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Buying a home in New Zealand

(With a Christchurch flavour) March 2015

Owning your own home is still the Kiwi dream. Here are some things you may need to think about before you embark on this journey.

Firstly, there are some questions you need to consider;

1. What do I want in my home?

Before starting the property hunt it may be useful to consider what you want in a property. Some of the things you may want or need to consider are;

- Number of bedrooms.
- Location.
- Type of garaging and/or car parking.
- Ease of access - walk up, drive on, etc.
- Amount of work required – i.e. a do up or already well maintained.
- School zoning
- Number of bathrooms
- Child friendliness - fencing, section
- Privacy and noise
- Access to public transport
- Maintenance – e.g. easy care section

Once the dreaming is done, it is time to consider finances. We suggest you talk to a Financial Advisor to clarify your situation and get their help to obtain pre approval for a home loan. Part of your consideration may be to determine what you must have in a property and what are “nice to have” but not essential.

2. What do I need to have to be able to buy?

Lenders (and remember there are more options than just banks out there), will look for you to have been employed, preferably for over two years with the same employer as this indicates stability. Lenders will also look for stability of accommodation, again over two years helps.

The lenders preference is 20% but that is a big ask for most of us unless you can leverage off family owned property, have saved well or otherwise been lucky.

With the Reserve Bank restricting banks from lending high LVR (Loan to Value Ratio's) mortgages this put a stop on them lending but they have returned to this space in a reduced capacity. It is a good idea to talk to a professional Financial Advisor or the banks direct for your unique situation. We are now seeing buyers with a 10% deposit getting finance to buy their first home.

Savings withdrawal to buy your first home

You may be able to withdraw some or all of your KiwiSaver savings (except for the $1,000 kick-start and member tax credit) to put towards buying your first home.

Making a first-home withdrawal.

You must have been a KiwiSaver member for three or more years. You can only withdraw money to buy your first home - not an investment property.

If you have owned a home before, in some circumstances you may still be eligible to withdraw your savings. Your scheme provider may require you to contact Housing New Zealand to determine if you're in the same financial position as a first home buyer.

You'll need to apply to your KiwiSaver provider if you want to make a first home withdrawal.

See also this website.

http://www.hnzc.co.nz/buying-a-house/buying-a-home-with-kiwisaver

Housing New Zealand Corporation provides a range of home loans and home ownership services, to help people into their first home. See their website for more information:

http://www.hnzc.co.nz

http://www.hnzc.co.nz/buying-a-house/buying-a-home-with-kiwisaver/first-home-deposit-subsidy

Kiwi Saver first-home deposit subsidy

If you are in KiwiSaver you may apply for a first-home deposit subsidy. You can apply for the deposit subsidy if you have belonged and have regularly contributed to a Kiwi Saver scheme, complying fund or exempt employer scheme for at least three years.

The subsidy is $1,000 for each year of contribution to the scheme:
3 years of contributing = $3,000 (the minimum you can get)
4 years of contributing = $4,000
5 years of contributing = $5,000 (the maximum you can get)

3. How do I find my home?

Keep your eyes open as you drive around the area(s) you wish to buy in for private sale signs.

Online you can visit Trademe, www.realestate.co.nz , http://www.homesell.co.nz , the property books, The Press, with these being the most obvious choices.

Talking with Real Estate agents can be fruitful as well.

4. Who is there to help me?

Having an idea of what you want in a home, the amount of your deposit and what you can afford is a good starting point.

Financial Advisors can inform you on the finance options available and assist you to work out what you can afford. You could also talk to your preferred lender if you were happy with a narrow view of your options.

Real Estate agents are there to help, but you need to remember they are working for the vendor (owner of the property) and are entrusted to get the best price they can for the property.

Registered Valuers to can be very useful and can provide an independent accurate valuation of the property you wish to buy.

Builders can provide builders reports and/or help you to understand the structural condition and maintenance requirements of the property.

Insurance agents can review your new circumstances to advise and recommend the insurance cover to protect your new situation.

Lawyers protect your legal position and review the dynamics of the property, looking at the Land Information Memorandum (LIM) & Project Information Memorandum (PIM). reviewing the title and title documents (such as restrictive covenants, easements etc.), and carrying out the conveyancing process. Lawyers discuss ownership options and may also ensure you have updated your will.

