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THE NEW ZEALAND

Property Investor Handbook

BY MOMENTUM REALTY





So, you want to invest in property?
You’ve come to the right place.
Or downloaded the right guide.
Whatever way you want to look at it.

WHY THIS GUIDE?

While property investment may seem simple from the outside, there’s a lot that goes into buying the right property and making sure you can hold it through the fluctuations of a property cycle.

In this guide, you’ll find everything that you need to know about what makes property such a powerful investment option, and how to make sure you buy the right investment property to meet your financial goals

WHAT’S INSIDE:

- Why invest in property?
- Funding your investment property
- Building your property portfolio
- Setting your property criteria
- The benefits of buying new
- The pros and cons of different property typologies
- Property funding types
- Buying for growth or buying for yield
- How Momentum Realty can help

WHY PROPERTY?

HARNESSING THE POWER OF LEVERAGE TO HELP YOU GROW YOUR WEALTH

Kiwis invest for many reasons – to improve security, help kids onto the property ladder, fund their retirement, or have more opportunities for how they live their lives in retirement.

But property isn't the only investment option they have – but it is one of the more powerful ones.

And the thing that makes property an amazing investment option doesn't necessarily have anything to do with the property itself. What makes it amazing is the ability to use leverage to borrow money in order to purchase the property and benefit from capital gains on the full value of the property.

WHAT DOES THAT LOOK LIKE?

Say you invested $100,000 in a managed fund that was earning an average of 5% annual return. This would get you a return of $5,000 (before fees and taxes).

But if you were to use that same $100,000 as a 20% deposit and borrow $400,000 to purchase a $500,000 property (if purchasing new) you'll earn returns off the full $500,000. If we use the same return rate of 5%, you get $25,000. This is what makes property investment powerful and why it remains one of the most popular choices for growing wealth ahead of retirement.

FUNDING YOUR INVESTMENT PROPERTY

GOOD TO KNOW

When getting pre-approval from the bank for your investment property mortgage they will make the assumption that you'll be paying principal and interest on this mortgage. In the majority of cases, your adviser should recommend that you go on an interest-only loan.

Of course, in order to benefit from the investment potential of an investment property, you do need to be able to afford to purchase and hold them.

When it comes to funding your investment property, there are two key areas to consider: having enough to pay for the deposit and having enough to service the loan (or at least prove to the bank you can).

THE DEPOSIT

Buying an investment property requires you to be able to fund a portion of the purchase price being the deposit.

If you're buying a new build property, you are required to come up with 20% (minimum). There are two key ways you can fund this: cash or equity.

Cash is when you have the money required to pay the deposit, already sitting in the bank, while equity is the difference between the value of a property you own and the outstanding debt (mortgage) on that property.

What does this look like?

So, say you have a property worth $1 million and a mortgage of $500,000 – that gives you $500,000 in equity.

However, you won't be able to use the full $500,000 as a deposit on an investment property as the bank will still require you to have at least 20% equity in the property.

So, in this scenario, you'd have $300,000 worth of equity to invest.

SERVICING THE MORTGAGE

Another thing you'll need to consider when investing in property is being able to pass serviceability criteria as set by the bank.

This is to check that you'll be able to pay off the mortgage on your own home plus have sufficient surplus cash to prove to the bank you can make those new mortgage repayments on your investment property. And while the bank will take a portion of the rental income into consideration, this is generally never the full amount.

Often this is referred to as the debt-to-income ration. This will dictate the amount of lending that a person can secure from the bank.

SELECTING YOUR INVESTMENT PROPERTY

Whether you're planning on just having one investment property or a whole portfolio, there are some key things to consider when it comes to making sure these properties are able to help you achieve your financial goals.

In this section we'll look at:

- Setting your property criteria
- Why buy new
- Property typologies
- Property funding types

SETTING YOUR PROPERTY CRITERIA

While you'll have your own criteria when it comes to purchasing an investment property that helps you achieve your financial goals, these are the top 5 that we think all investors should consider in order to ensure they're able to hold the property long enough to realise the desired returns.

