JAMES
Buyer Advocates

MELBOURNE HOME BUYERS' GUIDE

THE WEEKLY REVIEW

An incredible series that took on a life of its own, published in *The Weekly Review & The Age*

"Mal James, with his impartial and respected opinion, is one of the foremost authorities on buying property in Melbourne today."

Eileen Berry

Founding editor of *The Weekly Review*

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James Buyer Advocates +3 9591 6821

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Mal James
0408 107 988

From Mal James

Today you will win a million dollars in property advice. Are you interested?

Why not?

There are no strings attached and anybody and everybody can do it if they so choose – all you have to do is read.

I bought my first home in 1985 and since then have purchased more than 1000 properties on behalf of young, middle-aged and older home buyers. It's been a wonderful journey so far, and I am still learning every day.

I was asked by *The Weekly Review* and *The Age* to write a series of articles to help young people do what for many seemed to be an impossibility in the market at the time:

Buy well.

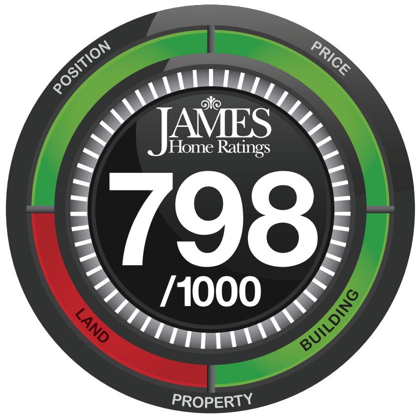
The lessons I outlined in that series and repeat here in this book don't just apply to young home buyers but to all home buyers.

What I thought was going to be a few quiet words written while on holidays in France turned into the most read online series of its type, published not just in Melbourne but throughout Australia and New Zealand.

Here is a summary of the many comments received from the public, the real estate industry and the "not so young" young home buyers:

- "The most brilliantly accurate home buying insights I have read and I'm 76"
- "Mal, your articles are so simple, yet so spot on"
- "Your value and negotiation concepts make me look at things very differently"
- "I've learnt a lot"

This booklet continues on from James Home Ratings – the industry standard used across Melbourne today for the assessment, valuing, negotiation and buying of Melbourne homes at auction, private sale, set sale or expressions of interest.



So back to the question:

Do you want a million dollars for free?

Three real people made three real decisions in the year 2000.

I remember this time so well. It was a time of "financial planning" and of some big "reputable" firms urging all to buy into Melbourne's new boom; the high-rise apartment market.

Many young buyers did so under the lure of no stamp duty, easy payments, depreciation schedules and promises of riches. They were looking for property wealth shortcuts.

Many of those people paid and are still paying a very high price for that one decision.

Young apartment buyer

In 2000 a young home buyer could have bought an apartment in Docklands at Caravel Lane for $507,500 and sold it for $576,000 in 2014.

Young inner-Melbourne buyer

About 2000 you, as a young home buyer, could have spent similar money on a family home in Celia Street, Glen Iris ($493,000 and sold in 2014 for $1.5 million).

Young outer-Melbourne buyer

About 2000 you could have spent a lot less money on a home and still got some capital growth in Barrington Drive, Pakenham ($134,000 about 2000 and sold for $285,000 about 2014).

Fundamental Wisdoms

CHAPTER ONE

Buying a home is a big decision. It covers one of your most basic needs – shelter.

Wisdom No. 1 is that there is good shelter and there is bad shelter.
Good shelter makes you feel happy and safe.
Good shelter gives you good emotional and financial outcomes.
Good shelter makes you money, and it costs you less. It gives you greater freedom in your life in the form of lower mortgages, more free money and more free time.
Some people buy good shelters and have a good life, while some people buy bad shelters and end up struggling.

Why do some people end up cruising through life with little or no mortgage, holidays galore and living in a beautiful home, while others struggle, even if they both started with the same opportunities?
One reason relates to the decisions they make on the shelter they buy.

Wisdom No. 2 is about decisions.
There are good homes and bad homes, and basically when you are young you begin on your home-buying journey by making either good or bad decisions.
This is actually good news – you don't need an inheritance and you don't need to be great at business, you just need to make good decisions to get into a good home.

