

Hello and Welcome to Peter Rogozik Property Consulting six monthly newsletter. Over the previous six months our firm has continued to expand and improve its systems. Because of our diverse and complete range of services we have now become the preferred buyers advocate for interstate and overseas buyers of Victorian real estate. The convenience of one firm attending to all stages of the buying process is the point of difference that has set us apart from our competitors. I would like to take this opportunity to thank our talented and dedicated team. Their diversity of skills allows us to assess the real estate, building and legal issues associated with every proposed purchase of property. Our clients can be certain that all aspects of their purchase will be investigated and reported before they commit to buying.

In this issue we pay particular attention to residential apartments and units as an investment vehicle. For the very first time we don't nominate a particular suburb as our investment tip; instead we talk about the advantages of investing in a one-bedroom apartment. A checklist is provided, outlining important questions all investors should ask before investing in an apartment. A graph is provided detailing price movements in the apartment market since 1985. Our in-house lawyer Andrew Padanyi examines some important points to be aware of in relation to the contract documentation when purchasing an apartment.

Since our last issue there have been some significant changes to legislation relating to the way real estate is bought and sold in the state of Victoria. Included in the changes was legislation designed to outlaw underquoting, overquoting and dummy bidding. We provide a brief outline of some of the more important changes that have been implemented. The state budget delivered in May of this year has resulted in changes to the costs involved in buying property. We provide an outline of these changes and how they will impact on costs associated with buying and owning property.

At this moment the Melbourne property market is at a flat point of the cycle. I believe the next six months will present excellent buying opportunities. Market Snapshot gives our view of where the market is at the moment and where we believe it is going over the next twelve months.

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,



Buying an Apartment?

Here are some important questions to ask before buying an apartment or unit:

- How many units comprise the development? Smaller boutique developments are generally more favourable
- Are they free standing or do they share walls? How thick are the walls?
- Check the layout of the adjoining units. You do not want to have your bedroom below the neighbours living area.
- Are they owner-occupied or rented?
- What is the age group/mix of the tenants? Will there be a clash of interests (for example, retired people who will object to teenagers playing loud music)?
- What are the rules of the body corporate (for example, no pets, car parking restrictions, use of public spaces)?
- What are your rights and obligations as a member of the body corporate? (This includes fees, attendance at meetings, voting, cost of maintenance, and the like)
- How much do the body corporate fees and levies, water and council rates add to the annual cost of the property?
- Are there any legal/insurance claims pending against the property or outstanding levies due?
- Is there a clear procedure to follow regarding maintenance problems?
- Have any building works been undertaken on the unit and completed within the last six years and six months? If so, is there a warranty insurance policy or guarantee in place?
- Is there a person responsible for maintenance that is paid by the body corporate? How often is maintenance carried out?
- Does the body corporate have enough funds in its working accounts to maintain the building?
- Is there a complaints' mechanism for disputes between owners or tenants?
- Is parking available?

Market Snapshot

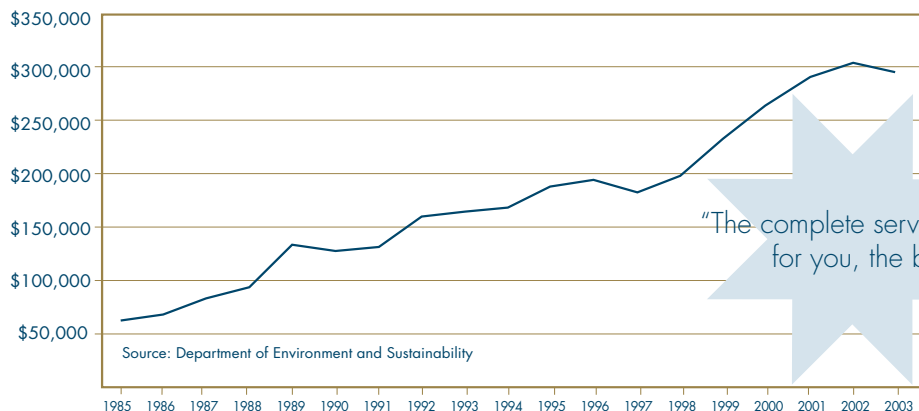
Over the previous few months the Melbourne property market has continued to soften. As usual, good quality properties continue to hold their price despite this downturn. Excellent buying opportunities are appearing as vendors are readjusting their price expectations.

The Melbourne median house price fell 0.8 per cent, down from \$371,000 to \$368,000 for the March quarter 2004. This latest result takes the annual increase to 6.1 per cent, the lowest annual growth since March 1996. However, Melbourne's median house price has increased by an average of 2 per cent for the previous 11 quarters. The Melbourne apartment market recorded a fall of 2.1 per cent for the March quarter, down from \$289,000 to \$283,000 taking the annual increase to just 0.9 per cent. The inner-city apartment market has been largely affected by a significant number of new apartments coming on to the market during the last six months. *

What we have seen over the previous six months is typical of the property market cycle. Downturns will always be part of the cycle, fortunately they are only temporary. I believe the Melbourne property market will stabilise over the next twelve months with capital growth of between zero and ten 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. This should ensure quality properties enjoy reasonable capital gains over the short to medium term. The quality of the property that is purchased is more important than at what stage of the cycle it is purchased. Overall we are predicting modest growth over the next two years but be assured, after this period prices will again increase sharply.

