TODD SLOAN

AUSTRALIA'S HOME BUYING GUIDE

HOW TO BUY A PROPERTY FASTER AND FOR LESS

ESSENTIAL READING FOR **FIRST HOME BUYERS**

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TODD SLOAN

First published in 2021 by Major Street Publishing Pty Ltd
E | info@majorstreet.com.au W | majorstreet.com.au M | +61 421 707 983

NATIONAL LIBRARY OF AUSTRALIA

A catalogue record for this book is available from the National Library of Australia

Printed book ISBN: 978-0-6489804-9-0
Ebook ISBN: 978-1-9226110-0-0

Cover design by Tess McCabe
Cover image by Bianca Princic
Internal design by Production Works
Printed in Australia by Ovato, an Accredited ISO AS/NZS 14001:2004
Environmental Management System Printer.

10 9 8 7 6 5 4 3 2 1

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PREFACE

I wrote this book for two reasons: one's altruistic, and the other's a little more selfish. First, the altruistic reason: I genuinely have a passion for helping people and making a sometimes scary or stressful process accessible and fun. I speak with literally hundreds of people every week about buying and selling property, and I can say with 100 per cent honesty I try my best to help every single one of them. It really is a fantastic feeling when someone drops into the office with a big smile and a bottle of wine in hand and says, 'Your tips saved us so much money. Thank you!' (Just to be clear, they don't walk in drunk saying this; the wine is a gift.)

I will continue to help people buy and sell property for as long as I can. The only issue is that I can only be in one place at a time. When I sit down with a client, I am 100 per cent in the room, giving them my complete and undivided attention. This is precisely what I should be doing; but it means that I can only help a limited number of people.

I needed a better way of supporting people at any time and in any place, when it's convenient for them. From this, the idea for this book was born. I have worked on this book for two years in three different countries, writing it whenever a helpful idea came to mind and I had a moment to spare. I've been known to interrupt my own gym workout to jot down ideas for a chapter as soon as they came to mind. I tell you this because I want you to know this book has been a complete labour of love, driven by my overwhelming desire to help people get to where they want to go.

This book is a collection of learnings from my 12-plus years of real estate experience. You'll learn from the mistakes I made buying my first property at 21, as well as deals I've put together in more recent years. By making a choice to read this book, you're giving yourself a massive competitive edge over all the other buyers in the marketplace. This book was written specifically for the current Australian housing market, and its aim is to get you into your first or next home faster and for less. Reading this book will potentially save you thousands of dollars.

And now for the selfish reason I wrote this book. Growing up as a dyslexic kid in the public school system was not a very fun experience. I think it's going to feel pretty cool to say I've written a book – and to send a copy to my high school English teacher who told me I was never going to achieve anything. It's my rockstar drop-the-mic moment.

Happy reading, and even happier house hunting!

Todd Sloan
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Pizza & Property podcast

My podcast and YouTube channel, Pizza and Property, is packed with videos and podcasts designed to help anyone interested in buying, selling or investing in property. If you're anything like me and sometimes need a break from reading to watch a video or listen to something instead, you're in luck. Sit back in your comfy chair and get ready to digest some in-depth property hints and tips.

pizzaandproperty.com

GETTING STARTED

The secret of getting ahead is getting started.

MARK TWAIN

So you want to buy a property? Congratulations! You're about to take the exciting leap into home ownership. Whether you're buying your first home or moving to a new home for the next chapter of your life, and whether you're buying a brand-new apartment or a heritage-listed character home, the process can seem both exciting and a little scary.

Australia's Home Buying Guide intends to make the process of buying your home simple, breaking it down into manageable and understandable steps. You can work your way through the process with confidence and feel comfortable with each action you take as you get closer to owning your property.

Ever since I can remember, I've loved real estate. If I think back hard enough, it probably stems from my childhood addiction to building houses out of Lego. I would spend hours upon hours building entire suburbs, fascinated with how I could make my little Lego people have the perfect life in my made-up towns.

Now, as an adult, having spent so much of my life researching markets around the country and even in other parts of the world, I have a solid understanding of the best ways to buy and sell properties.

However, it wasn't always like this. When I made my very first purchase over a decade ago, I was so nervous making my way through the process. I know I've made many mistakes over the years. However, I have learnt from all of these mistakes, and I want to make sure I can help you steer clear of the same costly errors I made – in other words, save you a lot of time and money.

