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Property Consulting

The Buyers Advocate

Connecting People and Property

Hello and welcome to Peter Rogozik Property Consulting six monthly newsletter. For the first time in many years we have experienced a downturn in the property market over the previous twelve months. In some instances prices have reduced by as much as ten per cent. For those of us who have been involved in the property industry over the long haul this phenomenon is nothing new. A downturn is a normal part of the cycle. Since the federal election the market has noticeably increased in activity. I believe the cycle has bottomed and we are now once again experiencing moderate price growth.

Why is it that some properties have been relatively unaffected by this current downturn? Properties in quality locations with unique features have defied the current downturn and either held their price or in some cases continued to appreciate. We at Peter Rogozik Property Consulting are experts at identifying these quality properties. We will examine a property from a real estate, building and legal perspective. This thorough examination results in our clients purchasing the best possible property.

In this issue we outline the top dozen performing suburbs in Melbourne in relation to growth in median price over the previous 10 years. Some of the percentage increases have been quite astounding. Property development has become a favorite pastime of many Australians over the last few years. And why not? The opportunity of being creative and making a healthy profit are two good reasons. We outline some of the important steps that are required when undertaking a development. The process is fraught with traps and pitfalls, unfortunately most people are not successful when attempting such a demanding project.

During these less buoyant times we are all looking at ways of saving money. One area I believe that most people can make huge savings is in relation to their mortgage. We outline five simple strategies of saving substantial amounts off your home loan repayments. As usual, in this edition we include our regular articles, Legal Chat by Andrew Padanyi, Market Snap Shot and our investment tip. Andrew's article examines changes made by the State Revenue Office in relation to purchasers owning a property in differing proportions. "Investment Tip" looks at some of the important issues that need to be examined before purchasing an investment property.

Please feel free to contact us if you have any questions in relation to real estate or building matters. Also, if there is a specific topic you would like covered in our next newsletter, we would like to hear from you.

Regards,

Peter

Save Dollars Off Your Mortgage

Here are some basic tips to help you save money and cut years off your home loan.

1. Make fortnightly repayments that equal half your monthly commitment. This simple technique means you effectively make two additional payments per year, reducing the amount against which you pay interest. For example, paying half of your monthly installment each fortnight on a $200,000 loan over 30 years will save around $58,000 in interest and reduce the term to 24 years.

2. Pay more than the minimum repayment, even small amounts can make inroads into the term and balance of your loan. For example, if you pay an additional $10 per week on a $200,000, 30-year loan you can save $28,000 in interest and pay your loan off two years and nine months faster.

3. Have your salary paid directly into your loan account. From the time you credit your mortgage account with your salary, you'll be saving interest and reducing the time it takes to pay off your loan. Because interest is calculated daily this can shave years off the loan term and save thousands of dollars.

4. Make lump sum payments. Tax returns, gifts, an inheritance, lotto wins, dividends, bonuses, you name it, putting any extra money into your mortgage rather than leaving it in your bank account will further reduce the interest charged on your home loan.

5. Investigate the merits of consolidating your debts into your home loan. Consider putting all small debts like credit cards, personal loans, store cards and loans from friends and family under your mortgage. You'll save on interest and if you maintain your payments, you'll reduce your overall debt and have more available cash to pay off your home loan.

These five strategies will help you make your disposable income work smart rather than hard for you. Not only will they help you be prepared for any interest rate rise, but you will save money and time over the term of your loan.

Market Snapshot

As predicted in previous issues the Melbourne property market has experienced a correction of between 0 and 10 per cent over the past twelve months. The beginning of the slowdown can be traced back to the second week in November of 2003 where there was a noticeable reduction in activity levels. We believe that this correction has now stabilized. There has been a noticeable increase in activity since the recent federal election in October of last year. Towards the end of 2003 the market was in danger of becoming overheated and hence this downturn avoided another boom\ bust cycle.

"The December quarter Melbourne median house price rebounded 5.2% to $382,500, up from a revised figure of $363,000 in the September quarter. This represents a fall in the median price of 1.3% over the past 12 months. The result can primarily be explained by a surge in market confidence following the federal election result, subsiding fears about imminent interest rate rises and a large jump in first home buyer activity. With clearance rates at around 60 per cent and evidence of renewed confidence by sellers as listings start to pick up, the market is showing a return to normal levels of activity."*

As for the future we believe there will be moderate growth over the next twelve months. We believe the Melbourne property market will experience capital growth of between 0 and 10 per cent depending on the quality of the individual property. At the moment the fundamentals of the economy are sound, employment is strong, interest rates and inflation are relatively low and consumer confidence is high. This should ensure quality properties enjoy reasonable capital gains over the short to medium term.

*Source; REIV

Top Performing Suburbs: Melbourne

	Suburb	Median 2004	Median 1994	% growth in median house price
1.	Warrandyte	$456,250	$91,500	399%
2.	Shoreham	$580,000	$123,500	370%
3.	Sorrento	$565,000	$130,000	335%
4.	Seddon	$326,500	$76,500	327%
5.	Templestowe	$546,000	$131,500	315%
6.	Park Orchards	$545,000	$139,000	292%
7.	Heidelberg West	$260,000	$72,000	261%
8.	Windsor	$572,500	$161,000	256%
9.	Portsea	$905,000	$255,000	255%
10.	Blairgowrie	$360,000	$102,500	251%
11.	Hughesdale	$420,000	$120,000	250%
12.	Yarraville	$355,000	$104,000	241%

"The complete service for you, the buyer"

Source: RP Data

Investment Tip

When purchasing a property as an investment it is crucial that the property is investigated analyzed and examined from every angle. Before signing on the dotted line real estate, building and legal issues need to be closely investigated. The difference between the best possible purchase and a mediocre choice equates to a substantial difference in capital gain over the medium to long term.

