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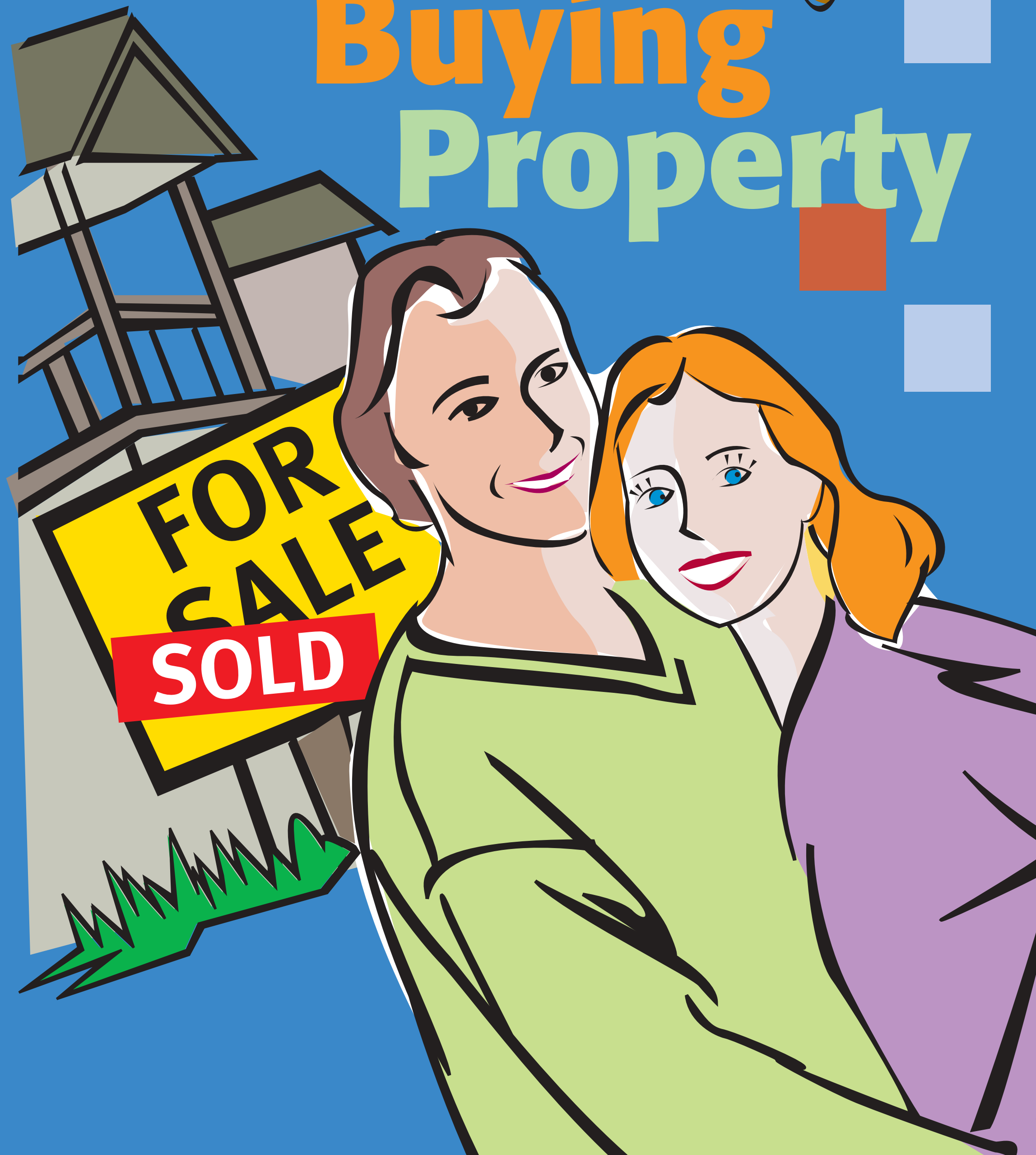
a smart guide to...

Buying Property



Note

This booklet has been written to assist Australian home buyers and property investors. Information within the booklet is not intended as advice and it is recommended that investors consult with appropriately qualified professionals, such as financial planners or accountants, before making financial decisions.

While all published information has been checked, no person should rely on the contents without first making their own inquiries, and/or obtaining professional advice tailored to their specific personal circumstances. The facts were correct at time of publication.

The publishers, editors and author of this publication are not responsible for the results of any action taken by any person as a consequence of anything contained in the publication.

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About the Author

Cameron Cooper has 19 years' experience as a journalist, including senior business and finance writing assignments in Australia and Asia. He is a regular business contributor to *The Australian* and a range of other leading business and corporate publications. Cameron is the former editor of *Business Asia* and has also written a consumer information booklet for CUSCAL called *Wealth Creation.*

Introduction

Buying a home is exciting – and daunting. Many Australians have created wealth, a better lifestyle and security in retirement through the purchase of quality property. Without care, however, the great Australian dream can turn into a nightmare.

Purchasing a home, whether it's a house, townhouse or unit, is likely to be the biggest financial commitment you will make in your life – and yet many people are unprepared for the legal, monetary and emotional challenges of home-buying.

Planning and research is crucial to ensure you get a property that suits your finances and lifestyle. Whether you are a first-time buyer or a relative veteran negotiating to buy a second or third investment property, ensure you are armed with facts and information.

This booklet guides you through some of the basic steps of purchasing a residential property. It examines a range of decisions you will have to make, explains confusing terminology, and outlines strategies to adopt and pitfalls to avoid. There is also information specifically tailored for property investors.

The booklet, however, is not a replacement for specific advice from qualified financial advisers, accountants and solicitors.

Why buy?

- Building equity in a home through mortgage payments is a great way to save.
- For owner-occupiers, payment towards a valuable asset such as a home is often a better long-term proposition than renting.
- Depending on the location of the property and a range of other factors, home ownership usually generates considerable capital growth.

The market forecast

Sound investment strategies should factor in forecasts for property markets. BIS Shrapnel's study, *Residential Property Prospects: Australian Capital Cities 2003-2006*, predicts growth rates will ease slightly in 2004. Sydney, Brisbane and Perth should perform well until a slump occurs beyond 2006, with interest rates to rise to 10 per cent.

According to BIS Shrapnel, the residential property market will have slowed nationally by the end of the 2006 financial year. It predicts a slow recovery and the risk of an over-supply of property in some markets and high interest rates. Other research companies providing predictions and information pertaining to Australian residential property include Residex, Matusik Property Insights and Home Price Guide.

Getting Started

Buying a residential property requires commitment, discipline and planning. Don't rush in – it is a choice that is likely to affect your life for years or even decades.

Define your goals. Do you want a house, a townhouse or a unit? Do you want to be an owner-occupier or are you in the market for an investment property? What factors will ensure the greatest possible increase in the value of your home? There is no simple formula, but proper research now is likely to pay off tomorrow and beyond. As a starting point, consider the following questions.

How much?

