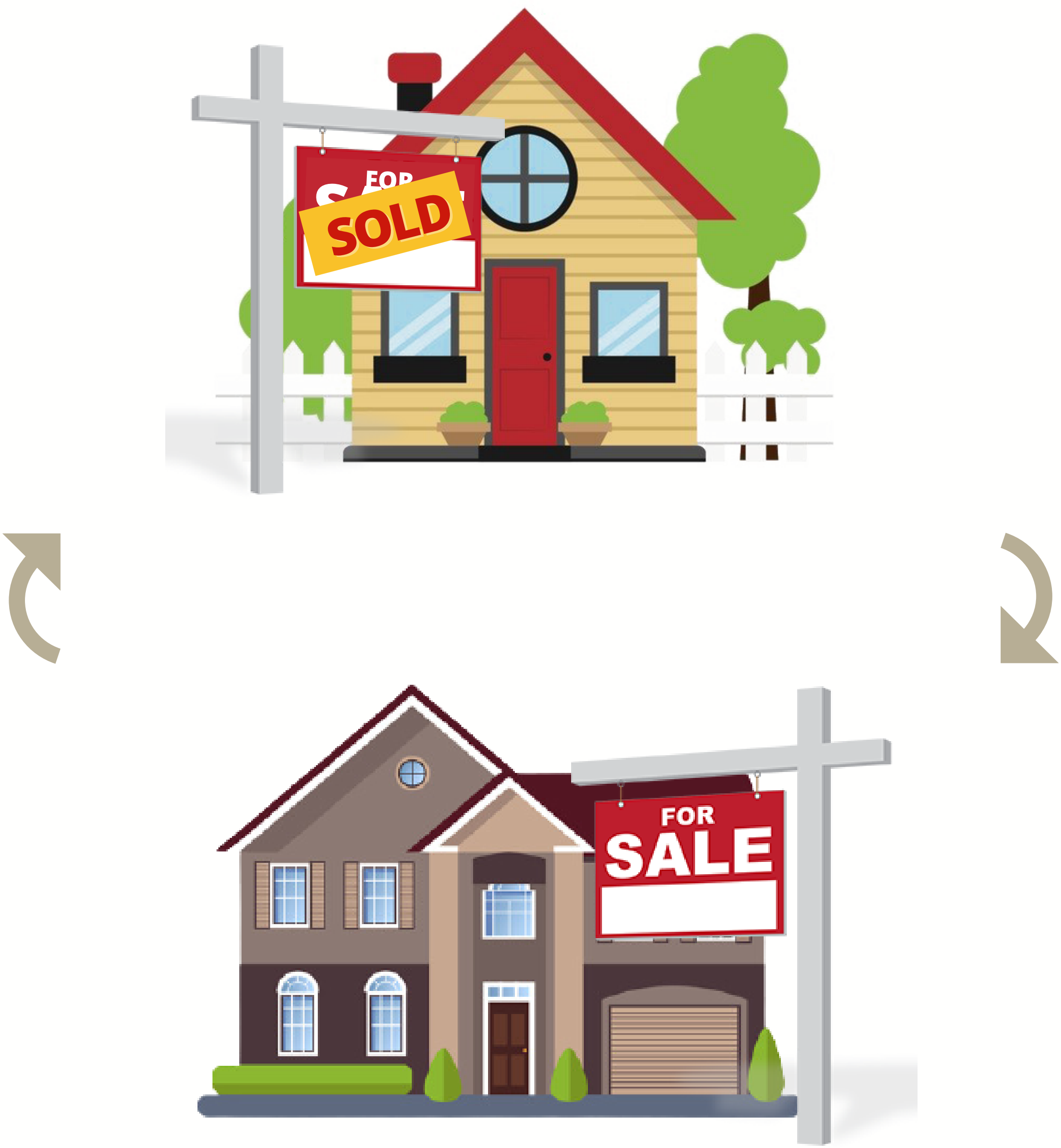
Peasy

Buying and Selling Guide

A Guide On How To Buy And Sell Your Property



Buying and Selling

Buying a home and trying to sell at the same time can be tricky. The question of which should come first always comes up, but also whether there are other options to consider.

As you're wondering how to answer this question, it's handy to get an understanding of how the market is performing and make your decision based on this. For example;

A hot market

(AKA Sellers' Market)

This is when properties are selling quickly and relatively easily as there are more buyers and less properties available. If you're buying and selling in one of these markets, you'd probably want to try and buy first if you can and have some sort of confidence that you should be able to sell relatively easily.

A slow or cold market

(AKA Buyers' Market)

When there are more sellers than buyers, it's usually referred to as a cold market. If you're selling in one of these markets, you'd probably want to sell first before buying, as you can be relatively sure that you can find a property but could potentially have a delayed sale.

Each of these options have an element of risk... What if you sell your property and can't find anything and you need to rent? Or worse still, what if you buy first and you end up having 2 mortgages to service (assuming the bank will allow you to have both!).

