



NEXT HOME BUYER MANUAL

SEVEN STRATEGIES FOR BUYING
YOUR NEXT HOME IN NSW

Strategy 2. Sell and buy with
simultaneous settlements

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

Strategy 2. Sell and buy with simultaneous settlements

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 your 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 2

Sell and buy with simultaneous settlements

Ruby owns a property worth \$600,000, and owes the XYZ Bank \$350,000. She's just had a big pay rise, and now wants to buy a bigger home for \$1,000,000.

The first step will be for Ruby to get pre-approval for her new loan. Once it's confirmed she can choose her real estate agent and legal representative to begin the process of selling her property.

Ruby gets pre-approval from the XYZ Bank to borrow around \$800,000 for the \$1,000,000 purchase. But her pre-approval has an important condition: She needs to have exchanged contracts to sell her current home before the \$800,000 loan can be unconditionally approved. It will also state that she needs to settle on her sale either before or simultaneously with her purchase.

She doesn't need to have actually settled on her current home to be unconditionally approved for the loan. But she does need to have exchanged contracts.

The XYZ Bank will assess the exchanged contract on her existing property, and consider the "sale price minus the existing home loan balance and associated fees" as good as money in the bank, *providing the settlement for her sale occurs either before or simultaneously with the settlement for her purchase*. This needs to happen because she won't have the cash to settle her purchase until she's settled on her sale.

Let's say she puts her current property on the market, and exchanges contracts to sell on 1 March 2016 for \$600,000. With the standard timing between exchange and settlement being six weeks, Ruby would typically settle

on 12 April 2016. So Ruby can only seriously inspect other properties to buy from 1 March. And she'd only have a week or so to exchange on her purchase to make the settlement dates simultaneous.

Ruby wants to spend \$1,000,000 on her next purchase—a substantial amount of money—and would be foolish to rush into a purchase. But she doesn't want to move into short-term accommodation either. She'd much prefer to move out of her current home and into her next home on the same day. Ruby may be able to buy herself several more weeks to go hunting for her new home by taking a small but powerful step: Instructing her legal representative to include a clause in her contract for sale saying she wants "up to 12 weeks to settle".

Having up to 12 weeks between the exchange and the settlement means she could exchange to sell on 1 March 2016 but have 12 weeks to move out of her home. Armed with her pre-approval (and the assurance her current home has been sold), she would have six to eight weeks to find a property, make an offer, get her loan approved and exchange to buy. All she'd need to do then is instruct her legal representative to have the two settlements occur on the same day. (With enough notice, most purchasers and vendors can accommodate small timing adjustments to their settlements so they occur on the same day.)

If the settlements for her sale and her purchase can't occur simultaneously, the seller may let her rent her new home for a week or so until she *can* settle. That way she can move out of her former home and into her new home on the same day.

However, this isn't something you should rely on. Some vendors will strictly rule out occupation of their property until you've settled on the purchase.

Upsides

- You only have to pack and move once.
- You have a bit more time to find your new property.

Downsides

- Despite buying yourself several weeks to find the right property, you still need a short-term accommodation backup plan. You don't want to be buying a property that's less than ideal just to avoid the hassle of short-term accommodation.
- Stating you want up to 12 weeks to settle in your contract may deter some potential buyers. However, in my experience most purchasers are usually flexible with the settlement date. In Ruby's case, it would have been worth telling her real estate agent that while the contract for sale states she wants up to 12 weeks, it could be less than that.

The logo for JR Mortgages is located in the bottom right corner. It features the letters 'JR' in a large, blue, serif font. Below the 'JR' is the text 'JR MORTGAGES' in a smaller, blue, sans-serif font. The background of the entire image is a light blue gradient with a subtle grid pattern and several overlapping, wavy bands of fine, parallel lines in various shades of blue, creating a sense of depth and movement.

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