"PIMs and LIMs are both issued by your local council, for a fee, they often appear to be providing the same information. They include information the council considers relevant to your building project. The main difference is that the PIM is specific to a ***proposed project*** *– hence the name* ***Project Information Memorandum****. Whereas the* ***Land Information Memorandum*** *(LIM) gives information on the council's files on land and buildings that* ***already exist****."*

Retrieved from http://www.consumerbuild.org.nz/publish/legal/legal-other-pimspims.php

5. Insurance issues, especially in Christchurch

In most parts of the country insurance is not given much thought:- you find a property and arrange finance. Then let your lawyer know the details before settlement, so they can confirm insurance is in place and that the lender has been noted on the policy as having an interest to enable settlement to take place.

For those living in Christchurch and surrounds, obtaining insurance is very difficult and expensive. Acquiring cover from the existing insurer of the property or your existing insurer has been a successful way to get cover recently, however the policy will be with new terms and higher premiums.

TC3 classified properties are very difficult to get cover for, builders reports, EQC scope of works and the state of the claim will all need to be provided to the insurer before they will consider providing cover. Lenders are also interested in this from a security value perspective.

Assignment of existing EQC and insurance claims is a big issue in Christchurch, and it is easy to get burnt. You need to do careful due diligence and have your contracts drafted or reviewed by your lawyer.

The longer the Canterbury region goes without any large earthquakes the more relaxed the insurers will be.

This is now a major condition placed in any Sale and Purchase Agreement (covered later in this article).

6. Finance

With well over 36 lenders offering home loans there is no shortage of choice. A full list of current mortgage rates can be found at http://www.interest.co.nz/borrowing/mortgages

You could start by approaching your current bank; the advantage of this is that they know you and how well you conduct your accounts with them. All lenders must provide disclosure documents to you, to inform you of the knowledge and experience of the person helping you. Be aware the bank employee can only promote their employer’s products and services, which may or may not be competitive or the best fit for you.

Alternatively, you could approach a Registered or Authorised Financial Advisor, who should be familiar with the many lenders seeking your business and suggest one(s) that will suit your needs now, but also into your future. Again their disclosure document will help you better understand their knowledge, experience and who they deal with.

While discussing finance with your Financial Advisor you should consider the ownership of the property: sole ownership, joint ownership, tenants in common, joint family home, a family trust, or a partnership. Your lawyers input into this will be vital.

Your Financial Advisor will also guide you through the process, completing their disclosure document, the application form and will obtain from you the following:

- Copies of your personal identification documents (ID)
- Your last 3 payslips

- Proof of deposit
- Copies of your bank statements for the last 3 months and 6 months for any loans

Note: Changes in low LVR (Loan to Value Ratio) lending imposed by the RBNZ on the bank in NZ has seen them basically stop all low equity lending. If you are lucky enough to get an approval with a low deposit you will find extra fees and higher rates are now being charged. Those who have been creative (we have some options worth exploring with our clients) or have saved the 20% are enjoying the lower rates the banks are offering on less than 80% LVR lending.

7. Agreement for Sale and Purchase of Real Estate

Real Estate agents in New Zealand use the standard Auckland Law Society Agreement. To briefly summarise the front page of the form:

- **Date**

- **Vendor** (seller)

- **Purchaser** (buyer): usually your name or joint names. “And/or nominee” means that the sale can be settled in a different name to that which is recorded under purchaser.

- **Property:** the address, estate and legal description.

  ‘Estate’ refers to the title you will have over the property, the most common are:

  Fee simple: This means freehold ownership and in essence represents absolute ownership of the property. (Freehold should not to be confused with no debt, when people refer to their property as freehold, they often mean no mortgage or debt. If there is no debt, this should be referred to as unencumbered).

  Leasehold: This is a form of property ownership where one party buys the right to occupy land or a building for a given length of time. Until the end of the lease period the leaseholder has the right to remain in occupation as an assured tenant paying an agreed rent to the owner. i.e. One entity owns the land and the other owns the buildings on it.

  Cross lease: This is a hybrid form of multi-unit ownership in which each owner has an undivided share of the underlying property as tenants in common, and is granted a registered leasehold estate of the particular unit or flat occupied. Effectively the property owners share ownership of the land and each owner leases their building from the other owners, which together form the cross lease title.

  Stratum estate: Under the Unit Titles Act 2010 the deposit (or lodgement with council) of a unit plan has the effect of creating in each unit a new kind of statutory estate called a stratum estate in freehold, or a stratum estate in leasehold, depending on whether the land which was subdivided into units was freehold or leasehold. Stratum estate is usually used for multi-unit dwellings, shops, offices or industrial premises

Legal description includes area of the land, Lot, DP and CT details.

Payment of Purchase Price:

This is where you record the amount you are willing to pay, and can get quite messy when various counter offers are made.