There is absolutely no doubt that selling first is the safest option in both cases, although moving twice or being priced out of the market (or both) is something that most people would want to try and avoid if possible.

So let's say you decided you want to buy and sell at the same time. What's next?

Here are some easy steps to get you started:

Get your home ready for sale!

Think of things like repainting, decluttering, styling, updating your kitchen or bathroom (from a full renovation to just minor things like changing draw handles), and even hiring a gurney from Kennards to clean up the exterior!

Chat to a few agents.

This is for your sale and your purchase. You'll want a few agents' opinions on what you might be able to sell for, and also who you want to sell through. Try scouting them out by going to a few open for inspections to see who you like best – you're watching them do what you're potentially hiring them to do! You also want to get an idea of how much you want to spend, so going to some open homes will give you a good gauge on this (check out our No BS Guide to buying property)

Check out the numbers

Now that you know what you might be able to sell and buy for, it's time to do the sums... This involves everyone's favourite subject, Maths (NOT!).

There are two main ways:

Bridging Loan	Sale/Purchase
	

Bridging Loans

What are they and how do they work?

You're pre-approved for a home loan, you've found the property of your dreams and you're ready to make an offer, you're excited! That is, until you realise that without a buyer for the property you're vacating, the funds won't be available for you to push the button - much less excited?

Fear not, there is a solution that might be suitable to your circumstances which will allow you to make your move.
By taking out a bridging loan, you can make a move on your dream property without having the funds immediately available.

Purchase process example:

Existing Home

For Sale
Balance owing on loan: $200,000

New Home

Just Purchased
New home purchase price: $700,000

New Loan

Bridging Loan
Balance of new loan: $900,000

The bank will now provide you with the bridging loan of $900,000 whilst you're waiting to sell your current property, plus any costs you need.

A typical lenders calculation:

Total Loan amount: $200,000 + $700,000 + ($35,000 in estimated costs) = $935.000
Compounding interest over a six month period = $10,832
Total debt: $935,000 + $10,832 = $945,823
Less the sale of your existing home at $500,000
Equals a total estimated debt left over of $445,823

Sales process example:

Bridging Loan	Initial Property	New Loan
	− 	= 
Bridging Loan	**Just Sold**	**Regular Mortgage**
Balance owing on loan: $945,823	Sale of initial property: $500,000	Value of loan:$445,823

The funds from the property sale will be used to pay down the bridging loan, and you will now have a loan of approx. $445,823 that you will make repayments on.

From this point on, the loan moves to a standard mortgage product with regular repayments.

Whilst bridging loans can be extremely useful, there are a few things to consider before you head down this route.

• Bridging loans are interest only loans, which means should there be delays or complications during the sale of your current property, you could end up paying more interest than you anticipated. It's important to have the sale of your current property in full swing before you take out a bridging loan.

• Your borrowing capacity for a bridging loan is based on the likely sale price of your existing property. Whilst the market may be strong, sale prices are never a sure thing. If your property sells for much less than you anticipated it could leave you with not only a larger debt, but a debt that is no longer on hold and is incurring principal and interest repayments, just the same as any other mortgage.

- Due to the nature of a bridging loan, during the bridging period you will accumulate interest at a higher rate than a typical mortgage product. This can have great impact if complications do arise and the bridging period is extended.

- As with any other loan or mortgage, there are additional expenses to consider including stamp duty, application fees and often, additional valuation costs.

Bridging loans can be a great tool. They can be a means of securing your dream property when all else has failed. However, it's extremely important to consider the potential risks at play before moving in this direction. Without achieving sufficient equity in your existing property to repay the bridging loan, you could be stuck paying off two mortgages or higher rates of interest due to unforeseen delays.

Luckily, your Peasy broker is here to support you through every step of the process and explain the pros and cons, specific to your situation.

Here is a space for you to work out your bridging loan and purchase and sale costs.
(Your Peasy Broker can help you with this)

Total Loan amount = $___________ + $___________ + $___________ (Costs) = ___________

Compounding interest over a six month period = $___________

Total debt: $___________ + $___________ = $___________

Less the sale of your existing home at $___________

Equals a total estimated debt left over of $___________

Sale/Purchase

Simultaneous settlement, or sale settling first

In a way, this is a much more straightforward option, and doesn't require any buffers, interest capitalisation or LMI to be paid. It's a simple "This minus that equals deposit for new home". The tricky part to this though is timing... You need the sale to happen first OR at the same time, which isn't always possible. Having said this, you'd be surprised how common this is (much more common than a bridging loan).

Most lenders will be able to help with this structure. It's the "end loan" you're getting approved, so it's a much easier figure to calculate affordability on.

Once you've done your sums, worked out the market and which option you're looking to go for, it's time to get the preapproval process underway. Of course, if this sounds as complicated as it is, feel free to give us a call anytime and we can do the hard yards for you!

We’re people, people. And our people are people, people

Our focus is about opening more doors for our customers through great relationships with lenders and customers alike.

Get in touch >

hello@peasy.com.au

+61 1800 373 279

4/174-180 Pacific Highway
North Sydney 2060