

# THINKING OF UPGRADING YOUR PROPERTY?



You have a starter home that perfectly fits your current circumstances. But things around are changing; your life is transitioning!

You may be moving in with your partner or getting married. Your family may be expanding as you are getting pregnant, or your kids are growing up, or your aging parents are moving in with you. All of which means you need more space hence a necessary upgrade to a bigger house. If not, it may be a source of income or a financial upgrade, or just what the plan all along was – moving into a bigger home.

Regardless of your reasons, you are finally determined to take that step towards your dream house. But the journey along the way is not as easy as it seems. Thereby staying up-to-date with the process involved will not only get you a step closer to your dream house but also make your transaction journey smoother. After all, you would already know what your next step onto your homeownership journey will be.

## Overview

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Basically, if you are thinking of upgrading your property, there are three ways in which you can make this possible.

First, by selling your current property first and buying a new one later.

Second, by selling your current and buying a new one simultaneously.

And the third, by buying a new property first, and selling the existing one later.

Well, while you are thinking of upgrading your property there are multiple things you need to keep in mind before taking any step forward. It is best if you stay updated with everything that comes along with investing in a new property for a better future.

Here is how it works.

**Step 1:** Arrange for bank valuation and see if any equity release is possible.

**Step 2:** Assess your borrowing capacity and see if you can keep both properties.

**Step 3:** Begin with the finance pre-approval and start looking around for the property.

**Step 4:** If borrowing capacity is not enough to keep both properties, explore if you can buy first and sell later. We call this bridging finance arrangement, and please understand the pros and cons that come with bridging finance.

**Step 5:** If bridging finance is not possible, only then explore the options about selling your existing property first.

**Let's take it slow. Here is what you can do.**

## Valuation of your existing property

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If you are considering to access equity from your existing property, it is always a good idea to start with a bank valuation. For this, you can discuss with your mortgage broker, who can present you with different options.

After your broker orders the bank valuation, you will obtain the report within a few days. As per the reports, depending on the equity shown by your current valuation, the broker can opt for other lenders (if needed) and order valuation from them while exploring further possibilities.

Most of the major banks offer such upfront valuation for free, and your mortgage broker should be able to choose the lender to suit your needs. The valuation report is valid for 90 days. If no action application is converted into approval by this deadline, the lender requires another updated valuation.

## Your Borrowing Capacity

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Regardless of having an increased valuation, it alone is not enough to move your property upgrade plan forward.

The lender demands to see if you can actually meet loan repayments for both your existing property and a new one using their own means of calculations.

If there have been any adverse changes to your financial circumstances since you purchased your last property, chances are that you are unlikely to borrow any further.

Lending regimes and credit policies keep changing very frequently. Hence, ask your mortgage broker to review your case under current circumstances.

## Arranging Pre-Approval

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Moving forward, just like in your first property purchase, you will need to have your finance pre-approved even before you start looking around for your second property. If you are considering upgrading your property in the next 90 days, you will first need to obtain your pre-approval.

After you consult with your mortgage broker, your loan procurement can be pre-approved to match one of the following circumstances:

- Sell the current property and buy the new one.
- Buy second property and sell the first property within 6-12 months
- Sell an existing property and buy second property simultaneously

## Arranging for simultaneous settlement

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If you are lucky enough and your income and equity allow, you can keep your existing property and buy a new one at the same time. Likewise, if you can afford, you can go for a bridging loan arrangement.

However, if both scenarios are not achievable for you, then selling your current property and buying a new one is your last resort.

If this is the case, we suggest you do the following:

- Arrange for pre-approval to purchase a new property on the condition that you will sell the current property
- Arrange for existing property to be placed in the market for sale. You need to seek help from the real estate agents, and the conversation will begin as soon as you start discussing with the broker

- While your current property is being opened for inspection to prospective buyers, you can start looking around for the new purchase
- If you receive an offer to the property being sold, then it is a good idea to put the offer for the property being purchased
- Please make sure that you put a new offer only after your current property goes past cooling off period. Until then, chances are that the purchasers can walk away from the deal. Well, you don't want to put your deposit in a new purchase without confirming the sale of your existing property. Cooling off confirms the sale.
- You will need to speak with a mortgage broker, then with the conveyancer and the selling agent as to how many days you put on your sales contract and how many days on the purchase contract.