- The big question is: how much can you afford? See a financial adviser to discuss budgets and calculate the deposit and repayments you can afford. Most lenders require a deposit of at least 10 per cent of the selling price and usually prefer 20 per cent or more. They usually base the amount they will loan you on the rule that monthly repayments should not exceed about 25 per cent of pre-tax income.

What?

- Do you want a freestanding home, a terrace, townhouse or unit?
- Should you buy a new or established home?
- Do you want a renovated or unrenovated property?
- How many bedrooms are required – and how big should they be?
- Do you prefer a low- or high-maintenance garden?
- Are extras such as pools, a home office, ensuites and balconies necessary and affordable?

Where?

- What are your preferred areas or suburbs and is the area considered a potential growth hot spot?
- Do you prefer an outlook with water, trees, a garden or a city view?

When?

- Have you saved a deposit yet?
- When will a loan be available from your financial institution?
- When will the market cycle favour you?

Finding the Right Home ::

Finding the Right Home

After settling on a property type and price, start doing your homework. Many buyers look at two or three homes, fall in love with one and make an extravagant offer to the real estate agent without properly assessing market values in the area.

The most common way of sourcing suitable properties is through newspapers or the internet. Both mediums list properties for sale, inspection and auction times, auction results and estate agent contacts. Be aware, however, that selling agents are inclined to use terminology in their descriptions of property. Aside from the genuinely interchangeable terms such as apartment/unit or house/home, rundown properties become 'renovator delights', tiny becomes 'cosy' and medium density developments become 'villas'.

Aim to cut past the sales patter and get to know the market. Foster contacts with a number of real estate agents and never forget they are working for the seller. Study specialist industry magazines. Register your name and requirements with estate agents and ask them to let you know when a suitable property comes up. Talk to builders, attend 'open house' inspections, go to auctions and consider attending reputable real estate industry seminars. 'Where' you buy will often have a more immediate effect on price than 'what' and 'when' you buy. When assessing prices, factor in the possible need for renovations or repairs that could stretch your finances.

The Key Criteria

Location: It's a tired cliché – the three most important factors in choosing real estate are location, location, location. And it is as true as ever. A residential property in a leafy street in a popular suburb, close to shops, schools and transport is likely to always be popular.

Hot spots: Homes within a 5km radius of the city usually return the best rate of capital growth. But look out for sleepier suburbs set to become trendy or more accessible through better public infrastructure and transport links.

View: Beach, rolling hills, bushland – people will pay a premium for a great outlook. Remember that some views can be destroyed by the construction of a new apartment complex next door.

Rental return: If you are buying an investment property consider the rental prospects. A bright home in a good location with a new kitchen and modern bathrooms will create demand.

The Checklist

- Is the property close to transport, schools, shops and recreational facilities?
- Have you calculated rates and land taxes?
- For units and townhouses, what are the body corporate fees?
- Are there development applications in the area for new roads and apartment blocks?
- Do you like the neighbourhood – and the neighbours?
- Does it have off-street parking?
- Are the kitchen and bathrooms in good condition? Remember, they are expensive to renovate.

Warning Bells

- Is your prospective home in a suburb that is in decline?
- Is it under a flight path?
- Could excessive noise from trains, cars, pubs and clubs, sports grounds and fire and ambulance stations spoil the dream house?
- Is there a potential risk from bushfires, floods, erosion, landslip or mines subsidence?

And Another Thing …

- Poor access, steep drives and too many stairs can deter older buyers and those with young children. Don't limit your buyer or renter pool.
- Avoid properties with poor street presentation. Their resale potential plummets.
- North-facing homes are often preferred because they offer the best sunlight conditions, especially in winter.
- Look for houses with at least one special feature – such as a courtyard, leafy backyard or attic – that will lure future buyers.

Tips

- Ensuites are a genuine asset – both for resale value and to attract renters.
- Calculate likely rental returns as a proportion of the investment purchase price. If the yield is low, you will need to be very confident in capital growth to make the investment a viable proposition.

The Internet

The internet has transformed property market searches. From the comfort of their home, investors can now access excellent real estate sites and use sophisticated search engines to examine property options. More and more savvy home-buyers are using the web to get the latest information on real estate prices, available properties and loan searches. Many online users like a virtual tour of the property – a 360-degree view of each of the rooms of a house. This gives you an idea of the property and saves a lot of time. Another advantage of going online is that listings are often uploaded on to websites immediately, whereas you may have to wait a week for the best newspaper listings. And by registering with real estate agents, they can put you on an email list that alerts you to new properties as soon as they become available. The internet is also home to many shonky sites and scammers. Some investment advice might come via unscrupulous operators trying to push investment deals. And be aware that information you find on the internet may be wrong or misleading.

Some of the better property websites include:

- Domain
  www.domain.com.au
- Real Estate Australia
  www.realestate.com.au
- Real Estate Institute of Australia
  www.reia.com.au
- Australia Realty
  www.australiarealty.com
- Your Local Real Estate
  www.yourlocalrealestate.com.au

Winning Ways

- Time spent looking is seldom wasted. Don't buy property in the first week. Check out at least 20 properties.
- You may want to sell one day. So if a property has serious flaws now, they will be a turn-off to future buyers, too.
- Assess whether you could resell the property at a reasonable price in a depressed market.
- Buying the worst house in the best street is a good strategy if the property's problems can be rectified cost-effectively.
- Target areas on the ascendancy.
- In a rising market, decisions might have to be made more quickly to secure a good deal. But such a speedy decision should still be based on considerable research.
- A small property in a good suburb is often a better investment proposition than a larger house in a shabby suburb.
- Take advantage of local knowledge. Your future neighbours and shopkeepers usually know all the problems and plans for an area.

Adding up The Costs

As a general rule of thumb, purchasing a property will cost about 5 per cent of the sale price. So if your home or investment property is $400,000 expect to pay about $20,000 in costs. This will include the following:

Legal
Solicitor or conveyancer fee
Title and other searches*
+
Inspections
Property and pest checks
Identification survey
Strata records inspection (if applicable)
+
Government charges
Stamp duty on transfer*
Stamp duty on mortgage
+
Financial costs
Application or establishment fee for home loan
Valuation fee
Mortgage insurance (if applicable)
+
Miscellaneous charges
Adjustment of council rates*
Insurance – (e.g.) fire and contents
+
Moving costs
Removalist
Connection fees for services*
Carpet cleaning
Changing locks
Urgent repairs
=
TOTAL COST
(* compulsory costs)

Borrowing

You've found a property, but can you afford to pay for it?

The first step is saving enough money for a deposit. Most lenders prefer a deposit of at least 20 per cent of the selling price unless you are on a high wage. The loan aside, you will need cash to meet other costs such as stamp duty, conveyancing and other legal fees.

Investigate your home loan options thoroughly. The market is extremely competitive, so shop around for the best deal. Lenders may impose a borrowing limit based on a percentage of pre-tax income; for example, 30 per cent. If your pre-tax income is, say, $50,000 a year, your maximum repayment could be about $1250 a month. The interest rate on the mortgage you choose will dictate your borrowing power for that level of monthly repayment. If you are buying an investment property, financial institutions will often let you count a certain percentage of the property's rental as income.

