

GLOSSARY OF TERMS FOR BUYING PROPERTY

Making sense of real estate jargon



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Are you looking to buy property but are getting confused by some of the industry jargon? Well you're not alone! Here are some of the most common terms that leave buyers scratching their heads.

Auction Campaign

An auction campaign is the marketing/advertising strategy a vendor uses to sell their property. Unlike a private treaty sale, auction campaigns run for a set period of time (3 to 4 weeks), typically with bi-weekly open homes. Auctions are set out to create urgency in a highly competitive environment. The disadvantage for buyers is that they can get swept up in emotion and overspend. The advantage for buyers is that the method of purchase is transparent as they can eyeball other interested parties on the day.

Bank Valuation

Bank valuations are used to determine the Loan To Value Ratio (LVR) in a home loan application which will impact the amount that a bank is willing to lend.

The valuation takes into account a number of factors, including the condition of the property and comparable prices in the suburb. The bank uses the valuation to determine the risk it takes in lending you money. If the bank valuation is much lower than the purchase price, you may have to borrow more for your home loan. You may then need to find extra funds or take out Lender's Mortgage Insurance (LMI)

Buyers Market

In a buyer's market, real estate is more affordable because supply exceeds demand. This means there are more homes on the market than there are buyers - putting downward pressure on prices.

BOS Letter

A Building Over Sewer letter (BOS letter) tells you if Sydney Water approved a building close to, or over, their wastewater pipes. You can use the letter to determine if a building on a property has been built with their approval. Sydney Water must approve all buildings and structures that need approval from council or a private certifier. The BOS letter can be found in the Contract of Sale.

Capital Gains Tax

If you sell an asset, such as real estate or shares, you usually make a capital gain or a capital loss. This is the difference between what it costs you to acquire the asset and what you receive when you dispose of it. You need to report capital gains and losses in your income tax return and pay tax on your capital gains. Although it's referred to as capital gains tax (CGT), this is actually part of your income tax, not a separate tax.

Capital Growth

Capital growth is the increase in the value of an asset or investment over time. Capital growth is measured by the difference between the current value of an asset or investment and its purchase price, or the value of the asset or investment at the time it was acquired.

Conditional Offer

Conditional offers are those that include conditions for the sale of the property to go ahead. This could include the sale being subject to finance or to a satisfactory building and pest inspection. The seller can negotiate the conditions with the buyer. If these conditions are not met in a specified time period (the cooling off period), the contract is invalid.

Buyers should be aware that if their conditions are met then they cannot back out without paying a penalty.

Cooling off period

A cooling off period is a specified period of time after a conditional offer has been made and contracts have exchanged, during which the purchaser can carry out their due diligence. If you purchase a property at auction, a cooling-off period does not apply.

Company Titled

Company title is a form of ownership that pre-dates strata title, which was introduced in the 1960's. Company title entails that a company owns the building of units and land it occupies. It differs from strata title in that an owner deals in shares, as opposed to title. These shares are associated with a particular apartment in the building, giving you the right to occupy it, but are not in themselves a property title. Be aware that most high street lenders will have restrictions around buying a company titled property.

Dutch Auctions

Also described as the Auction before the Auction - A Dutch auction is where agents personally negotiate the sale but continually disclose competing offers to each of the interested parties until there is only one buyer left to purchase the property.

Equity

Equity is the difference between the current value of your property and the amount you still owe on your home loan. For example, if your home is worth \$400,000 and you still owe \$220,000, your equity is \$180,000.

Expressions of interest

Sale by expression of interest (EOI) sees vendors invite buyers to submit an offer in writing to purchase their property, by a specified time and date. Each potential purchaser puts forward their best and final offer in writing. If the vendor is happy with an EOI submitted they accept that offer. If a vendor isn't satisfied with any of the EOIs they may ask for further EOIs or sell via auction or private treaty. EOIs are common for high end properties as the sale price is kept private. It is sometimes also used as a sales method by agents if the vendor has unrealistic expectations about their sale price, as the EOI provides feedback to the vendor as to what the current market is willing to pay.

Fixtures & Fittings

Fixtures differ from fittings in that fixtures are 'affixed' to the land and passed to the buyer upon purchase, while fittings are chattels (personal property) that do not pass in ownership with the property. So, fixtures are 'automatic inclusions' and must be specifically excluded in any agreement, while fittings are automatically excluded and must be specifically included in any agreement and contract of sale.

Floor Space Ratio

The floor space ratio (FSR) is the ratio between the size of the block of land and the square metres of liveable area in the house. This generally excludes the garage, alfresco and front porch/verandah.

Gazumping

Gazumping is where the vendor has agreed to sell a property to one party, but then turns around and sells it to another party. This generally occurs when the vendor receives a better offer than the one on the table. This can occur even if a 'holding deposit' has been paid. The only way to avoid getting gazumped is to exchange contracts as soon as possible, after an offer has been made.

Holding Deposit

People generally think that a holding deposit gives them an exclusive right to that home. In fact, it's a very fake term when the agent can take 10 different holding deposits and then sell it to someone else. People think a holding deposit secures them the property, but it doesn't. A holding deposit is refundable if your offer is not accepted.

Inclusions

Exclusions and Inclusions are the technical terms for those fittings and fixtures that will or will not be sold with the property. The status of fixtures and fittings in a property that is for sale are determined through negotiation between buyer and seller before the contracts are exchanged. Please note that whilst items may be marked as inclusions, they are not guaranteed to be in working order, so the buyer needs to ensure this is the case.