BUY NEW

Ideally, you'd be buying a property off the plans that is yet to be built or still under construction. This guarantees that the property will qualify as a new build and gives you additional time to bolster your financial position before you have to settle.

MINIMUM GROSS YIELD

Look for properties that have a gross yield of at least 3.5%. This will help lessen the pressure on your cash flow by minimising how much you'll need to 'top-up' the property to bridge the gap between what you'll get in rent and what the mortgage will cost.

PICK THE RIGHT LOCATION

Buying in an area where there's a shortage of housing supply meaning that the area is experiencing growth which will contribute to the average capital growth of the property. Be sure to check planned infrastructure like roads, schools and transport in the area to make sure it can support the additional people.

BUILT BY A REPUTABLE BUILDER

This will help ensure the build and materials are of a high quality and that you'll have a home that tenants will love to live in. It's worth checking what other builds they've been involved in and what guarantees they provide for their buyers.

RENT READY

Make the transition to landlord easy by buying a property that has fencing, landscaping, carpets, blinds and a heat pump included in the purchase price and is healthy homes certified.

This means less for you to do when you settle and your tenants have a comfortable home to move straight into. Secure your investment from the start by purchasing a property that also comes with a rental guarantee.

WHY BUY NEW?

When looking to purchase an investment property, one of the recommendations we make is to buy new. While there's nothing inherently wrong with buying an existing property as an investment, a new build comes with a raft of benefits making them more cost-effective to buy and hold for the long term.

This table outlines some of the ways buying a new-build could be the better choice.

	EXISTING	**NEW**	**BY BUYING NEW**
Deposit	40%	20%	You require less capital
Brightline period	10 years	5 years	The property becomes more tax efficient, faster
Tax deductible	No	Yes	
Building guarantee	None	10 year	You are less likely to incur big expenses & makes planning your finances easier
Maintenance level	Up to 10% of value	Low	
Healthy home compliance	Maybe	Yes	
Settlement	Immediate	Delayed (or immediate)	You have more time to improve your financial situation to be able to hold for the long term

PROPERTY TYPOLOGIES

While there's no right or wrong type of property, the property's typology can have a hand in its profitability. Typology can also influence the purchase price of the property, making some property types more accessible than others – especially for first-time investors.

TOWNHOUSE OR TERRACED HOME

These are multi-story homes which share one or both walls with an adjacent property. They will often come with a 'freehold' or 'stratum in freehold' title. They are often cheaper than a standalone home, making them a popular investment choice.

If it's a freehold title, the owners will belong to a residents' association and be required to contribute an annual fee to manage common areas.

If it's a stratum in freehold title, all of the owners will belong to a body corporate.

Townhouses are becoming more popular in the suburbs of large cities with land that used to hold just one property being transformed to accommodate multiple townhouses. On the city fringes you'll find larger parcels of land being turned into communities predominantly made up of townhouses and freestanding homes.

APARTMENT

Apartment properties are usually multi-story buildings that have individual residential units which will hold a 'freehold in stratum' unit title so the owner will belong to a body corporate.

Well-located, well-appointed apartment developments are becoming more popular with investors, especially those looking to invest for rental yield.

DUPLEX

Duplex properties usually have a 'freehold' or 'fee simple' title and the two properties in the duplex will share one common central wall. A duplex can be owned together or on two separate titles.

The homes in a duplex will generally be a direct replica or mirror image of each other with their own individual entrances and outdoor space.

STANDALONE

A standalone property is the quintessential family home – one many Kiwis grow up in. This property doesn't share any walls with its neighbours, and the owner has absolute property rights on both the property and land with a 'freehold' or 'fee simple' title.

DUAL INCOME

A dual-income property has two self-contained dwellings under one roof. They are often also referred to as a multi-generation home or home & income. Unlike a duplex property, a dual income only has a single title ownership – so only one set of rates that need to be paid, but you'll be able to generate two incomes from the two separate tenancies.

PROPERTY FUNDING TYPES

Because we advocate buying new build properties, most of the houses we recommend to clients will be bought off the plans, and they'll either be classified as a turnkey or land and build package.