After accumulating more than 12 years' experience and with tens of millions of dollars of property transactions behind me, I'm now finally in a position to break down an otherwise intimidating subject and turn it into something more simple – a guide that anyone will feel comfortable following.

Common mistakes to avoid

Throughout this book, I'll share the most common pitfalls and traps you should watch out for when you're at the start of your property search. I'll take you through:

- how to make sure you get your finance approved correctly
- how to make sure you get the best deal on your loan and potentially save thousands of dollars
- how to find the right area for you and your family
- the questions to ask the agent to give you a competitive edge
- how to notice a selling agent's tricks and potentially save stacks of cash
- knowing your rights on cooling off and how they change in each state and territory.

I'll also provide some helpful tips on how to avoid some everyday, costly situations I see buyers fall into all too often.

Helpful tricks and tips to save you time and money

As well as sharing the tips and tricks professionals use, I'll break down the financial jargon and misconceptions you're likely to come across in your search. I'll answer the questions I hear all the time from buyers, such as:

- What's lenders mortgage insurance (LMI), and who does it protect?
- What's a loan-to-value ratio (LVR), and should it be high or low?
- How large a deposit do I need to put down on a property?
- Do I need any savings other than my deposit?

I know this might seem like lots of information to take in, but I promise I have put in every effort to make sure it's as simple as possible to follow. Just keep reading, and you'll discover that the more you read, the more focus and clarity the picture will have.

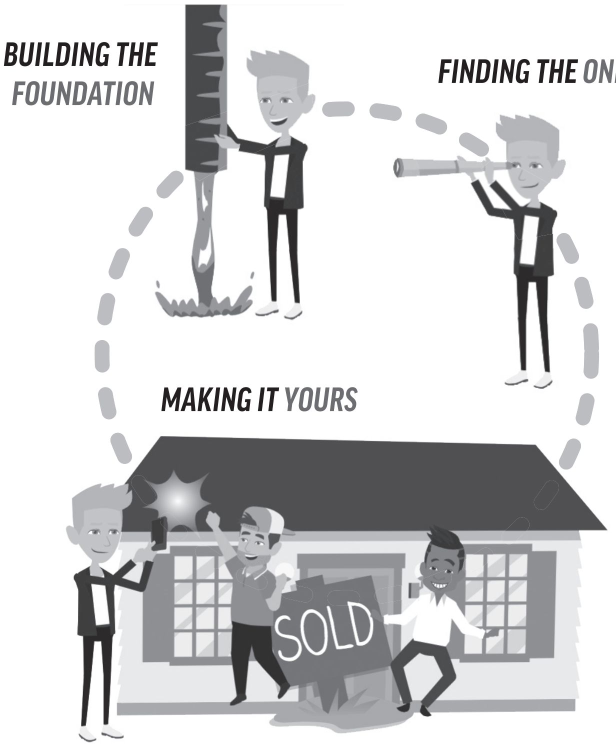
First, I'll get you feeling comfortable with the financial side of buying a property: budgeting, finding out how much you can borrow and how your loan is going to work for you. Then, it's time to move on to finding the best property for your wants and needs.

There are so many choices when it comes to buying a property, and if you've started talking with family and friends about your intentions to make a purchase, I'm sure everyone has given you their opinion on what they think you should buy. Sometimes, it can be beneficial speaking with friends and family. However, be aware that it can lead to information overload, which can make you feel more lost than when you started. It's not that the people you speak with are trying to make things hard for you – quite the opposite. Most of the time, people give their advice based on what they experienced the last time they bought a property, and tell you what has worked for them. This advice can sometimes be sound if the friend or family member has a lot of experience and has stayed in touch with the market. More often than not, though, it is well-intentioned but very outdated information that moves you away from where you want to be. We're going to talk about how to be careful with cousin Barry and his advice.

Three steps to buying your home

I'm a big believer in breaking things down into simple steps. This approach should help you get to the core of what's truly important: meeting your lifestyle and financial goals. That's why I've written this book in the following three sections:

1. Building the foundation
2. Finding the one
3. Making it yours.



Building the foundation

Deciding where you want to buy your property will come down to budget for most of us. This is probably the first and hardest lesson first home buyers will learn. As much as I want to live in the $100.5 million penthouse of One57 in New York City, I'd have to sell a few more books and houses before that's my reality. I'm all for having big dreams and goals, but in this case, keeping it realistic is critical.

