

# Buying your first home

**Do a budget.** This tells you where your money is going, where you can cut back and where you can save. The budget then helps you work out what you want, need and can afford.

## **Set your goals**

How much can you afford? What should you be aiming for? It's best to answer these kinds of questions now so you can work them into a budget. After all, there's no point shopping for a mansion if you can only afford a cottage. As a general guide, your mortgage repayments should not exceed 30 percent of your before-tax income. Keep in mind, any existing debt will reduce the amount you can borrow for a home.

## **Control your debt**

If your budget needs to get into shape, now is the time to do it. If this means consolidating a few debts, then do it. There is no point in saving hard for a deposit if you're also being charged an astronomical rate on your personal loans.

## **Work your money**

Maximise your savings by taking them out of low-interest bank accounts. Alternative accounts such as high-interest e-accounts or bonus savers offer a better return and they are still capital guaranteed. If you have got more time to invest, then consider a managed fund. You should consider these funds only if you don't need the deposit for at least five years.

## **Check your credit rating**

Before approaching a lender, ensure there are no nasty surprises in your credit file. There's nothing worse than being refused a loan because of a silly little debt that you fixed up years ago.

Get a copy of your credit history. If you do find something, make sure you talk it over with your lender — they don't like surprises, either.

## **Do your homework**

To get the best possible home loan at the right price, you must do your homework. The state of the market can vary greatly between suburbs and between property types. Also, what type of property are you after — a house, townhouse or unit? Consider its location and features, but make things easier by limiting your search to a few suburbs.

## **Buy, but don't move in**

For some, the only way of buying a home is not to live in it. This is because of tax benefits attached to investment properties. Negative gearing brings a saving because you can claim the difference between rent received and expenses such as interest, rates and maintenance. This may be just the boost you need to get into a home, especially if you can live with your parents rent-free for a while.

## **Ways to buy**

There are two main ways to buy a house or a unit.

## **FSBO**

This is where you negotiate the purchase of a house, including the price, directly with the seller. The obvious benefit of for sale by owner (FSBO) property is that there are no commissions or fees to pay that are normally associated with listing through a real estate agent. This can ultimately add up to thousands of dollars, explaining why so many people would prefer this approach despite its risks and commitments.

## **Real Estate Agents**

The primary benefits of listing with a real estate agent are the ease and assurance of knowing your sale will be handled professionally and knowledgeably.

Whichever method you chose, the key is to be well educated on all the real estate issues and either sell your home following all the proper methods or find someone who will take care of the home selling for you.

## **Process of buying a house**

Buying a house is a big deal, not to mention a big expense. If you're thinking about buying your first property, it pays to know your rights as a buyer and how the buying process works. If it's been a while since you've been in the market this might be just the refresher you need. The process of buying a house will differ depending on whether the house is sold by private treaty or at auction. Rules may also vary in each state or territory.

Once you've found the "right" property you might make an offer, generally one lower than the asking price. You might be asked to pay a deposit. It only proves to the seller that your offer is serious. The agent must also let you know if someone else makes a later offer on the same property. It's important to understand that the seller is not obligated to sell you the property, you have no obligation to buy the property even if your offer is accepted, and the deposit will be refunded if you don't end up buying.

You may be "gazumped" — this means that even though you have a verbal agreement the property is sold to someone else for a higher price. If you are gazumped neither the agent nor the vendor is obliged to compensate you for any money you may have spent on legal advice, inspection reports, financial applications or inquiries.

If your offer is accepted and you are not gazumped, the next step is to exchange contracts. This is the legal part of buying a home. You and the seller will sign the contract and this is when you will need to pay a bigger deposit — usually 10 percent. Sign the contract only when your solicitor or licensed conveyancer is happy.

Settlement, when you become the legal owner of the property, occurs 30-90 days from when you sign the contract. This can be negotiated to a period that suits both you and the seller.

Things are a little different if you end up buying the property at auction. If you are the successful bidder you hand over your 10 percent deposit and exchange the contract then and there.

If the property is "passed in", meaning the reserve was not met and bidding has stopped, the highest bidder can negotiate with the seller and a sale is possible. If you buy a property at auction

or exchange contracts on the same day after it is passed in, it's important to know that a cooling-off period does not apply.

