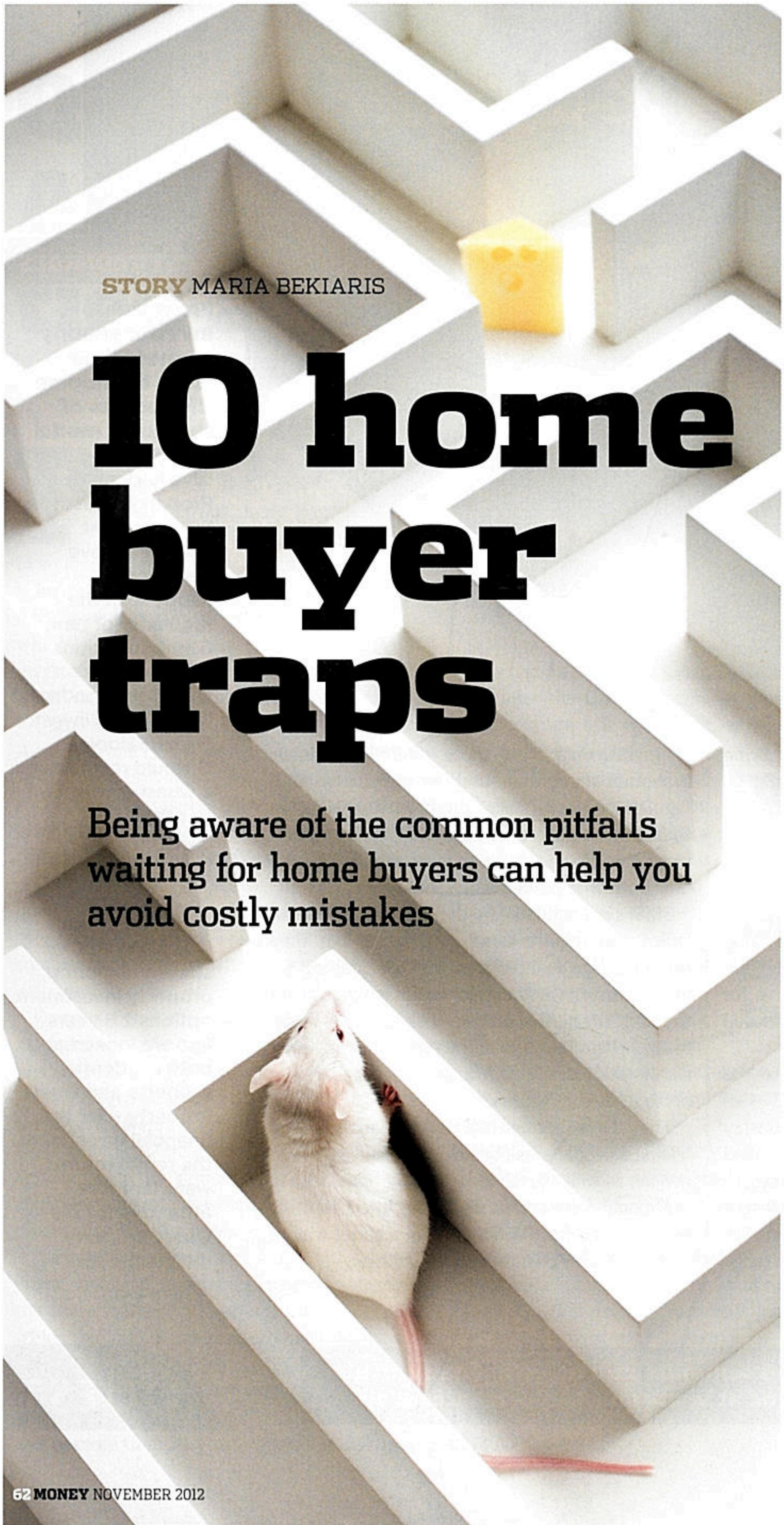

STORY MARIA BEKIARIS

10 home buyer traps

Being aware of the common pitfalls waiting for home buyers can help you avoid costly mistakes

BUYING YOUR HOME WILL undoubtedly be the biggest purchase you'll ever make, so you want to make sure you get it right. Whether you're entering the property market for the first or 10th time, here's a list of what to watch out for:

1. Forgetting pre-approval

"If this was a Top 40 music chart this trap would be a classic that never leaves the charts," says Ben Kingsley, CEO of Melbourne buyers agent Empower Wealth. You should not go shopping without knowing exactly how much you can borrow. And that does not mean putting in numbers on online calculators – you need to get formal pre-approval, in writing, from your chosen institution.