Back to reality – where the view is a little different than from the One57 penthouse – you're going to find out how a good mortgage broker can help you work out what you can afford. Then I'll help you with your budgeting, making a few suggestions on how to increase the chances of achieving your financial goals. Before we have all of the borrowings and budgeting wrapped up, there's one last part to check for you: whether you're entitled to any free money! Even if you think there's no way you're able to qualify for the First Home Owner Grant, I suggest reading this chapter just in case there is a different government scheme that offers you money you may have otherwise missed out on.

Finding the one

You'll find out early on in your property search, on your way to finding 'the one', that the road is bumpy and not always straight.

The process of uncovering things that you may not have thought were important can be extremely valuable. As an agent, I've seen people buy property thinking it's perfect for them, only to find out six months later that the commute to work took away too much of their family time at home; they then had to sell and purchase another property that better suited their needs.

Buying this way will mean you'll incur all kinds of extra costs that could have been avoided if you'd simply taken a few simple steps to figure out what you want, need and won't put up with. It's like an old builder's saying I was told years ago: 'Measure twice, cut once.'

Take a little more time to choose the right home and area in the beginning, because you can't uncut a piece of wood – and it can be very costly to buy another one.

Buying an apartment in a high-rise can give you a fantastic lifestyle. I know this for a fact, as the first property I purchased was in a hotel that had a spa, sauna, pool and gym. It was a great way to live, but there were so many things I didn't know about strata and community title. I want to share those potential pitfalls with you so you can make an educated decision on what you're buying into, not a blind one. Chapter 5 covers all the dos and don'ts of buying into the apartment market.

The final chapter in part II looks at open homes and sorting out the stuff from the fluff.

Making it yours

Once you've built the foundation and found the one, it's time to get into my favourite part: making it yours. Here we look at making offers and negotiating. I'll cover this topic in a simple and straightforward way designed to give you a strong feeling of confidence when it comes time to make an offer on your new property.

One of my main goals in this section of the book is to break down a lot of the negative stereotypes that people may have about negotiating property deals and making an offer to a selling agent. When I'm dealing with first home buyers, I usually discover that they fit into one of two categories:

1. They're too nervous about negotiating and just accept any terms the agent gives without question.
2. They have a very brutish and arrogant approach, trying to push and assert dominance – thinking, 'I must be tough to get a good deal.'

In reality, once you go through the steps in the first two parts of the book, you should feel confident about what you're buying and how much it's worth. When you have a real understanding of the situation, the negotiation will generally become a much easier process – where both parties express their wants and concerns and work towards a mutual agreement that benefits everyone involved.

I feel there's a misconception that business negotiations have to be confrontational and aggressive, which could not be further from the truth. A former boss of mine always used to say to me, 'You will catch a lot more bees with honey than you will with vinegar.' This was ironic, not only because he was misquoting – I'm pretty sure it's supposed to be flies, not bees – but because he was such an ass to everyone. Whether he took his own advice or not isn't the point. The point is, when you're trying to get what you want, you have a much better chance of getting it when you're going about it politely and confidently.

After you've finalised the negotiation, the next step is cooling off and understanding your legal rights when buying a property. Whether it's your first property purchase or your fiftieth, this last step never becomes any more fun or any less critical.

After reading through this last part of the book, you should feel comfortable with everything you need to know, including:

- how to make your offer as attractive as possible
- how the auction process works, and what you need to be ready for if the property you want to buy is going to auction
- how cooling off works in the state you're buying in
- how to make your settlement flow smoothly and be hassle-free.

How to read this book

You can sit down and read this book all in one go; I've kept it short so you should be able read it in a couple of sittings. However, I've explicitly designed it so that you can read relevant chapters on the go and take the book with you when you're out looking at houses, researching finance and talking to agents. You can keep it in your car, handbag, man bag or whatever you want to carry it in. It's designed to help you get that sense of satisfaction as you tick off the steps in the process and feel yourself getting closer to buying that all-important first home, or next home. All chapters include a summary that reinforces the key takeaway points I feel are most important to remember.

