PIA FIRST HOME BUYER'S GUIDE

The benefits of buying brand new in NSW

PIA | THE PROPERTY INVESTORS ALLIANCE

THE BENEFITS OF BUYING NEW

A First Home Buyers' Guide

Why buy a brand new home?

If you're thinking of buying your very first property, there are real benefits to buying brand new or off-the-plan. After all, with a new property, you won't have to undertake any costly renovation work after you've taken possession, and your home will be built for low maintenance, modern living, meaning it's more likely to suit your lifestyle.

Even more importantly, a brand new property could actually be cheaper than an established home. That's because you may have bought at off-the-plan pricing, and you could qualify for government assistance with your deposit, pay less in stamp duty and, if you decide to rent your place out, you could qualify for decent tax breaks.

The Government could also help you buy your first home.

Below we set out some of the real benefits of buying brand new. The NSW and Federal Government both provide benefits for some first home owners buying new and off-the-plan properties. **These include:**

A First Home Owner Grant of **up to $10,000** towards the purchase price of new properties **up to $750,000.** You can count this money towards your deposit.

No stamp duty on homes valued **up to $650,000** and a concessional rate of duty on homes valued **between $650,000 and $800,000** under the First Home Buyers Assistance Scheme.

A new federal First Home Loan Deposit Scheme, which will help eligible first home owners secure a property with **as little as five per cent deposit**, and without having to pay LMI.[1]

All up, if you were purchasing a new home worth $600,000, these measures could save you more than $122,000 and allow you to buy with a deposit of just $30,000.[2]

[1]The First Home Loan Deposit Scheme is due to commence 1 January 2020. First home buyers with an income of up to $125,000 (or $200,000 for a couple) will be eligible. [2]Stamp Duty saving on $600,000 property, valued at $22,432 (July 2019). Note: deposits can vary. Check with your vendor and your financial institution on the deposit required. Deposits below 20% attract LMI.

THE BENEFITS OF BUYING NEW

You'll know how much you have to pay.

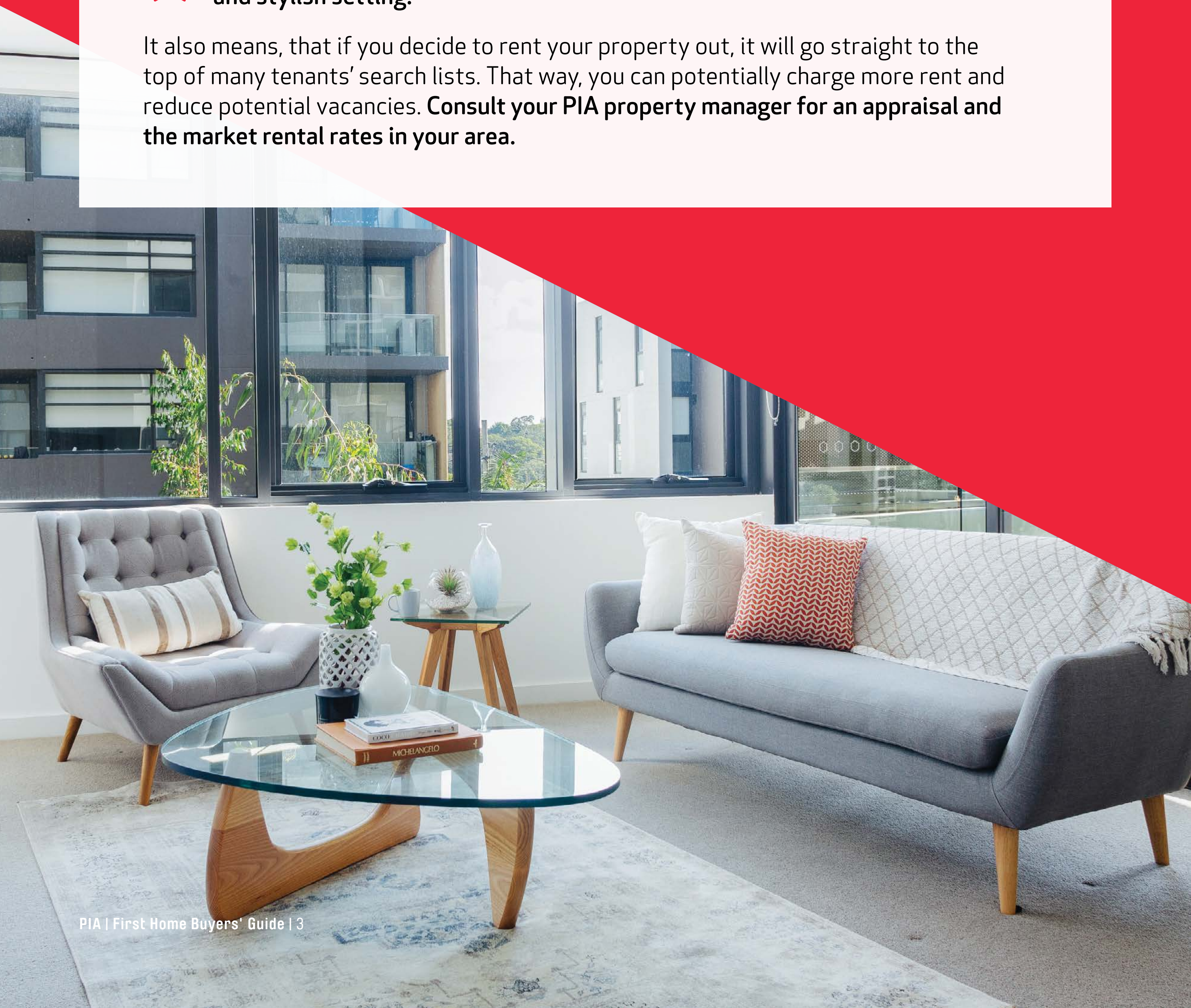
Adjusting to paying a home loan can be one of the biggest challenges when it comes to buying your first home. That's why it's vital you do what you can to eliminate the possibility of unforeseen expenses. When you buy a new property, you won't usually be up for costly renovations or repairs. Also, you'll be protected against the cost of remedying any potential defects, for a period of time, under the Builder's Warranty.

