

lateral partners®

First Home Buyers **Guide.**

April 2024



()
()
CONFIDENTIAL
PRIVILEGED

Lateral Partners Limited,
Level 4, 1 Kenwyn St, Parnell,
1052, Auckland, New Zealand.

Bespoke finance &
expert capital solutions.
www.lateralpartners.co.nz



Buying your first home? Let's make it easy.

First Home Buyers Guide



L. Partners

Disclaimer.

The information contained in the guide is general in nature and is not intended to be financial, legal or tax advice. Before making any financial decisions, you should consult a mortgage adviser or another appropriate professional adviser. Lateral Partners believes the information in this guide is correct, and it has reasonable grounds for any opinion or recommendation contained in this publication on the date of this publication. Nothing in this publication is or should be taken as a recommendation to invest in a certain way. Lateral Partners accepts no responsibility for any loss caused as a result of any person relying on any information in this guide.

Getting onto the property ladder? That's awesome! Make your next financial decision your best one yet.

Buying your first home can be a whirlwind of emotions. Some say you'll find it exciting and others you'll find overwhelming and stressful. The great news is that these feelings are normal and you're not alone in feeling that way.

There's lots to be aware of through the journey and the more you know the more prepared you'll be. We've been through that journey ourselves and we've helped hundreds of clients go through it as well, so we're here to help.

You're making an exciting step and we're with you the whole way. From start to finish. From talking about how to get 'bank fit' and getting that approval in place, to helping you with reading LIM reports or building inspections all the way through to ensuring you're getting the best deal and your loan structure fits your personal situation.

Lateral Partners will take the stress away so that you can focus your energy on decorating your new home and organising that house warming!

Contents.

Intro to Lateral Partners.	5
Before you go much further.	6
Common questions.	7
Buying your first home.	9
How to use KiwiSaver.	12
KiwiBuild.	15
Cost of a low deposit plan.	17
What is the First Home Partner initiative?	18
First Home Loan.	19
Building new – construction and turn-key.	20
Your very first home loan.	22
What types of properties are there?	24
Tips and tricks.	

Intro to Lateral Partners.

Lateral Partners was founded in 2020 off the back of more than 20 years lending experience with leading banks and mortgage broker businesses. We are a firm who specialise in sourcing capital for clients across residential, commercial and property development. Because of this we have an in depth knowledge of the buying, selling and construction process as well as access to relationships that can help make your buying journey as simple as possible.

At Lateral Partners we value integrity. To us that means at all times, being honest, upfront, and transparent with our clients and our business partners. This is a non-negotiable and it's through this that we empower you as our client to make more informed decisions.

There's a lot of steps to buying a house and we're there every step of the way to make it easy. Here's an introduction to the types of things we'll do for you:

- We'll help you get 'bank fit' – this means working with you before even
- Applying to the bank to give you the best chance of a yes
- Work with the banks on your behalf to get an approval in place
- Help arrange valuations if required
- Advise on your loans structure and ensure you're not only set up for now, but also into the future

We're here to help, so please don't hesitate to [get in touch](#)

Before you go much further, here are some things to think about.

Get 'Bank Fit'.

These days banks are governed by the responsible lending code and part of that means that they need to ensure you have the ability to repay the loan they give you. As a first home buyer, simply having the income level may not be enough. Getting 'Bank Fit' means getting your accounts in order. Make sure you've got a regular savings plan and in an ideal world, set up a bank account so that your savings (+rent) equate to your probable mortgage repayments. This will not only show the bank you can afford the loan, but it'll also show you what life will be like as a homeowner. Clear as much consumer debt as you (if you have any) and make sure your account conduct is good.

Be prepared.

Buying a property can be a competitive game, so getting your ducks in a row can prove to be the difference. Making an offer with all your legal, finance and due diligence sorted will put you ahead of the rest. And don't worry if you don't know where to start with that, we've got it covered.

Common questions.

Without doubt, you'll have lots of questions and we're here to answer all of them. We've also answered the same question a number of times so here's a list of the most common:

How much can I borrow?

Not an easy question first up. This is an answer that will depend on your personal situation. Your income level, any current debt, number of dependents etc. In addition, every bank assesses your affordability slightly differently so whilst you may be able to borrow an amount from one bank, you could get a bit more (or less) from another. The good thing is, we know what each bank can do so can do all the hard work for you.

Why use a mortgage broker? Why not just go straight to the bank?

This question is something all mortgage brokers/advisors get a lot. The reality is you could go direct to your bank and get an off the shelf offer with little to no advice. But it will be a specific loan product which that bank provides, and won't necessarily fit your goals & needs. This is because the bankers aren't allowed to give you financial advice outside their scope of service (e.g. their specific bank products). Genuine, honest advice and a knowhow is what you'll get from dealing with a good broker. It's not just about getting the loan approved and choosing a fixed rate, it's about the entire buying journey. Property will be one of your largest financial investments so why not ensure you're making the best possible decisions while making that investment. Property finance is our game, it's what we live and breathe so we know what to look for. And better yet, the banks pay us so you not only get great advice, and it costs you nothing (more detail on this below)!