I'm here to help

If you feel overwhelmed or confused at any stage while reading this book, please feel free to send me an email for some personal property advice and let me walk you through your individual situation. I really mean it; if at any point you get stuck, send me an email or a PM via the Pizza and Property Facebook page. I'll be more than happy to chat with you about whatever part of the process you feel stuck on, helping you get to where you need to go.

Well, without any further ado, let's get you into it.

Don't wait to buy real estate.
Buy real estate, and wait.

ROBERT G ALLEN

PART I

BUILDING THE FOUNDATION

1.

GETTING YOUR FINANCES SORTED

Bringing together the right information with the right people will dramatically improve a [person's] ability to develop and act on … opportunities.

BILL GATES

In my professional opinion, sorting out finance is where most homebuyers unknowingly trip themselves up from the very start. I see buyers cause themselves a lot of unnecessary disappointment and pain due to not talking with a good mortgage broker at the very beginning. Gone are the days when you approach a bank directly for your home loan. A broker will source the best home loan for you.

Wait, Todd – thanks for your thoughts, but my sister's brother-in-law's cousin's dog works at a bank, and she said they could look after me, so I think I'll skip this chapter...

If you have a connection in the banking world, that's great! You should definitely talk to them. I don't ever want to discourage you from talking to a friend, family member or anyone else who has been strongly recommended. I'm not saying these people won't look after you; it's just that if you go directly to the bank, how will you know that you're getting the best deal that's out there for you?

Finance definitely isn't the fun part of buying a home, but if you start by shopping for a property before you see a broker, you might be completely wasting your time. You could be shopping in a price range that's way out of your budget, or you could be a lot closer to your dream home than you actually thought. You could have spent a considerable amount of time looking at the wrong kinds of homes instead of searching for the home you'd always dreamed of.

What does a mortgage broker do?

A good broker will break down your financial situation and give you an accurate picture of what you can borrow, how much the weekly, fortnightly, or monthly repayments are going to be and, best of all, can help you get pre-approval.

Pre-approval: when a lender has agreed on an amount that it is most likely willing to lend you based on the details you have provided of your financial situation.

So once you have your pre-approval, *it's time to go shopping for your property!* Yay!

Think of it this way: imagine you need to buy a new phone. You're in a shopping centre and happen to walk into a Telstra shop. You sit down with a good sales rep – we'll call her Jennifer. As you describe your situation, Jennifer is listening to every word you say. You tell her about your needs and wants: everything that's important to you.

Jennifer asks you some questions that help you uncover a few needs you may not have even known you had. She acts with professionalism and care, and offers a depth of knowledge that puts you at ease. When it comes time for you to make your choice out of Jennifer's recommendations, she makes you feel comfortable that she's giving you the best deal she can, and that you're being looked after. The thing is, Jennifer *is* looking after you, but she's looking after you the best way she can – she's not necessarily giving you the best deal that's available to you in the market, only in that store.

In my opinion, the problem with this situation isn't that Jennifer acted with any ill intent, or didn't know what she was doing. This hypothetical sales rep may be the most amazing and knowledgeable salesperson in the whole company. The problem with this situation is that you may have just received the best deal that Telstra has to offer, but how do you know that Vodafone isn't actually a better fit for you? Or maybe Optus is going to give you some extra features for free that Telstra is charging you for. My point is, you don't know.

You don't know if you're getting the best deal that's out there when you meet a sales rep who works exclusively for one company. Of course, they're going to say their product is better than their competitors'. Jennifer won't have her job at Telstra for very long if she says, 'Actually, Harvey Norman sounds like it would suit your needs better; plus, it has a special on at the moment. It's just 50 metres away, on the left. Have a nice day.'

However, that's precisely what a good broker does. They listen to what you need and find the best options from a range of lenders – not just the options from the one lender they work for – and give you the choice of which lender fits your situation the best.

A small saving goes a long way

A small difference in the interest rate on your home loan can sometimes make a massive impact on how much money stays in your pocket and how much extra you give to the bank.

Think of it this way: if a broker could save you just 0.5 per cent off your rate, you might think, 'Well, that's okay, but I'm not that fussed about such a small interest rate saving.' But did you know that on a loan of $600,000, the difference of 0.5 per cent off your interest rate could save you $57,000?*

Let's have a think about what you could buy with $57,000. At the time of writing this chapter in 2021, $57,000 will buy you a six-month-long trip to Europe in four-star accommodation (as soon as COVID travel restrictions are relaxed). Or, if holidays aren't your thing, how about a 2020 Mercedes Benz A or B class? I've just found 100 of them for sale online, each under $57,000.