You'll own something contemporary and highly liveable.

New properties usually present you with the chance to move into a well-appointed and well-designed space that suits your existing lifestyle. They also often come with the latest appliances and technology, making them both modern and efficient.

This means you'll be able to relax and enjoy life in a comfortable and stylish setting.

It also means, that if you decide to rent your property out, it will go straight to the top of many tenants' search lists. That way, you can potentially charge more rent and reduce potential vacancies. **Consult your PIA property manager for an appraisal and the market rental rates in your area.**



WHAT DOES “BUYING OFF THE PLAN” MEAN?

Buying off the plan simply means that you’re buying a property that’s going to be built but doesn’t yet exist or, at least, hasn’t been completed.

When you buy off the plan, you usually pay a 10% deposit upfront but you don’t need to pay the balance until you’re ready to take ownership.

This often suits first home buyers because it allows more time to save - meaning you’ll have to borrow less. It also means you get to lock in today’s prices so you won’t have to worry about your property price rising between now and when you organise your finance and finalise your purchase. **In fact, if property prices do rise, you may even have made a capital gain by the time you move in.**

WHAT CAN YOU AFFORD?

Perhaps no step in a first home owner's journey is more important than working out what you can afford. This will determine what type of property you can buy, where you can buy it and how soon you can get onto the property ladder.

What you can afford will always ultimately be a result of how much you can borrow and how much you have saved. **To work this out and maximise your chances of buying the right property, we recommend that you do the following.**

Find out how much you can borrow

An online mortgage calculator will give you a guide as to how much you should be able to borrow based on your income and expenses and current interest rates. You can use this information as a starting point - although you shouldn't rely on it entirely. **You'll only know for certain how much you can borrow once you make your formal loan application.**

Importantly, you'll probably also notice that your credit card limit also affects your borrowing power, even if you owe nothing on them. That's because lenders are interested in your potential debt as much as your actual debt.

Find out first-hand how far your money goes

Whilst online property portals such as Domain, Realestate.com.au and pia.com.au can give you an idea of what's available, there's no substitute for attending property inspections in person - whether that's through an open home or via a display property, if you're considering buying something off the plan.

Be sure to attend several inspections and even an auction or two, so that you get a sense of what properties sell for in particular areas and how far your budget will stretch.

SAVING FOR YOUR DEPOSIT

As your deposit will go some way to determining both what you can afford and what your loan repayments will be, you should use the time between now and purchasing your first home to save as much as you can.

Here are some tips to do just that:

01 **Create a budget.** Track your monthly income and expenses and work out where you can make savings.