What's the best rate I can get?

For the most part, the banks all offer the same rates. However, depending on the current lending environment there may be the opportunity to negotiate interest rates, but this generally happens during a market boom than lull. That's not to say you won't get the best rate during a lull or that we won't be able to negotiate a little bit off for you, but rate shouldn't be your driving factor.

What happens if I'm self employed?

If you're self-employed or a contractor there are a few more hoops you'll have to jump through. Nothing overly strenuous. Ultimately it's about being able to prove your income. That means having your accountants prepared financials for the last two financial years or your IR3's for those years. If you don't have two years then have one year plus a forecasts for the next 12 months prepared by your accountant will be required.

If you are contracting and have a fixed term contract then you will need to supply a copy of that. Banks will treat this similarly to a PAYE employment contracts.

Common questions.

(Continued)

What paperwork do I need?

As talked about earlier, we need to ensure you as a borrower have the ability to repay your loan. Because of this, we will need a fair bit of paperwork. In saying that, we won't make you give us anything we don't need.

We also have some great technology and systems to ensure gathering paperwork is as pain free as possible.

How much deposit do I need?

When buying your first home you'll need at least 5% genuine savings. This is one of the ways you prove your discipline to manage your money.

If you have good income and account conduct, you'll only need a 10% deposit. That's right, despite what you may have heard, you don't have to have a 20% deposit in order to buy! This is dependent on the type of asset you are buying, with new build properties having lower servicing requirements than buying an existing property. Some of your deposit may also come from things like family guarantees or gifts but you'll need to show that you're putting in at least 5% of your own savings.

Note: With ever changing market conditions and policy changes from the Reserve Bank, Banks will be required from time to time limit the amount of low equity loans on their books. Speak to your broker about their insight on the current outlook on low equity lending.

How does a mortgage adviser get paid?

Like we said, Lateral Partners are founded on Integrity and this means being transparent. What better way to show this than to tell you how we get paid! On the residential side of the business (which is where you'll fit as a first home buyer) we are paid an upfront commission by the lender of between 0.45% and 0.85%.

Some of the lenders also pay us an ongoing trail commission of between 0.15% to 0.25% per year to provide ongoing support to you. This is paid on the basis that we continue to look after you for things like top ups, refixes or anything else you might need.

For example:

In some instances where loans do not fit with main bank lenders we may look to apply with other lenders that do not pay commission. When this is the case we will charge a fee for our service (usually 1% of the loan amount) and this will be made clear throughout the process and will not be charged without a loan in place or without being explained in full beforehand.

Buying your first home.

This is where things get fun. Outside of taking possession, this can be the most enjoyable part of the process! But it can also be pretty stressful so take your time, and feel free to ask questions.

There are many different ways to buy property in New Zealand. Depending on the market, auctions will most likely be the most common but there are plenty of other ways you might be able to secure your first home so here's a breakdown of those:

Auction

If you've watched the final episodes of any of The Block seasons then you know what an auction is all about. The auctioneer runs the show and is typically someone who can talk at a ridiculous speed!

Everyone is in one room vying for the same property and trying to get it as cheap as possible. These auctions can be held at the property location although they're most often run at the head office of the respective real estate agent. These are held weekly and you'd typically have 25-30 houses go to auction on a given day.

Important to note is that if you win, it's considered an unconditional purchase, so you need to do all of your due diligence homework beforehand. This also means you'll need to be in a position to pay the deposit as soon as you win.

You will be given a copy of the sale and purchase agreement, title and maybe the LIM report. Send those to us to review if you need to. You may need to do a building inspection and valuation. This can get expensive if you keep going to auditions and aren't successful, so choose wisely and ask us for help.

Price By Negotiation

This is quite common in an upward trending market when vendors are wanting as much as possible for their home but agents aren't all too sure what that amount should be. As a buyer you make an offer which is hopefully high enough to get the vendor interested. They would typically then counteroffer, and you'll be in a negotiation until a price is agreed, or not.

Tender

No, not Tinder although, a tender is like dating. You put in a written offer and the vendor considers your offer alongside others. There will be a date that all tenders are due so that everyone's offer, goes in front of the vendor at the same time. You can put conditions on the offer but this might make it less appealing than others. In this scenario, less conditions might beat out a higher price if the vendor is needing to sell.

Buying your first home.

(Continued)

Private Sale

Private sales are the same as Private Treaty but are worth covering separately because you'll be negotiating directly with the vendor. Because no one will be managing the process and spotting the issues early there's more chance that something will go wrong. If you buy privately, you'll need a registered valuation and should have your solicitor check the agreement before you sign. The alternative is to insert a solicitors' clause, which is like a Get Out of Jail Free card – if the solicitor's not happy, you have three days to get out of the agreement.