By getting pre-approval you get an "unemotional" idea of what you can afford to spend, says Kingsley. "You become realistic shoppers rather than frustrated or heartbroken buyers, in the event your mortgage finance falls through because you found something outside your budget or you overcommit to something you really can't afford."

Pre-approval generally lasts for only about 90 days. If you don't find a suitable home in that time, make sure you find out if you can extend it (usually for a fee) or whether you need to go through the process again.

2. Borrowing more than you can afford

"Learn from the mistakes of the GFC and spend within your means," says buyers agent Patrick Bright from EPS Property Search. "Just because your lending institution agrees to lend you a certain amount doesn't mean you should borrow it all."

Sit down and work on a proper budget to determine how much you can afford towards mortgage repayments each month. Build in a buffer for any interest rate rises that might occur – especially in this low-rate environment, as rates will eventually go up again.

"When doing your sums of what you can afford today, also think ahead about what future plans you might have which could impact on the budget," suggests Kingsley.

"The big-ticket items, such as starting a family, large one-off holidays, furnishing a property, car upgrades etc, all need to be taken into consideration – otherwise you might find yourself in trouble. So keep a level head and don't be tempted by something that was always going to be a financial and life handbrake, even if it does have ocean views."

Bright recommends making sure you have life and income insurances in place to protect you and your family should something unforeseen happen to either breadwinner or primary carer.

3. Overlooking relevant inspections

Failing to get the proper inspections done can be an expensive mistake. This includes a building inspection, pest inspection and strata reports for body corporate properties. The costs can vary depending on the size of the property, but expect to pay about $300 to $400 for a building inspection, about $250 for a pest inspection and the same for a strata search.

Trying to cut back on these costs can be a false economy. Many buyers start behind the eight ball by buying a property without having arranged a pre-purchase property inspection, only to find they face many unbudgeted costs after taking possession, says Ian Agnew, general manager of Archicentre.

"Unbudgeted costs for repairs such as restumping, plumbing and wiring can run into tens of thousands of dollars and need to be recovered when the property is sold," he adds. You may still go ahead even if you find problems, but at least you'll be able to budget for any improvements that need to be made and you can also use the information to try to negotiate a lower price.

"Most solicitors I speak with tell me that only about 30% to 40% of their clients obtain all the appropriate inspections," says Bright. "For your peace of mind, just get the inspections done."

Also worth checking is that any renovations or improvements have been done legally and approved by the council. You can generally ask your council whether the vendor has the relevant paperwork.

4. Underestimating costs

The price you pay for the property might be the biggest cost but there are a lot of extra expenses. Probably one of the biggest will be stamp duty, which varies from state to state. For example, according to the stamp duty calculator on www.infochoice.com.au, the stamp duty on a $450,000 property in NSW would be $15,740, while those of you in the Northern Territory would pay $20,057. If you're a first-home buyer there may be concessions in your state.

Other expenses to consider include home loan fees such as application and valuation fees, and mortgage insurance if you borrow more than 80% of the purchase price. Then there are all the relevant inspections mentioned above. You should add in your legal and moving costs.

Don't forget the extra expenses that come with owning your own home , such as rates, insurance and, of course, maintenance. You'll no longer be able to get the landlord to pay to fix the rising damp or repair the roof when it needs it.

