

Advice around buying your first home or investment property.

By Laurence Churchman
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Having successfully purchased 3 investment properties myself I have decided to put together a list of useful information to help anybody who is current looking at purchasing their first home or investment property.

From the outset I must warn you that purchasing your first property will require a lot of your time and effort. Based on my personal experience the total process takes approximately 100 hours of hard work. However I can assure you it is definitely work it.

Steps in purchasing a property:

1. Seek pre-approval from bank

This involves you completing a home loan application, which summarizes all of your income, expenses, Assets and Liabilities.

2. Attending various open homes

3. Completing your due diligence

This involves obtaining and reading the building report, the LIM report and latest copy of the body corp minutes etc.

4. Completing financial calculations

This involves you completing various financial models and budgets to ensure that you are able to service the lending you have applied for.

5. Submitting offer document or attending the auction.

Post receiving confirmation that you have been successful in purchasing the property.

This is where all the fun and hard work really begins.

First off all it is critical that you notify both your lawyers and bank manager as soon as possible as time is of the essence.

I note that you will be required to communicate on a daily basis with both your Bank Manager and Lawyer to complete various tasks such as to arrange a time to sign all of the legal documents etc.

General Advice:

Most suitable ownership structure

It is very important that from the outset of when you decide to start looking to purchase a property, that you confirm which ownership structure would best be suited to your situation.

If you are planning on purchasing a property with another party such as your partner, parents or siblings then it is a very good idea to look into setting up a company to hold the property. This has many very significant advantages.

The first of which is that it is very easy to transfer a % ownership of the property to another party, all you have to do is sell your shares to that party.

I note that to change the name on the official title of a property for example from your own name to a company where you are the sole shareholder and director will cost you approximately \$3,500. As you can see this is a significant amount and therefore it is critical that you work out what structure is most suitable to your situation as soon as possible. In doing this it is also important to think about the future and if you are planning on purchasing additional properties at some stage.

Another significant advantage in holding all of your properties in one entity will allow you to gain finance for future additional purchases a lot easier.

Unfortunately if you are planning on moving into the property to live in it then it is likely that the bank will require that the property go in your personal name.

Using Kiwisaver

It is very easy to get out your Kiwisaver out and all you have to do is to fill out a 3-page document.

Government home-start subsidy

This is more complicated. The sooner you start this process the better.

Valuations

The best resource you can use to determine how much a property is likely to sell for is to purchase an E-valuation document from the GV.co.nz at a cost of \$50.

Other useful indicative property valuations can be obtained free of charge from Homes.co.nz and Trade ME property insights.

Pre-approval:

Before you start looking for a property I would recommend going to your bank and seeking to get a pre-approval to see how much they are willing to lend you. This will also speed up the process if you are actually successful in purchasing a property.

Settlement date:

I would recommend that you set the settlement date for at least 1 month after the purchase date. This is because there is a lot of paper work that needs to get done and you do not need the added stress of a tight settlement date, especially if you have not gone through the process before.

Bank conditions:

Depending on the property type the bank may require a Professional valuation report to be obtained at a cost of approximately \$850.

Additionally the banks are very unlikely to lend you any money at all if the property is below 34% National earthquake standards, i.e. if the building is earthquake prone.

Risks

The main risk associated with owning property is a significant rise in interest rates.

To ensure that you are able to cope with a rise in interest rates in the future it is critical to ensure that when you are completing your financial calculations that you run a model that simulates what would happen if there was a significant rise in interest rates.

Bank lending.

In order to get a mortgage from a bank you must meet both of the following two tests:

Equity test:

To purchase a property you intend to live in you must have at least a 20% deposit of the purchase price, this is because currently banks are only happy to lend you up to 80% of the purchase price.

If you are planning on buying an investment property the banks are currently only happy to lend you 60% of the purchase price, therefore you are required to have a deposit of at least 40% of the purchase price.

Debt servicing test:

This is where the banks enter all of the information you have provided them and then work out how much they are willing to lend you.

It is important to note that the banks use approximately whatever the current 2 year fixed rate mortgage is + an additional 2% for the interest servicing component of the calculation. This is effectively used to ensure that you are able to pay the mortgage if interest rates increase in the medium term.

As a general principle the banks are happy to lend you up to approximately 8 x your regular salary.

Please remember that every step of the process along the way from seeking pre-approval from the bank to when you finally receive the keys to the property takes a lot longer than you think. Therefore you must be prepared to put in the hours to ensure everything goes according to plan.

It is no secret that owning property is the quickest and easiest way to make a lot of money. This is because of the power of leverage. And the fact that property is the only asset class that will allow you to borrow up to 80% of the purchase price of the investment.