Good homes are like good health. You get there by not buying junk, you get there by making sensible, healthy choices. In this case a junk-food home is a two-storey, oversized, badly positioned home in the outer, outer suburbs of Melbourne.

It's the kind of property-buying decision that is quick and easy and makes you feel good for a short time afterwards. But in the long term it's not likely to help you reach the kinds of financial outcomes that result in a happy life.

On the other hand, a financially healthy home is more likely to be recycled, may be harder to find, is in an upcoming suburb and, while it may take some getting used to at first, over the years will make you feel better and better, both financially and emotionally.

You may be thinking, “But I can’t afford to live in an inner suburb – I’ve got no money”.

That may be true now, but if you really want to be able to afford to live in an inner suburb, what you need first is intent and you need a plan.

So Wisdom No. 3 is that you really need to want this, and you need a plan that will get you what you want.
If you can find your real intent and a good plan, then the money will come and along the way you will have some fun – you will travel, have relationships, get some jobs, lose some jobs, maybe marry and have kids, have a mid life crisis, and so on.

But all through this, if your intent is right and you roughly follow a reasonable plan, accepting some missteps along the way, then eventually you will be living in a house you love, with all the money you need and enjoying life.

If you think putting together a plan is all too hard and that you can get by on intuition and energy, imagine if your tax accountant or doctor thought that way.

Instead, **I follow a plan that consists of three sentences – and works every time. Over a career of buying more than 1000 houses, my plan and process has proved bullet proof.**
In the next chapter we will get into the nitty-gritty of buying well while you are young – how to buy so that your first two homes will set you up for the rest of your life.

The Off Markets

Gina Kantzas
0457 835 255

Three-point Plan

CHAPTER TWO

Last chapter, I outlined three fundamental wisdoms:

1. There are good and bad homes.
2. It is largely your good and bad decisions that control your property destiny.
3. If you have intent and a sound plan, the money you need will most likely follow.

This chapter I have set out a three-point plan to help you work out exactly what you want.
After all, if you're not clear on what you want, how can you expect to find it?

First, the internet is not a plan.
Used well, it is a tool, like a hammer or a calculator. Used poorly, it is a distraction, like a gossip magazine.
Yet many of us begin home-hunting by jumping on the net and reacting to superficial feelings and urges, then we react to advice from agents and so on, like a mouse on a wheel.

Is that what you want?
What you really want from a home are good emotional and financial outcomes.

These outcomes can be boiled down to what we call the three "Ps"- price, property and position.

Consider this scenario: you wake up in your new home feeling good and head off for a walk in the park or by the water (*you've bought in a good position*), before picking up a coffee (*near shops – position*) and back home to make breakfast with the sun on your face (*this means a good orientation and floor plan – property*).
Ideally you would like the time to talk about an overseas family holiday (*you will need a manageable mortgage – price*), then perhaps walk with the kids to school (*there's a good one nearby – position*).

Sprint back home, feed the dog (*you'll need a yard – property*) and catch the train to work, which takes less than 45 minutes door to door (*position*).
Back home before dark (*manageable mortgage – price*) as Mum and Dad and some friends are popping around for a meal (*position*). It's summer, so it's a barbecue (*indoor/outdoor living – property*).
After dinner, kids off to bed and time to relax (*you want a floor plan offering separation and privacy – property*).

People have PPP outcomes they want from their home, and homes have PPP characteristics – the PPP connectors help connect the right homes to the right people.

As you think about the financial and emotional outcomes you want from your home, I suggest listing them under three headings – price, property and position, like the following:

PRICE

- Don't want a big mortgage.

- We can save only a certain amount for a deposit before we have kids.

- That's all the banks will lend us.

PROPERTY

- Need bedrooms for the kids.

- Don't want to renovate too much.

- Need a yard.

POSITION

- Don't want to drive to work – need train.

- Like to walk kids to school.

- Need to be close to grandma.

Your plan will end up something like this:

PRICE: $800,000 to $1.2 million.

PROPERTY: Four bedrooms (or room for), some yard, minimal renovation.

POSITION: Walk to school, walk to train and proximity to friends and family.

