

Completing due diligence

Helpful information when buying an off plan property



Completing due diligence for an off plan property

Due diligence

Due diligence is the investigation or exercise of care that a reasonable person looking to purchase property is normally expected to take (Property inspection, valuation, legal title review) before entering into an agreement or contract with another party.

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Starting the process

When you find a property you think might suit your requirements, it's a great idea to try and get it under conditional contract as soon as you can. Now this will be restricted by the sale type, for example if it is an auction or deadline sale, but you can always look to put pressure on the vendor by presenting an offer.

If you are able to sign a conditional agreement, you should try to ask the agent or your lawyer to include a general due diligence clause which will allow you to cancel the agreement for any reason. By giving yourself this control, you can then complete a number of thorough

checks on the property and line up your finance with the knowledge that the property can't be sold to anyone else.

If you are new to buying property, the due diligence process is vitally important to ensuring you have all the right information you need before going unconditional.

Read through this guide for some expert tips from our team on due diligence, and if you would like to talk through in any more detail, our property consultants would love to help you through the process!



Location

Property experts don't say 'location, location, location' for nothing. So if you are looking at buying your first home or an investment, ensuring it is located well is a key consideration. Factors include being within good local school zones, easy transport link access, shopping and public amenities (swimming pools, libraries etc) and the desirability of the area.

All these factors will influence long term property values, so it is important to weigh these up based on your current situation, but also on the long term future opportunity to ensure it is a sound purchase that will give you on-going increases in value.

Long term growth data

Did you know some areas increase in price quicker than others? So if you are picking between a few different properties in different locations this should definitely be a consideration for you. You can find this type of information on websites such as REINZ, QV or by speaking to a local real estate agent. This way you can compare the long term price growth in the suburbs you're looking at, to help you make a more informed decision.



Location

Council Information

The local council is a good source of property information, some of which you need to request via a LIM. Depending on the situation this may be provided by the vendor free of charge, or you will need to request it directly from the council and pay any associated fees.

It is important you ask your lawyer to review the LIM as it can contain some important information such as flood zones or restrictions on the title, that may impact your purchase decision. For new builds a LIM isn't as necessary, as the property will need to be built in a way that mitigates any known hazards for the site.

It is also a good idea to do some research on the estimated council rates applicable to the property. Rates are what property owners are required to pay to the council to cover the associated costs with servicing the property and the local city, such as sewerage, water and local transport and amenities. For new builds, the council won't make these available until completion, but you can do some research on comparable properties in the area, or by asking the property agent.

LIM – Land Information Memorandum

A Land Information Memorandum (LIM) is a report prepared by the local council at your request. It provides a summary of the current property information held by the different departments at council on the day the LIM was produced. However, be aware that it does not provide all information on the property. For example, if the council hasn't been notified of a weathertightness issue with the property, it won't show on the LIM.

House type and governing bodies

It is important you understand the property type and the land ownership structure along with any restrictions or covenants on the title.

Is it a standalone house, an apartment, townhouse or unit? It could be part of a residence association, a body corporate or other agreements which will impact what you can and can't do with the property.

Is it part of a resident's/laneway society, body corporate or nothing at all? A breakdown on the difference is below, both have positives and negatives. There is a stigmatism with Body Corporates so take that into account when thinking about re sale down the line.



House type and governing bodies

Understanding the types of ownership

There are four main types of property ownership in New Zealand – freehold, leasehold, unit title and cross lease. Each type means different rights, responsibilities and restrictions for the owner.

Ask your lawyer or conveyancer to review the record of title (also known as the certificate of title). This is the legal document that contains the property's legal description, details of its ownership and the rights and/or restrictions registered against it. Most new builds won't have a certificate of title yet so ask the agent, consultant or lawyer what the proposed ownership type will be.

Freehold also known as fee simple, is the most common ownership type in New Zealand. You own the land and (generally) anything built on the land unless there are any registered or unregistered interests.

Leasehold is when someone else owns the land. You purchase an exclusive right to possession of the land and the buildings on it for a specific period of time according to the terms of the lease.

Unit title ownership is most common in a building development where there are multiple owners such as apartments.