Sale and Purchase Agreement

Once you find a place you want to buy, you'll need to sign a sale and purchase agreement. We also recommend getting your lawyer to review this at the time of signing. We've outlined the main conditions to consider below:

- Subject to finance – generally 5 to 10 working days
- Subject to building inspection
- Subject to LIM report
- Subject to solicitors approval – 3 working days (insert this if you are not confident about what you are signing). Another popular condition is a due diligence clause that gives you full control on the purchase process – unsurprisingly, this isn't nearly as popular with agents as it is with buyers.

Remember though, this is a legal contract and once you go unconditional, you're committed to purchasing the property. It's mostly not as ominous as that sounds.

Paying the deposit

You might find that you don't actually have the deposit available when you buy a property. Rather than searching down the back of the couch to make up the difference here are the rules and the process you should follow:

The amount of a deposit is completely negotiable..

Auctions are set at 10% deposit, but you can negotiate with the real estate agent before the auction if you don't have it on hand. Agents and vendors will want as many bidders as possible at the auction so will generally agree to a lower deposit. With private treaty (by negotiation) sales you set the figure when you sign the sales and purchase agreement. 5% is usually enough. With bigger purchases you can usually cap the deposit at an amount, for example \$30k.

When is the deposit paid?

You normally agree to pay the deposit once the sale goes unconditional. Occasionally real estate agents ask for the deposit upfront, but this isn't all that common.

Buying your first home.

(Continued)

Although it is best to pay the deposit on the day you go unconditional, this is often not possible because of the amount of paperwork required to get temporary facilities in place. If this is the case, you can go unconditional and just let the agent know that the deposit will be paid within 48 hours. Always check with your solicitor – you have three working days from being served notice (by the vendor's solicitor) to pay the deposit. This means you have at least three working days from going unconditional to pay it. That's enough time to search through a few couches – or set up alternative arrangements.

Remember: The KiwiSaver rules changed recently to allow the early release of funds to be used as a deposit. This needs to be managed through your solicitor and is worth getting underway as early.

How do I get a building inspection and valuation?

Once you've signed a sale and purchase agreement, we suggest you obtain a building inspection as soon as possible and before going unconditional so that you can identify and address any risks with the house you are buying.

When it comes to the valuation the bank will require that we arrange the valuation on your behalf. This may be completed before going unconditional if there is a risk that the valuation won't stack up with the purchase price, but generally speaking this will be completed prior to settlement.

What is a LIM report?

A LIM report is prepared by the council and is based on its property records. It will tell you whether or not the property has the right consents and a code of compliance, as well as a number of other features and information on the property. Nowadays the real estate agent generally provides a LIM along with the property documents for your review, however this is not always the case and so you should be aware that you may. If you want/need to order a LIM report from your Council, this will cost around \$351-\$474 and it often takes up to 10 working days or 3 working days if ordered urgently. So, ordering sooner rather than later will save you a lot of stress as you head towards the unconditional date.

Again, we always recommend getting your lawyer to review this as they are the experts and understand what they are looking at, but it is also a good idea for you to review this and ask your lawyer questions too.

Choosing a lawyer and signing contracts.

Your lawyer is a necessary evil in the house-buying process. You'll find there's a huge difference in quality of service, advice, and cost from all the lawyers out there, so it's really a question of what you need.

If personal service is important then pay extra and go to a reputable law firm. There are also a number of low cost transactional services available, which work great if you're an old hand and don't need lots of advice or reassurance.

Your lawyer will confirm that you would like to go unconditional with the vendor, check that the title of the property is clean, run through the mortgage documents with you, and settle the funds. If you are outside of the city or overseas, they'll courier the mortgage documents, or send them via email. Nowadays you can generally sign loan docs virtually with your lawyer, but if you are an old soul and wish to sign in person then you'll need to sign them in front of your lawyer, a Justice of the Peace or Public Notary.

How to use KiwiSaver.

If you are a first home buyer and you've been in KiwiSaver for more than three years, then you can withdraw KiwiSaver contributions made by you and your employer to use as a deposit towards your new home. There are some rules though. To be eligible to make a first home withdrawal from your KiwiSaver Account, you must have not made a withdrawal; from KiwiSaver for this purpose before.

- You need to have been a member of a KiwiSaver scheme or a complying superannuation fund for at least 3 years (note, the 3 years is the membership period and not the savings period), and have an approval in place.
- You must be buying the house in New Zealand.
- The house you are purchasing must be intended to be your principal place of residence.

In addition, in the 12 months before you apply, if you earned \$150,000 or less before tax for 2 or more buyers, or \$95,000 or less before tax for a single buyer then you may be eligible for a HomeStart Grant of up to \$10,000 per borrower.

This is also restricted by the purchase price, and this differs wherever you are in NZ. Please refer to the table on the next page for more info.