## **Buying your first home: what to look for**

Hollywood comedy *Duplex*, starring Ben Stiller and Drew Barrymore, is a modern-day fable about the potential horrors awaiting the unsuspecting first-home buyer.

Like many such movies over the years, it offers salutary lessons to property-market newcomers — lessons like: if it looks too good to be true, it probably is; don't over extend; budget carefully, particularly if renovating; do your research; and beware the big bad wolves of the property market.

It is true that buying a first home can be fraught, confusing and stressful but there are many things you can do to improve your odds of making a successful choice.

Drawing up a wish list of desired features before you start searching for property, then sticking to it, is one. A wish list serves as a compass for the new-home buyer and it can help you resist the enticements, sales pressure and even well-meaning family advice that you are bound to encounter.

At the very least, it will ensure that you emerge from the process having achieved your basic requirements.

When creating your list, you might want to ask yourself the following questions and invent a few of your own:

- Do you want a townhouse, apartment or a house?
- Do you wish to live in the inner city, suburbs or country?
- How many rooms will you need?
- How many bedrooms do you want?
- Will the property accommodate your changing needs over time?
- Do you want a garden, if so how big?
- Do you prefer an old or modern residence?
- Are you happy to renovate or extend?
- How close do you wish to be to facilities such as schools, shops, childcare, parks, beaches and hospitals?
- How much you are willing to pay?

Once you have established your wish list and find a few properties that fit the bill, it is advisable to visit them several times at different times of day. This is not just to establish the condition and mood of the house under different lighting, but to determine a whole range of issues such as:

- Do the neighbors from hell live next door and why?
- Are there barking dogs or crowing roosters next door or over the road?
- Do a family of teenagers live next door?

In this respect, it can be helpful to ask why the sellers are moving, but keep in mind you may not always get an honest answer.

Finances are usually fairly tight when buying a first home, so try and determine how much a property is likely to cost you down the track. Will it require a further investment in furniture,

carpets or fittings? Will it require renovating? If so, does it fit your budget and timeframe for renovations? Most importantly, you need to ascertain if the building has any structural problems.

Once you have decided whether the house meets your specifications and there are no nasty surprises, the next step is to consider its on-sale value, particularly if this purchase is only a stepping stone to another property. Consider the following:

- Has a property boom hit the area you in which you are buying? If so there may not be a lot of money to be made for seven years, maybe longer.
- Check zoning, easements, caveats and covenants on the property.
- Try to buy the worst house in the best street.
- Compare home prices in your area to make sure you are paying no more than market value.
- Negotiate on the price. If it is a buyers' market, you will be in a position to drive a hard bargain.
- Good kitchens and bathrooms usually add value to the house and will reduce your renovation burden.

Last but not least, when budgeting, don't forget to take into account costs such as stamp duty and conveyancing. Stamp duty varies from state to state and is scaled according to the cost of the property. Some states offer exemptions or discounts to first-home buyers, so check the government websites for guide

## **Buying a house: what to look for inside the house**

Buying a home can be a bit like buying a carton of eggs. You never know what you're going to find when you look inside — bits might be missing, cracked, old, broken or rotten. So you have to check carefully to make sure you are getting what you pay for.

First-home buyers usually visit a few properties before making a final decision and this can be a test for the memory, so take a digital camera and a pen and paper. Take photos and notes about the features, colours and negative and positive points of each residence. Then, when reviewing the properties in the comfort of your home, tick them off against your wish-list.

There are some tried and tested things you should check for on the inside of the house. Mainly you want to identify anything that might be an extra cost, ranging from minor replacements to serious structural work.

Here are a few nasty surprises to keep an eye out for:

- Turn the taps on in the kitchen, bathroom and laundry to check the water pressure, performance and drainage. Check for dirty water. You might like to leave the tap running for a minute and it can't hurt to drink the water for a taste test.
- Check the hot water system. Is it big enough for your needs? A family will need more hot water than a couple. Also check for leaks, rust and age. Replacing a busted hot water system can be expensive and is not the sort of thing you can put off. If it is gas, check for the system's last servicing.
- Good insulation can save hundreds on heating and cooling bills. A quick visit through the manhole should give you some idea of its condition. Also check for cavity wall insulation.