When you have selected a lender, get a clear statement of their approval conditions in writing.

Savings Strategies

1. Assess your current spending habits and identify areas where you can consistently tighten the belt. Try to replace some essential items with cheaper alternatives.
2. Many people incur penalty fees for dipping into an overdraft or over-spending on credit cards. Try to eliminate such waste.
3. Consolidate debt. You can often reduce the interest you are paying by simply placing all your debt in one loan or with one financial institution.
4. If possible, switch to savings accounts with higher interest rates and lower monthly management fees.
5. Negotiate with your solicitor or conveyancer on a property deal; don't just accept their set fees.

Choosing a Lender

Visit a range of financial institutions, including credit unions, building societies and banks. Most home loan information is now available on each institution's website. Ask some basic questions of your lender:

- What loan options are available?
- What will my repayments be?
- What deposit is required?
- What are the fees and charges?
- What are the loan conditions and penalties?

What Lenders Want

Lenders take into account four main considerations when assessing a loan application:

Capacity
Can you afford to repay the loan?

Character
Are you a good financial risk? Do you have a history of paying your debts?

Collateral
Is the property you are buying adequate security for the money you are borrowing?

Capital
What you already own.

The Paper Chase

When applying for a loan, try to gather the following documentation:

- Bank account statements and any loan or credit account details;
- Proof of any assets such as shares;
- An estimate of your monthly household expenses and a summary of assets and liabilities;
- Copies of your pay slips; and
- Recent tax returns and group certificates.

The Case for Credit Unions

Credit unions are financial co-operative institutions owned and operated by the people who save and borrow with them. Australia's credit unions have a network of more than1000 branches and agencies throughout the nation. They are democratic, member-owned financial institutions that focus on the members they serve.

Credit union members can borrow and deposit on reasonable terms and expect competitive rates and account-keeping charges because there are no external shareholders demanding dividends.

In addition to providing a range of home loan options, many credit unions will help you set a budget and make sure the loan repayments are right for your circumstances. Many also offer building and contents insurance.

Call 13 11 28 to find out more about joining a credit union or visit www.cu.net.au

Mortgage Insurance

Home-buyers usually have to pay lender's mortgage insurance if they borrow more than 80 per cent of the value of the property. Depending on the application and lender, premiums can range between 2 per cent and 4 per cent. The insurance covers the lender if you default on payments. Mortgage insurance does not protect the borrower. If you do not make your repayments, your lender has the right to sell your property. Avoiding lender's mortgage insurance can save you thousands of dollars, so try to pay a deposit of 20 per cent or more on the property.

First Home Owner Grant

If you are buying your first home, you may be eligible for the First Home Owner Grant of $7000 from the Federal Government. This grant is not means-tested. To get the funds, you must intend to live in the property yourself and demonstrate savings of at least 5 per cent of the property's price. The Federal Government has altered the grant amount on occasions, so check the current figure.

Eligibility criteria for the grant include the following:

- You must be buying or building your first property as a person, not as a company or trust.
- You or your spouse must be an Australian citizen or permanent resident.
- You or your spouse cannot have previously owned a residential property in Australia before July 1, 2000.
- At least one of the applicants must live in the property as their principal place of residence for at least six months, starting within 12 months of settlement.
- You must be aged at least 16 or 18 depending on your state or territory.

Your Credit Rating

Lenders will check your credit rating before approving a loan. If you have been late in making repayments in the past, you might have a black mark against your name. Payment defaults stay on your credit file for five years (or seven years for a bankrupt) and then the slate is wiped clean. Peak credit rating agency Baycorp Advantage, formerly known as Credit Advantage, has all this information on record. Getting your personal credit record is free unless you need it within 24 hours, in which case a fee will apply.

Visit www.baycorpadvantage.com

Tips

- If you think your credit rating is dubious, be upfront about it with your potential lender; honesty will make you appear more responsible. Stress that these problems have been resolved.
- Check that your credit file is accurate. Sometimes records are not changed to reflect payments. You are entitled to correct them.
- If your record is very poor, consider waiting out the five year-period before making any other applications for credit.
- Paying outstanding dues is the best way to repair your record. Negotiate with creditors to see if they will grant a longer repayment term or agree to a part-payment arrangement.

Buying the Property

Property markets have ups and downs. As a buyer, the ideal time to act is when interest rates are low, the market and prices are depressed, and just before rising inflation pushes up prices. The most common ways of buying property are:

- by private treaty through an agent where you agree to a price set by the seller or negotiate another price;
- by private treaty directly with the owner (known as a private sale, this means the seller doesn't have to pay commission to an agent); and
- at auction.

Market Cycles

Flat or falling market: This is known as a *buyer's* market. Take your time. There may be bargains in properties that have been up for sale for a long time.

Steady market: Again, time is on your side, But be prepared to make a decision promptly. Negotiate the price down on less marketable features.

Firm to rising market: This is known as a *seller's* market because prices start to rise rapidly. Do your research beforehand so you can act quickly and decisively if the right property comes up.

Negotiating Dos and Dont's

Consulting over the purchase of a home with market-savvy real estate agents is nerve-racking. Here are some tips.

DON'T be emotional; it weakens your negotiation skills. If you have done your research you should know what is a fair deal and be able to argue logically.

DON'T show your hand by revealing your price limit; just say you will buy if the price is right.

DO have multiple negotiating points; if you and the agent hit a stalemate on one issue, you can compromise on another.

DO be persistent; ask questions and avoid being railroaded.

DO bargain; in many cases you can make an offer that is 10 per cent below of the asking price unless the property is unusually good (most sellers settle for 2.5 per cent to 5 per cent lower than the original price).

Buying the Property ::

Real Estate Agents

Real estate agents often receive criticism for being too aggressive. However, it is important as a buyer to forge a professional relationship with agents during the negotiation period.

Most agents are members of a professional organisation such as the Real Estate Institute of Australia or an equivalent body in your state or territory. As such, they are bound by a code of ethics. The key point to remember, however, is that the real estate agent is being paid by the seller and is working to get the highest price possible for the property. As a consequence, you need to have done your research to ensure that you – as an inexperienced buyer – know the market.

You can employ a buyer's agent to search for suitable owner-occupier or investment properties. The services usually cover everything from finding a suitable property through to negotiations and assistance in the acquisition. And, most importantly, they work for you. Ensure that the buyer's agent is independent and not acting in some form of partnership with a real estate agent.

You have to weigh up the potential benefits of using a buyer's agent versus the costs incurred. Apart from regular fees, they will take a commission on the final purchase price.

Some Important Jargon

In the buying phase of a property deal, several important terms will keep cropping up.

Stamp duty

This is a state or territory tax paid on the purchase price of the property. It is a significant cost for which you must budget. You will also pay a duty on any loans you take out to buy the property. There are stamp duty concessions for first home-buyers. Stamp duty taxes vary from state to state and are higher for investment properties than owner-occupier homes. Website calculators on banking sites can give you an idea of the stamp duty you will have to pay.