02 **Get rid of debts.** If you have any outstanding debts, make it your priority to pay them down. Once you've paid off any credit cards, consider closing them to increase your borrowing capacity.

03 **Save first, spend second.** Put aside money into savings before you put money into your lifestyle costs.

04 **Scrap what you don't need.** These days most of us have subscriptions we simply don't use. Consider ending these and then just taking them up again, only if you need them.

05 **Switch providers.** You can often make real savings by changing energy providers, mobile phone providers, insurers or more.

06 **Let your money work for you.** Shop around for the best high-interest savings account you can, so you earn money on your money.

Following these steps won't just make it easier to save money, they'll also increase your chances of having a lender approve your loan.

HOW TO CHOOSE THE RIGHT PROPERTY

Property should almost always be viewed as a long-term proposition, whether you're buying a home to live in or as an investment.

After all, the cost of selling up and purchasing another home can be expensive. There are real estate agent, legal and removal fees to pay, as well as the cost of establishing a new mortgage. Then there is stamp duty. Many experts argue that the property market tends to move in cycles of between five-and-seven years.

That means the value of a property may fall in the short-term. However, so long as the fundamentals of your purchase are solid, eventually, its value should go up, no matter at which point in the cycle you buy.

For this reason, it's vital you get your property selection right. Here's how we recommend you can do just that.

01 Work out your non-negotiables

Picture the lifestyle you'll be leading to decide what really matters in your search. If you intend to work long hours or socialise out of the home, you could probably do with less outdoor space or even extra bedrooms. Alternatively, if you have a young family, you may find a bit of space is your number one priority.

02 Think location, location, location

Properties located near key infrastructure - such as transport, schools, retail and employment - **almost always works out to be a better investment** than property away from it. If you're really thinking long-term, be sure to consider this.

03 Be flexible

Even though some things are non-negotiable, it still pays to keep an open mind. **If your number one suburb is out of reach, look for one with similar characteristics where property values are lower.** For instance, often, by moving just one or two train stops further along a line, you can make real savings.

04 Do your homework

Online portals such as realestate.com.au and Domain won't just tell you suburb averages, they'll also tell you what individual properties around the one you're looking at have sold for. Use this information to get an idea of the value of your home. **Attend nearby inspections and auctions too so that you know what you're prepared to pay.**

05 Road test

Road test the location of anwy property by walking out your commute to transport options or by driving in peak hour. Then you'll get a feel for what it's like to really live there.

Also, when you attend an open home or display suite, you'll get a feel for a property at a particular time of day. But what's it like the rest of the time? **Visit the location in the morning and evening, during the working week and on the weekend.** Also, speak to any friendly-looking neighbours to ask them about the area.

DIFFERENT BUYING STRATEGIES

Just because you're buying your first property, that doesn't necessarily mean you have to be buying your first home. You could choose to buy an investment property first instead.

PIA's Buy & Rent model - also known as rentvesting - involves purchasing a property in the area you can afford, to rent out to tenants, while remaining in the area you want to live. That way, you can purchase your first property and have someone pay off your mortgage for you, while you keep your existing lifestyle.

Better still, you'll probably have the chance to take advantage of negative gearing, which means you'll be able to deduct your interest repayments from your taxable salary. This means the amount you need to pay towards your property each week could work out to be less than you imagine.

PIA'S Buy & Rent model

You could buy a property for **$650,000**

For up to **$70** *Out of pocket expenses p/w**

Property Price: $650,000

Interest Rate: 4.5%

Interest: $29,250 *(100% borrow)*

Management Fee: $1,600 p/a

Water Rate: $800 p/a

Council Rate: $1,200 p/a

Depreciation: $12,500 p/a

Strata: $3,500 p/a

Paper Loss: $22,850 p/a

Income p/a	Tax Saving p/w	Out of pocket expenses p/w*
$50,000	$129	$70
$60,000	$158	$41
$70,000	$157	$42
$80,000	$154	$45
$90,000	$154	$45
$100,000	$162	$37

Total Outgoings **$36,350** Year ($699 p/w) − Rental Income **$26,000** Year ($500 p/w) = Net Loss **$10,350** Year ($199 p/w) Negative Gearing potential

Disclaimer: PIA do not offer financial advice. The above does not constitute an offer. PIA encourage customers to seek financial advice from an authorised person. Based on FY18 Australian Taxation Rates. *Net out of pocket expenses based on the above assumptions, 100% lend and tenanted at $500 per week

CHOOSING A PROPERTY TO BUY & RENT

Our experience is that new properties often work well for rentvesting because they tend to generate consistent cashflow. That's partly because new properties are usually in demand with prospective tenants, especially if they're close to infrastructure, well presented and fitted out with quality appliances.