- Are there major cracks in the walls or do the doors stick? This can be a sign of subsidence. This can be an extremely expensive problem to fix and is usually not covered by house insurance.
- Be extra cautious if the house has been recently painted as it could be masking serious problems.
- Take a torch to shine on the paintwork in dimly lit rooms to see if there are any obvious structural defects that are not clearly visible in the dark or have been painted over.
- Check for damp. Feel the walls and look for signs of peeling or bubbling paint. Watermarks are a dead giveaway, as is mould. Fixing damp can sometimes run well into the tens of thousands of dollars. If freshly painted, rely on your sense of smell.
- Bathrooms often have mould. Mould can't just be painted over. A serious problem will usually involve installing a new ceiling/wall and better ventilation.
- Check all the windows. Do they open and slide easily? Do they have cracking paint? This could be a sign of rot. Press your finger into the wood. If it's soft, it is rotten.
- Tap the walls to do a preliminary termite check. You can get instruments which measure humidity behind the walls as this is often a sign of infestation. Termites are not usually covered by house insurance so make sure you also get a professional in if you decide to buy the house.
- Good storage, like built-ins and sheds, can save you over time whereas a lack of storage is bound to cost.
- Are there any unusually shaped, difficult to furnish rooms?
- Make sure there are sufficient power points and that they are at your preferred height and position in the room. New points will cost money.
- Check for Internet access.
- Check that the toilet is on the same level as the bedrooms for easy access. If it is a two-storey house, it is nice to have a toilet on both levels.
- Check the location of bedrooms. Parents often want children to be on the same level as them.
- Do you like the wall colours? Repainting can be expensive if you employ a professional. However, if you don't mind painting yourself, try to look past the psychedelic paint job, as it can be a relatively inexpensive project that can add value to your home.
- Old-fashioned electricity switches can point to old wiring.
- Visit the house on a rainy day to check for leaky rooves, walls or ceilings.
- Are there cracked tiles or loose grout in the bathroom or kitchen?
- Check for fly and mosquito screens. In summer, these will be a must and are likely to cost up to \$1000.
- If you intend renovating, check to see if there are floorboards under old carpets, and their condition. People sometimes do insane, cheap things like staple the carpet to the floor and use industrial glue for their tiles. Both these things will add significant expense and time to floor polishing costs. Carpet should be easy to raise without many rusted nails or staples.
- Kitchens and bathrooms are the most expensive rooms in the house to renovate so pay close attention to the age and quality of cupboards, benches, plumbing fittings and tiling.
- In old houses in particular, check for holes in floorboards and cracks and fissures that let in vermin and cockroaches.
- Measure spaces in kitchens and laundries to make sure your appliances such as refrigerators, washing machines, dishwashers and microwaves fit. Failure to fit could cost a couple of thousand dollars in replacements.
- Make sure your furniture fits in the rooms.
- Check for the materials used in cupboards and benches. Good materials will last a lot longer.
- Check out the floor coverings. Will they need to be replaced and if so, when?

- Does the house have central heating or air conditioning? If so, how old are they? Check to make sure they are functioning well.

## **Buying a house: what to look for outside the house**

When buying a home, it is extremely important to take stock of "externals".

The inside of a house reflects a person's taste and can usually be easily modified, but the outside of a house is less controllable. Neighbours, the community, council restrictions and structural issues usually fall into the externals category and can be a source of great angst and expense.

Consider the following when assessing the neighbours and community:

- Drive around the area to see if there are any surprises, like factories.
- Determine whether it is close to public transport, hospitals, parks, childcare, recreation centres or commercial premises
- Ask the vendor whether the neighbours from hell live next door and if so, why don't they get along? It may be that the problem is not a problem for you. Vendors must tell you if they have had disputes with their neighbours.
- Are there barking dogs or crowing roosters next door or over the road?
- Do noisy hooligans live next door?
- Is there much traffic?
- Is there a school near to the house? This can be good, but if you are too close, you may find yourself competing for car space outside your house, not to mention the noise.
- For people looking for five-acre blocks, look for roosters, barking dogs and trail bikes for kids. These can drive you mad if you think you are going to have peace and quiet in a semi-rural setting.
- If you are buying near the bush, assess the fire implications.
- Check there are no big holes, hidden mineshafts, etc, or any other undesirable features in the landscape.
- Is the house near a giant power pole? This will usually affect the resale value and may affect your health.
- Ditto for factories belching smoke or pollution into local water supplies or major traffic arteries that also create pollution.
- Spend a couple of hours in the car checking out the locality. Is it your kind of neighbourhood? If you like trees, are there lots of trees? If you have children, are there other children? Do you like to eat out?