5. Thinking a selling agent is there to help you

The real estate agent selling the property may be really nice and very helpful, but that doesn't mean they are your ally. "To put it bluntly, the selling agents are not there to help you get a good deal," says Bright. "They are working for the seller, not the buyer. Selling agents will tell you what they want you to know about the property and they can be very persuasive, especially when they're using negotiation and influencing tactics.

"If you want to really know important details about the property, then you need to ask the right questions and do your own research."

6. Neglecting your research

Before you make any offer on your dream home, you really should do your homework on house prices. "Before you can decide whether

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"As a general rule I would advise you to **inspect at least 100 properties**"

you're getting a good deal or not you need to do some detailed research to work out the market value of the property," says Bright, author of *The Insider's Guide to Buying Real Estate*.

"The process is called comparative market analysis and it's extremely powerful when you're trying to negotiate the best possible price. You need to select a maximum of three suburbs and see as many properties as you can in preferably a six- to 12-week time frame as two to three months is a long time in real estate and prices can move quite substantially, in particular as stock levels in suburbs rise and fall.

"As a general rule I would advise you to inspect at least 100 properties within that time frame and document all relevant features."

Kingsley agrees it's important to do your research, though understanding property values is never easy. "No two properties are exactly the same, making the science of valuing property subjective, instead of objective," he says.

"And let me tell you, having spent almost 20 years studying, analysing and investing in property, understanding value is no easy task for a professional, let alone someone doing it for the first or second time."

Kingsley suggests working to certain guidelines. "Make sure you are comparing like for like. Use a simple rating system – inferior, comparable or superior in terms of quality, condition, age, design and configuration, construction, location – and try to make sure they are within one kilometre of the property you are interested in and the sale data is as recent as possible (within the past six months)," he says.

"This should help you build a better picture of value ranges so you don't get caught out and pay too much."

7. Buying on emotion

As well as not doing your research about property values in the area in which you want to buy, as discussed above, it's important to keep your feelings in check so you don't pay too much.

"The reality is that when you're purchasing a property to live in it's hard not to buy with some level of emotion involved, because there are certainly some lifestyle drivers built into your decision-making process," says Kingsley.

"The greatest trap of buying with full emotion is that you will pay a premium for the property.

"If you know you are an emotional buyer, my tip is to call in an expert to help, such as a buyers agent to handle the negotiations, once you have found the property; or call in a family friend with a solid knowledge of property, the art of negotiation and, of course, someone who doesn't have the same amount of emotional engagement in the property or process as you do."

8. Bypassing professional inspection of the contract

There are DIY conveyancing websites or kits that you can use if you want to save money on legal fees. But there is the risk that you will miss something important and things will go wrong with the sale – and then you won't have any professional indemnity insurance to fall back on. You can choose between a non-solicitor conveyancer or one who is a solicitor.

A solicitor will be more expensive – as a guide expect to pay anywhere from $500 to $1000. Also take a look at page 61 of *Money's* September 2012 issue on the pros and cons of a conveyancer versus a solicitor.

9. Not arranging insurance

Insuring the building will actually be one of the lender's requirements – but the tricky part is knowing when to take out the cover. This really depends on what the contract says.

You might have to insure as soon as you exchange contracts rather than when you actually settle and take possession. Make sure you take a good look at the contract – or you may just want to be safe rather than sorry and take out insurance as soon as you have exchanged contracts.

This does not apply to strata property such as units because insurance will be the responsibility of the body corporate.

Once you move in, you should also insure your contents – you'll probably get a discount for combining building and contents cover with the one insurer.

10. Buying for the short term

You should take a long-term view when buying property, says Kingsley, adding that the absolute minimum should be five years.

You need to take into account the upfront costs, usually amounting to about 5% of the purchase price, your interest payments on the mortgage, maintenance expenses and the selling costs, which could be as high as 3%, when you calculate whether you have at least broken even when you sell.

It is very easy to lose money when buying property if the property doesn't have time to grow in value sufficiently to cover these costs or at least break even, Kingsley explains.

"Therefore, before you jump at the chance of buying a property, make sure you are willing to commit to it for the long term, otherwise you could be out of pocket by making the wrong call," he adds. ***M***