New properties also bring greater tax benefits than an established property due to the potential for claiming depreciation.

Rentvesting v buying a home to live in: which approach is right for you?

Choosing between rentvesting or buying a home to live in or rentvesting, it pays to weigh up the pros and cons. We set out some of them below.

The advantages of rentvesting

- ✓ You can keep your current lifestyle
- ✓ It can be very cost-effective
- ✓ You could qualify for generous tax breaks
- ✓ You can eventually open up a new revenue stream
- ✓ It could be your first step in building a property portfolio

The disadvantages of rentvesting

- ✗ You may not be eligible for all first home buyer assistance
- ✗ You'll probably still be paying rent
- ✗ You may have to pay a higher interest rate on your home loan.

The advantages of buying a property to live in

- ✓ You could be entitled to the full range of government-backed first home buyer incentives (see page x)
- ✓ You may be able to get a better deal on your home loan
- ✓ You won't have to pay rent
- ✓ You can make improvements (to the extent that any strata bylaws allow)

The disadvantages of buying a property to live in

- ✗ You may not be able to afford where you like
- ✗ You - or you and your partner - will be responsible for meeting mortgage repayments
- ✗ You won't get any ongoing tax breaks
- ✗ You won't have much flexibility.

THE STEPS TO PURCHASE AT PIA

1. Applying for your home loan

Many first home buyers' biggest fear associated with the entire buying process is applying for a home loan. Little wonder, when you hear media reports of loan applicants being denied finance for taking regular Uber rides or subscribing to Netflix.

That said, having the best chance of receiving the finance you need means also having your application in the best possible shape. It also means understanding what lenders are looking for, what information they'll need from you and what you can do to support your claim.

That's where the services of a mortgage broker can often help. Because a good mortgage broker has access to many different lenders and products, they should be able to match you with the best lender for your circumstances. They'll also help guide you through the application process to help make sure you meet the bank's criteria and receive the home loan that's best for you.

Property Valuations and your home loan

Your lender will need to value the property prior to approving the loan as they will lend a percentage of the valuation of the property, not a percentage of the property price.

For off-plan purchases, lenders will only be able to provide you with unconditional finance approval when the property is practically complete. **Any approvals until this point are indicative only, subject to the final valuation of the property.**

If you'd like to know more about how a mortgage broker can help, PIA have many referral broker partners they can recommend. Contact us at 9192 2800 or enquiry@pia.com.au

THE STEPS TO PURCHASE AT PIA

2. Securing your property

Once you've selected your ideal property, it's now time to complete a Reservation Agreement in order to secure the property as 'off market'. You now have 7 working days to review the contract of sale and decide to proceed with the property purchase before it is placed back on the market for sale. Simply,

01 **Choose your property**

02 **Complete and return your Reservation Agreement to PIA Sales Consultant**

03 **Pay $1,000 holding deposit on each reserved property to PIA Trust Account**

Did you know?

At PIA you can place a 'Double Up' reservation? This is a reservation on an existing property that has been reserved by another client. This allows you to place preferences on properties should your first choice not be available. If the current customer doesn't proceed – then the property will be made available to the 'Double up' customer. Each 'Double Up' reservation requires a fully refundable $1,000 reservation deposit.

[3]Payment methods: Cash / Credit Card (Service fee of 0.9% is applied to local credit transaction and 2.46% is applied to international credit transaction.); Bank Cheque / Personal Cheque; Internet Transaction / Direct Deposit

THE STEPS TO PURCHASE AT PIA

3. From exchange to settlement and beyond

Once you've found your ideal property and paid your holding deposit, it's time to review and exchange contracts for sale.

A PIA sales consultant will provide you with a Contract of Sale for you to review with your Solicitor. Please review the contract in entirety, noting any Special Conditions and inclusions. All contract related questions must be submitted in writing to the Vendor's Solicitor.

Once the contract has been reviewed, signed and returned, at this point you'll be required to pay the balance of the $5,000 deposit within 7 working days.

If you decide not to proceed with the purchase, PIA will refund the $1,000 holding deposit.