Cross lease is when you own a share of the freehold title in common with the other cross leaseholders and a leasehold interest in the particular area and building that you occupy. This is no longer used in new build properties.



House type and governing bodies

Residents Agreement

Townhouses on Fee Simple Titles, are a safer and better long term ownership/investment, when there is a Residents Agreement in place.

Reasons to have a Residents Agreement

Insurance

The Residents Agreement ensures there is an insurance policy in place for each home, each year. There can be significant savings by getting the homes insured through the same insurance broker/company.

Future Maintenance

The Residents Agreement's purpose is to ensure any common areas are maintained and repaired, to protect the value of the homes throughout their life.

The common areas can include walkways, access areas, fences, gardens and sometimes rubbish bins. The Residents Agreement details each owner's obligations in relation to any retaining walls and building elements.

Benefits of a Residents Agreement

A structure is set up, in advance, to control the insurance and future maintenance of the common areas and visual areas. Funds are put aside, in advance, to pay for these. It can also contain rules that restrict your neighbours from painting their houses different colours and ruining the current look of the development.

How does a Residents Agreement Work?

The Residents Agreement states what is to be done. The Residents Agreement requires a common account to hold any funds for future repair and maintenance of any common areas. The residents vote, using a majority vote, at an annual meeting of the residents.



House type and governing bodies

Body Corporate

Apartments are titled as Unit Titles and by law, require a Body Corporate Management Agreement. These are more costly than a Residents Agreement and you will want to research the current operations of the Body Corporate during your due diligence period.

Purposes of a Body Corporate

Insurance

The Body Corporate is responsible for the insurance of the building, as well as any common areas.

Future Maintenance

The common areas include the maintenance and repair of walkways, access areas, fences, gardens and sometimes rubbish collection and sometimes access lighting. Other areas of maintenance are visual areas such as walls and roof of the building and sometimes retaining walls.

Compliance

Compliance is required for the building, such as access and fire compliance requirements.

Benefits of a Body Corporate

A structure is set up, in advance, to control the management of the insurance and any common areas and for visual areas such as cladding of buildings. Funds are put aside, in advance, to pay for these.

How does a Body Corporate Work?

The rules are stated in a Body Corporate Agreement.

The Body Corporate annual costs are shown in the Body Corporate Agreement.

The residents generally meet on an annual basis and can vote and agree to use a different Body Corporate management. Residents can also vote on the matters that affect them.

Build specifications

You will want to work through and understand the quality of the property you are buying. For a new build, you can get all the build information and compare with other options side by side. If you need help in this area it's always good to ask a friend familiar with building to take

a look, or speak to your lawyer. At Williams Corporation we will always do our best to take you through a show home, or an available similar property so you can see the quality of our homes.

Understanding the types of ownership

Measurements

Check the total internal square meters compared to other comparable developments. Check the bedroom dimensions and compare them to your current property to give you some context on the sizing. Some developers use images that make spaces look bigger than they actually are.

Cladding

The outer weatherproof building material on the property. Do the provided images look like cedar but the specs say brown painted fibre cement?

Well-known brands

Are they specifying and using well-known brands, for example Resene, Dulux or PPG paints, GIB plasterboard, Colour steel roofing etc.

The complexity of design

Do the plans have architectural rooflines and no eaves? The more technical the designs are, the higher the chance for issues. For example a roof with eaves (where the roof overhangs the walls/cladding) will have fewer weather tightness issues over the life of the property compared to ones without.

Inter-tenancy wall

If the property is a townhouse or apartment, check what the inter tenancy wall (wall between you and your neighbours) is constructed of and what are the acoustic and fire protection properties of this. You don't want to be hearing what your neighbours are up to!

Insulation

Are they putting minimum building code spec insulation in or are they going above spec?

Flooring

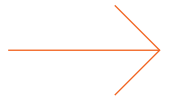
Tiles, timber laminate, vinyl or carpet. What brand/quality is being used in the home?

Landscaping: Is landscaping included or is it an additional cost? What does this consist of? Is it low maintenance?

Chattels

Chattels are the additional fittings and appliances that may be included with your property. Some properties will only include the bare minimum, others may include brands you might not have heard of and this is important to weigh up when comparing your options.

