

The one-off costs of buying property

Stamp duty

Your local Stamp Duties office can provide you with information on how much stamp duty you have to pay, how it is calculated and if you are entitled to a discount or to deferment. The cost depends upon the price of the property you are buying.

http://www.osr.nsw.gov.au/lib/doc/factsheets/ofs_dut01.pdf

<http://www.apps05.osr.nsw.gov.au/erevenue/calculators/landsalesimple.php>

Lenders' Mortgage Insurance

This cost generally applies if you borrow more than 80% of the property's price you are purchasing. It covers the lender if there is a shortfall after the lender exercises its right to sell the mortgaged property due to a borrower not complying with the loan agreement and mortgage. It does not protect you from having to pay what you owe on a mortgage. It does not pay out the loan in the event of the borrower's death or injury, nor cover loan repayments in the case of illness or unemployment. Remember, if you can contribute to more than 20% to the purchase price of the property, Lenders' Mortgage Insurance may not be required.

Legal costs

Many of the costs associated with buying a property are non-negotiable. Your main legal cost will be for conveyancing, which is the transfer of property from one person to another.

You should not exchange contracts to purchase a property until you have had all the necessary searches and inspections done, either during the "cooling off" period or prior should you elect to waive your right to the "cooling off" period. Seek advice from your buyer's agent, solicitor or conveyancer as to what searches and inspections need to be carried out, including:

Building inspection

Depends on the required details. The written report should detail any flaws, including problems with damp and the structure of the building and roof.

Pest report

Although this seems like an unnecessary cost now, it is a small price to pay when compared with the price of possible building repairs at a later date. This report should detail any evidence of pest infestation in the property and if required, recommended treatment.

Strata report

Applies when you buy a strata title property. Amongst many details in the report, you will be able to determine the financial position of the owners corporation, any long term costs from copies of pending trade quotations.

Surveys

This may be requested by your legal representative to check the position of the property and its boundaries, and confirm that it is built on the correct block. It will also confirm whether or not it has been built in accordance with local council requirements.

Title searches

This search is undertaken by your legal representative. It provides details of who owns the property and who else has an interest in the property, as well as noting restrictions and conditions which may need to be checked out.

Depreciation schedule

Applicable to an investment property. Your accountant will explain its benefits and tax consequences.

Buyer's Agent

In addition to the achievable savings in the purchase price and the on-flow savings to stamp duty and others, this cost could be tax deductible in the case of an investment property. Best you consult your accountant.

In general terms and as a guideline only, the total acquisition cost (excluding stamp duty and interest on the loan) to buy a property ranges from 2% to 5% of the purchase price.

The on-going costs of owning property

Rates & charges

From the settlement date, you are responsible for all applicable council & water rates, levies & insurance. There might be variances if it is an investment property. Different states operate varying regulations. It is worth noting that generally, the tenant of your investment property would be paying the water "usage" cost. Check your state's regulations.

Building insurance

It's important to remember that at the latest, you must have the building insured at the time of settlement. However, it's best to insure the property as soon as you exchange contracts. This insurance cover will not be required if it is a strata property. Refer to "body corporate fees" below.

For an investment property, it is strongly advisable to obtain an annual landlord insurance cover. The benefits of this cover are substantial which will be explained by your broker.

Body corporate fees

Applies when you buy a strata title property. You need to make allowances for a range of additional costs involved with the maintenance and insurance of the property. These include body corporate fees, contribution to sinking funds and building insurance.

Maintenance

These vary according to your decisions.

Management fees

For an investment property, you may select to manage the rental property yourself or appoint a qualified property manager. In case of the latter, this cost generally ranges from 6% to 9% of the rental income.

Land Tax

Applicable to investment properties. For more information, refer to:

http://www.osr.nsw.gov.au/lib/doc/factsheets/ofs_lt01_curr.pdf