

Buying Property in New Zealand

Your one stop handbook by the
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Why buy property?

It's tangible you can see, touch and insure it

It's Leverageable

Being able to leverage your capital to increase your buying power makes a huge difference to your investment potential - there are massive fortunes to be made through property

*"90% of all millionaires became so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate."
~ Andrew Carnegie*

Example:

If you went to the bank with 20k to buy shares, they would only give you \$20k of shares. But if you went to the bank with 20k to buy real estate, they would give you another 80k and you would be able to purchase a 100k property.

Will property go up in value?

The average price of housing in NZ in 1975 was \$24k. The average price of housing in NZ in 2019 was \$550k. That has increased 23x in price over the last 43 years! There is no sign housing inflation will stop due to forecasted population increase.

Because of this Matthew and Blair personally have 100% of their investments in real estate.



Property Types

It is important to understand the property that you're buying.

Fee simple (commonly called freehold)

You own the land, you own the property, no body corporate.

Unit title (most apartments)

You own a joint share of the land and common property and have exclusive ownership to a specified area (e.g. a one bedroom apartment). Unit titles are legally required to be professionally managed.

Cross lease (common on smaller, older properties)

You own the house exclusively and the land in a share with your neighbour and must follow a 'flat plan' or seek the other owners approval for any changes to your property outside the original plan. Less common and being phased out, not common in new builds.

Leasehold (least desirable type)

You own the property but have to pay a lease to the land owner which the amount can change over time. Usually high yielding but you cannot benefit from any land appreciation (if anything, as land price rises your cost to lease will increase).





Zonings

Local councils get to specify zonings within their district boundaries, which stipulate what kind of outcomes the local councils are allowing and wanting long term on the site. Usually there is an operating plan and then a future district plan as they get updated every 5-10 years. Most councils have a website you can search to find this information.

Note: future district plan is not set in stone, they are susceptible to change. Do not buy exclusively based on the future plan due to this.

Low density residential	Expect one house per 400-500m2 of land
Medium density residential	Expect standalone / some conjoined Townhouses usually one house per 300m2 of land
High density residential	Expect land to have 50% site coverage with Townhouses and apartments being present
Commercial	Expect shops and offices
Commercial mixed use	Expect shops, offices and residential
Industrial	Expect warehouse activity
Rural	Expect farm land possibly a house every 1hectre



Contamination

Search the governing local body in charge of the environment they will have a register of properties listed with potential contamination. If there is contamination an engineer will need to be involved for any change. If you are not experienced with property it is best to avoid these.

Personal story:

We bought a site that was listed as potential agriculture contamination. No contamination was found however a previous spilt bucket of lead based paint cost \$12,000 to remove and have suitable paperwork filed.



Flooding / Overland Flow Paths

Search the local council's website for a map of flood prone areas and minimum floor height requirement. Usually they show flood maps for a one in 50/100/200 year event and make minimum floor heights required 400mm higher than the 200 year event. If the existing property height is below this it is cause for concern.

Note: In new homes this will be allowed for, in older homes it is worth checking if the minimum floor height has been changed since the property was originally built.

Many sites in New Zealand now are unable to be rebuilt on without getting a section 72 notice. This is where council legally removes all liability for damages (in case for flooding) and often would reduce likelihood of insurance, finance and property appreciation.

Personal story:

We purchased two sites, side by side, and found after spending \$80,000 on consents that the ground level was 50mm to low (yes 50mm) and the council wouldn't let us fill the site and we had to walk away from an 8 lot project. This would have been avoidable if we knew this information before purchasing the site.

Coastal inundation

The majority of scientists believe the sea will rise between 1-9m with the most common being 2m before the end of the century. Councils are now heavily restricting building on areas affected by this and will have maps available to search. If a property you are looking at appears in this zone it is highly likely you will have insurance and finance issues and struggles with any consentable works taking place.

Personal Opinion:

We personally think this will cause the largest reduction of property prices in our lifetime, similar to price drops during war. Not everyone believes this opinion and we respect that completely.





Asbestos

Most homes built between 1940-1990 contain some form of asbestos. This is not a health hazard unless disturbed. It is worth testing each property. A little bit of asbestos is relatively cheap to remove however exterior cladding, interior plaster and roofs can cost a lot to remove.