If holidays and fancy cars don't get you going, then how about eating your way into a fancy food coma, going out to dinner at a beautiful restaurant every night of the week for one whole year? You could spend $156 every night experiencing culinary heaven and avoid doing any dinner dishes for an entire year! That sounds amazing to me. Personally, I think I'd be boring and use $45,000 on a deposit for an investment property and go on an excellent little $12,000 holiday to France (once international borders reopen!).

To be clear, I'm not recommending you spend your money on any of these things (apart from the investment property – go to town on them). All I'm saying is that having the extra money in your life to do these fun and awesome things is not attached to winning a lottery ticket; you can achieve this via simple due diligence and making sure you choose the right home loan for your situation. In other words, while your sister's brother-in-law's cousin's dog working for

* The savings figure generated is based on a $600,000 principal and interest loan over 30 years, varying the original interest rate from 3.0 per cent to 2.5 per cent.

the bank may have the best product for you, if they don't you may be giving away a fancy car, trips around the world and lots of other fun life experiences that belong to you.

Due diligence: the investigation that a reasonable person is expected to take before entering into an agreement or contract.

A broker has access to many lenders, all with different criteria and all looking for different kinds of customers for their 'loan book'. Having the right broker on your side gives you an unbiased opinion on what could be the best deal for you based on the answers you have given them.

Who pays the broker?

You may be wondering, why does a broker provide this service, and who's paying the broker?

In most cases, the broker is paid by the lender you've chosen. Depending on which state you're in, your broker may also charge you a fee. However in some states, like South Australia, this is not very common unless the loan is very complex.

Lenders are happy to pay brokers referral fees for connecting them with customers. If the broker hadn't come in contact with you, the lender might have missed out on you as a customer – and anyone who brings paying customers into a business is someone that company wants to look after and keep around.

In essence, think of the broker as the go-between person who helps you save time and energy running around comparing different lenders. A good broker will stay current with new changes in lending criteria from all of the different lenders they work with. Knowing who has the best deal for your mortgage can be a lot more work than you think if you try to do it alone.

How do you find a good broker?

Now that you know what a broker does, how they get paid and why they're definitely worth speaking with, it's time to find a good one. So, how do you do that?

Well, how about I tell you a story of how *not* to find a broker? Unfortunately, it's my story from the first time I bought a property.

I was 21 years old and had no idea what I was doing when I bought my first property. I was working in the outback of South Australia, underground as a diamond driller.

For my age, I was earning pretty reasonable money, and I decided to buy an apartment in Adelaide – in a building I had fantasised about living in for years. This was 2007, pre-smartphone tech days, so when I realised I'd need a broker I thought, 'One of the big firms should do the trick; they must be good if they have so much business.'

I walked into the office of one of the biggest mortgage-broking companies in the country (which will remain nameless). I told the lady at the front desk, 'I'd like to buy a house,' and asked if there was someone I could speak to. I was told to take a seat and someone would be with me in a minute.

A few moments later, a man walked up to me and introduced himself. Let's call him Daryl. Daryl asked me a few questions about my work and what my income was, but nothing about me – what I wanted or why I was buying my first place.

I remember him using all of these terms, like LVR and LMI, and talking about redraw facilities as if I should understand the gibberish coming out of his mouth. I didn't feel very comfortable with him, but I thought it must have just been how this was meant to be; it was my first time applying for a loan and I had nothing to compare it with.

After Daryl had all of the details he needed, I got my pre-approval and went out to shop for my new apartment. I found the apartment very quickly and put in an offer that was well below my pre-approval amount. I thought this would be fine. As the clock started ticking down towards settlement day, there seemed to be problem after problem with the lender. Daryl kept coming back to me and saying, 'The bank needed something else, and there's been another delay at head office,' and, 'The bank won't approve the loan until they have this new statement from your employer; they're always changing their minds.'

