What every home buyer (and seller!) should know

By Chris Cilliers

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Buying a home is not only the largest investment most of us will ever make; we are also purchasing our haven from the world, the place in which we raise our families and create lasting memories, but there are myriad potential pitfalls and the dream can quickly sour if not navigated correctly.

Even if you have done it before, buying and selling property can be a veritable minefield if you don't have a thorough understanding of the process, what is required from each party and the possible variables.

As you would when buying a car, do as much research as you can on every aspect before you embark on the process. Read up about the areas in which you are considering buying, including factors like recent market activity and the crime rate, find out about all the additional related costs and establish what you can afford to buy.

Obtaining pre-approval

The best way to determine affordability to through obtaining pre-approval.

Pre-qualification has many advantages: it also affords prospective homebuyers the peace of mind that their credit record is in good standing and it arms them with the knowledge of how much they can afford to spend and the type of bond deal they can expect from a bank.

Plus, it gets a head-start on the application process which means that the transaction can be more swiftly concluded once buyers have found the home they want.

There are numerous additional costs over and above the price of the property that buyers must factor into their budgets and, as a rule of thumb, you should allow for between 8% and 10% of the purchase price of the property for the additional costs over and above the deposit.

Some are upfront, out-of-pocket costs that are non-refundable even if the deal does not go through, whilst other costs will only hit your pocket once the sale is concluded and it is essential that these are all factored into your budget.

These costs include: Bond registration – conveyancer's fee and deeds office registry fee, property transfer registration, transfer duty and can also include a body corporate or home owner's association fee and home loan initiation fee.

Selecting the right agent

A critical mistake many people make is underestimating the importance of selecting the right agent to sell their homes and the difference it can make to the final sale price achieved and the time their home spends on the market.

You are entrusting someone with the sale of arguably your biggest asset, so the agent must be an expert and professional in every facet of selling property to get the job done right and in a timely fashion. Don't be afraid to ask questions to establish their level of experience and knowledge of the market in your area. The latter, especially, is essential for them to be able to give an accurate property evaluation.

Sellers shouldn't accept appraisals at face value and opt for the highest simply because it is the highest; they must determine how the agent arrived at the recommended selling price and also do their homework by looking online to check the pricing of comparable homes in their area.

Sellers are sometimes reluctant to accept realistic valuations, believing their homes could fetch higher prices. But if a home stays on the market for a considerable time, even up to a year, because it is over-priced, there is also a good chance that it will eventually sell for below market value.

Sole vs open vs joint mandate

Another important decision that sellers must make is about whether to offer one agency a sole mandate or to have an open or joint mandate.

It's understandable that people might think that in a slow market a joint effort will be more fruitful, but usually the opposite is true.

The agent will work in the best interest of the seller and should there be interest from more than one buyer, both the seller and agent will benefit from the highest price being achieved. Under these circumstances there is no need for the agent to put the seller under any pressure and the seller is also not susceptible to double commission claims, as one agency takes responsibility to represent them, and no other agent can claim for commission.

The risk of a double commission claim in an open mandate scenario arises when multiple agencies introduce the same buyer to a property over a period of time. When that buyer submits an offer to purchase, more than one agency can claim that they have introduced the buyer to the property and/or that they were the effective cause of the sale.

Also, while providing the buyer with building plans is not a legal requirement, it is crucial that the seller confirms that the council approved plans mirror the house layout at the time of sale. Structural alterations to a property require council approval and if unauthorised changes were made, the seller could find himself in legal and financial hot water and even lose the sale.

It’s essential to bear in mind that getting plans approved for an illegal structure can take as long as the whole transfer process and that the banks will no longer allow a bond to be registered if any portion of the property does not comply to the council regulations and does not have the council stamp of approval on it.

The period between the sale and the transfer of a home can be a very financially constricted time for sellers, especially in a slower market when the purchase of their new home is dependent on the sale of their current home.

Bridging finance

During this period, sellers often have little accessible capital for expenses such as a deposit on a new home, settling municipal arrears or even living expenses like school fees and credit card payments. Many people aren’t aware that they have the option of bridging finance, which can be the ideal solution as it is a short-term loan created specifically for real estate as the current home serves as collateral to secure the loan amount.

It is a completely separate transaction to the bond application and subject to different criteria, the most important being that the seller’s credit rating is less important than the fact that the seller has equity in their property, with the sale price less transaction costs being greater than the mortgage bond.

The loan is then simply repaid by the conveyancing attorney upon registration and transfer from of the net proceeds due from the sale price, leaving seller free to get on with the business of moving.

I cannot emphasise enough how important it is that both buyers and sellers take the time to ensure that they have covered all their bases and have a clear idea of what is required from them and of the total cost of their purchase or sale. Being prepared will also allow you to save money from the get-go rather and will minimise the possibility of ending up with a mountain of unforeseen debt.

ABOUT THE AUTHOR

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