Personal story:

We demolished a house and found hidden asbestos in the soffits which cost over \$50,000 to remediate because of the post demolition state



Meth

Since early 2000's, meth has become more apparent as a problem with purchasing property. Generally, if it has been smoked in the home a good clean and sometimes painting can remediate. However, if manufactured in the property, it can be a right off of serious remediation that involves stripping and relining the property. A test is cheap and worth doing as even the most affluent areas have been found to have meth contaminated homes.

Personal Story:

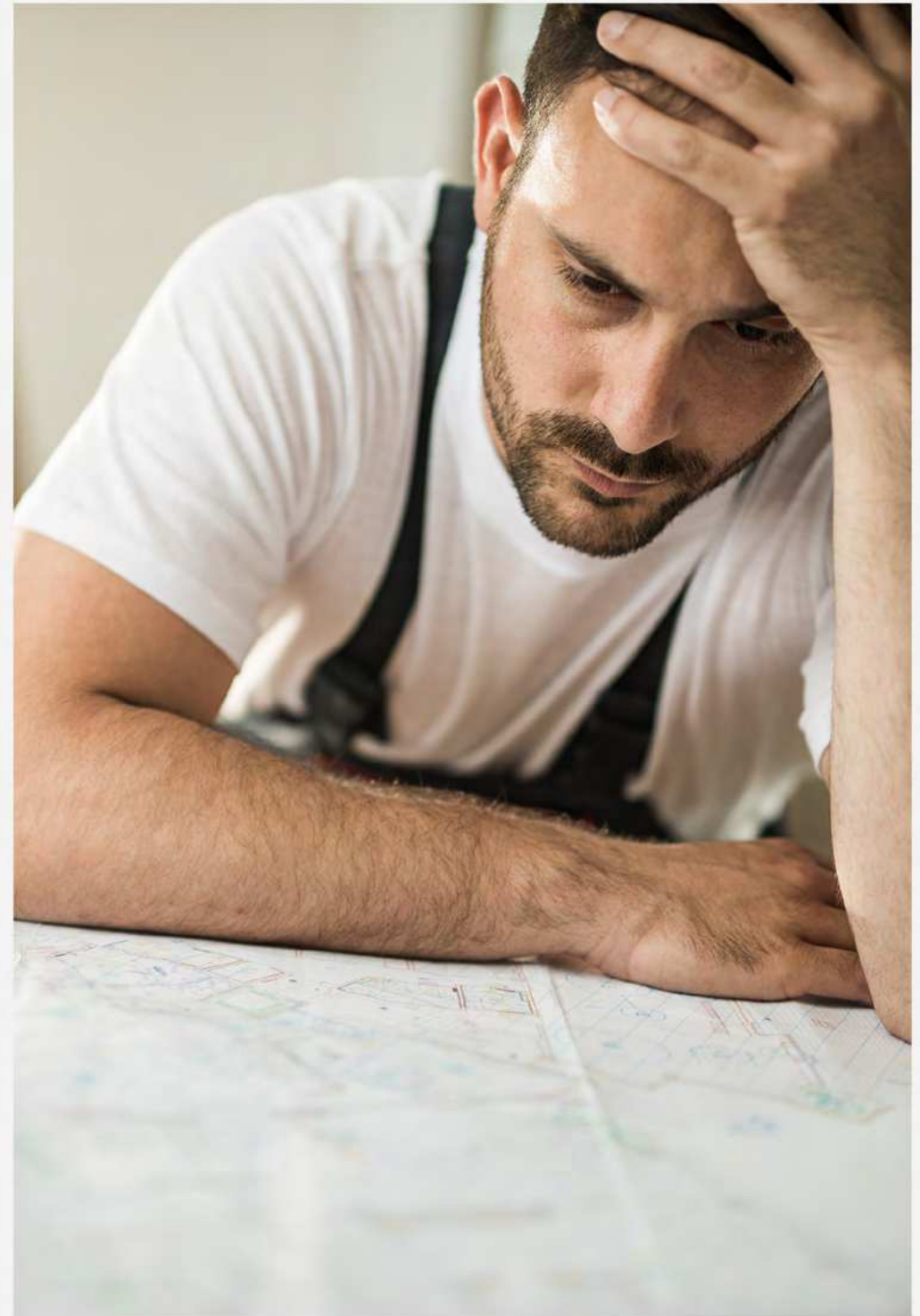
Meth went through major hype, we paid a lot of money to have our rental properties tested. It has since fizzled to be less of an important issue. However, things like this can pop back up with one bad news article. Even new homes can be affected.