It felt like I was being given excuse after excuse, but I had no idea what was normal, so I just trusted him and hoped he was doing the right thing by me. What I didn't understand was that my time to get formal finance approval was slowly being eaten up, and I was about to be in default of my purchase contract. I started getting worried that I was about to lose this apartment that I had dreamed about for years, all because of something that was out of my control. To add to the pressure, I was 1000 km away and 400 m underground, working 12-hour days 14 days straight. Every delay Daryl presented me with was even more challenging to fix in the little time frame I had. Most businesses in Adelaide were not open when I woke up at 4.45 am, and I couldn't call them while I was underground.

Selling agent: the real estate agent who is selling the home.

One night after dinner, I got a call from the selling agent notifying me that his vendor was becoming very concerned and was about to serve notice to cancel my contract. By this point, I'd had enough. As soon as I flew home, I called the mortgage-broking company and asked to speak with the manager. We'll call her Tammy. I explained all of my concerns to Tammy about how things were being delayed, why I was told they were being delayed, and just the overall feeling I had about how it was all going. Tammy was not impressed that this was happening within her company. She told me that her organisation prides itself on providing excellent customer service and that this was not a typical transaction. Tammy assured me that things would be taken care of very promptly, and they were. Within about a day, I had the approval that I needed, and I ended up buying my dream apartment and settling on time.

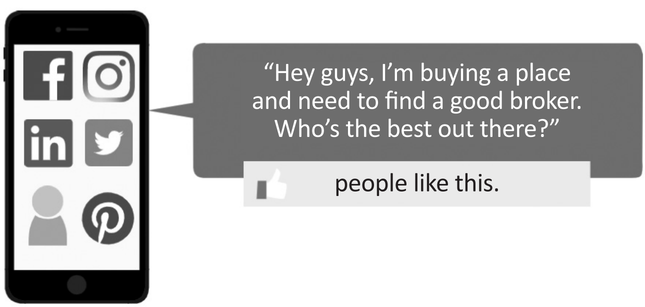
While everything worked out well in the end, I had no idea how close I was to losing it due to having an incompetent broker on my team.

While there is no exact science to picking the right broker, there are a few simple and easy tips I can give you, along with some signs to look for so you can feel comfortable that you're choosing a good and hardworking broker.

Step 1 – Ask friends and family

Ask anyone you know who has bought a house in the last five years which broker they used. This way, you'll get an unbiased opinion on what the broker was like to deal with from a trusted source.

The simplest way to do this is by putting up a post on social media asking for recommendations. Something like this: 'Hey guys, I'm buying a place and need to find a good broker. Who's the best out there?'



The power of social media is incredible! It's best to take full advantage of it where possible. Posting a quick status to a group of friends and family will save you a lot of time and effort. I still don't know why, but people love helping to solve odd problems and offer advice.

Pretty soon, you should have more comments than a '23 Childhood Celebrities – You'll Never Believe What They Look Like Now' post. Every man and his dog should be recommending people to use and tagging different brokers in the post.

You'll quickly find out that people from all walks of life are keen to help and put forward someone they've used in the past.

Step 2 – Do some research

Now that you have a list of recommended contacts, it's time to call them, right?

Not yet. Now it's time to jump on Google and do a bit of stalking. Type in the broker's name and company and check out their online presence. The company they work for should have an online profile for the broker. This way, you can do what's known in real estate as a 'digital interview' before you decide who to speak with.

Step 3 – Make some calls

You should now have two or three names you're happy with. Give them a call and make a time to meet with them face-to-face. Most brokers will come to you, but there are some that you may need to meet at their office or over Zoom.

Meeting your broker

So now that you have a few meetings lined up, what do you need to do to prepare?

In reality, I could write a list of 50 questions to ask a broker, but I won't – because dealing with your broker should be a lot like dealing with a doctor. You're walking into their world of expertise and putting a massive amount of trust in them. You want to know that you can talk normally with them and have them explain things to you in simple terms to give you a clear understanding of the situation. Most good brokers I've spoken with know the right questions to ask you and how to find the right product (loan) for you.

On the flip side to that, if you sit down with a broker and feel like you're being upsold and having words memorised from a sales script spoken at you, that's a sign you're speaking with someone who either doesn't really understand their job, or is just thinking about themselves and the easiest way to get their commission. Humans are actually amazing lie detectors; sometimes you need to learn to listen to that gut instinct. If you feel that something is off when you're having a meeting with your potential broker, that's generally a sign that they're not the right match for you.