Conveyancing

This is the legal transfer of a property's title from the seller to the buyer. After the loan and stamp duty, conveyancing costs are often the largest extra amount you will have to pay for your property. Get a conveyancing expert or solicitor to handle the process. Costs vary quite substantially. When shopping around, ensure you are comparing like with like by checking whether the quotes you are given include survey, building and pest reports. Do-it-yourself conveyancing kits are available from some law associations. Experience shows that a high proportion of those people who try to handle their own conveyancing strike problems. Errors can be costly.

Holding Deposit

Paying a holding deposit does not necessarily mean that the agent or seller holds the property exclusively for you, but it does demonstrate that your offer is serious. The agent can still show the property to other interested parties and even exchange contracts if they can get a better deal. If this happens, or you change your mind, the holding deposit is refundable.

Contract of Sale

The contract of sale is given to a buyer when an offer is made on a property and accepted by the seller. Buyers should seek independent legal advice from a solicitor. They can advise you on any conditions of the sale or include conditions that you want added to the contract (e.g. pest and building inspections). Standard contracts can vary from state to state.

Cooling-Off Period

After the exchange of contracts, there is usually a cooling-off period of five working days during which you can change your mind and withdraw from the contract to buy the property. You can complete all reports and inspections before the end of the cooling-off period and withdraw your offer if anything is wrong. There is no cooling-off period for sales at auction.

Settlement

This is when the buyer pays the balance of the purchase price and takes ownership of the property. Your loan is made available by the lender, the vendor receives the balance of the purchase price and you get the keys. Final settlement varies between states and territories but normally occurs about six weeks after the exchange of contracts.

Case Study

Jessica is buying an investment property near the beach in Queensland for $275,000. She has paid the 10 per cent deposit of $27,500 and the bank has approved a loan for the remaining $247,500. She's in the clear financially. Well, not quite. Jessica has forgotten about some costly extras – the mortgage registration fee of $102.50, the transfer fee of $322.50, the stamp duty on the transfer of $8100, and the stamp duty on the mortgage of $992. She also received an invoice from her solicitors of $955. The not-so-little extras add up to $10,472 on top of the loan. Jessica decides to volunteer for some overtime.

Hold That Signature

Before signing on the bottom line, do some of the following basic inspections on the home or unit.

- Ensure the building does not have rising damp in walls, windowsills or ceilings.
- See if the roof is in good condition. They are expensive to repair.
- Make sure internal and external walls do not have cracks.
- Turn on all taps to check water pressures.
- Contact the local council to verify that housing extensions are allowed – and that the council has approved current extensions.
- Confirm the inclusions clause on the contract so you know what is included in the purchase price. Some fittings such as curtains might be excluded.

You might need the help of a qualified builder or architect. Archicentre and the Housing Industry Association provide an inspection service for a fee. Decide whether the cost of repairing any defects is already reflected in the price of the home.

Tip

To reduce legal costs, get a property inspection done before proceeding past the first basic legal steps of buying the property.

Finalising Finance

To prevent embarrassment or losing a good deal, organise your finances before making an offer on a property or bidding at auction. Ensure you can cover the deposit if your offer or bid is successful. Confirm with your financial institution the amount it is willing to lend you and weigh this up against your capacity to pay without negatively impacting on your lifestyle and other financial commitments. Some lenders will over-estimate your ability to repay the loan. Interest rates can move up and down, so factor rate rises into your budget.

Buying at Auction

Auctions can be stressful. However, it helps if you know your price limit and have attended a number of auctions to familiarise yourself with the process.

Before you bid at auction, it is essential that you are clear on all details and have completed necessary inspections and searches. Once your bid is accepted, you are obliged to purchase the property – there is no cooling-off period. If you are buying a property at auction you should already have your loan approved, inspections done and the contract checked. The vendor may even consider a reasonable offer before the auction day.

A property does not always sell on the day. If a property is passed in at auction, it is usually placed back on the market a week later with a price on it. Agents usually add about 5 per cent to the reserve price that was set on the auction day.

Be aware that it is possible to pay an inflated price at auction. You also stand the risk of missing out on a property after paying for inspections and searches.

The Golden Rules for Auctions

1. Get a copy of the conditions of sale and the vendor's statement before the auction and ask your solicitor to check the terms.
2. Arrive early to make a final inspection. Check the contract has not been changed and be prepared to hand over the 10 per cent deposit immediately after the auction.
3. Most properties up for auction have a reserve price, which is the minimum price the owners will accept for the property. The reserve price is not made public until the bidding exceeds it.
4. Remember your spending limit. With a cool head you could end up with a bargain. If you miss out, there are always many other desirable properties for sale.
5. Don't be bullied by real estate agents into exceeding your price limit.

Tips

- Consider bidding only after the reserve price is reached.
- Bid confidently so other competitors cannot tell when you are getting to your limit.
- Bidders can ask the auctioneer to accept a lower bid increment (say, in the hundreds or thousands of dollars, rather than tens of thousands) if they feel it is too high.
- Auctions are tough. Consider hiring a professional to bid for you on the day.

Buying a Unit

Apartments and townhouses are usually cheaper than free-standing houses and often suit couples, renters or small families. As an investment property, they are often more affordable and still offer the potential for strong capital growth.

Units or apartments usually share common property and can have their own specific problems, usually due to neglect or poor maintenance of these areas. Strata rules oblige you to share responsibility and costs for the maintenance of common areas.

Tips

- Confirm the body corporate fees of an apartment or townhouse. Extras such as pools and lifts (which often require repairs and maintenance) can add significantly to annual fees.
- Ensure insulation between properties is adequate. Thin walls are a turn-off for renters and future buyers.
- See if a car space is registered on the title; do not assume that numbers on the car spaces correspond with unit numbers.
- Try to buy places with an internal laundry and adequate security.
- Check the body corporate to establish if there is enough cash in its sinking fund to cover any foreseeable maintenance or repairs.

Buying Off the Plan

An off-the-plan purchase means you buy a property – typically a unit or townhouse – before it is complete and often even before construction has begun. You agree to buy after seeing only the architectural plans and an artist's impression. Buying off the plan means it is possible to buy at today's prices but not have to settle the contract until months later. Settlement is often not required for a year or two. By that time, the value of the property may have already risen and you are ahead on the investment. Of course if markets experience a downturn, you could have paid more for the property than its value when you take possession. An incentive for an off-the-plan purchase is that stamp duty is payable only on the value of the property at the date of contract. There are risks, of course, and many financial advisers caution against buying off the plan. Long construction delays are common, and buyers might be disappointed with a finished product that looks nothing like expected.

It is highly advisable to have an independent architect or builder appraise the construction plans. The architect can advise of the quality of the development.

A contract for an off-the-plan purchase is usually lengthy, but it is important to read and understand it. Use a solicitor who is experienced at dealing with such contracts and do exhaustive checks on the reputation of the developer or builder.