Your PPP plan shouldn't be any more complicated than three sentences. It may change, but this is your starting point.
It's so simple, yet many people don't stop to work out what they want before buying.

Get the plan right from the start and you won't waste money changing houses. **Each time you change homes, it costs about 10 per cent of the property's value in stamp duty, moving costs, fees, etc.** If you change homes in the first few years, a lot of your deposit is lost; move a few times and all your hard-earned starting savings are gone.

By setting out a simple three-sentence plan, you've saved yourself the first 10 per cent of that $1 million I told you was up for grabs.

Future-proofing your Plan

CHAPTER THREE

Last chapter we talked about how you could save about 10 per cent of the value of your property, simply by setting out a plan. This chapter, I'll show how you can save double that or more by future-proofing your plan.

Here's why you should future-proof your plan, let's use our earlier example:

• In 2000 a young buyer bought an apartment in Docklands at Caravel Lane for $507,500; they sold it in 2014 for $576,000.

• Also about 2000, another young buyer spent a similar amount – $493,000 – buying a family home in Celia Street, Glen Iris; they sold it in 2014 for $1.5 million.

By future-proofing their plan the second buyer effectively put $1 million into the their pocket.

That's why your plan should be in two parts: the "now PPPs" (price, property and position), plus what you're likely to want in the next five to 10 years.
We call this the FFFs – five-year, flexible and future-proof. Get this right and it's worth another 10 or maybe even 20 per cent of that million dollars I promised you last week.

Most of us go through these basic stages in life:

• Single (stage one);
• Couple (stage two);
• Young family (stage three);
• Family with teenagers (stage four);
• Mid-life crisis (stage five);
• Kids leave home (stage six);
• Early retirement (stage seven);
• Later retirement (stage eight);
• and then we all go to stage nine.

The Researcher

Simone Clarke
0400 304 111

As we mentioned earlier, as a rule of thumb, each time you change homes it costs roughly 10 per cent of the property value in stamp duties, agents' fees, remodelling and moving costs.

To put an extra $200,000-plus in your pocket, all you need to do is buy a home that will last you through several life stages.

Technically, if you bought a home that could last you through all of life's stages, then you'd have almost a million dollars extra in your pocket just from one smart decision.

How to make your plan five-year, flexible and future-proof?

You want to live in a groovy position such as Yarraville or Brunswick, or Box Hill or Mentone. I'm not suggesting Hawthorn or Albert Park because, as a young buyer, your budget is likely to be less than $1 million.

If you could buy a home that would see you through stages one to three – single, couple and young children – rather than move at each stage, you would save 20 per cent of your home's purchase price.

And you've made this money by simply making a good decision – no saving, no extra jobs, no going without.

What might the home that has good PPPs – price, property and position – and good FFFs – five-year flexible future-proofing – look like?

In Yarraville or Brunswick it would likely be a single-fronted period house with an OK floor plan and parking.

In Box Hill or Mentone it would be a 1970s house on a reasonable-sized block with an OK floor plan and a good backyard.

In either case, the house would be a good, but not impossible, walk from the shops and tram/train, and you would be able to build extra bedrooms as the kids came. These smaller renovations would add significant value as these areas have a good market for upgraded houses.

You would then have five-year flexible future-proofing on your PPPs until your kids reach their teens. You can then decide to either stay put (secondary education may force a move), renovate or sell at a good profit, which will give you a lower mortgage for your next home.

See how getting this first stage right is so important?
If you were to buy in outer Melbourne, most likely you would be treading water, with flat capital growth and little chance to improve your property. That would make the next step to inner Melbourne in a decade nigh on impossible.

As your kids get older, they get more expensive, and if your house is going backwards when you compare where you are (outer suburbs) to where you want to be (inner suburbs), then it's a double whammy.

Additional Note: This rule applies whether you are 30 years old or 70 years old. And it applies to type of home as well, not just position. The good news is you can start rectifying things today – right now.

This is why the right plan and the right implementation are so important.

In the next chapter we will discuss how to assess property to help you get the best start on your property journey.