Deposit. Generally 10% of agreed sale price is expected to be paid when agreement is declared unconditional (your lawyer will do this), but note 10% is not mandatory.

If you are using Kiwi Saver or don't have the 10% deposit, then you either need to negotiate a lower deposit or have your Financial Advisor arrange the lender provide this against the sale document and possibly your lawyers undertaking.

Balance of purchase price to be paid is where you take over ownership and get the keys! You also take on the responsibility

<u>Note:</u> There is no legal requirement to pay a deposit, the Real Estate agent will push for one mainly so they can claim their commission as soon as the sale goes unconditional. Payment of a deposit does show good will and intent to complete the purchase.

Conditions:

This mostly covers finance requirements, lender amount and finance date (allow usually allow 15 working days.)

Other conditions of sale and purchase may include:

- Builders report
- Insurance (again allow 15 working days)
- Information on earthquake damage, including scope of works and current situation
- Lawyer's confirmation of contract, also LIM & PIM

Note: a separate page maybe inserted to record all the conditions you or your professionals will require to be checked off before the agreement can be confirmed.

Tenancies:

If the property is tenanted then these details will be recorded here.

8. Fixed or floating?

This is a perennial question as the interest rate environment is hardly stable. There is no one size fits all either, so your particular situation needs to be well explained and understood by whomever is giving you advice on this important decision. Having said this, none of us have a crystal ball to predict the perfect option for you and you will need to make the final decision.

<u>Floating</u>

Advantages: You can repay, some or the entire principal, without penalty, if rates should drop your interest rate will go down as well.

Disadvantages: If rates go up your costs will rise as well and if the increase is significant, this could put your budget at risk.

We believe you should look at repayment amounts using a rate 2% higher than current rates and look at the impact on your budget.

Fixing for one year:
Advantages: It is generally below the average variable home loan rate offered by lenders so there is the option to borrow at a lower rate than the floating or variable rate on offer.

Disadvantages: If interest rates rise further than expected then higher rates will apply when coming off the fixed term next year. **Break fees will be charged if you repay early**.

The lender often use this very attractive rate to get rates locked in short term when they anticipate rates are going up

Fixing for two years:
Advantages: It is currently below the average variable home loan rate offered by lenders so there is the option to borrow at a lower rate than the floating or variable rate on offer.

Disadvantages: Anyone fixing for this long misses the opportunity for lower rates should they fall over the next 6 to 12 months. **Break fees will be charged if you repay early**. There is a risk of coming off a fixed rate into a higher interest rate environment.

"The 2-year fixed rate would suit those who prefer interest rate certainty in the near-term but were willing to take the risk that interest rates will return to lower levels or stay flat during the next 24 months."

Fixing for three years:
Advantages: The 3-year fixed rate offers the advantage of providing interest rate surety for longer.

Disadvantages: There is a possibility of a missed opportunity if global and local inflation pressures ease and cause rates to fall within the next 3 years. **Break fees will be charged if you repay early**. Also, there is the risk of coming off a fixed rate into a much higher interest rate environment.

"A 3-year fixed rate would suit those who foresee interest rates returning to higher levels within the next few years but either prefer less risk or foresee a stable inflation outlook.

Fixing for five years:
Advantages: Surety for the next 5 years, any rate below 7.5% is under the historical 5 year moving average.

Disadvantages: It is usually the highest of the fixed rates advertised. **Break fees will be charged if you repay early**

"A 5-year fixed rate would suit those who strongly prefer interest rate certainty or have fixed income that would restrict their ability to cover repayment increases due to rate rises.

9. What additional costs are there in owning my home?

Welcome to home ownership and the additional costs that are now your responsibility.

Of course you are no longer paying rent; instead you will have regular loan repayments, which figure prominently in most people's budgets. Other costs are house insurance, increased contents insurance, local government rates, and the hard to quantify, but very real, property maintenance. In some areas you may also have to pay water rates.

Over the years we have seen the majority of our clients benefit from property ownership. It is generally accepted that the sooner you get on the property ownership escalator the better. We are confident that those who buy now will be bragging at the price they had paid within 5 years and certainly well-within 10 years.

David Weusten brings with him over 33 years' experience in the finance industry, both in New Zealand and overseas. He has been published in the Sunday Star Times, the New Zealand Franchise Magazine and has published 3 books. He is a budget advisor with Kingdom Resources, a Business Mentor with Business in the Community and now also a Pacific Island Business Mentor regularly travelling to Papua New Guinea.

Email David at dweusten@fspnz.com if you would like to know more about buying a home. Or visit Financial Service Providers NZ Ltd at www.fspnz.com