Building and contents

Fires, floods, theft, landslips, vandalism – these are just some of the dangers that threaten your new property. Building and contents insurance is important to safeguard your investment or home. Under-insurance is a significant problem in Australia, with many people not realising they are exposed until a significant accident or loss occurs. Don't gamble for the sake of saving a few dollars. Insurance policies vary dramatically and many include exclusions. Read the fine print. Some things that might be covered include:

- replacement of your home in the event of an accident, or repairs to rebuild it to its former state;
- the cost of temporary accommodation if the damage means you have to move out; and
- liability cover if you are found legally responsible for an injury that occurs in your home or on your property.

Landlord Insurance

Many investment property owners who rent their homes or apartments have horror stories about poor tenants. They might wreck your home, or leave without paying the rent. Landlord insurance usually offers:

- protection against damage by tenants;
- protection against theft by tenants; and
- protection against rental loss through payment defaults, abandonment or eviction.

Don't assume that an unfurnished property needs building insurance only. Many building policies do not include fixtures and fittings such as carpets, curtains and lights. Tenant damage to these items could be your responsibility. Check the details of your policy.

Safety First

Could you still make your home loan repayments if you were suddenly made redundant or fell ill and could not work for months? Affordable protection is available. The variety and capacity of income protection policies are continuing to grow. Common types of asset protection include:

Life insurance: This provides financial security for your family in the case of your death. Most financial institutions also offer, for a small additional payment, a clause in your home loan that clears your mortgage if you die. This means surviving family members will not be saddled with debt in the event of an untimely death.

Income protection: A safeguard for your assets or loan repayments in the event of illness, death or disability. These policies help pay your bills – usually up to 80 per cent of normal earnings – if you are unable to work for a long period. The premiums are often tax-deductible.

Trauma insurance: This provides a lump-sum payment if you suffer a range of specified medical conditions such as cancer, a heart attack or stroke. Trauma cover pays a tax-free amount that is usually a percentage of the sum insured.

Tip

Before buying a property, get an independent valuation of its worth. This gives you assurance that you are paying a fair price.

Capital Growth Versus Cash Flow ::

Capital Growth Versus Cash Flow

Buying a property, particularly as an investment property, offers the prospect of considerable capital growth. While property prices often go through booms and busts, many Australians have profited in the long term from rising housing prices.

The gains can sometimes be misleading. How often have you heard someone say, for example, that they bought a house for a mere $50,000 two decades ago and boast that it is now worth $300,000. Remember that they may have spent a lot of extra money on interest payments, rates, maintenance and expensive renovations. And given inflation over the years, the capital growth return may not be so impressive.

With an investment property, in particular, try not to be emotional about the property. Your main concern is how much it will cost you and how much it can make. In a low-inflation climate, smart property investors look for more than just potential capital gain – they want a strong investment yield. This is the rental return as a percentage of the investment purchase price.

Investing for capital gains means you take the risk that the market may fall or that your property is not as desirable as you had hoped when you decide to sell it.

Some financial planners are advocates of positive cash flow rather than negative gearing or capital gains only. Positive gearing means rental returns are greater than outgoings costs, including interest on the loan. The idea is to use cash flow from rent to fund the investment purchase. It will increase your taxable income, of course, and it is not easy to find a property that returns a positive cash flow – as evidenced by the fact that the vast majority of Australian property owners negatively gear. Negative gearing is the first step for most investors because, through the significant tax deductions offered, it is often a cost-effective option. If you hope to positively gear, exhaustive research – and perhaps a little luck – is required.

A Simple Guide to Calculating Yield (rental returns)

When yield is calculated as a percentage figure, it becomes far easier to compare returns from different investment propositions. Calculating net yield on an investment property proposition can be quite complicated because you need to factor in all expenses such as estimated maintenance costs, rates and interest. You can however, quickly calculate gross yield on an investment property proposition by using the following formula:

1. Calculate the annual income by multiplying your expected weekly rent by 52.
2. Calculate what percentage of the purchase price this annual income is (by dividing the annual income by the purchase price then multiplying this figure by 100) and you will know your gross yield.

For an example of this formula, lets calculate the gross yield on an investment property on sale for $200,000 with an expected rental return of $180 per week.

$180 rent per week x 52 weeks = $9360 annual income.

$9360 annual income ÷ $200,000 purchase price x 100 = 4.48 per cent.

About 4-5 per cent is an average gross yield for Australian property. Areas with high capital growth such as cities and beaches generally have lower yields and regional areas generally have higher yields and less capital growth.

Choosing A Home Loan

Australian investors have about 3000 mortgage options from more than 100 home loan providers. Finding the loan to suit you takes time. You should be looking for:

- a competitive rate of interest;
- sufficient time to repay the loan;
- favourable conditions and charges without any surprises in the fine print; and
- options that suit your needs (such as a redraw facility).

The key rule to remember is that the quicker you pay off the loan, the more you will save on interest payments. Even the simple option of paying fortnightly rather than monthly can save you thousands of dollars in the long term.

Hunt for deals. More and more lenders are offering so-called "professional packages" for trusted clients (you don't have to be a business person; the focus is on how much you are borrowing from the financial institution). Features of such packages include interest rate discounts, credit card advantages, and no loan application fees or ongoing loan service fees.

Your Loan Choices

No-frills

What it is: As the name suggests, these loans come without bells and whistles such as a redraw facility. Their chief advantage is a lower interest rate – often about 0.5 per cent below the standard rate.

Advantages: With lower rates, you can pay off your home faster. Some banks will provide extra features, such as a redraw facility, for no extra interest if you are taking out a second or third loan with them.

Disadvantages: There is not much flexibility with such a loan.

Standard variable

What it is: The normal home loan that credit unions and banks offer. Rates rise and fall according to Reserve Bank rates. May include features such as a redraw facility.

Advantages: Rates decrease in times of lower interest rates. Additional repayments can be made without penalties. Lenders can add features.

Disadvantages: Repayments increase in times of high interest rates. May incur a higher interest rate to cover the various options and benefits available.

Basic variable

What it is: Similar to standard variables, but they have a lower rate of interest and fewer features.

Advantages: Lower interest rates, so you can pay off the loan faster. If loan flexibility and a redraw facility are less important to you, the lower rate of interest will appeal.

Disadvantages: Repayments increase in times of higher interest rates. Limited features.

Fixed rates

What it is: Rates and payments are fixed over a specified period. The terms of these loans are usually from one to five years.

Advantages: Rates will not rise above the agreed rate. Repayments are constant, so budgeting is simple.

Disadvantages: You get no benefit if market rates drop. Additional repayments may not be allowed or could be restricted. If interest rates fall and you want to repay the loan in full, there is usually a penalty. The fixed rate may be higher than the variable rate.

Capped

What it is: Loan interest cannot exceed an agreed rate for a fixed period of time.

Advantages: The interest rate can decrease but will not increase over an agreed limit if market rates change.

Disadvantages: The cap is only for a limited time. After the cap is lifted, you might have to pay a higher interest rate than the market norm.

Low-doc

What it is: Low-documentation loans target people who don't have the normal supporting paperwork to apply for a home loan.

Advantages: Ideal for small businesses without a lot of records and for people who may not have tax forms and similar documents.

Disadvantages: Besides paying a premium interest rate – usually about 1 per cent higher than standard variable rates – higher establishment fees and ongoing fees generally apply.