The Hunt Begins
& Due Diligence

CHAPTER FOUR

In the past three chapters we've looked at the basic wisdoms of buying a house, and devised a simple plan focused on the three Ps – price, property and position – to help you get what you want. **Now you're ready to start the house hunt.**

All too often it goes like this: you walk into the first house you see and mentally rip up the plan you've spent time on because you get distracted. You listen to your mate at work, and your stress levels start to rise. Then you speak to an agent and get even more confused.

By day 30, you've looked at so many houses you can't remember what you looked at yesterday. You have two choices.

CHOICE ONE

You turn up and the house quoted at $800,000 sells to somebody else for $1.2 million. You feel embarrassed or cheated. So it's back to the bank. You now have $1.2 million. But the next week you miss out again when a house goes for $1.3 million.

Then you hear about a house on the other side of the highway. Sure, there's problems with the floor plan, but you can fix those, and the good news is the house has been on the market for almost a year. You go in all guns blazing and knock them down from $1.5 million to $1.43 million.

Deal done. Genius!

Well, genius, welcome to weak capital growth (that side of the highway is full of home-buying landmines), unhappy renovations, increased travel times to school and work as it's a long way from the station, and your mortgage becomes the main topic of conversation until child number three forces you to reconsider your housing options back in the original location where you wanted to buy.

The Valuer

Craig Whitten
0477 776 138

CHOICE TWO

The alternative is to work in a logical manner, perhaps with a professional buying advocate, perhaps not.
Instead of going to each house and making up a new plan on the spot, you look only at houses that fit your existing well-thought-out plan.

I suggest, as a minimum, attending three open-for-inspections a week for three months and then go to the auctions or check the results.
Build up a database, recording the address, land size, style of home, number of bedrooms and bathrooms, quoted price and sale price, and the number of bidders. Do this for 20 houses that fit your criteria and you'll be clearer about what you do and don't want.

I've developed the industry standard ratings system (www.james.net.au) for assessing houses. You can follow a simple assessment system by answering these nine questions:

1. Do you like the feel of the house? If not, then forget it. Three really good tests for this are the first-impressions test, the gut test and the sleep test. If you answer maybe or yes to all three, move on.
2. Does the house fit your PPP plan? If it's a yes to position (close to shops, rail and schools) and price, then move on to question three. If no, then move away.
3. Does it fit the FFF five-year flexible future-proof plan? (Is there good land size and a liveable floor plan? Can I see myself there in 10 years' time with kids?)
4. Ask to see contracts and get a solicitor to read over them. We find about one in five contracts have legal clause issues.
5. Get a pest and building inspection. At least twice a year we pull out of houses because of poor inspection reports.
6. Call the council to see if any neighbours are planning big changes – once every six months we have an issue and don't proceed.
7. Measure the land against the title with a measuring wheel. We find serious discrepancies in about one in 30 houses.
8. Finances – do you have written approval for a deposit and a settlement from your bank?
9. Settlement – are the settlement terms OK for you? If not, negotiate them.

If your answers to these nine questions are all positive, it is then time to move on to the next step – valuing the home.

Additional Note: These rule applies whether the value of the home is $1 million or $4 million or more – in fact, the higher you go, the greater the room for error if you are not clued in.

A Question of Value

CHAPTER FIVE

In an earlier chapter we looked at two young buyers who each bought properties in 2000. The first bought an apartment at Caravel Lane, Docklands for $507,500, which they sold in 2014 for $576,000. The second buyer spent $493,000 on a family house in Celia Street, Glen Iris, and sold in 2014 for $1.5 million.

What were the values behind the Celia Street house that effectively put $1 million into that second couple's pockets?

For a young buyer looking to live in Docklands, with the promise of no stamp duty and a waterside lifestyle, the Caravel Lane apartment ticked all the "PPP now" boxes for price, position and property.

But what if that young buyer's plan – their desired emotional and financial outcomes – had included good capital growth and a place where they could build a family? Suddenly the Docklands apartment doesn't look such good value.

It doesn't fit their longer-term five-year flexible future-proof plan. There's no real growth and there's limited scope for an expanding family.

How can one house represent both good and bad value?
A while ago we gave a talk to 100 high-net-worth individuals and we asked participants to "value" a property. The estimates ranged from $300,000 to $1.2 million on the same house, which proved one thing: people have very different opinions when it comes to value.

