## Home-buying homework for millennials

Millennials all over the world have been much slower to enter the property market than their parents or grandparents were, but that doesn't mean they don't want to be homeowners, says Shaun Rademeyer, CEO of BetterBond Home Loans, SA's leading mortgage origination group.

"And the demand is especially noticeable among this group in SA, where first-time buying still accounts for about 40% of all home purchases at the moment."

One reason for this is that SA has a very "young" population, with more than a third of its people (38%) currently falling squarely into the 15 to 34-year-old millennial category and likely to fuel the residential property market for years to come as their finances and families grow, he says.

"Another is that SA has, since 1994, experienced a huge rise in the number of middle-class people for whom home ownership is a major aspiration – and who can afford to satisfy that aspiration at a much earlier age."

However, to make sure that buying a home makes financial sense, millennials do need to know that they will be living there long enough(about five to seven years) to be able to recoup the "hidden costs" of their purchase, such as transfer duty and bond registration and legal fees.

In addition, Rademeyer says, they need to scrutinise their finances very carefully before buying in order to maximise their mortgage potential. "For example, they need to review their credit histories, reports and scores to get a sense of how attractive they are as borrowers, because this will have a huge influence on how easily they will be able to obtain a home loan; how much they will be able to borrow; how big a deposit they will need and what interest rate they will be charged.

"And the easiest way to do this is to seek the help of a reputable mortgage originator such as BetterBond Home Loans to get pre-approved for a home loan."

Other factors for millennials to consider before setting out to buy, he says, are:

* Debt. The debt-to-income ratio (DTI) is a common term used in the mortgage industry that measures potential borrowers' monthly obligations versus gross income, and most banks will be looking for a level below 36%. If it is higher, the borrower will need to reduce debt, increase income or consider buying a cheaper home.

* Income. Lenders want to see that borrowers can sustain homeownership and have the income to support the bond repayments, which is why they generally ask for pay slips and tax returns for at least two years to establish an income "history". If your income is too low for the loan you have in mind, you will need to get rid of debt to become a more attractive borrower, and try to save a bigger deposit.

* The deposit. Although the BetterBond statistics show that the average deposit required by first-time buyers is currently only 11% of purchase price, the bigger the amount you can put down the better, as it will enable you to secure a better interest rate on your home loan, pay off your home faster and save many thousands of rands in the long run.

* Savings. The costs related to homeownership definitely don't end when you move in and since some of them may be quite unexpected for new buyers it is recommended that they have at least six months' of living expenses in savings before signing an offer to purchase.

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