Unconsented works

Unconsented works can lead to council enforcement, lack of insurance and expensive repairs. Often unconsented works need bringing up to modern day building code. Ensure when purchasing you get a LIM from the council and compare the plans on file with the actual dwelling and ask council if it has a current code of compliance or needs one.

Personal Story:

A vast majority of existing homes that we've purchased have had unconsented works. This needs to be taken more seriously as council enforcement only gets stricter.





Property inspection (aka builders inspection)

Good for negotiating, a builders inspection is often a funding requirement and will give piece of mind that your subject property has no unexpected maintenance. We recommend to use a professional company not just a friend who is a builder. If anything is found you can use this to reduce the purchase price or get the vendor to fix prior to purchase so you don't find yourself with a funding problem or large repair early on.

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Leaky homes / Leak prone homes

Homes built in the 1990's with monolithic plaster or claddings with no cavity are far more likely to leak. If purchasing a home in this era ensure you get a builders report carried out. Also features such as balconies, flat roofs and internal gutters increase the likelihood of weather tightness issues.



Property cycles

Markets within markets

There are many leading economists in the world that think market cycles are less prominent. If you look at long term property prices they always appear to rise in New Zealand. It's important to understand if you're buying in a hot market you're more likely to pay more than if you're buying in a cool market



Purchasing process

Whether you are buying a hundred dollar shack or a hundred million dollar office building, in New Zealand we are all required to use the same document. This is the Auckland law society sale and purchase agreement. There are three main phases;

1. **Negation** - where you will discuss what will be in the document e.g. price and terms
2. **Conditional contract** - where you sign into an agreement, either party could have conditions they are still working through e.g. finance.
3. **Unconditional/deposit paid** – the contract will go unconditional, settlement has not occurred and the deposit is paid.
4. **Settled** - Where the money changes hands and so does the property ownership.



Sniff test

The 'sniff test' is a basic, logical understanding of the area in which you're looking to purchase. This will consist of; do I feel safe, where are the shops, where are the supermarkets, where are the bus stops, how will my tenant feel about the area. This is overlooked by many people, you may accidentally purchase next to a gang house etc.





Funding

(traditional and non-traditional)

Because of the size of an average property purchase, you'll most likely require some form of funding. The most common would be a major bank taking a first mortgage over the title and lending funds towards the property. In the current market when purchasing a new home you can expect 80-90% of funding and 60-80% of funding for an old build. Banks seem to give more favourable percentages to first home buyers and new properties. A quick online search of any major banks can show you what interest rates you can expect to be paying.

Land Information Memorandum



Council property file

A council property file can be obtained from your local council, it holds all the information the council has on the property. This can be useful to check that the consents on file match what you've seen on sight and that the council is not missing any crucial data that could cause problems later on.

Lawyer

In most instances, people will involve a lawyer to check the sale and purchase agreement, both vendor and purchasers. The process of checking the sales and purchase agreement and conducting the transaction is called conveyancing. For a standard purchase you can expect to pay \$800-2000 for this process.

Personal Story:

We had sold two identical houses, with the exact same contract. One client was charged \$800 in legal fees, one \$3000 for the same job. Always keep this in mind before actioning legal work.

Accountant/financial advisor

It is often very beneficial to have a cashflow completed when purchasing a dwelling so you can understand your expected costs. Engaging an accountant/financial advisor to do a cashflow means you understand all of the costs associated with your purchase.

Cashflow – Chattel valuation and depreciation

A cashflow maps out expected cost or income per year to own property you are looking at. This will usually show income such as rent and all expenses related to the property, including but not limited to, rates, insurance, property management, interest costs, maintenance.

Rental property

The most common investment property is a standard rental. You have to provide things like a working kitchen and no furniture or whiteware. A quick way to work out your yield is for every 100k worth of debt is \$100 a week. For example, if you purchase a 500k house and get rent for \$500 a week you will receive a 5% gross yield.

Furnished rental

When you supply all the furniture and quite commonly other things like cooking utensils, this is commonly associated with a higher yield. Very common in apartment buildings or central city dwellings where moving furniture is inconvenient. Higher yield is obtained due to the increased rent received through the added value of future short term rental.