* Source: Real Estate Institute of Victoria

Median Price Apartments (Melbourne)



Investment Tip

In this edition, instead of nominating a suburb as our investment tip we have chosen to recommend a type of investment. We believe that a quality one-bedroom apartment offers the investor many advantages over other types of investments, especially for the first time investor.

Some of these advantages are as follows;

- According to census reports single person households are increasing and are tipped to increase quickly in the future.
- Many property managers report that one-bedroom apartments are leased quicker than other types of property.
- One-bedroom apartments are generally less expensive than other forms of property and therefore are an excellent starting point for first time investors.
- One-bedroom apartments are easier to maintain and therefore repair and maintenance costs are minimal.
- Outgoings such as rates and body corporate fees are generally lower for a one-bedroom apartment.

Not all one-bedroom apartments turn out to be great investments. The critical factor is that a quality apartment is purchased. The criteria used for other types of real estate purchases such as location, scarcity factor, buying price, condition of the block and body corporate rules also apply when assessing a one-bedroom apartment

New Legislation

Changes to the Estate Agents Act 1980 and the Sale of Land Act 1962 which came into effect on Sunday 1st February 2004 have had a major impact on how properties are marketed for private sale and auctioned in Victoria. The changes were designed to outlaw underquoting, overquoting and dummy bidding. This is a brief summary of some of the more important changes:

- The auctioneer is the only person who can bid on behalf of the vendor. Before the auctioneer can bid, the auction rules have to allow it. One version of the rules allows vendor bids, the other does not. A buyer must always check the contract of sale to find out which version of the auction rules will apply to the auction.
- Before a vendor signs an authority with an agent, the vendor must be given an estimate of the selling price, prepared by the agent. This applies whether the property is to be

auctioned or offered for private sale. The estimate can be a single amount or a price range. The estimate must be an amount the agent believes that a willing but not over-anxious buyer would pay for the property. Where a price range is used it must reflect the range within which the amount such a buyer would pay is likely to fall. Estimates have a statutory range of ten per cent. That is, the upper end of the range cannot be more than ten per cent of the amount of the lower end of the range. If asked by a prospective buyer what the property is worth the agent cannot quote a figure that is less than the estimate, or the lower limit of the estimate range, if a range is used.

- If a property is passed in at auction on a vendor bid, that bid must be referred to as a bid made on behalf of the vendor. This rule applies to any future marketing or selling campaign. This requirement also applies to conversations with prospective buyers, any advertising, and the publication of auction results.
- The monetary cap on cooling-off (\$250,000) has been abolished. However, the other exceptions to the right to cool-off will remain.

The state budget delivered in May of this year has resulted in changes to the costs involved in buying property. These changes have been mainly in the area of stamp duty and land tax.

- First home buyers to receive a \$5000 cash grant in addition to the Commonwealth grant of \$7000, for properties up to \$500,000 purchased from 1 May 2004 until 30 June 2005.
- Abolition of mortgage duty on home loans from 1 July 2004, a saving of approximately \$1,000 on the average loan of \$200,000.
- Pensioners and concession card holders wanting to relocate will be exempt from stamp duty for purchases up to \$250,000, with a partial exemption to \$350,000.
- Increase in the tax-free threshold from \$150,000 to \$175,000 in relation to land tax.
- Reduction in the top land tax rate – reducing the current rate from 5 percent to 3.5 percent by 2006/7 and 3 percent by 2008/09.
- An upward adjustment over two years to the land tax brackets between \$675,000 and \$1,080,000.

These changes mean the costs of buying and holding property in Victoria are lower than previously, which is good news for all property buyers and owners.

Legal Chat

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

Buying an apartment in a multi-storey building presents particular issues for both owner-occupiers and investors. Apartment blocks usually have a body corporate, which is a legal entity to which each owner in the development belongs. If there is common property, there must be a body corporate. The body corporate's main role is to maintain the common property.

Common property is owned by members of the body corporate in proportion to their lot entitlements. Look at the title plan to check lot entitlement and lot liability. Lot liability determines the proportion of maintenance and body corporate administration expenses that each owner is obliged to pay.

Before buying an apartment, check that the body corporate has taken out reinstatement insurance to cover repairs to or replacement of the building, and also public liability insurance of at least \$10 million.

The behaviour of body corporate members is governed by rules. There are standard rules that control noise, parking, pets and other matters. However, bodies corporate are able to create special rules that vary or add to the standard rules. For example, pets might be banned altogether. It is advisable to make inquiries regarding the particular rules that apply to an apartment before committing yourself.

If you are considering buying an apartment, find out whether the boundary of the property is the interior or exterior of the walls, or somewhere else. This is very important: issues may arise as to who is responsible for repairs outside walls, or whether the owner has a right to attach signs to exterior walls without having to get permission from the body corporate first. Only the title documents will tell you where the boundaries are.

Apart from the legalities, apartment living involves being in close proximity to other people. This presents various issues. Before signing on the dotted line, you should investigate the level of noise from neighbouring units and the street. Poor design and materials could mean that slamming doors and flushing toilets are very audible. Also, some inner-city developments are in entertainment precincts. Bars and pubs can generate late-night noise for local residents. This is a consideration for investors too: you don't want a constant turnover of tenants put off by excessive noise.

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