Having sussed out the neighbourhood, the next thing to assess is the grounds and gardens. A few things to keep in mind include:

- Garden maintenance. If you want a low-maintenance yard and dislike leaf litter, choose appropriately. It is very difficult to gain council approval to chop down trees or lop branches.
- Are their trees in your neighbour's garden that overhang your yard? If you do not like the trees, it could be a subject of dispute.
- If you don't like trees and leaves, examine the street. Big trees drop leaves that blow well beyond the boundaries of their houses and are clearly visible. They usually are protected by council.
- Does the yard require clearing? This could cost \$1000.

- Check the fences and gates. The cost of a new fence is usually shared with the neighbour and usually costs at least \$1000. If the existing fence is not compliant with council regulations and your neighbour wishes it to be fixed, you must comply.
- If the house runs on septic, have the tank checked.
- Are the decking and verandas stable?
- Is the clothesline in a convenient place that catches the sun?
- If there is a swimming pool, check the pumps and its general condition.
- Make sure the yard is well drained, particularly if you are located at the bottom of a hill. Living in a swamp is no fun.
- Check the condition of sheds and pergolas.

Last but not least in your inventory of externals is the house itself. Problems here can prove extremely costly so make sure you tick off the following:

- Are the roof tiles slipping or is the roof sagging? New rooves cost tens of thousands of dollars. Sagging rooves could reflect more serious problems like subsidence or structural issues. Visit the house on a rainy day to check for leaks.
- Look for asbestos. Removing asbestos from your own property is not illegal, but the safest option is to call in the experts and this is expensive. Asbestos can appear in fences, garden sheds and houses. It can be either flat or corrugated sheeting. It was used in water or flue pipes, roof shingles, building boards, imitation brick cladding, plaster patching compounds, textured paint, vinyl floor tiles and the backing of linoleum floor coverings.
- Check any areas where the wood touches the ground to make sure that termites haven't accessed the structure of the house. On areas where there are bricks between the soil and wood, check for termite paths. Termites can destroy a house and this is rarely covered by insurance.
- Look under the house. Are there are underground streams or general damp? This can be very expensive.
- Examine the orientation of the house. Poor positioning can make it over-hot or cold, which will cost money to regulate. There might also be problems with privacy.
- Check any external plumbing (pipes often runs under houses and along walls) for leaks.
- Are the gutters rusted or leaking, sawed off, attached to proper drainage?
- Does the house need any external painting? A good paint job can run into the tens of thousands of dollars, particularly for two-storey houses. Ask the vendor when the house was last painted. A paint job usually lasts about 10 years if done properly.
- Does the driveway comply with council regulations? Check that it is in good order.
- Check garage doors and fuse boxes.
- Make sure that any recent additions to the house have council approval.
- Does the house look straight?
- Check the positioning and condition of television antennas. Turn on a TV to check the signal.

## **Home Inspections**

Depending on the type of financing you choose, there should be either 2 or 3 separate inspections on the home you want to purchase. The first should be your own basic inspection, the second should be a professional whole-house inspection by a reputable person. Should you select a government loan (FHA or VA), the third inspection should come at the time of the appraisal, which to some degree amounts to a "mini-inspection." Do not, however, rely on this appraisal as your only inspection of the property!