Equity loans (line of credit)

What it is: Income is paid directly into the mortgage account, which can reduce the loan principal faster. Living expenses are then withdrawn from the account as needed.

Advantages: Flexibility and quick access to funds. The longer you leave the money in the loan without drawing on it, the quicker you can pay off the loan and the less interest you pay.

Disadvantages: Many lenders charge additional fees or higher interest rates. If you are undisciplined, you can easily fall into the trap of continually drawing down on your equity until you eventually owe the same amount you originally borrowed, despite years of repayments.

Split loan

What it is: It works on the principle that there is a home loan and an investment property loan. Borrowers have the option to direct all payments into the home loan and exploit compound deductible interest, slashing the term of the loan.

This term also refers to splitting two mortgage types (such as fixed and variable) in the one loan. This type of split loan is used to take an "each way bet" on interest rate movements.

Advantages: The savings on interest can be substantial.

Disadvantages: Not all loans can be split.

Other Options

There are also some more specialised loans that are becoming popular.

Reverse Mortgage

Demand is growing for reverse mortgages. Unlike regular mortgages, where principal and interest repayments reduce the debt, reverse mortgages keep growing. A person over 65, for example, can borrow cash against the value of their home and not pay back the debt unless they die or sell the property. The downside is the compounding effect of interest charges on the balance. Over time, interest becomes an increasingly large part of the balance owed.

No-Deposit

Traditional lenders have only recently started to sell no-deposit loans, which are primarily aimed at people with good incomes and credit histories but who don't have a deposit. Most allow additional repayments and offer a redraw facility. Lender's mortgage insurance or a loan extension fee applies.

Pregnancy Pause

These loans allow repayment "holidays". The idea is to free up cash flow at a time when family finances are stretched, such as during a pregnancy when a combined income becomes a single income. One type lets you stop making repayments, generally for up to three months, during maternity or paternity leave. The second only allows you to stop making repayments if you're ahead in repayments. The catch? Interest is capitalised during the pregnant pause period, so it can cost the borrower more over the life of the loan.

Internet-Only

Like budget airlines with cheap fares, financial institutions are increasingly offering internet-only loans that boast lower interest rates and cheaper account management fees. They tend to be fairly basic loans but will suit many investors.

Wraps

Wrap mortgages target people who are unable to borrow money from banks. Instead of paying rent, a consumer purchases a property by making regular instalments. The title stays in the name of the owner until the buyer pays off the entire loan, usually 25 years later. It can be lucrative for investors who know what they are doing and can "buy" multiple properties. Critics claim the loans prey on people who are financially disadvantaged. The loans often incur high rates – typically 1 or 2 percent above the standard variable bank rate. And the wrap account holder has no claim on the house – so if they fall behind in repayments the investor can throw them out and they lose their deposit and are left without any equity in the house. Wraps are not for the uninitiated and require extreme caution.

Tip

Check loans with so-called honeymoon rates. They offer significantly lower rates than the norm. But they are only for a limited time – usually six to 12 months. They then revert to the standard variable rate. Lenders may lock you into a variable rate for a number of years at the end of the honeymoon period.

Case Study

Andrew doesn't have much time to shop around for loans and figures a percentage point here or there on interest rates won't make much of a difference on his property purchase. Then his financial planner sits him down to do the sums. On a $250,000 loan over 25 years at 6.5 per cent interest, Andrew is scheduled to make fortnightly payments of $778.63 and pay total interest of $256,111.58. But by simply dropping the interest rate a half percentage point to 6 per cent, his interest payment will fall to just over $232,900. That's a saving of more than $23,000 – enough for a second family car. Andrew quickly decides to negotiate over the loan.

The Big Issues

Fixed interest rate or variable?

Each has benefits and disadvantages. A fixed interest rate stays the same even if the Reserve Bank (RBA) raises interest rates (ie, your repayments will remain the same for the period of the loan). But if the RBA lowers interest rates, likewise, your repayments will not drop. Fixed rates can help you budget because repayments are consistent. However, fixed rates often limit or prohibit additional repayments, preventing you from paying off your loan faster. Variable rates allow such additional repayments.

What is a redraw facility?

This allows you to draw on extra repayments you have made above the minimum on your loan. You can use it for a holiday or to buy a car, for example. It can be a good saving tool because the extra money that is paid into the home loan reduces the interest you pay. Most redraw facilities have a minimum redraw amount and incur a cost associated with the redraw. A redraw facility can be a good money saver if used instead of a credit card or personal loan, as the interest payments will be substantially less.

Comparison Rates

Calculating the real cost of a loan is often complicated. However, from July 1, 2003, the Consumer Credit Code has required lenders to provide comparison rates to make it easier for borrowers to compare one loan against another according to one annual average percentage rate, or AAPR. It factors in the costs of setting up a loan such as the interest rate, the loan establishment fee and any other up-front or ongoing fees that are payable under the loan contract terms. Comparison rates make it easier for a customer to assess the true cost of different loans. However, you should also consider a loan's features, which may not be part of the comparison rate. For example, the ability to make unlimited additional payments can slash the cost of a loan over time. Another potential problem is that comparison rates assume we all hold our home loans for the full term that they're offered. In reality, most home loans have traditionally been paid out or refinanced in under 10 years.

Tip

Many banks charge monthly or annual administration fees on home loans. Find out the total cost of borrowing.

Using your Equity

You have been paying off your mortgage for a few years, you feel comfortable with the repayments – and you have spotted another investment opportunity. The equity you have built up in your current loan could be the key to snaring that second property.

Equity is the value of the first property minus any amount that you owe. So for a $400,000 property with a loan of $150,000 outstanding, the equity is $250,000. As property booms occur and the value of your property rises, the equity increases.

To create more equity, you should be trying to reduce your debt as quickly as possible.

Unlocking equity can help generate more money for other uses such as buying shares, home renovations or even to invest in another property through a home equity loan. Equity loans have become very popular in recent years, and some people use them to accelerate investment returns in order to provide for retirement. Of course, this strategy will involve more risks than leaving the equity in your home.

In calculating equity loans, banks will generally lend up to 80 per cent of the value of a family home, depending on your ability to make repayments. One positive is that banks see these loans as a lower risk than margin loans, so the interest rate is usually less. But the investment you choose will still have to provide returns above the interest rate level before you break even.

Eating into your home equity can be beneficial, but there are also dangers. Even if your equity is high, it is important not to over-commit or you could end up in financial strife. If the money is used to fund overseas trips, new cars and the like, there can sometimes be little to show for what had been a major financial asset.

The best candidates for home equity loans are those who are financially established, have a strong cash flow and who do not have economic responsibilities such as school-age children.

The Pros

Equity loans are a good way to borrow money for those who are asset rich and cash poor.

They often have lower interest rates than other forms of credit such as margin loans or personal loans.

The Cons

Interest rate rises and property slumps can hurt those who are over-committed.

Remember that using equity means you are going further into debt – tread carefully.

