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A Guide to Buying Your Home



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BUYING A HOME

Buying a home is not only one of the largest purchases you're likely to make, it can also be one of the best long-term investments – so it's important that you get it right. This means doing your homework and making sure that the property you are buying is the right one in terms of price, location, value, size and lifestyle.

PRIVATE SALE OR AUCTION?

There are two main ways to buy a home – by private sale or by auction. As a buyer, you don't really have a choice, as it is the seller (vendor) who decides which method to use to sell their home.

PRIVATE SALE

Buying by private sale means you buy the property at the advertised price or you negotiate the price with the vendor, usually through the vendor's estate agent. In some cases, the property may have been 'passed-in' at auction because the vendor's reserve price (the minimum they were prepared to accept) was not reached. Buying by private sale allows both parties to negotiate an acceptable price, with the buyer usually starting low and the seller starting high. The negotiation continues until both parties agree on a price.

AUCTION

Approximately 30 percent of residential sales occur by auction in Melbourne. It largely depends on the area and the type of property, as to whether auctions are the preferred method of sale. For example, auctions are particularly dominant in inner Melbourne, but less so in some suburban areas.

The auction method is the ideal way to test the property market against buyer demand. However, it is also an emotionally charged and fast-moving atmosphere that requires both parties to keep a cool head. Some of the benefits of buying at auction include:

- You can compete with other bidders in an open forum and you are aware of other offers being made.
- All legal documents relating to the sale of the property are available for inspection before the auction.
- Contracts of Sale can be signed and exchanged on the day of the auction.

PREPARING TO BUY

Prospective purchasers need to do some homework: decide what you want in terms of size, location and price range. Register your name and requirements with estate agents and ask them to let you know when suitable properties come up. Regularly check the local and daily newspapers. There are also a number of internet sites devoted to listing properties for sale. It is a good idea to attend some auctions and check the published results of auctions in your area.

REIV agents have exclusive access to a timely and comprehensive sales database and can provide information about comparable sales in the area. Prospective homebuyers are encouraged to attend a free Buying a Home Seminar, organised by the REIV in conjunction with the Law Institute of Victoria, the Australian Society of Practising Accountants, the ANZ Bank and Archicentre. The seminars feature expert speakers who will share their knowledge and experience with you.

INSPECTING A PROPERTY

Inspections should be made at the advertised times or by appointment with the real estate agent.

You may consider having a property inspected by a builder or architect to assess whether there are any defects that might affect your decision to buy. This is particularly relevant if large-scale renovation or extensions are planned.

Both Archicentre and the Housing Industry Association (HIA), among others, provide an inspection service. For a fee, they inspect and report on the state of the property, including the structural condition and damp.

Archicentre can be contacted on tel: 9819 4577 and HIA on tel: 9280 8200

You need to look at the location and style of the property in relation to your requirements: the size of the property, proximity to schools, access to public transport and so on should all be considered.

Once you have found a property that suits you, it is wise to check it out during the week as well as on the weekend, as a peaceful environment one day might be quite different at other times.

ORGANISING FINANCE

It is vital that you organise your finances before making an offer or bidding at an auction. Make arrangements to cover the deposit should your offer or bid be successful, and arrange to have the appropriate mortgage funds available for settlement.

Confirm with your financial institution or bank the amount they are willing to lend you and calculate this with your capacity to repay, without negatively impacting on your lifestyle and any other financial commitments.

Don't forget that (variable) home loan interest rates can move up and down, so you need to have a bit of leeway to cope if this happens.

VENDOR'S STATEMENT (the Section 32 Certificate)

Section 32 of the Sale of Land Act (as amended) requires the vendor to provide a statement about the financial, legal and planning details of the property, before a Contract of Sale or Contract Note is signed.

The Section 32 should include at least the following:

- A copy of the title showing any existing easements or covenants, boundary measurements of the land and location in relation to nearest street;
- Information about planning or development restrictions;
- Details of any mortgage over the property;
- Outgoings such as rates, body corporate fees and so on that apply;
- Building restrictions and copies of permits issued for work carried out in the last seven years.

Both the vendor and purchaser must sign the Section 32 before the contract is signed. If the property is being sold at auction, a copy of the Vendor's Statement and the Contract of Sale will be available before the auction.