Both the Purchaser and Vendor are required to sign separate contracts in order to facilitate the Contract Exchange process, transferring the legal title of the property. It's at this point, in which contracts are exchanged, that you'll also pay the 10% deposit[4] balance (minus deposits already paid), usually within 14 days. In some cases, a seller may accept a deposit bond in its place (this is essentially a bank guarantee that they'll pay the deposit at settlement).

The period between now and when you purchase the home is known as the settlement period. If you're buying a property that's already built, settlement usually occurs six weeks after contract exchange.

If you're buying off the plan, the settlement period can be much longer because it won't happen until the development is completed. When this happens you'll generally be notified that a certificate of occupancy has been issued and that settlement is occurring. You'll also be invited to attend a pre-settlement inspection of the property.

[4] 10% of the property purchase price or as stipulated in the contract, within the time period indicated in the contract.

THE STEPS TO PURCHASE AT PIA

4. What happens during the settlement period

It may seem long a long wait until settlement day but you actually have a lot to do between now and then.

Get formal finance approval. If you don't yet have formal approval for your home loan you'll need to do it now, so that you're certain you'll have the funds you'll need. You should also have your solicitor or conveyancer look over any loan documents your lender asks you to sign.

Arrange insurance. You usually need at least home insurance just to get a home loan. This usually comes bundled with contents insurance, which covers you if your possessions are lost, stolen or damaged. If you're going to rent your property out, you'll also need a good landlord insurance policy.

Perform a final inspection. This is when you have the chance to make sure the property is in the condition it should be. If you're buying a new property, the seller will need to rectify any defects you notice. For this reason, make sure you have someone who knows what they're doing inspect the property with you.

Find a property manager. If you're planning on renting your property out, talk to PIA Property Management. They'll appraise your property to determine market rental rates for you and walk you through the low fee structure and landlord services.

Did you know?

PIA have a 3 year Fixed Rate Rental Guarantee Agreement (FWRG) for Landlords on the majority of properties they sell?* If the property is an investment property, investors will receive a fixed rental yield, achieving a steady, uninterrupted rental return – PIA's FWRG keeps your cash coming in, even when the property is vacant. Purchasers can review and return the Rental Guarantee and Property Management Agency Agreement at any point after returning the contract of sale, prior to settlement.

THE STEPS TO PURCHASE AT PIA

5. On settlement day

It's not just you working hard in the period between exchange and settlement. Your solicitor or conveyancer and the lender will have been sorting things out at their ends too.

Together, they will work with the Vendor/Seller's legal representative, swapping documents and money to make sure you actually own the property.

So when settlement day comes around, you generally won't have to do anything except collect the keys.

Using a solicitor or conveyancer

Buying a property is a big financial decision, so it's important you understand exactly what you're signing up for. That's why it's always best to have a solicitor or licensed conveyancer read through the contract for sale for any property you're considering making an offer on.

If your solicitor or conveyancer queries a term of the contract they'll usually contact the seller's solicitor direct to discuss. They'll then guide you through the legal side settlement process. They'll also make sure any caveats or mortgages on the property are removed before settlement.

