NEXT HOME BUYER MANUAL

SEVEN STRATEGIES FOR BUYING YOUR NEXT HOME IN NSW

Strategy 1. Sell, rent, buy

JR MORTGAGES

John Ruddick's seven strategies for buying your next home in NSW.

Strategy 1. Sell, rent, buy

PREFACE

If you need to borrow money to buy a residential property in New South Wales, I want to be your mortgage broker.

This manual is written for those of you who are 'next home buyers' in NSW. That is, you currently own a property, and want to buy your next owner-occupied property.

You may be selling your existing home, or retaining it as an investment property. But in either case, this manual assumes you need to borrow money for that 'next home' purchase.

There are countless reasons why you might want to move home. Your family may be growing—or shrinking. Your financial circumstances may have changed. You may want to live closer to a school or workplace. Or you might simply want a change of scenery or new neighbours.

Next home buying is the most common property transaction. But the process does have some complexity, and without a clear strategy it can become a frustrating experience.

This manual spells out the process, along with the advantages and disadvantages of seven different strategies to buying your next home. Adopting the right strategy helps eliminate risk and increases your chances of buying the right property at a good price—and with less stress.

Every individual and every mortgage application is unique. Since 2001 my passion has been to help borrowers properly structure their mortgage debt and, just as importantly, help them understand the strategy behind the structure.

A good way to start is to contact my office and make an appointment to discuss your circumstances. Even if you think you won't be buying for a year or more, it's still worth having a general discussion now.

The first step is to map out a plan, and then get pre-approval for finance around that plan. Once the finance is in place, you can begin the journey from your current home to your new home.

To apply for pre-approval, you can either contact a lender directly or speak to a mortgage broker. In recent years, more than half of all Australian mortgages have been taken out with the help of mortgage brokers.

Being a broker means I'm a mortgage specialist who can introduce you to products from many lenders, including all the major banks. And, like most mortgage brokers, I typically won't charge you any fees.

Feel free to get in touch with me:

- by phone: (02) 9955 1176 or 0412 129512
- by email: john@jrhl.com
- at my office: 10/50 Margaret Street Sydney NSW 2000.

Sound preparation

Over the years I've worked closely with several hundred next home buyers. And in that time I've learned that following these guidelines will put you in a much stronger position.

- Wear out some shoe leather looking at properties in the suburbs you're thinking of buying in. The more you look, the sharper you eye will be, and the better you can gauge a fair value for a property.
- Make sure you haven't been late for any mortgage repayments in the past year. If you have, it will make lenders more hesitant in approving your next mortgage.
- If you need to sell your existing property, it's important to get the best possible sale price. It may be worth getting quotes on what improvements you can make to increase its value, and what they will cost. Putting in a new bathroom, a new kitchen or even some new carpet or paint may increase your home's sale price by more than what you spend. And if you're planning to convert your existing home into an investment property, these improvements will probably increase your rental return.
- Think about the timing of your sale. The property market is typically busier in spring and summer than in winter. But that is not always the case—the winter of 2015 was as busy as any spring.
- If you're selling and buying, be selective about the conveyancer/lawyer you engage. The transaction will be more complicated than when you bought your first home, and so will require more sound legal advice.
- When you bought your first home, you probably dealt with the vendor's real estate agent. But if you're going to sell your current property you need to choose your own real estate agent. It's worthwhile inviting three or four agents around so you can discuss your plans and see which one is best suited to sell your property. While experience is usually a positive attribute, agents with less experience can sometimes bring more enthusiasm to the sales process and deliver a better result.

> Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth.
>
> **Theodore Roosevelt**

STRATEGY 1

Sell, rent, buy

There are two key legal milestones during the sale of a residential property in NSW:

1. The **exchange of contracts**
2. The **settlement**.

When a vendor (seller) has unconditionally agreed to sell a certain property at a certain price to a certain purchaser, they'll sign the front page of the property's contract for sale. At the same time, the purchaser will sign an identical version of the contract for sale. The two parties (via their legal representative or a real estate agent) will then each give their signed copy of the contract to the other party.