About one in four consumers now use the service of mortgage brokers. The best brokers can save people much of the stress of finding the right home loan. With thousands of loan choices, a broker can assess the best deal. The aim is to find a loan that:

- you can afford;
- gives you flexibility; and
- does not make you pay for features you do not use.

When dealing with a broker it may be in your interests to check if the broker is a member of an industry association. To belong to most industry associations, a broker must pass minimum entry requirements. Anyone who deals with that broker has dispute resolution processes and avenues for redress available to them should any problems arise.

Check that brokers are independent and do not have a conflict of interest with the lenders they recommend. Be aware that credit providers pay commissions to brokers. Get a written guarantee that the broker is recommending a loan that is the best for you as a borrower, not because it pays the highest commission to the broking firm. Ask how much the broker will receive in commission. If they are reluctant to meet such requests, consider finding a different mortgage broking firm.

Tip

If you choose to accept a free consultation from a mortgage broker, remember that you have no obligation to choose the loan they recommend. Use the opportunity ask plenty of questions and get an overview of what the broker feels are the most competitive and suitable loans on the market.

The Pros

- Mortgage brokers often have access to many lenders and the best deals.
- Giving your details to one person can save time and stop you from being inundated with phone calls, advertising material and marketing offers from banks.

The Cons

- Some brokers receive higher commissions from certain banks, which can influence them in choosing a loan for you.
- A poor broker could lock you into an unsuitable and expensive loan.
- There has been some uncertainty about prices for brokers' services. Check fees upfront.

Tax Implications

The tax consequences of buying a home are significant. Examine issues such as capital gains tax, how negative gearing works, how much stamp duty you must pay; and what depreciation means. Knowing the basics will help you avoid the pitfalls.

Capital Gains Tax

A capital gain occurs when you sell your home for a profit – that is, the money you receive from a sale is higher than the asset's original cost. This includes assets such as land, homes and investment properties. The tax laws are complex and capital gains tax (CGT) does not apply to property bought before September 19, 1985. The Australian Tax Office also applies different methods to properties bought before or after September 1999. Check with your accountant for specific details. In general, CGT applies to capital gains included on your tax return. If you buy an investment property and sell it 12 months later or more, the capital gain is taxed at half your highest marginal rate of tax. If you sell a property within 12 months you will have to pay tax on the full value of the capital gain. CGT does not apply to your principle residence.

Stamp Duty

As mentioned earlier in this booklet, stamp duty is a state or territory government charge that home-buyers pay on property purchases and mortgages. It can be hefty. The rate of the tax varies between states. Remember that first home-buyers could be eligible to receive stamp duty concessions and one-off grants. Check with your State Revenue Office.

Negative Gearing

In an ideal world, you borrow so you can invest in an asset that produces an income. But if the cost of property outgoings (e.g. repairs and loan repayments) is more than the returns (e.g. rent) you receive from the home, you get a negative result.

Investors can get tax breaks from such a negative-gearing scenario. You can claim losses as a tax deduction as long as there is an expectation that profits will be made in the future – usually through the sale of the property. The deduction claim can be offset against other taxable income, including salaries and business income, and reduce your level of tax.

But negative gearing doesn't always pay off. If your property doesn't experience strong capital growth, you could end up losing a lot of money on the deal.

Rules for negative gearing:

- Buy property in areas where demand is expected to outstrip supply over the long term. These areas should have good infrastructure, schools and public transport.
- Don't make your purchase based on tax deductions. First find a property with investment potential and then discuss the tax repercussions with your accountant.

Depreciation

If you are an investment property owner, depreciation can be a valuable source of cash flow. It applies to all investment properties, and means you can claim tax deductions for the assets, fixtures and fittings incurred in earning rent (because rent is classed as assessable income).

Depreciation lets you write off part of the cost as your property ages. The two main depreciation allowances are a capital or building allowance, and the depreciation allowances for fixtures and fittings. In regard to the building allowance, property investors can generally depreciate 2.5 per cent of the cost of the building over a 40-year period from the date it was built. However, this only applies to properties built after 1986.

Property improvements such as painting can be depreciated under the capital allowance. Fixtures and fittings, depending on the item, can be depreciated over a range of time frames from one to 15 years. Examine depreciation closely – it's often forgotten or misunderstood, but it could be the tax break you need.

GST

The Federal Government's goods and services tax has had a marked impact on property. For homes completed after July 1, 2000, you are liable for the 10 per cent tax.

Tips

- Understand the tax rules relating to property purchases and ongoing ownership.
- Know the tax breaks to which you're entitled.
- Be aware of the risks – ask questions and seek professional advice.

Land tax

As property values soar along the Australian coast, many property owners are getting a nasty surprise with higher land taxes.

The tax is an annual state or territory levy that is used to provide services such as education and health. Investment properties and luxury homes over a certain threshold incur the tax. As property values skyrocket, more and more homes are smashing the threshold and attracting hefty tax bills.

In most states, the tax does not apply to a person's main place of residence unless the unimproved value of the property exceeds the threshold. The Office of State Revenue values properties (usually on July 1 each year) and the assessment is used to determine your tax liability for the next 12 months. What you pay is calculated based on a percentage of the value of the property exceeding the threshold.

Check your land tax assessment. If you think it is wrong (most people argue it is too high) or you want to contest the value, contact the Office of State Revenue in your state.

The one piece of good news is that land tax on investment property is tax deductible.

Mortgage Reduction

The key to any wealth creation strategy is to eliminate debt. The good news is that you don't have to be burdened with a 30-year loan. Here are some ways to pay off your home loan more quickly.

- The obvious approach is to clear the loan as quickly as possible. If you can manage higher repayments, you'll pay off your home loan significantly sooner and reduce interest charges.
- Pay off your loan fortnightly rather than monthly. You make about two more payments per year, shortening the life of your loan.
- If monthly repayments fall with interest rates dropping, try to maintain the old repayment levels. This allows you to cut the term of your loan and interest payments.

Mortgage Offset Account

This is another popular way of fast-tracking your home loan repayments. The offset account is a savings account linked to a home loan account. It is similar to an equity or line-of-credit loan – without having to combine the savings and loan accounts. Here's how it works. The balance in your offset account is deducted from the balance on your loan account – and the interest is than calculated on the remaining balance. No interest is paid for the savings in the offset account but you benefit from the lower interest on your loan. You can expect to pay off your loan much faster than a standard principal loan – and you still get the benefit of easy access to your savings.

Refinancing

It is increasingly common for Australian investors to refinance their mortgage in search of lower interest rates. Unhappiness with the service of a lender, consolidation of debt and the need for more flexibility are other typical reasons to refinance. Here are some points to consider.

- Make sure you are aware of all the costs associated with refinancing, such as new loan application fees and mortgage insurance costs. Discharge fees to your old lender can be hefty, particularly if you're exiting a fixed-interest mortgage loan.
- Avoid refinancing into a new loan if you don't understand exactly what you are signing up for. If you have been on a fixed rate loan, for example, and changed to a standard variable loan, make sure you understand how your new monthly repayment is calculated and how long payments will be made at this level.
- A new low-interest loan might be less flexible and exclude extras such as redraw or credit card facilities. Ensure that it suits your needs.
- If you're planning to sell soon, refinancing may not be worth the hassle or expense.