Surely bank valuations provide more certainty – don't they?

In 2012 just one in four auctions sold under the hammer, many with just one bidder. If you were the sole bidder on a house and the vendor bid $1 million before passing it in, then talked you up to $1.105 million – did you pay true market value? Most banks will take that auction price as "market value".

But the same house in a private sale with an asking price of $1 million might get a bank valuation of just $900,000 because the valuer needed to be conservative in a tougher marker.

So you have the same house with two bank valuations – a $205,000 or 20% difference.

The fact is all values are nothing more than opinions based on criteria established by those doing the valuation. Valuations vary widely among experts and lay people alike. Look at the council, bank, agent and other bidder valuations versus the price paid on the next house you like.

Market value, good value, even bank and council values, are all subjective.

The only rock-solid valuation is what's good value for – you guessed it, – you, based on your own clearly established financial and emotional outcomes.

There are three questions buyers should ask when determining whether or not a home is good value for them:

1. What makes financial sense for your FFF longer-term goals?
Consider capital growth, renovation costs if kids come and minimising changeover costs due to home moves.

2. What makes financial sense for your "PPP now" plan?
What gives the best bang for your buck now in terms of price, position and the property.

3. What value might you have to pay to be the buyer of this house?
Agents' quotes used to give you an accurate range but now that's not always the case. You need to work that out yourself.

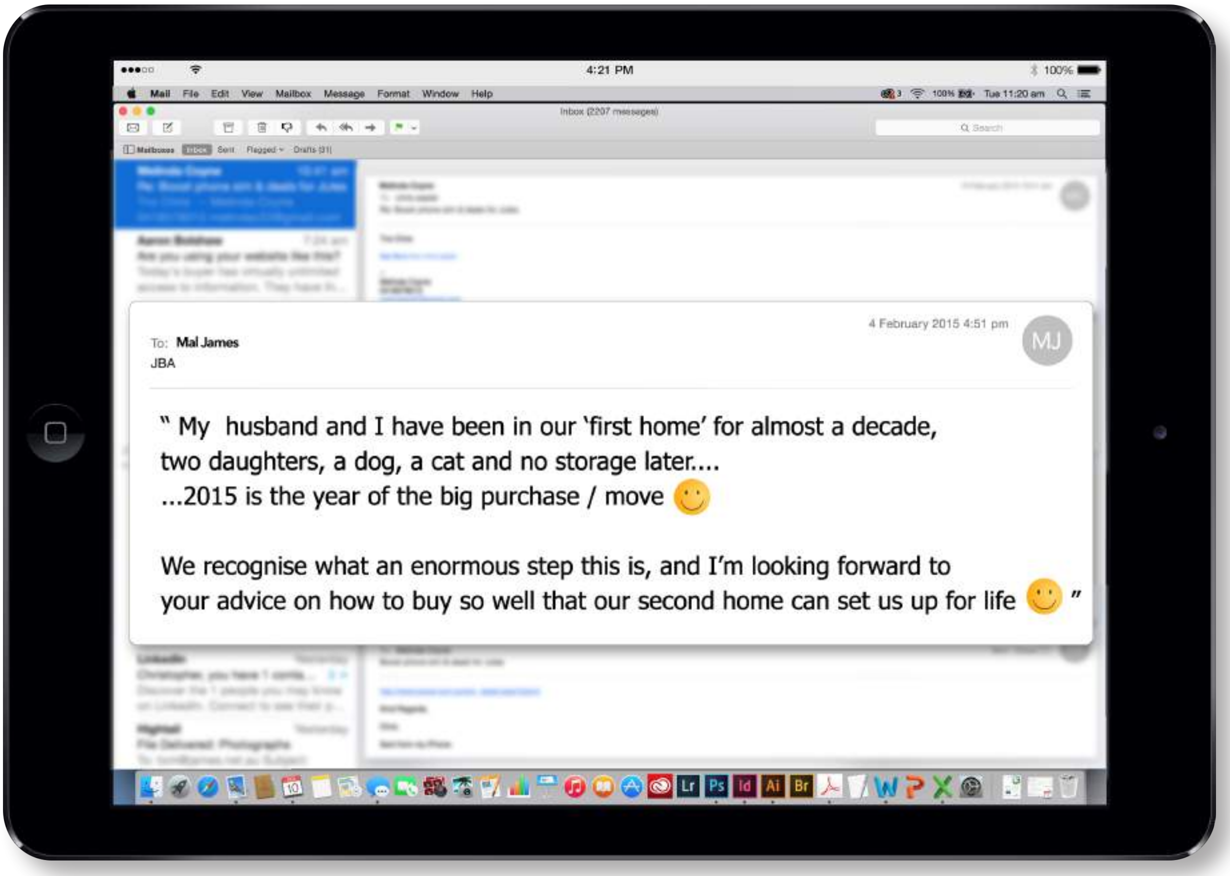
How to calculate what's good value for you?

