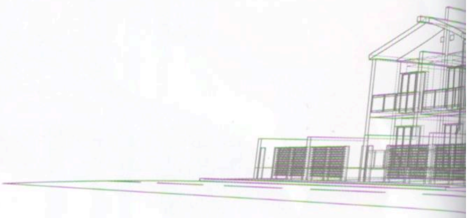
BRIGHT

APARTMENT ESSENTIALS



Buying off the plan can be a great way to save on fees and charges, but there are also some hidden costs and traps you should look out for. Patrick Bright gives the low-down on how to make money from a new apartment.

APARTMENTS have become a more popular style of residential living in recent years. Singles and couples who are working in the central business district areas of capital cities are attracted to the low maintenance lifestyle and proximity to their workplace and socialising outlets. Many of the baby boomers are also choosing to downsize from the family home and move into apartment living closer to the city to enjoy the varied entertainment options such as the opera, theatre and diversity of restaurants. For investors, the news on apartments is also good. There has been a steady trend of increasing demand for this style of accommodation over the past ten years. Statistics show that the perception that houses always obtain better capital growth when compared to apartments is no longer the case. In fact, I believe well-selected, quality apartments will actually continue to perform as well or better than houses. So how do you purchase a quality apartment at a fair price and avoid the traps and hidden costs?

Research the value

As with any property purchase, you need to make sure that you know the value of the property that you want to buy so that you can structure your offer and negotiation strategy accordingly. Do your research in the area where you want to buy so that you know the current value of apartments in that location.

If you're looking to buy a two-bedroom apartment with parking, then you should look at only two-bedroom apartments with parking – not three-bedroom units without parking. Be clear on what you're looking for and start to build up a database of selling prices so that you can begin to see how much apartment you can buy for your money.

I recommend that you research the market over a two-to-three month period inspecting around 10 to12 properties a week before you start to put in offers. Inspecting around 100 properties that meet your wish list over a maximum of three suburbs will give you a solid understanding of current values for what you're looking to buy.

Find out the hidden costs

Unlike houses, apartments have a fixed cost for maintenance called the strata fee where landlords make a quarterly payment to a central fund. The strata fee pays for the upkeep of the building and general areas. The strata fee can vary significantly from apartment block to apartment block and can give new landlords a rude shock if they haven't factored them into their budget.

Quarterly strata fees can go from $400 for a basic two-bedroom apartment and often up to $2000 a quarter or even more for high maintenance apartments. If an apartment has added facilities such as a pool or tennis court then the strata fees are likely to be reasonably expensive. So, make sure you find out the strata fees well before you begin to structure offers on an apartment.

Stamp duty is another financial impost that you need to factor in. It is based on a percentage of the purchase price and the percentage varies from state to state. If you are a first homebuyer, then you may not have to pay this expense or it may be reduced depending on the purchase price

of the property.Other fees to keep in mind regardless of what property type you are buying are council, water rates and insurance.

Do your inspections

When purchasing an apartment it is also necessary to obtain a strata report so that you know what you're buying into. This investigation will examine the adequacy of the book keeping of the owner's corporation, restrictions on use of common property, past or necessary repairs to the building that are evident from the owner's corporation records, how much money is in the general and sinking fund, unusual restrictions in the by-laws and any violation orders against residents.

Inspection costs can begin to add up, especially if you've already put in offers on a number of properties and have paid for strata inspections numerous times. Unfortunately, there's no way around the expense. Don't forgo an inspection and risk buying a property with a major fault or where there's no money in the strata fund.

Make sure it can be rented

Many people purchase apartments as investments. In this case you need to make sure that your apartment, like any rental property, is attractive to an ongoing supply of tenants now and into the future. An apartment that's close to the city and has a variety of public transport options nearby is going to be far more appealing to the rental market than an apartment that's not close to an employment hub with limited transport options.

Work out what type of tenant you want and then determine their needs. For example, if you decide that young, single professionals with a strong income stream and limited expenses are your ideal tenants, then make sure your apartment is close to an employment hub, has an entertainment area with plenty of cafes and bars nearby and has easy access to public transport.

Don't over finance

There can be many hidden or added costs when financing your loan. To start with, if you don't have a 20 per cent deposit then you should be prepared to be hit with 'lender's mortgage insurance'. This fee ranges from 0.5 to 3.5 per cent of the value of the loan. There are some options where you can avoid this expense even if you don't quite have a 20 per cent deposit and it is worth exploring them to avoid this cost.

However, wherever possible I recommend that you do put down a 20 per cent deposit on any property purchase, home or investment, for a number of reasons. Most importantly, it creates a safety buffer for you so that you have some room to move if interest rates rise or you experience some unexpected financial stress such as the loss of a job. A 20 per cent deposit will give you some breathing space to get back on your feet.

I also recommend that you factor in a 2 per cent interest rate rise to ensure that you can afford to make repayments at that level. It's not a bad idea to work off the basis that rates are actually higher for the first 6-12 months and make repayments accordingly. Getting a little ahead of your mortgage repayment schedule gives you an added safety net.

When securing your finance, you need to be aware of all the costs such as one-off or ongoing administrative fees, exit charges if you decide to refinance the loan, lender's solicitor's fees, mortgage stamp duty and mortgage registration.

Be careful when buying off the plan

Buying an apartment off the plan can be fraught with danger. Whilst there are occasions when buying off the plan property can be a good investment, I don't recommend it for the new or inexperienced property buyer. For a start you have to be wary of some of the clauses the developers request in the contacts such as the fixtures and fittings clauses.

These clauses will be drafted in a way that gives the developer control and you the buyer little, if any, say. I have seen clauses where a developer can change the fit out quality and modify a floor plan by up to 5 per cent. Now that may not sound like a lot however when your paying $10,000 a square meter for a 100m2 apartment then a 5 per cent adjustment like this means $50,000 going into the developer's pocket not yours.

In summary, I am a fan of purchasing quality apartments in the right location, particularly as investments. If you put in the necessary time to work out the property's true value, make sure you're aware of the hidden traps and costs, and ensure you've picked a location with an ongoing supply of tenants then your property will work for you as a good investment now and into the future. WCM

Patrick Bright is buyer's agent and author. His third book is entitled The Insider's Guide to Saving Thousands at Auction.