Tenancy in Common (or Tenants in Common)

This is an arrangement whereby two or more people co-own the same property, but with no right of survivorship to the other. The portion held under a tenancy in common is "willable" by you to a beneficiary under your will or certain persons where you have not made a will. It is not an automatic right of survivorship to the other "shareholder". It is a common way for family members or friends to purchase a property together.

Joint Tenants

This is where the ownership of the same property by two or more people is held jointly and equally – you cannot hold this tenancy in any other capacity other than equally. A joint tenancy carries with it an automatic right of survivorship by law should one tenant die. This is commonly held between spouses.

Lenders Mortgage Insurance

Lenders Mortgage Insurance (LMI) is a one-off, non-refundable, non-transferrable premium that's added to your home loan. It's calculated based on the size of your deposit and how much you borrow. The more you contribute to the purchase price of your property, the lower the LMI cost will be. LMI protects the bank, not you, against any loss they may incur if you are unable to repay your loan. Typically LMI only comes into play if your deposit is less than 20%.

Loan to Value Ratio

The Loan-to-Value Ratio (LVR) is the amount you're borrowing, represented as a percentage of the value of the property you're buying. The bigger your deposit, the lower the LVR will be. If your LVR is lower than 80%, LMI may be required by your lender.

Passed In

When a property for sale at auction doesn't reach the reserve price, the property will be passed in. It is customary to negotiate with the highest bidder, however this is only a courtesy. Any exchange of contracts on auction day will still be under auction conditions i.e unconditional.

Private Sale

A private sale is when an owner sells a property without using an estate agent. For example they sell their home to a family member or the next door neighbour. A contract of sale is still required to be executed.

Private Treaty

A private treaty is when an owner sells a property by engaging an estate agent. The owner sets a price that they'd like to sell for and the agent negotiates directly with prospective buyer/s to achieve a sale as close to the vendor nominated price as possible. A private treaty sale, unlike an auction campaign, does not have a set period of time. Once a price is agreed, the buyer lodges a deposit and, in most cases, the process will enter a cooling-off period. You can still back out at this stage, but may have to forfeit some of your deposit, depending on which state the purchase is being made in.

Pre-Approval

A loan pre-approval means that a lender has agreed, in principle, to lend you an amount of money towards the purchase of your home but hasn't proceeded to a full or final approval. It allows you to know your maximum available funds so you can narrow your search, negotiate with more certainty, and bid with more confidence if you're going to auction. A pre-approval is a valuable step in getting you closer to your new family home or investment property. It's not a requirement in the home buying process, but much like shopping without your wallet, we don't recommend looking at properties before you have this sorted out.

Reserve Price

The reserve price is the minimum price at which the vendors are prepared to sell their property at auction.

The reserve price is a figure discussed in confidence between the auctioneer and the seller and is usually not made public. From time to time an auctioneer may declare a property to be 'on the market' once the reserve price has been hit.

Silent Auction

When agents are ready to close out a real estate transaction, all the interested buyers submit their best, highest and final offer in a sealed envelope for the seller's consideration, usually by a prior set time and date. Buyers get only one chance.

Snap Auction

A typical auction campaign will run over three or four weeks with multiple open homes and an auction date set when the property hits the market. Snap auctions are when the agent brings the auction forward at short notice, often holding it just days – or even hours - after the first open home. It's a reaction to the overwhelming demand that vendors are experiencing and a way for agents to strike while the iron is hot.

Sellers Market

A sellers market is the opposite of a buyer's market in that demand exceeds supply, meaning vendors can usually sell their properties quickly and at a favourable price. In a seller's market, time on market tends to be low, while median home and unit prices are high. Under these conditions, vendors are less likely to budge on price simply because they have more negotiating power. In a sellers market, auctions tend to become the preferred method of sale for many vendors, due to their competitive nature.

Strata Titled

Strata title is a form of ownership devised for multi-level apartment blocks and horizontal subdivisions with shared or common areas. Strata Title allows individual ownership of part of a property called a 'lot' generally an apartment or townhouse, combined with shared ownership in the remainder called 'Common Property' through a legal entity called (depending on your state or territory or residence and the type of scheme) 'the owners corporation', 'strata company' or 'community association'. Owners typically pay a Strata Levy on a quarterly basis for overall maintenance and running of the complex.

Torrens Title

A Torrens Title property is one in which the purchaser owns both the house and the land on which it is built. This is the most traditional form of ownership and means that you become the sole owner of the property (aside from the bank or financial institution providing the mortgage!) and you are responsible for the property's upkeep - both inside the property and outside on the block of land.

Unconditional offer

When buying a home at an auction, the contract of sale will be an 'unconditional offer'. This means they are made without any conditions attached and represent an outright offer to purchase the property. Unconditional offers can also be made outside of auctions by adding a 66W certificate to the contract of sale. Outside of auctions, buyers will usually include a time period for how long the unconditional offer is valid for. It is essential that all due diligence is carried out PRIOR to making an unconditional offer as a change of mind means losing your 10% deposit.

Gross Yield and Net Yield

The gross yield of an investment is its profit before taxes and expenses are deducted. Gross yield is expressed in percentage terms. It is calculated as the annual return on an investment prior to taxes and expenses, divided by the current price of the investment. Net yield is everything after expenses. It takes into account all the fees and expenses associated with owning a property. As such, it is a far more accurate way of calculating actual yield. It is also much harder to calculate as most costs are variable.

Zoning

Zoning is one of the ways the government regulates the use of land and buildings and controls growth patterns. Every piece of land in Australia is subject to zoning regulations that are different in each state, which outline what is legally permitted on each block of land. When buying property or land it is important to know its zoning and understand what that means, in regards to what you can or can't do to the property.