage in hidden areas?

The fact is you cannot be expected to know everything and in many cases it is worth paying to get a building and pest inspection done. In fact the data gained through the reports can often be used in negotiations. You can demand the issue be fixed at the sellers expense or ask for a discount because of the upcoming expenses.

Here are some things builders have found when I have ordered inspections

- No drainage in the bathroom vanity (poured straight under the house)
- Concrete cancer (rusted interior supports) inside an old concrete home
- Foundations that needed partial replacement
- Holes in the roof

As you can see these aren't minor issues and these reports saved me a lot of money buying a dodgy property. So I highly recommend them.

Getting Finance Approval

Moving your finance from pre-approval (if you completed Step #6) to what is often called "unconditional approval" is an important step to take.

This means you have full approval for you loan (previously it was subject to a satisfactory valuation) and you will be able to move forward confident that the bank will provide you with the rest of the money you need to purchase your property.

I will not go into detail about the steps required to move from pre-approval to unconditional approval because that is something your mortgage broker will help you with.

Every lender is different and their specific process is different. But the basis of the process is generally:

- Get a professional valuation done on the property (usually costs you a few hundred dollars)
- Confirm your details haven't changed
- Make the loan unconditional

If you details have changed since receiving pre-approval then chances are you will have to go through the lending cycle again and reapply for approval. Again your mortgage broker will be the most equipped to help you with this.

Due Diligence Checklist

☐ Inpect the property and complete inspection checklist

☐ Building inspection

☐ Pest inspection

☐ Quotes to fix issues

☐ Property valuation (by lender)

☐ Unconditional finance approval

Step #16: Pay Your Deposit

When the cooling off period is over and you have decided to go ahead with your property purchase you are then required to pay the deposit set out in your contract of sale.

Remember this deposit can be negotiated, however it generally needs to be negotiated before you first sign the contract.

Your conveyancor/solicitor should be able to tell you exactly how the deposit is to be paid and to who.

Pay The Deposit Checklist

☐ Pay your deposit using the correct method
☐ Confirm payment has been received
☐ Obtain a receipt for your deposit

Step #17: Work With Solicitor And Mortgage Broker To Ensure Everything Is Going To Plan Leading Up To Settlement

Every deal is different and there is almost always some extra things that need to be taken care of before the actually settlement of the property.

Stay in contact with your conveyancor/solicitor and your mortgage broker to ensure everything is going to plan.

If they need extra documents don't waste time providing those documents to them. Supply them as soon as possible.

Something as small as missing one document can hold up a sale completely and cause you to lose a deal and potentially a lot of money.

Lead Up Checklist

☐ Speak to or email your mortgage broker weekly to check on the progress of your loan
☐ Speak to or email you conveyancor/solicitor weekly or fortnightly to check on the progress of settlement and if they require anything else.

Step #18: Arrange Insurance On Your Property

The last thing you want is to take over ownership of your first property and for it to burn down on the same day before you were able to secure insurance on the property.

Usually when you buy a car you can call your insurance company and get it insured instantly.

But as this is your first property you are likely to want to do some comparisons of different insurance offerings so you can choose the best option for you.

Most homeowners opt for ‘home and contents’ insurance while most investors opt for ‘landlords insurance’

Landlords insurance provides you with the extra protection you may need as a landlord. Things like insurance against malicious damage or a failure of tenants to pay rent. That way if tenants disappear on you then you can recover that lost rent through your insurance company (subject to their terms and offerings of course).

Some companies offer incentives if you also have your car, health or home insurance with them. Other companies offer lower rates to those over 50 and banks may give you a discount if you have a mortgage or account with them.

Don’t be afraid to negotiate on the price or the product features. You may be able to get a discount or secure higher claim limits or a smaller excess.

If it doubt it’s better to be over insured than under insured.

Insurance Checklist

☐ Home and Contents Insurance ☐ Landlord's Insurance

3 Potential Providers

1. ______________________________
2. ______________________________
3. ______________________________

Annual Cost

1. ______________________________
2. ______________________________
3. ______________________________

Monthly Cost

1. ______________________________
2. ______________________________
3. ______________________________

Insurance Provider:……………………………………….