Your "PPP now" valuation is based on three key opinions: the seller's; the highest other bidder's (if there is one); and your own.
If you undervalue, it's likely you'll think a good house is overpriced and you won't buy it.
Conversely, if you overvalue, it's likely you'll think the house is cheap and you may have a higher mortgage than necessary, which will affect capital growth.

Your "FFF long-term" valuation should be based on good land, good location and a good price.

Work through the above, formulate your own opinion and you are well on the way to establishing what is good value for you.

Don't let anybody tell you something is good value without doing your homework.



The Diplomat

Brooke Disney
0438 312 164

Let’s Make a Deal

CHAPTER SIX

So now we come to the pointy end of buying a home – the money part, negotiation.

Are you a good negotiator? Well, before you take on the $800,000 negotiation to buy a home, try the Harvey Norman test: walk into the electrical section at Harvey Norman, find an $80 kettle, walk to the counter and offer $65.

Oh Mal, I hear you say, don’t be ridiculous, I haven’t the time, and besides, it’s un-Australian.

OK, try this: walk into your boss and ask for a raise – the raise you need to save for a bigger home deposit.

Oh Mal, don’t be ridiculous, he wouldn’t give me one; I can’t afford to lose my job.

OK, now make an offer on a $800,000 home. Sure, anybody can do that, right?

Are you are good negotiator? I negotiate on behalf of others reasonably well because I’m not attached to the result. I honestly don’t mind if you buy the house or not, and I don’t stress over what price we offer, or what you end up paying.

What I care about is helping you achieve your desired emotional and financial outcomes.

We do this reasonably well here at James Buyer Advocates as last year we bought more than 100 houses with a success rate of about 84 per cent – although we went after just 1 per cent of homes we assessed.

So what’s the key to successful negotiation? There are five big mistakes I see every week in home-buying negotiations: buyers go in underprepared without having done their due diligence; they have little idea of what represents long-term value for them; they talk too much and listen too little; they think the negotiation is all about money; and they feel they know the theories on how to negotiate but can't execute them in practice.

For me, a home-buying negotiation is a sincere attempt to reach an agreement in a manner that allows all parties to move forward with outcomes acceptable to all, not just to one side.

HOW TO NEGOTIATE LIKE AN EXPERT

1. Understand exactly what it is you want – review your PPP and FFF plan (See Chapter Two and Chapter Three).

2. Do your due diligence (see Chapter Four).

3. Make a negotiation-and-offer plan that includes timing, your target price, opening offer, response to response and then run it past a few trusted people.

4. Get started – this is often the hardest part. Lead rather than be led.

5. Be prepared to give and receive the "wet fish slap". You know the commercial for Fisherman's Friend when the girl walks up and gives the guy a hit over the head with a huge wet fish? To be good at deals you have to accept there will be uncomfortable moments – you have to give and receive them. Recognise the wet fish slap, consider it, don't react, and stay on track.

6. Remember why you are doing this. Don't get distracted with egos. Don't worry about who's right and who deserves what.

7. Keep going. It's not over until you've bought it or somebody else has.

So how would I negotiate a better deal for our two young buyers – the one who bought an apartment in Docklands in 2000 at Caravel Lane for $507,500 and sold it for $576,000 in 2014; and the other who spent $493,000 that same year on a family home in Celia Street, Glen Iris, and sold in 2014 for $1.5 million?