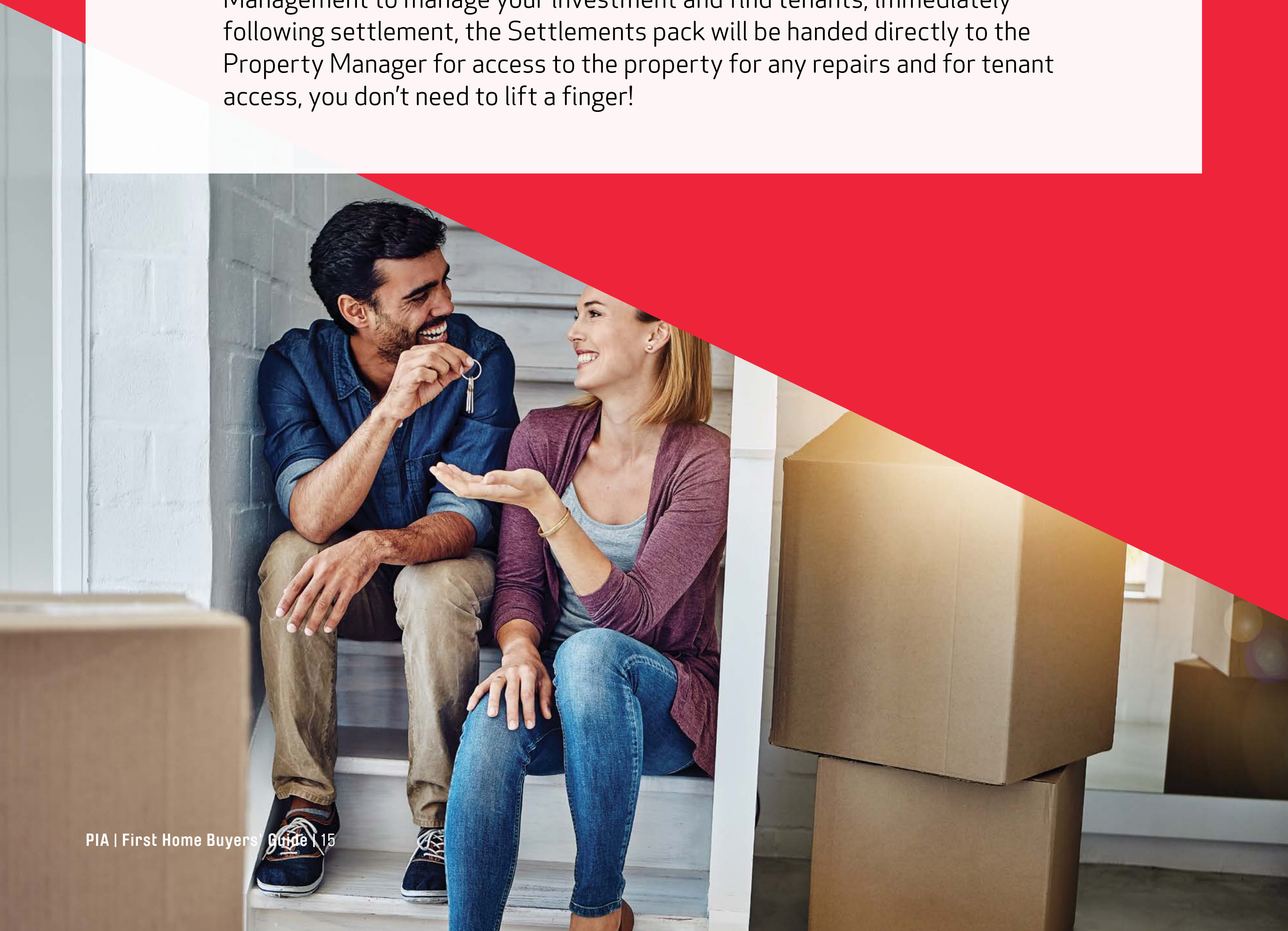
A conveyancer or solicitor will cost you anything from around $800 to a couple of thousand dollars. That may seem a lot of money but it's a small price to pay for peace of mind.

THE STEPS TO PURCHASE AT PIA

6. Handover and Moving In

Congratulations! You're now officially the owner of a brand new home or investment property. To prepare you for this occasion, there's a few things you'll need to organise in advance to ensure smooth sailing.

- **Sort out removalists.** Good removalists can be in demand. If you're moving into the property on settlement day, be sure to sort yours out early.
- **Organise utilities and mail redirects.** Don't wait until you move in to research and then organise your utilities connections, a cold shower isn't fun! Australia Post has a simple on-line mail re-direct service to ensure your post reaches you in your new abode whilst you are changing your legal address.
- **Builder's warranty period.** For brand new properties, the builder is responsible for the working order of all structural and plumbing aspects of your property within the first 3 months after handover. If you have any defects or issues to resolve, you can submit directly to the builder via a warranty claim form during this time.
- **Property Management for Landlords.** If you've chosen PIA Property Management to manage your investment and find tenants, immediately following settlement, the Settlements pack will be handed directly to the Property Manager for access to the property for any repairs and for tenant access, you don't need to lift a finger!



HOW PIA CAN HELP

If you're a first home buyer, PIA can help you find and secure the ideal property. We can also refer finance brokers and providers and even point you in the direction of a solicitor or conveyancer.

If you're interested in rentvesting, we can also help you **find quality tenants and make sure you receive an income from day one** through our property management and leasing experts.

CONTACT US

Visit our website to find out more about what we do.

PIA.com.au

02 9192 2800

enquiry@pia.com.au

PIA | THE PROPERTY INVESTORS ALLIANCE