

Buying an Apartment 'Off-the-Plan'

A First Home Buyer's Guide



Your first step onto the property ladder

Buying your first home is one of the biggest decisions you will ever make, and being equipped with the background knowledge you need to take this first step is crucial in ensuring you are happy with your purchase.

This booklet contains some helpful information about the property purchasing process and the support and financial assistance that is available to you as a first home buyer.





Securing finance

Usually, when you buy an apartment off-the-plan, it can be 12, 18 or even 24 months before completion. You should talk with your bank or mortgage broker to obtain pre-approval before signing a contract to ensure you would be successful in getting a loan for the amount required to complete the purchase at settlement.

To qualify for a home loan, most financial institutions will want to see regular income and a level of savings history, which can be as simple as opening a separate account and depositing a regular amount into it each week. Speak to your financial institution about the level of savings required, as it may not be as much as you think.

While you only need to pay a deposit of 10% to secure an off-the-plan apartment from the developer, financial institutions like to see at least a 20% deposit for any purchase. If you are unable to achieve this, they may still grant you a loan but charge lenders mortgage insurance, unless someone (e.g. your parents) can act as a loan guarantor.

It is important to remember that as you get closer to your home's completion date, any pre-approval that you obtain usually only lasts for three months before you will need to re-apply. If the settlement date is delayed just keep an eye on whether you need to keep the pre-approval up-to-date.

Keystart Home Loans

If getting the deposit together seems like an impossible task or you want to avoid lenders mortgage insurance, Keystart is another little-known option. Keystart is a State Government-owned financial institution offering eligible people home loans with greatly reduced deposit requirements.

Depending on your level of income (currently, for those purchasing in Perth, up to \$105,000 for singles, \$130,000 for couples and \$155,000 for families) you can get a variable home loan to the value up to \$480,000 with only a 2% deposit.

Once you are living in your own home and have built up 20% equity, you can then look to re-finance with another financial institution and shop around for the best interest deal available at the time.

For more information about Keystart visit: www.keystart.com.au

Who's who when buying your first home

Sales Agents

Apartment developers will usually appoint an external real estate agent to sell a development or they will have directly employed sales representatives. Real estate agents are your contact to answer any questions you have and will be an important point of contact until settlement of your apartment.

The Developer

The developer is the company (e.g. Finbar) who is responsible for developing the land that your apartment will be built on. The developer will work with an architect, planner, builder and a number of other consultants to develop a concept for the development, obtain the necessary approvals from the statutory authorities and then oversee the process. The developer is also responsible for the marketing of the development and works with selected real estate agents to sell the units contained in the development.

Client Liaison Staff

Client liaison staff represent the developer and are your main point of contact throughout the process once you have signed the sales contract. They will usually keep you updated, take you through the apartment when it is time to do your pre-settlement inspection and they will arrange to let your financial institution's valuer through the apartment when it is complete.

The Builder

The builder is the company awarded the contract by the developer to construct the apartment building. The builder will work with many different trades (from forklift drivers, bricklayers and flushers, to electricians, painters, and plumbers) to bring the developer's concept to life.

Once the building is complete and you move into your finished apartment, you may need to liaise directly with a representative from the building company should there be any minor defects with your apartment during the defects period.

Settlement Agent

The settlement agent plays a critical part in ensuring that the process of settlement occurs smoothly when it is time to settle. You will appoint your own settlement agent and the developer will have theirs. The two settlement agents will work together with the respective financial institutions to bring about the settlement and finalise your purchase.

Mortgage Broker

A mortgage broker can be valuable if you have issues in obtaining finance or do not have the time to find available deals for your home loan. They liaise with financial institutions and will quote a range of loan products available.

Valuer

A valuer is appointed by the financial institution to independently value the apartment and check that the property value aligns with the contracted purchase price.



Matt and Emma's apartment living dream

Matt and Emma earn \$75K each for a combined income of \$150,000 per annum and have managed to build up savings of \$50,700 over two years by using the First Home Super Saver Scheme and salary sacrificing up to \$600 a fortnight each. This provides Matt and Emma with over \$11,600 more than if they had saved the money in just a standard deposit account. In addition, Matt and Emma have been able to put aside another \$9,360 over the two years by topping up \$180 per fortnight of their savings into a separate interest-bearing account.

They decide to buy a two-bedroom, two-bathroom apartment in a Finbar apartment development for \$425,000 and pay the 10% deposit. They don't want to have to pay the lenders mortgage insurance at settlement, so they plan to ensure they have the 20% minimum required at settlement.

Importantly, Matt and Emma continue to save \$1380 a fortnight after they have signed the contract and paid the deposit, to take advantage of the fact that their apartment is estimated to be completed in 10 months. This will see them save approximately an additional \$27,600.

Matt and Emma's deposit (\$62,300 plus deemed interest), additional savings (\$33,960) plus the FHOG (\$10K) will provide them with a total of around \$94,060. With no stamp duty to pay as the purchase price is under the threshold for first home buyers, they have more than the 20% deposit required by the financial institutions. Their home loan will then be for approximately \$330,000.

Matt and Emma are paid fortnightly, so they want to also pay their loan fortnightly. The home loan requires them to

pay approximately \$727 a fortnight on a principal plus interest loan over 30 years at 3.99%. They still need to allow for strata fees which includes their water usage and the cleaning and maintenance of the pool, spa, gym, sauna and gardens. There is also the cost of council rates (approximately \$1,400 a year), power (approximately \$1500 a year) and water rates (approximately \$1100 a year).

Matt and Emma's combined fortnightly salary after tax is approximately \$4,424 so after they have paid their mortgage, strata fees, council and water rates, electricity, and all the other usual living expenses, they should be left with a little over \$1200 between pay cheques.

Matt and Emma will need to be careful with their money, but they now own and live in their own home. If they keep on saving as they have, they'll pay it off even quicker.





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