PROPERTY GUIDE

Why Buy A Property?

There are many reasons why you should invest in real estate.

Tangible Asset

Real estate is a physical asset that you can see, touch, and insure

Leverage Potential

Leveraging your capital to increase your buying power can make a huge difference in your investment portfolio. There is no question that you can make a fortune buying property.

> *"Almost all the millionaires you see today have become so through real estate. There is no doubt that when compared to other industries, the real estate industry has made more money. Also, today we can see the shift in the behavior of young people, they now prefer investing in real estate more"*
>
> *- Karan Sawhney*

Example: If you approach a bank with $20,000 to buy shares, you'll receive $20,000 worth of shares. However, with $20,000 to buy real estate, the bank may lend you an additional $80,000, allowing you to purchase a $100,000 property. You can see the significant difference yourself.

Appreciation Over Time

In 1975, the average house price in New Zealand was $24,000. By 2019, this had surged to $550,000, a 23fold increase over 43 years. Today, the average price of a home in New Zealand is at $975,000.
Housing prices are expected to continue rising due to population growth. This is why Karan Sawhney and many others have 100% of their investment in real estate.

Different Types of Properties

Understanding the property that you are buying

Before you buy a property, it is quintessential to understand the type of property you are investing in. Below are the 4 major types of properties -

Free Simple

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

Unit Title

You own a joint share of the land and common property and only have exclusive ownership of a specific area. These types of properties are usually professionally managed.

Cross Lease

You own the house exclusively and share ownership of the land with your neighbor. You must adhere to a 'flat plan' and seek approval from the other owners for any changes outside the original plan. This arrangement is less common and is being phased out, especially in new builds.

Leasehole

You own the property but must pay a lease to the landowner, with lease amounts subject to change over time. While this arrangement typically yields high returns, you won't benefit from any land appreciation. In fact, as land prices rise, your leasing costs will likely increase.

Understanding Zonings

Local councils determine zoning within their district boundaries, specifying the desired long-term outcomes for different sites. These zones are outlined in an operational plan and a future district plan, updated every 5-10 years. Most councils provide this information on their websites.

Note: Future district plans are not set in stone and can change. Therefore, do not base your purchase solely on the future plan.

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 1 hectre

Contamination

Search the local governing body responsible for environmental oversight. They usually maintain a register of properties with potential contamination. If contamination is present, an engineer will need to be involved for any modifications. If you lack experience in property management, it's best to avoid these properties.

So, if you are planning to buy a property and are new to it, we would recommend avoiding these contaminated properties.

Flooding/Overland Flow Paths

Check the local council's website for flood-prone area maps and minimum floor height requirements. Typically, these maps show flood risks for events occurring once every 50, 100, or 200 years, with minimum floor heights set 400mm above the 200-year flood level. If an existing property's height is below this threshold, it is a cause for concern

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Note: For new homes, these requirements are generally accounted for. However, for older homes, it's important to verify if the minimum floor height standards have changed since the property was built.

In New Zealand, many sites now require a Section 72 notice to be rebuilt. This notice legally removes the council's liability for flood damage, often making it more difficult to obtain insurance, financing, and reducing the likelihood of property appreciation.

Coastal Inundation

Most scientists predict sea levels will rise between 1 to 9 meters by the end of the century, with 2 meters being the most commonly cited figure. Consequently, councils are now heavily restricting construction in affected areas and provide maps for reference. If a property you are considering falls within this zone, it is highly likely you will face challenges with insurance, financing, and obtaining consent for any construction.

Tip: Avoid the areas mapped out by the councils.

Asbestos

Most homes built between 1940 and 1990 contain some form of asbestos. Although it is not a health hazard unless disturbed, it is worth testing each property. Small amounts of asbestos are relatively inexpensive to remove, but exterior cladding, interior plaster, and roofs can be costly to remediate.

We highly recommend you to test this before buying a property.

Meth

Since the early 2000s, meth contamination has become a significant concern in property purchases. If meth has only been smoked in the home, a thorough cleaning and sometimes painting can resolve the issue.

However, if meth was manufactured on the property, it often requires extensive remediation, including stripping and relining the property. A meth test is inexpensive and advisable, as even the most affluent areas can have meth-contaminated homes.

Unconsented works

Unconsented works can result in council enforcement actions, lack of insurance coverage, and costly repairs. These works often need to be brought up to current building codes. When purchasing a property, obtain a LIM report from the council and compare the filed plans with the actual dwelling.

Additionally, ask the council if the property has a current code of compliance or requires one.

Property Inspection

A builder's inspection is crucial for negotiating and is often a funding requirement. It provides peace of mind that your prospective property requires no unexpected maintenance. It's advisable to hire a professional company for this inspection rather than relying on a friend who is a builder. If any issues are found, you can leverage this information to negotiate a lower purchase price or request that the seller makes repairs before purchase. This proactive approach helps avoid funding issues or costly repairs soon after acquiring the property.

Leaky Homes

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Property Cycles

There's a view among leading economists that market cycles are becoming less prominent. When examining long-term property trends in New Zealand, prices generally show an upward trajectory. It's crucial to recognize that purchasing in a hot market increases the likelihood of paying more compared to buying in a cooler market.