MAKING AN OFFER

Missing out on a property that you have your heart set on can be a very disappointing experience. Quite often this happens because the offer process is misunderstood. When making an offer to purchase a property, it is important to be aware of the following:

- The agent will submit all offers to the vendor.
- The property remains on the market while the vendor considers all offers. Just because your offer is the first one submitted, does not necessarily mean that it will be accepted.
- Your offer may include a date by which it will lapse if not accepted.
- An offer may be made subject to a finance clause i.e. bank approval, sale of an existing property or another condition such as a builder's inspection.
- You can make your offer conditional on certain items (such as a dishwasher) being included or excluded from the contract. Any special conditions such as these must be written into the contract.

An offer is not legally binding on both parties until the buyer and seller have signed a Contract of Sale or Contract Note. A Contract Note must contain details of the property, the price, deposit and settlement terms. Once the offer is made in writing, it is then up to the vendor whether or not to accept it or whether to give other parties the opportunity to increase their original offers.

The agent is not obliged to give you another opportunity to increase your offer. The vendor is under no obligation until they accept the buyer's offer by counter-signing the contract.

It may be worthwhile making an offer for a property before it goes to auction as this gives you an opportunity to negotiate through the agent and perhaps to stipulate any particular conditions you require in the sale. If your offer is accepted, a cooling-off period applies unless the sale occurs three business days before or after the scheduled auction date.

COOLING-OFF PERIOD

You are entitled to a cooling-off period of three business days. This means that you are legally able to withdraw from the Contract if you change your mind during this time. However, it is important to remember the cooling-off period does not apply in the following circumstances:

- If the property was bought at an auction or within three business days before or after a scheduled auction;
- If the purchaser is an estate agent;
- If the purchaser has obtained independent legal advice before signing the contract;
- If the vendor and purchaser have previously entered into a Contract of Sale for the same property on substantially the same terms;
- If the property is used for industrial, commercial or farming purposes and in the case of a farm is not more than 20 hectares in area.

CANCELING THE CONTRACT WITHIN THE COOLING-OFF PERIOD

The contract is cancelled by providing written notice to the vendor or the vendor's agent within the cooling-off period.

The purchaser is entitled to a full refund of all money paid, except for \$100 or 0.2 percent of the purchase price – whichever is greater. For example, a vendor may keep a \$300 deposit on a property priced at \$150,000.

CONVEYANCING

How you decide to handle the paperwork associated with the property purchase is your own decision. Options include using a solicitor, using a qualified conveyancing agent, or doing it yourself. It is strongly recommended that inexperienced buyers seek professional advice on the conveyancing process.

THE CONTRACT

If you have inspected a property and decided to buy it, either by private sale or before a scheduled auction, the estate agent will generally prepare a Contract Note for you to sign. If you are buying at an auction, the vendor's solicitor will have prepared a Contract of Sale of Real Estate, which you can inspect prior to and at the auction.

Both the Contract Note and Contract of Sale include details of the terms and conditions of the sale, such as the deposit required, the settlement date and the chattels included with the property (such as carpets, curtains etc).

The Contract Note and the Contract of Sale are legally binding documents, so it is important that you fully understand your obligations before signing.

WHAT IS THE DIFFERENCE BETWEEN A CONTRACT NOTE AND A CONTRACT OF SALE?

With a Contract Note a purchaser makes a written offer to buy a property at a certain price and on certain terms. If the vendor accepts the price and terms, they countersign the Contract Note and the property is sold. There is no need to replace a Contract Note with a Contract of Sale.

A Contract of Sale of Real Estate is usually prepared by the vendor's solicitor and includes the terms and conditions regarding the sale of the property. If the sale is by auction, it is usually unconditional and there is no cooling-off period.

COSTS ASSOCIATED WITH BUYING A PROPERTY

There are a number of costs aside from the purchase price for which a buyer is liable.

A checklist may include the following:

- Legal/conveyancing fees
- Stamp duty on the transfer of property
- Stamp duty on the mortgage
- Loan application fees
- Insurance
- Adjustments such as council rates and water fees

STAMP DUTY

Value of Property

Stamp Duty Payable

0 - \$20,000	1.4% of the value
\$20,001 - \$115,000	\$280 plus 2.4% of the value over \$20,000
\$115,001 - \$870,000	\$2560 plus 6% of the value over \$115,000
Over \$870,000	5.5% of the value

Examples:

Price of Property	Stamp Duty Payable
\$100,000	\$2,200
\$150,000	\$4,660
\$200,000	\$7,660
\$250,000	\$10,660
\$500,000	\$25,660
\$1,000,000	\$55,000