## Bridging Finance

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One of the possible ways of making your property upgrade possible is by buying a new property first and then selling the existing one later. In this way, you will be allowed to keep the loan for both properties. This kind of arrangement is referred to as **Bridging Finance**.

This bridging finance allows you to buy your new property first while taking some time and selling your existing property later. This way, you will get some extra time for preparation, tidying up, and marketing the property to be sold. Similarly, you don't need to rush with the sales price to match with the simultaneous settlement date.

However, there are few things your deal needs to have to be eligible for bridging finance:

- In addition to income requirements, you need to meet all other criteria of lending, such as credit conduct, account conduct, etc.
- The funding shall be used in such a way that overall loan to value ratio shall not exceed 80% at any time
- If you have sold existing property already and waiting for the settlement while you need to settle the newly purchased matter first, we call this the "closed bridge." If you haven't listed your existing property on the market yet, but you have purchased the new property already, we call this the "open bridge." Not all the lenders accept open bridge scenario.

Well, bridging finance can be a useful tool to sort out financial transition while upgrading to a bigger property.

## Buying a house and land property

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Another one of the potential options is buying a house and land package. We have seen an increased number of people taking this approach as it gives them more time to build up their savings and improve their income at the same time.

Before you decide whether this option is suitable for you or not, here are some of the pros and cons of buying a house and land package to consider:

### **Pros:**

- Land registration might take a while, and building construction is commenced afterward. This will give you some extra time to build up your saving.
- If you plan to sell your existing property, you can start preparing for it without any rush
- Like with any other house and land packages, you can pick out your own designs and provide inputs as per your choices in designing your house

### **Cons:**

- As with all the house and land package transactions, the project might get delayed, costs may blow out, and finance could be an issue when approval is needed at some point in future
- You will save on stamp duty for the building portion, but you will continue paying mortgage on your current property as well as interest on the land loan and construction portion as the progress payment goes on.

Apart from these financial aspects of upgrading a property, there are some crucial questions to give your attention to.

**Let's discuss some pressing matters.**

## Where to Buy?

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Well, having a well-arranged financial transaction is important, so is the potential location you are planning your property upgrade to.

While you might have multiple reasons to upgrade to a bigger home, you need to tend to your needs from day one. If it's because of your growing family, you need to be careful about what your family requires from the first day you move there.

- Is there any school nearby?
- Are there any childcare facilities in the neighborhood?
- How close are extracurricular activities (such as dance, martial arts, soccer, cricket, etc.) from your location where you can send your children to?

Keep in mind that you might easily get tricked into buying a new home in a newly built area. Even though property prices in such places can go up in the future, if you cannot find basic facilities that you need right now, then the doubling property price in the coming days doesn't mean much. These new suburbs with potential price rise might provide these facilities in the days to come, but what's the point of having those later in life but not when you actually need them? You should be able to buy the property in a location where you can enjoy all of those facilities right now as you need them.

Striking a balance between a good location, decent property size, and the budget is a big challenge to take on. Like many other people, you may need to compromise in any of these aspects. The best way is to start by evaluating your budget and then looking around in an affordable suburban area. Know beforehand whether you can afford to buy in the suburb you want.

## How to Choose a Conveyancer?

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Having a good conveyancer makes your home upgrading journey smoother. But how to choose one?

When upgrading a property, you might have to look after two property transactions going on at the same time. Under such circumstances, having an experienced conveyancer is a must. They are well-trained in their works, but not all conveyancer delivers as promised. As a result, both customers and mortgage brokers suffer.

Choosing an experienced conveyancer takes 40% of the stress off during property upgrade processes while rest depends on choosing a good mortgage broker.

You may already have a conveyancer on your mind who can assist you through your transactions but do make sure that they live up to their words. If not, then you can always ask your mortgage broker for assistance. They usually have conveyancers at hand to assist them with the transaction processes.

While we have listed out the steps and simplified it for you as much as possible, you might still get easily lost between these lines. Working closely with experienced mortgage brokers will minimize your stress and have positive financial impact.

In case any issue comes along, our Capkon brokers deal with such issue almost every fortnight, and we take pride in helping clients achieve their goals. Since you are committing for big investments and possibly making a decision to sell one of your existing assets, it is advisable to have a thorough discussion of your plan with them.

Let our expertise, experience, and excellence assist upgraders like you to transition into your bigger property. If we can be of your help in any way, do let us know. [Contact us](#) right away with your inquiry or [Book an Appointment](#) for a phone call as per your needs.