If with some brilliant negotiating I could have got the Docklands apartment for $400,000, would it have been a good deal?

Here's how I'd negotiate Caravel Lane

– I wouldn't.

Here's how I'd negotiate Celia Street

– I'd make sure I got it.

I might end up paying an extra $10,000 or $20,000, but I'd get it because it fitted the buyer's PPP now and FFF longer-term plan.
It was a good-value home for the buyer's desired financial and emotional outcomes.
And they would still be close to $1 million ahead.

The Rater

Matthew Quinn
0477 776 482

Time for Action

CHAPTER SEVEN

The talk is over, it's time to walk the walk.
In the past six chapters I've endeavoured to provide you with the keys to a happy home-buying life.

Will you take that gift and walk into a life of reasonable affluence or will you remain a victim of your preconceptions, impulses and habits? Do you have the gumption to do the right thing for you and your family or are you a chocoholic decision-maker?

My after-dinner routine goes something like this: about 8pm I feel like chocolate. I tell myself I need to manage my weight and chocolate isn't helping. Then I go to the fridge, get a chocolate and eat it. I've made a decision and acted, but is the decision a good one?

When making a decision about buying a house, will you behave like a chocoholic or are you prepared to break your habitual cycle and make good property decisions?

A quick recap on what we've learnt:

1. There are good houses and bad houses for young home buyers;
2. Your good decisions, nobody else's, will get you a good house. The internet is not a solution, you're the solution. The agent is not the problem, you're the problem;
3. A good FFF (five-year flexible future-proof) and PPP (price, property, position) plan, not a just-for-now plan, will get you lots of free money;
4. Try to buy an older house in inner Melbourne with land and an OK floor plan to live in for 20 years. As you go through the nine-stage life cycle, from no kids to kids and back to no kids again, you may have an extra million dollars (tax-free) just by doing nothing;
5. Go through the proven due diligence process BEFORE you buy;
6. The only person who can decide what is good value for you is YOU (providing you are informed); and
7. Engage an experienced professional, such as a buyer advocate, to help you value and negotiate.

Remember our two young home buyers – the one who bought an apartment in Docklands at Caravel Lane for $507,500 in 2000 and resold it for $576,000 in 2014; and then the second young buyer who spent similar money ($493,000) on a family home in Celia Street, Glen Iris, in 2000 and sold in 2014 for $1.5 million?

The first buyer walked away with virtually nothing, zip, while the second ended up with more than $1 million.

About 2000, a third young buyer bought a home in Barrington Drive, Pakenham, for $134,000 and resold it in 2014 for $285,000. That's not much profit in their back pocket, especially now they want the kids to go to school near Glen Iris.

People come up with all kinds of excuses for why they can't be a Celia Street buyer.

They say they don't have enough money – all they can afford is a deposit on a house in outer Melbourne. Before you make that excuse, read these books: *The Millionaire Next Door* by Thomas J. Stanley and William D. Danko; and *Your Money or Your Life* by Vicki Robin and Joe Dominguez.

Others say they are unlucky, that their life will never change. I suggest you check out Tony Robbins on YouTube or read some books by Thich Nhat Hanh. They're both real and ethical motivators.

Another excuse: it has to be hard to make a million dollars.

Stop making excuses.

The Word According to Mal

Finally I'd like to leave you with my top six pieces of home-buying wisdom:

1. Happy spouse, happy house;
2. History repeats itself unless you break the cycle by breaking your habits;
3. Good decisions and bad decisions take the same amount of time and angst – only the quality of the prep is different;
4. Time heals or hides nothing in Melbourne property, it only accentuates;
5. No definition of value maintains its rigour for all people, except value to you; and
6. In negotiation, the closer you get, the more you talk about money, the further you drift from getting what you want.

The Negotiator

The Off Markets

The Researcher

The Diplomat

James Buyer Advocates buy about 100 homes a year in inner Melbourne for buyers who feel we can add value for them.

Our sweet spot price range is generally $2 - $6 million.

If you feel we can help you get the decisions right when buying your next home, please contact us for a simple, no-obligation meeting.

We respect your privacy.

JAMES
Buyer Advocates

+ 613 9804 3133
www.james.net.au

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