Pre-approval

Almost all the boring stuff is out of the way, but there's one thing left to do before you start looking for your new home: get your pre-approval. This is one of the easiest things to get, but all too often I speak with people who have started shopping for their perfect home before they even know how much they have to spend.

Getting pre-approved for your finance is not just about knowing how much you have to spend; it's also about making sure your offer is as attractive as possible to the vendor when you do find the perfect home.

Pre-approval strengthens your offer

Let me explain with a situation I see all too often.

At the time of writing this chapter, I had recently sold a property in the suburbs of Adelaide. I advertised the home for $339,000 to $369,000, supported by a great campaign that generated loads of interest and led to five offers in writing (I'll talk more about offers in chapter 7). The two offers I managed to negotiate to the highest price were above the top end of the asking price, at $371,000 and $375,000.

Under normal circumstances, you would be right in thinking that $375,000 would be the chosen offer any day. However, the buyers offering $375,000 didn't have their finance sorted at all. They told me that they should be fine as they'd spoken to the bank about six months ago, but they didn't have any form of pre-approval in place. The buyers offering $371,000, on the other hand, had their pre-approval in place and were ready to go.

Upon relaying all of the information to the vendors, they felt that taking the offer with shaky financing was too risky – if the finance fell through, they would potentially need to relist the property and perhaps suffer a financial loss. They instead opted to take a solid $371,000 over a maybe $375,000 because they wanted to minimise the risk of the sale falling over – and because the offer was already over the top end of their dream price.

Vendor: the person (or people) selling the property.

I tell this story because it perfectly illustrates why it's essential to be financially organised when it comes to buying a property. The buyers who offered $375,000 fell in love with the property and were good people, which always makes it harder as the selling agent to tell them they have just lost the home they've been looking for because of something so simple. This situation can be avoided very easily by having your finances organised and ready to go before you even start looking at property. If you do this, you won't receive that heartbreaking phone call from the selling agent saying, 'I'm sorry, you missed out because the vendors went with the offer that had pre-approval in place. Better luck next time.'

Pre-approval tells you what you can afford

Having your pre-approval in place isn't just about showing the vendors that you're a reliable option as a buyer; it also gives you a clearer picture of what you can and can't afford.

Imagine this: you've spoken to a family friend who bought a property a few years ago or you used a very generic borrowing power estimate calculator online which indicated that you could probably only borrow about $400,000.

This is less than you hoped, but you start looking for homes a bit smaller than you'd like, outside of the area you would really love to live in, as this is what you need to do to get into the market. As much as this is an exciting time, the homes you are looking at are not quite what you'd imagined buying. Weeks quickly turn into months and before you know it, you've been looking for six months and you can't find anything that's quite right for you. You know you need to make a few compromises, but the process is now becoming frustrating, and all of the excitement has been sucked clean out of it.

I see this every week as an agent: young couples walking into my open homes looking like death warmed up. When I ask them how long they've been looking, the answer is generally between 6 and 12 months. I can see all the fun of finding their first home has been completely sucked from the situation, and I'm standing in front of two people who are fed up. Unfortunately, the rest of the conversation all too often goes like this:

Me: *So, when you guys do find the right place, are you ready to pounce on it? Is your financing pre-approved, your deposit in place, your conveyancer locked in… you know, all of that stuff?*

Buyers: *Yeah, we're ready.*

Me: *Great. So, you've sat down with a broker and had your pre-approval done?*

Buyers: *Well, no, but we both earn good money, so we know we'll get a loan.*

Me: *Okay, so how did you both come to choose this price bracket to shop in?*

Buyers: *Well, we just figured that's all we could get because we only have a $60,000 deposit and we looked at an online calculator.*

Me: *What if you could get approved for $100,000 more than that – do you think you would have found the right home already?*

Buyers: *Yeah, probably, but we couldn't get that much money.*

Me: *Have you asked a broker?*

Buyers: *Well, no, but we just know we couldn't.*

Me: *With all due respect, how do you know if you haven't asked? It only takes about 20 minutes and could save you another six months of looking. I'm happy to keep seeing you at opens, but I don't think that's a mutual feeling.*

Buyers: *Yeah, I guess we could get our pre-approval done.*

While the above situation is technically hypothetical, unfortunately I see it all too often. It usually ends with me calling the buyers back about three weeks later to find out they have their pre-approval and were pleasantly surprised at how much extra they could borrow, and now have a contract on a house they wouldn't even have looked at six months ago.