The buyer will also have paid a deposit—usually 5% or 10% of the purchase price.

This swapping of contracts is the first legal milestone, and is referred to as 'the exchange of contracts' (or simply 'the exchange'). At this point the buyer has bought the property and has legal rights over it.

But they aren't the registered legal owner yet. That happens at what's known as 'the settlement'. This is when the owner receives full payment for the sale and the buyer gets the keys to the front door. It's also the day the mortgage starts accruing interest.

In NSW there's typically a six-week (42-day) period between the exchange and the settlement. However, with the vendor's consent this timing can be flexible.

If you're planning on selling your home to buy the next one, your finance pre-approval will likely say the settlement of your current home needs to happen on or before the purchase date. They'll probably lend you some of the purchase price of the new home, but you'll need to contribute a cash deposit. And you won't have that cash deposit until you've settled on your sale.

Let's say Banjo has a home worth $1,000,000, and owes XYZ Bank $600,000. Banjo now wants to sell his current home, and buy another one for $1,500,000. After the selling costs and repaying XYZ Bank, Banjo expects to have around $375,000 after settlement of his current home. Taking into account stamp duty and other fees, Banjo will need around $1,572,000 to buy the new property.

Banjo will contribute his $375,000, and so he gets pre-approval from XYZ Bank for a loan of $1,197,000 (i.e. $1,572,000 minus $375,000). However, Banjo's pre-approval will stipulate that he needs the money from selling his current house before he can settle on his new purchase. XYZ Bank is only lending him $1,197,000, and he needs $1,572,000 to settle on his new purchase.

Now, let's say Banjo gets his pre-approval and puts his current house on the market. After four weeks no-one has put in an acceptable offer. But in the meantime Banjo finds his 'perfect' next home for $1,500,000, and exchanges contracts to buy it.

The person Banjo bought it from will typically expect to settle within six weeks of the exchange. But Banjo can't settle on this one until he settles on his current home because he needs the $375,000 from the sale.

Banjo has created a real problem for himself. He'll have to try and sell his current home at a fire sale price, which means he may not have enough to settle on his purchase. Worse still, his current home may not sell at all, and as a result he'll have to default on the settlement of his purchase.

If a settlement date has already been agreed to, and Banjo can't settle on that date, the vendor will very likely begin charging penalty interest. If Banjo can't settle four weeks after the agreed settlement date, the sale will be cancelled and Banjo will have to not only forfeit his 10% deposit (even if he only paid a 5% deposit) but also pay the vendor other expenses incurred such as legal fees. And if the vendor subsequently sells the property to someone else for a lower price than Banjo agreed to, Banjo will need to refund the difference to vendor.

Clearly Banjo shouldn't have exchanged contracts to buy the property without first having an exchanged contract to sell his current home.

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STRATEGY 1 continued

Sell, rent, buy

Let's say that on 1 March Banjo exchanged contracts to sell his current home for $1,000,000. Typically, he'll need to settle six weeks later, and so Banjo will need to carefully plan where he'll live after 12 April 2016 (the sale date), at least for the short-term as it's unlikely he'll find the ideal property within a week or two of his current home being exchanged. If he did, he could try to arrange a simultaneous settlement (see Strategy Two) by asking his purchaser for a slightly shorter settlement and/or his vendor for a slightly longer one.

However, it's more likely that after the settlement of his home Banjo will need to find short-term accommodation while looking for his next home to buy. It could be with family, a serviced apartment or a standard residential lease.

If you have somewhere comfortable to live after selling your home, this strategy is the simplest.

Upsides

- There's no rush to sell. (The chance of something going wrong tends to rise when people are in a hurry.)
- There's no rush to buy. If you're forced to buy a property quickly for a simultaneous settlement, you may regret not inspecting more properties in the long term.

Downsides

- The cost and hassle of two relocations—first from your current home into short-term accommodation, and then from there into your next home.
- In a rising property market, sale prices may rise while you're renting. Conversely, if you think property prices will fall for a period it may be worth renting for a while.

> Owning a home is a keystone of wealth... both financial affluence and emotional security.
>
> **Suze Orman**

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