Property Location	Existing	New
Far North District	\$400,000	\$675,000
Whangārei District	\$600,000	\$800,000
Kaipara District	\$525,000	\$875,000
Auckland	\$875,000	\$875,000
Thames-Coromandel District, Queenstown-Lakes District	\$875,000	\$925,000
Hauraki District, Manawatū District	\$550,000	\$650,000
Matamata-Piako District,	\$625,000	\$800,000
Kawerau District	\$400,000	\$650,000
Hamilton Urban Area (Hamilton City, Waipā District, Waikato District)	\$650,000	\$775,000
Ōtorohanga District, South Waikato District, Waitomo District, Ōpōtiki District, Wairoa District, South Taranaki District, Ruapehu District, Rangitikei District, Tararua District, Buller District, Grey District, Westland District, Ashburton District, Timaru District, Waimate District, Waitaki District, Clutha District, Gore District, Invercargill City	\$400,000	\$650,000
Taupō District	\$575,000	\$825,000
Tauranga Urban Area (Tauranga, Western Bay of Plenty District)	\$800,000	\$875,000
Rotorua District	\$525,000	\$650,000
Whakatāne District, Mackenzie District, Southland District	\$500,000	\$800,000
Central Hawke's Bay District	\$500,000	\$650,000
Gisborne District	\$450,000	\$650,000
Napier-Hastings (Napier City, Hastings District)	\$625,000	\$825,000
New Plymouth District	\$525,000	\$675,000
Stratford District	\$400,000	\$650,000
Whanganui District, Hurunui District	\$425,000	\$650,000
Palmerston North City	\$575,000	\$700,000
Horowhenua District	\$525,000	\$650,000
Wairarapa (Masterton District, Carterton District, South Wairarapa District)	\$600,000	\$800,000
Wellington Urban Area (Kāpiti Coast District, Upper Hutt City, Porirua City, Lower Hutt City, Wellington City)	\$750,000	\$925,000
Nelson-Tasman (Nelson City, Tasman District)	\$650,000	\$875,000
Marlborough District	\$550,000	\$650,000
Kaikōura District	\$700,000	\$700,000
Christchurch Urban Area (Waimakariri District, Christchurch City, Selwyn District)	\$575,000	\$755,000
Central Otago District	\$525,000	\$800,000
Dunedin City	\$500,000	

How to use KiwiSaver.

(Continued)

The HomeStart Grant is \$1,000 for each year you've been in KiwiSaver, up to a maximum of \$5,000 for five years. If you're a couple buying a house together and you both qualify for a grant, you could receive a combined grant of up to \$10,000.

If you're buying off plan or building new, then you could double your HomeStart Grant up to \$20,000 for a couple. No matter the amount you get, it all makes a difference so make sure you've checked it out.

To be eligible for the HomeStart Grant you must:

- Have contributed at least 3% of your income to a KiwiSaver scheme for at least three years
- Be planning to live in the house for at least six months
- Have a single income under \$95,000 or a combined yearly income of \$150,000 or less (before tax) two buyers,
- Be buying a house within the specified purchase prices for new or existing homes, as outlined on the previous page, which differs depending on where you are in NZ.

Getting your money out

It's worth getting onto this sooner rather than later. The process can take a couple of weeks so to reduce stress from time pressure, start the process now by getting a pre-approval. The application process will differ depending on who you're with however, we can help guide you.

You can now withdraw funds from your KiwiSaver to put towards your initial deposit (previously this was only possible upon going unconditional). If you have a conditional sale and purchase agreement you can choose to make your withdrawal at the point of deposit or when you settle.

KiwiBuild.

What is KiwiBuild?

KiwiBuild is a government initiative that is designed to support prospective first home buyers into affordable first homes. It has been developed to address the challenges in the housing market that impact the ability for New Zealanders to purchase their first owner occupied property.

KiwiBuild homes are located across the country, however, current supply in certain areas will depend on available developers and developments accredited to the initiative. As the challenges in the market affecting affordable homes predominantly impacts the major cities, you will see most KiwiBuild homes for sale in Auckland, Hamilton, Wellington and Christchurch.

The major benefit of the KiwiBuild initiative for eligible buyers is that prices of KiwiBuild homes are capped across the country. The price caps are as follows;

Location	Studio or one-bedroom	Two bedroom	Three bedroom
Auckland Region	\$550,000	\$760,000	\$760,000
Hamilton Urban Area	\$550,000	\$640,000	\$720,000
Tauranga Urban Area	\$550,000	\$740,000	\$780,000
Wellington Urban Area	\$580,000	\$760,000	\$850,000
Christchurch Urban Area	\$550,000	\$640,000	\$720,000
Queenstown-Lakes District	\$550,000	\$640,000	\$860,000
Rest of New Zealand	\$550,000	\$640,000	\$720,000

To purchase a KiwiBuild home you must first meet the KiwiBuild eligibility criteria, which at a glance requires:

- the purchase to be your first home
- you to be over 18

Have a total before tax income from the last 12 months of:

- \$120,000 or less for an individual buyer without dependents; or
- \$150,000 or less for an individual buyer with one or more dependents; or
- \$200,000 or less for two or more buyers, regardless of the number of dependents

KiwiBuild.