We cannot emphasize enough the value and necessity of an extensive home inspection. Many home purchasers, either in the desire to save the \$200 to \$500 that a good inspection costs, or due to simple ignorance, have spent enormous sums of money repairing items that any good home inspector would have pointed out. Any offer to purchase you make should be contingent upon (subject to) a whole house inspection with a satisfactory report. Do not let anyone--not the agent, not your family or friends, and especially not the seller--dissuade you from having the property thoroughly inspected! Not only will you sleep much sounder after you have moved into the house, a professional inspection can give you an escape hatch from a contract on a defective house. If the contract is written contingent on an acceptable inspection, any defects in the home must be either repaired or monetarily compensated for. If you are not satisfied, you have the option to cancel the contract.

Inspections are designed to disclose defects in the property that could materially affect its safety, livability, or resale value. They are not designed to disclose cosmetic deficiencies (for example, an interior wall that needs paint touch up). You will need to determine on your own those type of items that will need attention: don't expect a whole house inspection to reveal them to you.

Don't wait until you have placed an offer on a house before you begin the search for a home inspector. There will be a time limit in the contract designating when the inspection must be completed (typically between 7 and 14 days). If you start trying to find an inspector at that point, and cannot find an acceptable one to schedule it in that time frame, you will only have two choices: go with an inspector that is not your first choice, or run the risk of running past the deadline for the inspection (which could void any chance having the seller take care of repairs). Neither is an acceptable alternative!

### **Bringing it all "Home" or the Closing**

After the searching for a home is done, the negotiations have been completed, the house has been inspected, and the mortgage has been applied for and committed to, the focus suddenly turns to the Closing, Settlement, or Escrow as it is known in some localities. For simplicity, in our discussions here we will refer to the process when it all comes together and you finally own the home as Closing. An understanding of the elements of and players in the closing, as well as a concise preparation for it, will eliminate many nervous hours as the day approaches.

#### **What is involved?**

It is the proverbial "signing on the dotted line:" the process of which will put the title to the house in your name, verify homeowners' insurance on the property, commit in writing to the terms of the mortgage, and usually, put the keys to the house in your hands. In general, you will leave the closing and go to your new home as a homeowner. The weeks and months of anticipation are all settled in the short amount of time that you spend at the closing.

Closing procedures will vary from locality to locality. In some areas, the buyers and sellers (as well as their Real Estate Agents) will all attend the closing. In other areas, only the buyers will be present. The closing will take place at the office of an Attorney, a Title Company, or an Escrow Company (again, there is some variance here based on your local laws and tradition). In general, though, the closing will be attended by all of the buyers involved and their Real Estate Agent, as well as the Closing Agent, who has reviewed all of the components of the house sale and who is the one who will say "sign here" more times than you have ever heard in your life.

#### **What forms are involved?**

Although there may be additional documents involved, the primary items which are dealt with at the Closing are:

The Settlement Statement - Page 1 and Page 2  
The Contract  
The Loan Papers  
Title Insurance  
Homeowners' Insurance  
The Title or Deed  
The Down Payment and Closing Costs

The Closing is your final opportunity to make certain that everything related to the purchase of your home is correct. It is important, therefore, that you do adequate preparation prior to the day of Closing. Although your Agent will most likely review all of the items needed with you, it is a good idea to have the right information in case you need to handle it on your own.

### **What items will we need?**

The following are the most important items that you will need prior to or at closing and some hints regarding them:

**A Closing cost estimate:** This should first be given to you by your Agent at the time of the contract, and then given to you by the Lender, a Good Faith Estimate, shortly after the application for the loan. This should give you a reasonably close estimate of funds you will need at the time of closing.

**Homeowners' Insurance Policy:** This must be secured prior to the date of closing. For more information on coverages (and saving money) see the Homeowners' Insurance section.

**Settlement Statement:** You should have a copy of the Settlement Statement before the date of Closing. Generally this will not be available until one or two days prior to the actual Closing, but it is important to have it because it gives you the total amount of cash you will need at Closing and also how those various funds will be dispersed. In addition, it gives you an opportunity to iron out any discrepancies prior to sitting down at the Closing table. Your Agent should also have a copy for review.

**Certified Funds:** On the day of Closing you will need certified funds for closing costs and down payments. This is an important reason for needing a copy of the Settlement Statement a day or two in advance--so you know the amount of funds needed and so that any problems can be handled in advance.

By making adequate preparations in advance, you will be far less likely to have nasty surprises when everyone (especially you!) is ready for closing.