Room-by-room rental

These are common in properties with multiple bedrooms and bathrooms, usually always supplied fully furnished and rented on a room-by-room basis. The landlord usually covers outgoing such as power and internet in this structure.





Flipping/Trading

Factoring in your time and commercial risk

Refers to buying a property with the intention to add improvement and on sell in a short period of time. Historically the majority of flippers have only made money on inflation, not the work they've done. When working out your expected profit, it's important to take costs into account i.e. time and interest costs and legal fees.

Flipping is a great option for people with lots of experience in the property market.



Real estate agent

A real estate agent will legally represent the vendor, and is paid by the vendor. Real estate fees are usually from 1-4%, with 3% being the market average. It's important to note when purchasing property that the real estate agent has a legal obligation to work for the vendor. This will not mean that they will lie to you but it is important to note they represent the other party in the negotiation and transaction.

Locations within NZ

The majority of economic reports that we personally use refer to large growth happening in cities. This would refer to the established New Zealand cities continuing to grow, with less growth in the regions. We are purchasing property, it is important it understand the risk with areas that rely mostly on one economy e.g. the effect of a mine closing on the west coast would reduce house prices.



Why invest

The safe plan for your life

Property has performed extremely well in NZ in increasing the wealth of many. Because of the forecasted growth demand and complexity of building new homes, we see no reason why house prices won't continue to rise far faster than inflation. This matched with the ability to leverage your money makes property a powerful wealth creation tool. Many reports show if super annuation ceases to exist, which due to our aging population is possible, the average person has a 2 million dollar retirement gap. Property is a very powerful way to close this.

Personal Story:

Matt and Blair each have a personal trust with their lawyer. They have a financial plan in place to buy 5 investment properties as well as their own home to be paid off over the next 30 years to set them up for comfortable retirement.

Investment is relatively simple and gives you extreme peace of mind in terms of personal finances.

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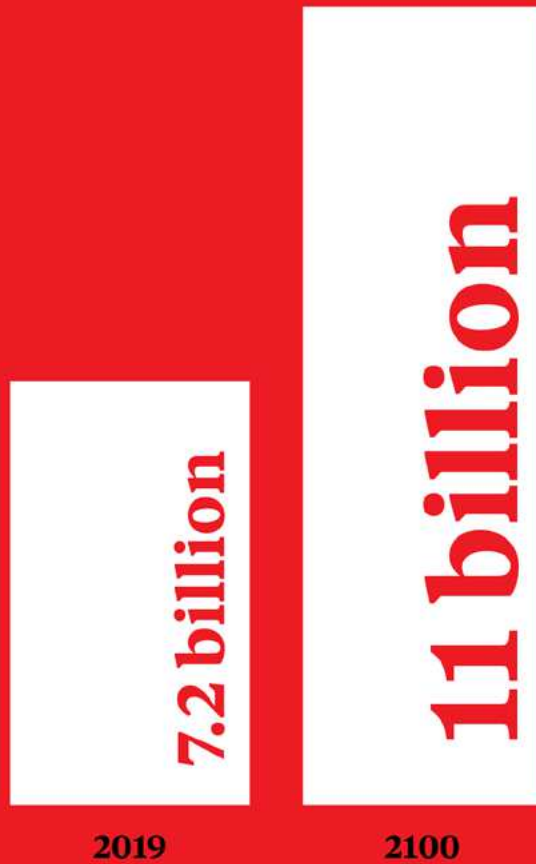


Ethics

What sort of investor do you want to be?

There are many people who have made large amounts of money by buying prime sites, relying on land inflation, and allowing the asset to degrade or using the site as a carpark etc. At Williams Corporation we prefer to really add value to an area and invest in high quality new finished homes, providing a great quality of life to our tenants and bettering the community. Every investor needs to make this decision of what investor they want to be.

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Sustainability

Before the end of the century the worlds population will exceed 11 billion as per current foresting. This will force changes to how the average person lives their life, we believe in high quality intensification, making our cities more efficient.

Summary

**Thanks so much for taking
the time reading this book,
we hope it provides value.**

We would love to hear your feedback,
please reach out to us;

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If you would like to view the homes we have for sale
visit our webpage; www.williamscorporation.co.nz

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We hope you find value in this book, we've invested a lot of time so that you, the buyer, can be fully educated in the property industry.



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