(Continued)

What is KiwiBuild?

KiwiBuild is a government initiative that is designed to support prospective first home buyers into affordable first homes. It has been developed to address the challenges in the housing market that impact the ability for New Zealanders to purchase their first owner occupied property.

You to commit to living a minimum period in the home before it can be rented or sold, calculated from the settlement date of your purchase:

- At least one year for a studio or one-bedroom home
- At least three years for a home with two or more bedrooms
- As well as offering the opportunity to purchase a property directly from the listed available options, the KiwiBuild initiative offers a ballot draw function. This can be used when there is high demand for a particular development. This is done to ensure a fair process by providing equal opportunity to all interested prospective buyers. You can find out more about the process on the KiwiBuild website, www.kiwibuild.govt.nz.

Costs of a low deposit loan.

If you have less than a 20% deposit and are therefore borrowing more than 80% of the purchase price of your home, then you will be considered a low deposit borrower. In most cases this will lead to a bank charging additional fees or interest to you. Depending on the bank you borrow through, this will either be called a low equity fee (LEF) or a low equity margin (LEM).

Low equity fee

A low equity fee is a one-off charge, which – in most cases – can be added to your mortgage so you don't have to cover it up front. The benefit to this one is that you pay it once and move on. The downside is it can look like a pretty hefty cost. The banks that currently run with this option are ANZ and Kiwi Bank:

Lender	80% - 85%	LVR 85% - 90%	LVR 90% - 95%
ANZ	0.25%	0.75%	2.00%
Kiwibank	0.25% - 0.50%	0.80%	

Low equity margin

A low equity margin is an extra interest rate added to your fixed or floating rate and stays on the mortgage until you've gathered enough equity in the property. The benefit to this one is that you can potentially remove that margin quickly if you're able to pay a chunk off the loan or increase the value into the property through renovation. Because of that, this can be much less costly than a one-off fee. It's worth considering this when setting up your loan structure because in most cases, you can't remove the margin until your fixed rate is due. We'll discuss that with you to ensure you're informed. The exception to this is BNZ and TSB who will remove the margin mid fixed term.

Lender	80% - 85%	LVR 85% - 90%	LVR 90%+ LVR
ASB	0.30%	0.75%	1.30%
BNZ	0.35%	0.75%	1.00%+
Westpac	0.25%	0.75%	1.50%
Kiwibank	0.25%	0.50%	0.80%

What is the First Home Partner initiative?

Kainga Ora's First Home Partner is a government funded initiative that is designed to help prospective first home buyers into the market. Assistance is provided in the form of a cash deposit in exchange for shared ownership in the property.

If you are eligible, Kainga Ora will make a contribution towards your property, and in return, receive shared ownership of the title, in proportion to the amount of its contribution. Effectively, your property is owned, in part, by the government until that equity share is paid back.

The cash contribution provided by the government is designed to bridge the gap between the collective deposit the prospective buyer/s have and what the bank will willingly lend against the property.

For example, your contribution may be 10% (made up of KiwiSaver savings, Home Start Grant and cash savings or gift) and a participating bank is willing to lend 75% of the purchase price. Kainga Ora would then contribute the remaining 15% in return for a 15% share of ownership in the home. The maximum amount that Kainga Ora will contribute is limited to 25% or \$200,000 – whichever is lower.

Some important things to note:

- You will need to meet the eligibility criteria
- which can be found on the Kainga Ora website.
- You will need at least 5% of your own deposit (can be made up as per example above)
- Kainga Ora will share the title with you (as a co- owner), and you will be governed by a Shared Ownership Agreement
- You will need to live in the property for at least 3 years from settlement.
- You will need to meet with a Kainga Ora Relationship manager each year for a review of your financial circumstances
- It is expected that you will purchase the government share within 15 years, however you must purchase the share in full within 25 years from settlement
- Any renovations are subject to Kainga Ora approval
- Kainga Ora reserves the right to inspect your home if there is reason to believe maintenance requirements are not being met
- Sale of the property is subject to Kainga Ora approval.

To purchase the share owned by Kainga Ora you will need to submit an online request or arrange the purchase with your relationship manager. Purchase of the Kainga Ora share can either be in small increments (no less than \$1000) or paid as a lump sum. When you purchase the share (or portion of the share) from Kainga Ora it will be at current market value, which means the government gets a return on its investment in the form of capital gains (or a loss if the market has not increased). Market value will be determined by either a desktop valuation from a data provider, or a registered valuation if requested (at your cost).

There are also implications if you do not purchase the Kainga Ora share within the expected time frame. After 15 years, an annual service fee may be applied, and if you reach 25 years without purchasing the shares (and you do not reach a mutual agreement with Kainga Ora) it may sell the home, or its share of your home, on your behalf.