It's not just about the time saving, either. Think about this situation for a minute. At the time of writing (2021), if this couple was renting the average house in the cheapest Aussie capital city of Perth according to thepropertynerds.com.au ($390 average weekly rent) to the most expensive of Canberra ($595 average weekly rent) over a six-month period, they would have paid between $10,140 to $15,470 in rent.

That rent money could have gone towards paying off their home loan if they had their pre-approval in place first and not wasted six months looking at all the wrong houses.

If I told you that you could potentially have an extra $10,140 to $15,470 to pay off your new home loan, and all you need to do is go to a 20-minute meeting that won't cost you anything, and this will put you ahead of most other buyers in the market, can you honestly think of any good reason not to do it?

That's what I thought. Good!

Understanding finance speak

Just before we get into looking at your budget and what kind of property you're going to buy, I'll briefly give you a few quick translation tips. The financial world is filled with massive amounts of jargon; it's no different when you're buying a home to live in. One thing that should give you a big confidence boost is understanding two of the common terms used in the property lending world. These terms are:

1. loan-to-value ratio (LVR)
2. lenders mortgage insurance (LMI).

While your broker should explain these terms to you, some may not. I find that when people talk to you about things you're not supposed to understand, in a way that makes you feel that you should understand them, it can make you feel stupid and uncomfortable – when really, the person assuming your knowledge is the one being a numpty. Just in case you are in a situation where someone starts talking in this lingo you'll be confident and calm, understanding exactly what's being said.

Loan-to-value ratio (LVR)

LVR is really just a fancy way of describing how much money the bank needs to put in to complete the purchase in addition to the deposit you're putting down on the property.

Loan-to-value ratio (LVR): the ratio of your loan amount against the value of the property you are purchasing; the loan amount divided by the value of the property.

Let's use a nice round number to make this simple. Say you're buying a home worth $1,000,000. You have a $200,000 deposit, and you need the bank to put in the rest of the money – $800,000. This situation would give you a loan-to-value ratio of 80:20 –more commonly known in the lending world as an 80:20 LVR.

If you only had a deposit of $50,000 in this situation, then you would need the lender to put up $950,000 – which would give you a 95:5 LVR.

Lenders mortgage insurance (LMI)

LMI is an insurance a lender may require you to take out if it feels your LVR is too high. At the time of writing (2021), you typically won't need to pay LMI if you have more than a 20 per cent deposit. If your deposit is under the 20 per cent mark, you will most likely need to pay LMI. Generally, the lower your deposit, the higher your LVR will be – and the more expensive your LMI will be.

The really important thing to remember is that LMI does not protect you as the consumer; this insurance protects the bank if you were to default on the loan.

Lenders mortgage insurance (LMI): an insurance payment that protects the lender if you default on (fail to pay) your home loan.

LMI is generally tacked on to the mortgage and paid off over the life of the loan (rather than it being an upfront cost), however make sure to check this with your broker as individual circumstances may differ.

If you can avoid paying LMI, it's a cost well avoided. However, if it's the difference between getting into the market or renting for another two, three, or four years, then it might be worth considering taking the financial hit.

In a nutshell

- Speaking with a good mortgage broker first not only has the potential to save you a huge stack of cash, it should also get you in the driver's seat with a pre-approval that could put you ahead of your competition when buying your property.
- Make a time with the broker you feel most comfortable with and bring all of the paperwork they tell you to bring; it's time to get you pre-approved!
- Get your head around some of the key terms you'll hear as you move through the finance process.

Listen

If you would like to learn more about borrowing and how to make yourself more attractive to lenders, listen to episode 73 of the Pizza and Property podcast: 'How Could I Buy 6+ Properties on an Average Wage? – With Fane Levy.'

I totally understand you're probably not interested in buying multiple properties right now, but there is a lot of great information in this episode that will help you make yourself stand out to leaders for all the right reasons – whether you're buying 1 or 100 properties.

Another good episode to listen to is episode 81: 'Seven Things to Know when the Leader Says No'. This episode will walk you through some amazing tricks and tips to put you in the driver's seat and increase your chances of getting the approval you need.