Depending on the length of the build time, it can be difficult for the developer to confirm the exact specs and models of fixtures, fittings and chattels. But they should be able to give you a good idea of the level of quality and your sale and purchase agreement should include a clause that any alternatives have to be of the same or similar specs.



Chattels

Some things to consider

Appliances

Are the appliances provided well known reputable brands you can trust with warranties to back them up? Are any additional appliances included such as dishwashers, microwaves, washing machines, TV's etc?

Heating

What is the main source of heating within the property. If it is a heat pump, is it a reputable brand, is it the right size for the area, and will it service the whole home?

Window furnishings

Do they include window furnishings (curtains/blinds)?

Bathrooms

What brand of tapware and fittings are being used, are heated towel rails included and will the wet areas be well protected?

Electrical fittings

Are the electrical fittings basic or do they include extra PowerPoints/TV/Ethernet points etc.

Aerials

It may sound silly but are aerials/satellite dishes included? Fitting an aerial on a 3 storey house yourself might be difficult!

In summary, ensure you pay close attention to detail so you are clear on what you are buying. Some developers will rely on providing the basic fittings to provide an affordable price point and then charge additional costs for upgrading to suit your requirements. Be aware these costs can quickly mount up and may be the difference between one property and another.

At Williams Corporation, we only use reputable suppliers for all our construction materials, and appliances that you can trust such as Fisher & Paykel.

Guarantees/warranties

Ask the developer, agent or consultant how the developer or builders warranties or guarantees are assigned to you. Do you get a standard 10 year structural warranty? Do you get the individual product warranties? Is there a 12 month workmanship defects warranty? A lot of workmanship defects can show after different seasons so do not accept anything less than 12 months i.e. Paint cracks, loose door knobs or rubbing doors.

A lot of this section comes down to the quality of products and brands used and the likelihood of needing to use the warranties. Are the brands being used reputable and have a good name when it comes to repairs etc.

It isn't necessarily a benefit to have a Master Build guarantee as a Master Build guarantee doesn't really apply to turnkey developments because you don't pay any progress payments and your deposit is safe in the lawyers trust account if the development doesn't proceed.



Lawyer checks

A critical action during the due diligence period is arranging your lawyer to investigate the Title and check the Sale & Purchase Agreement for any concerns.

Lawyers are specialists in checking through some of the more complicated wording and the impacts on you as the potential buyer and will be best placed to advise you on any concerns that you may then want to request as changes to the vendor.

Although this can be costly, especially if you are unsuccessful on a number of properties, the benefits of this part of the process cannot be understated in order to protect you as the buyer.



Rental return

If you are going to be buying the property as an investment, it is a good idea to check the rental appraisals or get yourself independent rental appraisals.

These may be provided by the vendor, or you could try speaking to a property manager experienced in the area and ask about the rentability of the type of property you are looking at e.g. bedrooms, location, style and how confident they would be to get the appraisal amount easily.

Also, ask the property manager about the type of tenants and length of tenure the property would attract.

This is also an important step to take even if you are looking to live in the home. You may find your circumstances change and you need to look to rent the property, so will want to know it will be an attractive option for future tenants.

Getting a Registered Valuation

A registered valuation is when an independent body provides a valuation based on the current market value of the property including the land and build. This will most likely be a condition of your finance approval that your bank or mortgage broker should have spoken to you about. Depending on the length of the build some people do this during the conditional period and others prefer to wait until before settlement to avoid having to pay for two valuations.

About Williams Corporation

Williams Corporation is a property developer that produces high-quality homes in existing suburbs. Close to environments where people can live, work and play, perfect for homeowners and investors alike. Their high quality, affordable product has extremely high demand and is delivered in industry-leading timeframes. Williams Corporation is one of the largest residential developers in New Zealand.

We believe that owning a home that you can be proud of, an investment that increases your wealth, or a space where you can grow your business shouldn't be so difficult. That's why we carry the same unwavering commitment to quality and affordability through every NZ property we build.

We will develop our cities with beautiful homes that are affordable to buy, affordable to live in and affordable to maintain.



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