First Home Loan.

First Home Loan is essentially set up to help low deposit borrowers get lending a little easier. With a Welcome Home Loan you only need a 5% deposit.

First Home Loans are issued by selected banks and other lenders and are underwritten by Kāinga Ora. This allows the lender to provide loans that would otherwise sit outside their normal lending standards. This is also why it's a bit easier to borrow, however, there is a lot more paperwork to complete.

To be eligible for a First Home Loan you need to meet certain minimum criteria:

Income cap:

You must have a maximum yearly income of up to:

- \$95,000 or less for an individual without dependents or
- \$150,000 or less for an individual with one or more dependents or
- \$150,000 or less (combined) for two or more buyers, regardless of the number of dependents.

Minimum deposit: You will need a minimum 5% deposit

House price cap: The price of the house you are buying with a Welcome Home Loan must be less than the regional house price cap.

NZ Citizen: You need to be a NZ Citizen or NZ Permanent Resident.

For more information and full eligibility criteria, check out the Welcome Home Loan website – www.kaingaora.govt.nz/first-home-loan

Building new – construction loans and turn-key.

Buying a new house or building is something kiwi's have grown rather fond of. Outside of the fact that it's great to live in a brand-new home, one of the main reasons for this affection is that the Reserve Bank (RBNZ) have made it more appealing to you as a borrower. They've done this by reducing LVR restrictions when you're buying a new property. This means that it's a lot easier for a bank to lend you money if your buying new or building.

For it to be deemed a new home, you must be buying it no more than 6 months after it's completion and you must purchase it from the original developer or builder.

There are also a lot of things to think about when buying new and a few ways to do it. Here's a few of them along with their key differences:

Land and build contracts.

This is your most common scenario and it's the one that builders like the most. In this scenario, you would enter into two contracts:

1. The sales and purchase agreement to purchase the land. This details the cost of the land and will typically have a clause that ties that site to the respective builder you're dealing with (although not always).
2. The build contract for the house to be build. This outlines the full detail of the build including the total cost, the builders risk insurance and expected time frame of the build.

The sum of these two contracts makes up the total project cost and is what the bank will use as the value of the home when determining how much they will lend.

A key detail with a Land and Build Contract is that there are progress payments involved, with the builder invoicing for payment at certain stages of the project. You as a buyer settle on the land first and then pay the respective progress payments as the house is built. What this means is that you start making loan payments (interest only) well in advance of when you have moved into the house and can mean that you are paying rent and a mortgage at the same time. There are a few ways to help with this so it's important you get good advice before going down this path

Building new – construction loans and turn-key. (Continued)

Progress payments

As outlined above, a land and build contract will involve a series of progress payments which are tied to certain stages of the build. Whilst every builder will have their own variation of a schedule, most these days will operate off a base from the Master Build contract. That being said, you should get these contracts overviewed by your solicitor before signing.

Firstly, a deposit will be required, and this will usually be 10%. This can be built into the construction lending and paid once all conditions are met.

Following that you would receive an invoice at each stage of the build which you would line up to the corresponding stage in your contract. You should also receive evidence from the builder that the work you're paying for has been completed and your bank will usually require that.

To give you an idea of how the entire payments might typically pan out, the following rules of thumb can be used;

5% - 20%	Site works and foundations, permits and fees, architect fees (includes 10% deposit)
20% - 30%	Wall and roof framing - roof installed
15% - 30%	Internal and external lining, doors and windows, plumbing and electrical
10% - 25%	Room fit-out and finish, kitchen and bathrooms, floor and wall coverings
10%	Retention final payment made on the issue of Code Compliance Certificate (CCC)

Turn key contract

Similar to purchasing an existing house, you agree on a price, pay your deposit, and then pay nothing further until the house is completed. Unlike the progress payment option, this means you don't make any loan repayments or pay any interest, allowing you additional time to save before you start to pay off the loan.

This benefits you but it makes it harder for the builders to manage from a cashflow perspective and therefore not all builders can offer it. It's essentially a fixed price contract between you and the developer that specifies a fully completed property. In this scenario the developer is the one taking all the cost risk and for that, they'll tend to charge a premium. So, whilst a turn-key is a much simpler way to buy new, it can mean that you end up paying more for the same house than if you had used the progress payment method.



Your very first home loan.

Your loan structure is a very important part of the process and it can be costly if you don't set it up right – and when we say costly, we mean costly! Not to worry though, we'll discuss all this with you throughout the journey and ensure you're well set up. In the meantime, here's some information upfront so you can start to get yourself familiar with what your loan might look like.



Fixed Rate

Fixed rate mortgages offer you certainty. This is when you lock in a given rate for a fixed period time – anywhere from 6 months to 10 years (although most banks will only go to 5 years).

This means that you'll know exactly how much your loan repayments will be for that period of time and be able to budget accordingly.