Tip

Consider a portable loan, which lets you sell one property and move to a new one without having to refinance. This saves application and legal fees.

Case Study

Sophie is determined to pay off her $100,000 loan faster than the 25-year schedule. With interest rates at 6 per cent, the bank advises her she'll have to make monthly repayments of $644.30. Over 25 years, she will repay more than $190,000 for the mortgage after interest is factored in. Sophie decides to round out the payments to $700 a month, adding $55.70 a month. By throwing in about $2 a day extra – less than a cup of coffee – she realises a total interest saving of almost $17,500 over the life of the mortgage and cuts four years off the loan schedule. As Sophie proves, it might be time to cut back on coffee.

Unscrupulous property dealers are an unfortunate part of the scene. Industry watchdogs such as the Australian Competition and Consumer Commission continue to target deceptive conduct by property con-artists. Ultimately, however, it is up to buyers to do their homework and protect themselves. Watch out for some of the following schemes that can be an avenue for rip-offs.

Real Estate Investment Seminars

Be wary of free offers at investment seminars and over-the-top advertising spiels. Some promises sound too good to be true – and they usually are. Warning bells should sound if real estate spruikers:

- promise to make you millions of dollars in a few years;
- are overly critical of traditional investment methods and claim they have a better way; and
- try to sell you properties in distant locations where you don't know the market.

Despite some high-profile collapses of investment seminar operators, inexperienced investors continue to flirt with such dangers. Many investment seminars are run by highly experienced and reputable industry experts. Check the credentials of operators before signing up.

Two-Tier Marketing

The scam is simple. Promotional companies entice gullible interstate buyers to buy a "bargain" apartment on, say, the Gold Coast, for $250,000 when it is worth only $200,000. They even provide fast finance and legal advice. Two-tier marketing schemes refer to deals offering one price for locals and a higher price for outsiders. Investors may only realise they have been conned when they go to sell the property. Be wary of glossy brochures advertising great interstate deals. If the deals are so good, why aren't the locals snapping them up? States are imposing tougher laws to crack down on dodgy operators, but unsuspecting investors can still get caught.

Tip

If you're dealing with a financial adviser, make sure they are licensed with the Australian Securities & Investments Commission.

This list will help you understand many of the terms commonly used by real estate agents, lawyers and building consultants.

Agent – a person authorised to act on behalf of a person (usually the owner) in the sale, purchase, letting or management of property.

Boundary – a line that defines the perimeter of a property.

Breach of contract – when the conditions of a contract are broken.

Bridging finance – short-term finance (usually at a higher interest rate) while waiting for a loan or for your existing property to sell.

Building regulations – rules (usually council) that control public health and safety, and the manner, quality and acceptable standards of construction of any building.

Certificate of title (CT) – a document identifying ownership of land showing dimensions of land, name of owner, details of mortgages, easements or encumbrances.

Chattels – movable possessions (other than real estate) that may be included in a sale (e.g. furniture).

Common law title *(see old system title).*

Common property – areas in a strata property that are not included in any of the owner's individual lots. All owners are *tenants in common.*

Community title – a way of "parcelling" land to give people separate ownership of an area while having a shared interest in, and responsibility for, common land and facilities on the site. Such a scheme can apply to different types of housing, recreational facilities, shops, parks, car parking and community centres.

Company title – the land and buildings are owned by a corporate entity whose shareholders have use of designated areas within a building or complex. The majority of shareholders must approve either the sale or letting of a unit in the building.

Contract of sale – usually referred to as 'the contract', this legal document is prepared by the seller's solicitor or agent. It describes the property, price, seller, buyer and conditions of transaction. It is legally binding when signed by both buyer and seller and after a deposit has been paid.

Conveyance – the transfer of ownership of property from seller's to buyer's name.

Covenant – terms, conditions and restrictions noted on a property's certificate of title. The covenant may affect future plans or resale.

Deposit – non-refundable percentage of purchase price paid by a buyer at exchange of contract (usually 10 per cent).

Easement – a right over your own or another person's property to use or prevent the use of the property in a particular way.

Fittings – items such as light fittings that can be removed without causing damage to a property. They are usually not included in the sale unless specified in the contract.

Fitments – items such as baths or stoves that cannot be removed without causing damage to a property. They are usually included in the sale.

Fixtures – built-in items actually fixed in position (e.g. kitchen cupboards, linen or storage cupboards).

Flat interest rate – interest calculated on the original amount of the loan for the whole term.

Freestanding – a building that stands unattached to any others.

Gazumping – where the vendor agrees to sell a property, but then sells it to someone else or raises the price.

Holding deposit – refundable amount paid to the real estate agent when the buyer decides to purchase a property.

:: Glossary

Interest-only loan – only the interest is repaid throughout the course of the loan. The original amount or principal is repaid at the end of the term of the loan.

Land tax – a tax based on the value of property (which is not a principal place of residence) and payable by owners.

Lease – where possession, but not ownership, of a property is granted for an agreed period to a tenant. The lease document specifies the terms and conditions of occupancy.

Lessee – a person or legal entity that leases a property.

Lessor – the owner of a property that is leased to another person or legal entity.

Memorandum of transfer – a document that verifies the change in ownership from seller to buyer.

Mortgage – a legal document expressing the terms and conditions that apply to the lending of money for purchase of property.

Mortgagee – a person or legal entity who lends the money.

Mortgagor – person or legal entity who borrows the money.

Old system title – consists of a series of title documents called a 'chain of title'. The overall title is sound only if every document in the chain is sound. The legal investigations required are complicated and expensive. Also known as 'common law title'.

Passed in – when a property is withdrawn from sale at auction because the bids do not reach the *reserve price.*

Private sale – the selling of a property by the owner without the use of a real estate agent. The owner saves on an agent's commission and deals directly with the buyer.

Private treaty sale – a sale of property through a real estate agent where the purchaser agrees to pay the price set by the seller or negotiates a price.

Reserve price – the minimum price a seller will accept when selling a property at auction.

Settlement – completion of a conveyance in which the balance of the contract price is paid and ownership of the property passes from seller to buyer.

Stamp duty – state tax paid by the purchaser, calculated as percentage of the sale price of a property.

Strata title – this allows a building to be subdivided and for each owner in a block of units to have exclusive ownership rights to that space. It can be sold or rented at the individual owner's discretion. It is most commonly used for home units or blocks of flats.

Survey (identification) – identifies the boundaries of the land and improvements to be transferred and confirms that you are actually buying the property you have chosen.

Tenancy – the right to occupy a property on the basis of agreed terms and conditions.

Torrens title – system of recording ownership of property where registration on a single certificate of title guarantees ownership.

Transfer – a document registered at the Land Titles Office, and noted on the certificate of title, which verifies change of ownership of a property.

Valuation – a report by a registered valuer giving their opinion of the value of a property.

Vendor – a person who offers a property for sale – the seller.

Zoning – description of the allowable uses of a property as set out by planning authorities and local councils in a law-statute.