To achieve maximum capital growth over the medium to long term real estate issues need to be analyzed. What is the true market value of the property based on recent and comparable sales? Does the streetscape consist of high quality housing stock? Is the property located close to important amenities i.e. Shops, transport, schools? Does the property contain unique and scarce features? Does the property possess improvement potential? These are just some of the questions that need to be answered.

The property also needs to be examined from a building perspective. Hidden and undiscovered building faults can be very costly not to mention a nasty surprise after settlement. What condition is the sub floor in? Are the roofing members stable? Is rain water draining appropriately?

Building faults that are not repaired can result in premature deterioration of the property.

Finally, the documentation, namely the contract and vendors statement needs to be examined by a qualified person. Does the title contain any restrictions? What is the zoning of the property? Are their any notices or proposals affecting the property? These are just some of the questions that need to be answered in relation to the sale documentation. Failure to address these issues could result in the buyer not being able to use the property for his intended purpose.

So, you want to be a property developer?

After completing a number of small building projects and representing myself successfully at VCAT several times, I believe I am in a position to offer good advice to anyone contemplating property development. A lot of satisfaction and enjoyment can be derived from building a quality home. Also, if you are able to avoid the many pitfalls it can be financially rewarding. The great thing about property development is that, with careful planning and assistance from the right professionals, nearly anyone can do it. In fact most of the small-scale developments you see around Melbourne are completed by people who are undertaking the project on a part time basis. They do not have any formal qualifications in building or real estate.

There are four main steps when undertaking a project. It only takes one of these steps to go wrong to jeopardise the whole project:

1. Site selection: this is obviously very important because if the wrong choice is made the project will be doomed from the beginning. Factors such as location, price and development potential are all-important considerations. It is critical that the developer is aware of all the costings of the project from the beginning.

2. Urban Planning: once the site has been selected an architect or building designer must be appointed. Liasing with councils is the next step. This can be the most frustrating and time-consuming, although a planning consultant can be employed to oversee the approval process.

Here are some basic guidelines that should be followed:

- Walk around the site and neighbourhood and get an intimate feel for the area.
- Develop a neighbourhood and site description on paper;
- Obtain copies of all relevant planning scheme controls and policies from council;
- Develop a general concept based on the planning policies and the site and neighbourhood analysis;
- Discuss the project with council planners using the general concept plans, developing an understanding of the local context including urban design, architecture, heritage issues and sustainability;
- Consult neighbours to find out their sensitivities and specific needs;
- Draft a detailed design that meets the planning scheme controls and responds to neighbours' sensitivities and council expectations;
- Discuss the new design with council planners and make amendments as necessary;
- Lodge the application with the final design;
- Allow flexibility for more changes.

3. Choosing a Builder: After you have gained the necessary permits, the next step is to find a competent builder. Again, appointing a good builder is absolutely critical. High quality builders are in the minority. How to choose a competent builder was covered in the June 2003 newsletter.

4. Marketing: Finding the right real estate agent so as to achieve the maximum price is not always easy. Your development must receive the best possible exposure and be marketed to the right buyers.

The above information is only a basic outline of the steps required when attempting a small development. There are many other tasks that need to be successfully completed. Attempting a building project requires a lot of time and expertise on behalf of the developer. I believe it is important to seek as much expert advice as possible at each stage of the project.

Legal Chat

By Andrew Padanyi B.A., LL.B.

Purchasers of real estate in Victoria should be aware of a recent change in the way that the State Revenue Office (SRO) treats fractional interests in property. This could have expensive consequences in terms of the stamp duty payable by the purchasers. Consider this scenario: Jack and Jill, a brother and sister, sign a contract to purchase a property together for $200,000. The contract simply names Jack and Jill as the purchasers, and their addresses. However, the transfer form shows Jack and Jill owning different proportions, Jack having 80% and Jill 20%. In this situation, the SRO considers that two separate transactions have occurred (ie. from the vendor to Jack and Jill as co-owners in equal shares, and then from Jill to Jack as to part of her interest). The unpalatable result is that two separate lots of stamp duty could be levied on Jack and Jill.

If the joint purchasers are married or domestic partners, the SRO advises that any subsidiary arrangements between them regarding different proportions will be exempt from duty. Accordingly, married couples and domestic partners are not affected as long as they provide the appropriate declaration proving their status. Otherwise, if the purchasers have made arrangements about the ownership split, or they have provided the purchase money in unequal amounts, the SRO will require evidence of the pre-existing arrangement, or of the source of the purchase money, if extra duty is to be avoided. It will be the purchasers' responsibility to provide the required evidence at the time the transfer is submitted to the SRO for stamping.

In summary, the SRO presumes that where two or more people sign a contract as purchasers, they will be co-owners in equal shares for stamp duty purposes. Therefore, if you are considering buying property with another person (not being your spouse or domestic partner) or in partnership with others, and you intend to own the property in different proportions, make sure that the amounts of your respective proportions are clearly set out in the contract. If this is not done, the SRO may ask you to provide evidence of the arrangement between the parties, evidence of the source of funds, a copy of the partnership agreement etc. Failure to do so could hurt you in the hip pocket.

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