Most clients will opt to have the majority of their loan on a fixed rate but that doesn't mean you have to. Whether or not you fix, and how long for will depend on your situation and any potential plans you might have. It could also depend on the interest rate market at the time.

One thing to remember with fixed rates is that you are effectively entering into a contract with the bank. If you repay a fixed rate early (like if you sell the house or refinance the mortgage) you may end up having to pay early repayment fees.

Floating Rate

Unlike the fixed rate, a floating rate won't offer you the same certainty. The rate can go up and down over the duration of your loan. However, this isn't something that happens often and is most often tied to a change in the OCR (though not always) and because of this it shouldn't catch you too far off guard.

The benefit of a floating rate mortgage is that gives you more flexibility to pay your loan off faster. Because it's a floating rate, you won't incur break fees and you can therefore pay it off as fast as you like which can save you a lot in interest cost.

Most of the time this product works really well alongside a fixed term so you get the best of both worlds.

Your very first home loan.

(Continued)

Revolving credit (RCR)

This isn't the right option for everyone. It acts much like a large overdraft on your main account and allows your balance to fluctuate up and down as you make payments of withdraw money, which in the long run can save you a lot of interest. If managed properly, this is a great way to get debt free faster but not managed well and it can cause more harm than good. If you can resist the temptation of spending all the available funds then you'll be good to go!

Off-set

This is a preferred option to the revolving credit as it gives you the same benefits of saving interest but allows you to keep your surplus funds in separate accounts. Problem is, not every bank offers this. This product is a game changer if you like to have separate 'buckets' for your money (you can have up to 10!) such as holidays, renovations or Christmas and birthdays.

Loan Term

The maximum term for mortgages is 30 years and typically this is what the bank would use when testing your affordability (depending on your age). Setting it at 30 years can be a good way to minimise your repayments initially, but depending on your needs & goals you may want to reduce this term to pay off your mortgage sooner (subject to bank servicing criteria).

Interest-only

Interest only is usually an option you'd see used by property investors. Banks aren't really a fan of letting you put your owner-occupied loan on interest only unless you have a valid reason. This is where you pay on the interest amount each month and make no principle reduction. The interest only terms can be for a maximum of 5 years.

What types of properties are there?

Whether you're looking for a bit of a section for the kids, a potential future investment, something easy to maintain or don't really care as long as you're on the property ladder, there are so many different options. A lot of it can seem like jargon but it's good for you to know the difference:

Freehold

This is where you own everything and don't have to share it with anyone. This includes the building and the land. Typically this will be slightly pricier than the other options but in the long term, you're more likely to benefit through better capital gains.

Cross-lease

This is quite common in a lot of the suburbs of the main centres, particularly Auckland. It was previously seen as a cost-effective way of subdividing properties. With a cross-lease you own a share of the freehold title. Whilst there's nothing too concerning about this, you should be aware that you may need sign-off from other owners before you change things about the property.

Strata or unit title

This form of ownership is common for apartments, townhouses and units. It is becoming more and more common as we start to see more intensification in new developments. Because of this it is good to understand. You will have ownership of your unit and an undivided share in the ownership of common areas.

There will also be Body Corporate fees associated with unit titles that pay for the upkeep of the common areas and services. When applying for lending on these properties the bank will want to know how much that body corp fee is and it will likely have an impact on how much you can borrow.

Townhouse

These are becoming more and more common in central fringe suburbs as a result of the unitary plan changes and more housing intensification. Developments such as Hobsonville Point set the benchmark for this type of property. They are semi-attached and usually on a cross-lease or strata title. These are the rows of attached houses you see as you're driving through new developments or through fringe suburbs where existing stand-alone house has been removed and replaced with 10.

They tend to be more affordable because they don't come with a lot of land and because of that they're attractive to first home buyers and investors. Banks will in most cases lend up to 90% on these without too many issues.

What types of properties are there?

(Continued)

Leasehold

Leasehold is one you want to watch out for. This is where you own the building, but you don't own the land. You will struggle to get lending against these and if you do it'll be unlikely to be more than 50% of the purchase price.

These are more common in inner city apartments and because of that they can be a good way to purchase a high-quality property at a more affordable price. The problem you have is that you need to pay a ground lease and that tends to be a pretty high figure. That ground lease will have a review date at which point you have no control over what it goes up to (and it almost certainly will go up).

If you're looking at these then do your homework.

Apartments

Apartments can be a great option as a market entry point for either a first home buyer or an investor. They're a great option for an investor to rent as an Air BNB or to students going to Uni centrally. That being said, there are things to be really aware of. The first is that banks aren't raving fans of apartments. Lending policy on apartments is one that fluctuates more than pretty much anything else and this can leave you a bit stuck if you buy the wrong thing.