Buying Process

Whether you're purchasing a modest shack or a multi-million-dollar office building in New Zealand, everyone must use the same document: the Auckland Law Society Sale and Purchase Agreement. This process typically involves three main phases:

1. **Negotiation:**
   During this phase, parties discuss and agree on terms such as price and conditions.

2. **Conditional Contract:**
   Once negotiated, both parties enter into a conditional agreement. Either party may have conditions to finalize, such as obtaining financing.

3. **Unconditional/Deposit Paid:**
   If conditions are met, the contract becomes unconditional, with the deposit paid. However, settlement (finalizing the transaction) has not yet occurred.

4. **Unconditional/Deposit Paid:**
   This final phase involves the exchange of money and property ownership.

Sniff Test

The 'sniff test' involves using basic, logical judgment when evaluating a potential purchase area. Consider factors such as safety, proximity to shops and supermarkets, access to public transport like bus stops, and how comfortable a tenant might feel about the area.

This step is often overlooked, yet crucial as it helps avoid unintended purchases near undesirable locations, such as next to a gang house.

Funding

Given the typical size of property purchases, funding is usually necessary. A common approach involves a major bank securing a first mortgage over the property title and providing funds for the purchase.

In today's market, funding typically covers 80-90% of a new home's purchase price and 60-80% for older properties. Banks often offer more favorable terms, including interest rates, to first-time homebuyers and for new properties. You can easily find current interest rates by conducting a quick online search with major banks.

Council Property File

You can obtain a council property file from your local council, containing all the information they have on the property. This file is essential for verifying that the consents recorded match what you've observed on-site and ensuring the council has all necessary data to prevent potential issues in the future.

Legalities

In most cases, individuals engage a lawyer to review the sale and purchase agreement, representing both the vendor and purchaser. This legal process, which includes reviewing the agreement and facilitating the transaction, is known as conveyancing. For a typical purchase, the cost of conveyancing ranges from $800 to $2000.

Financial Advisor

Having a cash flow analysis completed before purchasing a property is highly advantageous for understanding your expected costs. Engaging an accountant or financial advisor to conduct this analysis ensures you comprehend all expenses associated with your purchase.

Rental Property

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Standard Rental Property

The most common investment property type is a standard rental, typically requiring a functional kitchen but no furniture or appliances (whiteware). A simple way to calculate yield is to estimate $100 per week for every $100,000 of debt.

For instance, purchasing a $500,000 house and renting it out for $500 a week yields a gross yield of 5%.

Furnished Rental

In a furnished rental, the landlord provides furniture and often cooking utensils, which is common in apartments or city-center dwellings where moving furniture is inconvenient. Furnished rentals generally command higher yields due to increased rent from short-term rentals and added convenience.

Room-by-Room Rental

These rentals are prevalent in properties with multiple bedrooms and bathrooms, fully furnished and rented on a per-room basis. Landlords typically cover expenses such as power and internet, offering a hassle-free accommodation option.

Flipping/Trading Properties

Considering your time and commercial risk, flipping refers to purchasing a property with the aim of making improvements and selling it within a short timeframe. Historically, many flippers have primarily profited from market inflation rather than the improvements they've made. When estimating potential profit, it's crucial to factor in expenses such as time invested, interest costs, and legal fees.

Flipping can be a lucrative option for individuals with extensive experience in the property market

Real Estate Agent

A real estate agent acts as a legal representative for the vendor and is compensated by the vendor. Real estate fees typically range from 1% to 4%, with 3% being the average in the market.

It's essential to understand that when purchasing property, the real estate agent has a legal obligation to prioritize the vendor's interests. While this doesn't imply dishonesty, it's crucial to remember that they represent the other party in negotiations and transactions.

Locations

Most economic reports we rely on indicate significant growth occurring primarily in urban centers, with established cities in New Zealand experiencing ongoing expansion compared to less growth in regional areas.

When purchasing property, it's crucial to consider the risks associated with areas heavily reliant on a single economy. For instance, the closure of a major mine on the West Coast could potentially decrease house prices in that region significantly.

Why Invest in Properties?

Property has been a strong performer in New Zealand, significantly boosting wealth for many individuals. Given the projected growth in demand and the challenges associated with constructing new homes, there appears to be no obstacle to house prices continuing to rise well above inflation rates.

Coupled with the ability to leverage investments, property stands out as a potent tool for wealth creation. Many reports suggest that if superannuation programs were to cease, a likely scenario due to the aging population, the average person could face a retirement savings gap of up to $2 million. Property investment offers a robust strategy to address this potential shortfall.

Ethics

Many individuals have made considerable wealth by acquiring prime sites and benefiting from land appreciation, often allowing the asset to depreciate or using it for purposes like parking. Understand what type of investor you wish to be.

At Kiefer, we really believe in adding value to an area and therefore our acquiring is driven around the same belief. We build homes in the areas where people can have a good standard of living.

Sustainability

By the end of the century, the world's population is projected to surpass 11 billion according to current forecasts. This demographic shift will necessitate changes in how people live their lives. We advocate for high-quality intensification, aiming to make our cities more efficient and sustainable for the future.

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