The main difference between the two is how they're financed – and therefore the impact they'll have on your short-term cash flow.

TURNKEY

As the name suggests, the process for a turnkey property should be as simple as inserting a key and turning the lock – and it's the simplest method of purchasing a new build property 'off the plan."

After due diligence and the initial 10% deposit to secure the property, you don't have to make any further payments until the property is complete and it's time to settle. This means there's less pressure on your immediate cash flow and gives you more time to strengthen your financial position for when you do settle.

Apartments and townhouses will always be turnkey as the entire block or building will need to be completed as one.

Turnkeys do tend to be a bit more expensive than Land & Build packages as the vendor has factored their funding costs into the total purchase price.

LAND AND BUILD

With a land and build property, the funding process is a little more involved.

As with a turnkey you'll pay the 10% deposit to secure the property after signing the S&P agreement and completing your due diligence.

But that's where the similarities stop.

You'll settle on the land a few months later, at which point the bank will issue the 'land loan' portion of your mortgage.

When constructions begin, you will start to draw down from a 'construction loan' to make progress payments for the build. This loan will be on a floating interest rate until settlement.

Once the house is completed, you will pay the last instalment of the construction loan and settle on the property. At this stage, you will be able to fix the construction loan alongside the land loan.

Standalone, duplex and dual income properties can either be a turnkey or land and build property depending on the developer.

BUYING FOR GROWTH OR YIELD

When buying an investment property – you're generally buying to solve one of two needs – long-term capital growth, or passive income through rental yield.

BUYING FOR GROWTH

When you buy for growth, you're hoping to reap the value of the investment over the long term. You'll likely have a higher cost to hold, as yields tend to be lower, but you'll be rewarded with a high return when you sell the property.

Auckland is a good example of an area where you could buy for growth.

BUYING FOR YIELD

When you buy for yield, you tend to be looking to earn a passive income. Here, the rental yield is high relative to the purchase price meaning the property is positively geared either right from the start, or will be in a relatively short time frame.

The downside is that these properties experience limited capital growth. A region like Gisborne is an example or an area where you could buy for yield.

If you are buying one investment property, you'll want to be clear on which one you're buying for, but if you're looking to build out a portfolio, it might be worth having a mix of both to meet both long term and short term financial needs.

AVOIDING COMMON PITFALLS

It's important to keep in mind that with any investment there are risks. But if you follow the advice in this guide you're well ahead of the curve in mitigating some of these risks.

The things that are most likely to derail your investment journey include:

- Buying the wrong property for your situation
- Committing to a too high weekly top-up and putting undue pressure on your cashflow
- Working with the wrong builder
- Not building in contingencies for your cashflow

How do you know you're in a position to buy?

✓ You can secure lending
✓ You have sufficient cash flow surplus
✓ You have the right hold strategy
✓ You buy the right property for your circumstances & goals
✓ You are cash resilient

Start your property investment journey with Momentum Realty today.

Call us on **0800 115 984** or visit **momentumrealty.co.nz/contact-us**

HOW MOMENTUM REALTY CAN HELP

Momentum Realty is a highly specialised team of real estate agents selling residential investment properties to everyday New Zealanders.

Founded with the express purpose of marketing brand-new quality investment properties developed by some of New Zealand's leading property developers, our strength lies in the experience and product knowledge of our team.

We always work in the best interests of our clients, with integrity, and transparency and are committed to ensuring that our clients receive an exceptional experience.

Selling homes off-plan and unveiling a new community or property that is not tangible, involves an experienced property expert. Yes, it's all about the numbers, and less emotive, but clarity and decisive guidance are paramount.

WE SPECIALISE IN

- ✓ New residential homes located in growth areas with strong rental demand, built by reputable builders offering 10-year build guarantees.
- ✓ Rent-ready, healthy homes compliant homes - meaning no extra upgrades or work is required before your tenants can move in
- ✓ Fee simple or freehold properties – standalone and townhouse/terrace properties
- ✓ Unit title or apartment properties that are in superior locations.