Disasters

☐ Storm (including damage from lightning strike)

☐ Fire (iincluding bushfire)

☐ Flood (look closely at 'type of flood' covered)

☐ Earthquake

☐ Tsunami and 'ocean movements

☐ Civil unrest and rioting

Buildings

☐ Pipes and cables

☐ Fixed appliances

☐ Gas or plumbing systems

☐ Fixtures and fittings (except for carpets loose floor coverings, curtains and internal blinds)

☐ Exterior blinds and awnings

☐ Some external structures

☐ Complete or partial destruction of the property

☐ Loss of rent while property is uninhabitable

☐ Damage caused by tenants and/or guests

Contents

☐ Carpets

☐ Curtains

☐ Furnishings

☐ Furniture

☐ Household goods

☐ Internal blinds

☐ Loose floor coverings

☐ Light fittings what are not permanently fixed to the building

☐ Domestic appliances and utensils

☐ White goods (claim limit:)

☐ Exterior items (claim limit:)

<u>Rent Default</u>

Claim Limit: .... weeks rent

Time delay:……………………….. days

Excess: $...................................

☐ Default

☐ Tenant eviction due to a court order

☐ Tenants obtaining a hardship order

☐ Unexpected death of tenant

<u>Legal</u>

☐ Legal liability cover

<u>Optional Extras (usually)</u>

☐ Worker’s Compensation

☐ Automatic indexation of insuraed value

☐ Fusion or burnout of appliances that use an electric motor

☐ Replacement of keys and locks

☐ Tax audit insurance

Step #19: Sign Any Remaining Documents, Organise Money Orders

Really you should have signed all your documents and have your loan ready (see step #17).

However, it is still worth doing a final check before settlement day to ensure everything is going to plan.

Final Checklist

Conveyancor/Solicitor

☐ All documents signed

Mortgage Broker

☐ All loans approved and ready for settlement date

Real Estate Agent

☐ Ensure seller is ready for settlement date

Step #20: Cheques Exchanged By Your Team, Seller’s Team And The Agent

Settlement day has arrived! Woo hoo!

Believe it or not but in most cases you don’t actually have to be there for settlement.

Your conveyancor/solicitor and your lender will meet with the seller’s team and exchange everything. There shouldn’t be anything for you to do.

If things get complicated then you will be consulting your conveyancor/solicitor, mortgage broker or lender to extend time lines or fix errors. But hopefully you have done that before today.

Exchange Checklist

☐ Nothing to do

Step #21: Pick Up The Keys

Congratulations!

You have gone through all of the steps require to buy your first property in Australia. This is a massive achievement and you should be proud of yourself.

Once all contracts and finances have been exchanged the real estate agent will give you a call and you can pick up the keys to your new property.

You can now move in, rent out your property or go and make any changes you want to the property. It's yours!

Suggestion: If you are only provided one set of keys make sure to make a copy ASAP. Lose the only key and it can be REALLY expensive to get a new one.

Pick Up The Keys Checklist

☐ Ensure you receive at least one key for every lock

☐ Check every key and every lock to ensure they all work

☐ Make a copy of your keys for safe keeping

☐ Inspect the property to ensure it is empty and in the right condition

Conclusion

This completes The Essential Guide To Buying Your First Property In Australia.

I hope that this ebook has helped clarify the property buying process and minimise your sense of overwhelm.

What To Do Now

Now that you have read through the entire guide I suggest going back to the exact step you are up to in your property buying cycle.

Read through that chapter again and print of the checklist or worksheet. Take action until that step is completed and then move onto the next step.

By focusing on JUST what is in front of you and taking it one day at a time you can make real progress towards your goal of owning your own property.

The process of buying a house may feel slow at time but remember this is a REALLY BIG financial purchase and it is normal for it to take time preparing to buy. Don’t rush into things, go at your own pace.

Who cares that Steve McKnight bought 130 properties in 3.5 years…that doesn’t have to be you.

Other Resources

On Property Plus

On Property Plus is a membership site for people who want to invest in positive cash flow properties.

Every week we list new high rental yield properties (usually 7-11% rental yield…but once I had a property with a 14% rental yield).

Each property is listed with supporting data to help you make an informed decision:

- Valuation Estimates
- Capital Growth History
- Median Prices
- Previously Sold History
- Population Growth or Decline
- Vacancy Rates
- and more…

Plus get access to property tools like The Advanced Property Calculator and Town Population Statistics as well as step-by-step video tutorials

- How To Find Positive Cash Flow Properties
- How To Research An Area Like A Secret Agent
- Positive Cash Flow Property Basics
- Successfully Budget and Set The Right Goals

Learn more about On Property Plus

Real Estate Investar

Real Estate Investar provides a smarter way for you to search for properties.

Identify positive cash flow properties or find properties selling for under market value by searching using particular keywords.

Get access to professional property valuation reports, area research data and get access to property management tools, which allow you to track your investment properties.

This is an amazing tool for property investors and one I highly recommend if it is within your price range.

Learn More About Real Estate Investar (affiliate link)