The main things to look out for are:

- Size of the apartment – ideally stay above 50sqm. In pretty much any market you'll be able to get lending on an apartment bigger than this. Less than that though and you could find yourself with no options.
- Any remedial damage? That means, is the building leaky or has it been leaky in the past? A lot of inner-city apartments have had their share of moisture damage and this will prove costly to the owners when that needs to be fixed.
- Certainly, don't take apartments off your list of considerations, but get familiar with what you're buying and any headwinds you might run into. If in doubt, talk to us.

What types of properties are there?

(Continued)

Building era Pre 1940

Built with native timbers these were built pretty solid so last fairly well.

Things you should watch out for:

- Some insurers will need old wiring to be completely replaced before they'll sign off on replacement-cost policy. You'll generally need this kind of policy to get your home loan so make sure you check this out before going unconditional.
- These houses often need to be re-roofed, costing around \$10k and re-piled, around \$15k.

1940 – 1960

This period tended to have small windows and cramped living spaces to trap in heat. You'll often find the layout in these places are at odds with modern living, so you'll need to move to walls around. That makes them expensive do ups.

1960 – 1985

Not only are houses in this era pretty fashionable at the moment, they're made from enduring materials and are often positioned well for sun with great indoor-outdoor flow. Asbestos was widely used in the 1960s and 70s. Check whether or not internal ceilings are asbestos because some lenders will restrict lending to 80%. Asbestos ceiling can be removed by specialists for around \$5k.

Insulation only became compulsory in 1979, so houses built before then might not have any. Brick and tile houses will be particularly cold and have issues with mould – look for it on south-facing walls.

1985 – 2003

The “leaky building” era. Arguably New Zealand's most costly disaster. Obviously, it pays to be careful with this one. Banks will almost always want more information on the property such as moisture readings and building reports. These aren't the properties you get dad to have a quick look at (sorry Dad). The bank will want an expert.

It's actually quite good to check these places on a rainy day or after some wet weather. You'll usually be able to spot any significant issues as soon as you walk into a place. But the main things to look out for are:

- Monolithic cladding or Plaster cladding
- Lack of eaves (roof overhangs)
- No window flashings (integrated metal trim above a window that deflects water)
- Balconies integrated into the cladding system
- Cladding or framing touching the ground

2003 and beyond

- New building codes means that houses in this era should be pretty robust. That doesn't mean they're all perfect so it pays to get them checked, but the new standards will give you comfort.

Tips and tricks.

If you've skim read through everything up until now, then maybe pay a bit more attention here to our key tips.

Sharpen up your account conduct

Like we talked about above, getting 'Bank Fit' is important. Focus on having clean account conduct and that means not missing payments or letting your account slip into overdraft. Things like this seem small but it gives the bank something to question and you something to explain.

Increase your payment a little

Even a small increase in your minimum payment could save you a massive amount over the term of your loan. In the example below you'd save \$157,000 in interest and reduce the loan term by 10 years simply by increasing your repayments by \$100 per week.

	Before	After
Mortgage	\$400,000	\$400,000
Rate	5.25%	5.25%
Payment amount (weekly)	\$510	\$614
Mortgage term	30 years	20 years
Total repayments	\$795,600	\$638,560
Total interest	\$395,600	\$238,560

Difference \$157,040
Reduction in interest 40%

Tips and tricks.

(Continued)

Keep your payments the same

When it comes time to refix your loan and rates have dropped, then keep your payments the same. You've already become accustomed to that payment amount so why change it? That additional amount will go straight off your principle and save you a lot of interest in the long term. It will also give you a bit of a buffer should rates start increasing by the time your next review comes around.

Know your budget and stick to it

We've all been there. As a first home buyer you get excited and start looking at properties that you don't realise are outside of your budget. You end up disappointed and eventually get buyer fatigue or simply stop looking. Knowing your numbers at the start will help prevent this.

If it seems too good to be true, it probably is

Do some basic checks yourself before getting an inspection – look under the floor for dampness or rot and look for repairs. Don't be shy to go house hunting on a wet day or at the end of a wet week. This will give you a good opportunity to see any potential issues.

Have a budget and include everything

Don't get caught out with unexpected costs. Buying a property isn't only about the deposit and the loan. There will be additional costs that you'll need to have available:

- Legal costs – should be around \$2,000.
- Valuation – range anywhere \$750 to \$1500 if you need one
- Building inspection – around \$300 to \$400 • House movers – \$500 to \$1,000
- Insurance – house, contents, life and income etc. Depending on your age and current health around \$300 a month should cover all this.

Budget for a change in circumstance

If you are going to have kids, travel overseas, go back to study or change your career – work out what that means in advance. None of this happens overnight so while you're planning for what impact it will have on your home, plan what impact it will have on your finance. Get in touch with us in advance so that we can help make sure things are structured correctly.



Got questions?

We hope that you found this guide helpful as an introduction to buying your first home. It's an exciting journey, and we are here to help you through every stage of it. If you have questions on any part of this guide, we'd love to hear from you.

[Contact us](#) and our experienced team will be able to help.