

lateral partners®

Property Investment **Guide.**



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Bespoke finance &
expert capital solutions.
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Looking to invest in property? Let's make it easy.

Property Investment 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.

Looking to invest in property? That's awesome! Make your next financial decision your best one yet.

Investing in property is one of the smartest ways you can secure your financial freedom.

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 thousands 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. Right from start to finish. From discussing your investment strategy, to helping you understand bank policy and government regulation, all the way through to ensuring you're getting the best deal and loan structure that fits your personal situation.

Lateral Partners will take the stress away and give you peace of mind knowing you're getting the most out of your investment.

Contents.

Intro to Lateral Partners	5
Why invest in property	6
Common questions	7 – 8
Before getting started	9 – 10
Understanding your position	11 – 13
Understanding your loan	14 – 15
Investment strategies	16 – 17
What to look for in your investment	18 – 21
Economic impacts	22 – 23
Legislation and governing restrictions	24 – 25
Split banking	26
Tips and tricks	27
Things to look out for.	28

Intro to Lateral Partners.

Lateral Partners were 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 and 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 are 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 you decide where to buy your investment property and whether this means buying an existing home or building new
- Access property reports to give you as much info on your potential purchase before you make any offers
- Help arrange inspections and valuations if required
- Review your LIM, Sale and Purchase agreement and building inspection reports
- 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](#) at any point of your home buying process.

Why invest in property?

For as long as we can remember, property investment has been the go-to way for us kiwis to achieve our financial dreams. Whether it's purchasing one property to sell upon retirement, or building a portfolio that provides passive income to pass on for generations- investing in property is something kiwis are very fond of.

Tangible investment

Unlike many other forms of investing, property is an investment you can see and touch. When contemplating an investment, you can walk right through the home and have a look for yourself to see if it meets your criteria. Once you own the property, you can schedule regular visits to give you that peace of mind knowing your investment is in good condition.

Easy to understand

Investing in shares can seem impossible to get your head around at times, you may find yourself looking at complicated equations to try work out the financial position of a company. Or trying to understand industries that you have no experience in. When it comes to property investing, we all have a basic understanding. After all, we have lived in homes our entire lives and know what makes up an appealing place to live.

The power of leverage

This is probably the greatest advantage of property investing. Property is one of the few investments where you are making gains on other people's money. If you purchase say, a \$1M property with a \$200k deposit, then you get growth on \$1M whilst only providing 200k of your own money. Better yet, you might be able to borrow that \$200k deposit against the equity in your existing home. This is the power of leverage and something we will go into more detail in the following sections, specifically; understanding your position.

Common questions.

Without a doubt, you'll have lots of questions about the property investment process, so here are some answers to the most common questions we've come across:

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 dependants etc. In addition, every bank assesses your affordability slightly differently, so whilst you may be able to borrow a certain 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, we can do all the hard work for you. Interested in getting a gauge of how much you could borrow? We have a [handy calculator here](#) which can give you a good guide.

How much deposit do I need?

When buying your first home you will need at least 20% of the property value in usable equity and/or savings. In some instances, you will need up to 40% of the value of the property you are looking to purchase. We will detail how you can finance your purchase when we detail how to assess your current position.

Do I need to have a large income to be able to buy an investment property?

Having a good income is important when it comes to property investment, especially as prices continue to grow and the legislation changes, but it is not everything!

Banks will take into account your personal income, but also a portion of the future rental income from the investment property you plan to buy. This is usually discounted at a rate of 20-25% but can significantly help your servicing ability so don't throw in the towel just yet!

What paperwork do I need?

We need to ensure that you as a borrower will 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 and secure as possible.

What happens if I can't find tenants for my property?

There will always be periods where your property is untenanted and not earning you income. When budgeting your costs and return on investment, you should always plan for a few weeks a year with no tenants.

What happens if I get bad tenants?

If your tenants cause careless or intentional damage to your property, you can use the bond they pay at the beginning of the tenancy to cover these costs. The maximum bond you can charge is equivalent to 4 weeks rent. Should there be damage that exceeds this, you can take your tenants to the tenancy tribunal for further legal action. If the tenants fall behind on rent, you can also take them to the tenancy tribunal, who will either help you both remedy the situation or lawfully evict the tenants for you.

Common questions.

Continued.

Should I manage my property myself or should I hire a property manager?

For a lot of people, a property manager will be worth the cost. They will take the stress away from owning a property by helping you find tenants, making sure they pay on time and keeping the property in good condition. If you own multiple properties, or simply don't have the time or know how to maintain your investment, then a property manager will be the right choice. A property manager will generally charge between 7% and 10% of the rental income.

When can I start investing in property?

The answer might be sooner than you think. Investing is possible when you have a 20% deposit in equity and/or savings. In this guide we will detail how to assess your equity position and servicing ability to give you an understanding of how likely it is that the banks will approve you for lending to invest in property.

How long should you hold onto an investment property for?

The answer varies depending on your financial goals. In this guide we will detail some of the strategies that property investors use to get ahead. This will help you understand the strategy and timeline that is best for you.

How does a mortgage adviser get paid?

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%. The different amount is simply dependent on which bank you go with.

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 on paid on the basis that we continue to look after you for things like top ups, re-fixes or anything else you might need.

There are some circumstances however in which you may need to pay a fee these include:

- If you are a developer
- If your mortgage is repaid/discharged or refinanced with another bank within 3 years, then the mortgage broker may charge you a fee.

In any case in which we may require you to pay a fee, the Lateral Partners team will make sure to let you know well before the service has begun (or as soon as practically possible) so that you can make an informed decision to engage our services or not.

Have a question that we haven't answered here?

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

Before getting started.

Investment goals

Before you get started, take some time to outline your investment goals. There are many ways that property investment can support your future financial goals and grow your individual or family wealth, so it's important to set a clear vision for your investment strategy before you take the first step. You should discuss these with your advisors (broker, accountant, solicitor etc.) to ensure your plan is feasible and is set within your servicing means.

Seeking advice

It is important to seek appropriate advice before making any property investment decisions. Listed to the right are some key stakeholders that should be involved in your investment decision making process.

A Financial Advisor / Mortgage Broker will be able to walk you through your financial position step by step and help you understand what the banks are looking for in their lending assessments.

Other Key Advisers

Solicitor

A Solicitor (Lawyer) will help you with all legal components of the decision-making process and actual transaction. This will include advice around the ownership structure of the investment e.g. use of trusts as well as interpreting contracts to protect your best interests, and signing key documents (e.g. Sales & Purchase Agreement, Tenancy Agreement, LIM Report etc.) for the transaction to take place.

Accountant

Your investment property should be run like a business. An accountant will support with the business-related advice for your investment. This includes tax structures, expenses, profit, and loss etc. your accountant can also comment on ownership structures e.g. looking through companies for tax benefits.

Property Manager

Once you own an investment property, a property manager can be extremely helpful in providing peace of mind that your investment is being looked after. Your property manager will provide insight into the market for rent price values for the best possible return, manage your tenants, and provide routine maintenance reports amongst other key information.

Before getting started. Continued.

Financing your investment

Having sought appropriate advice, it is important to understand the steps involved in financing your investment. In the 'Understanding Your Position' section of this guide, we will detail leverage, loan servicing and bank assessment and once you have a handle on these concepts it is important to engage with your mortgage broker to help you understand your financing capabilities. Your Lateral Partners Advisor will help you identify exactly how much finance you will be able to apply for and work on your behalf as a liaison with the banks. They will also be able to provide alternative options should your financial situation not meet the main banks criteria.



Understanding your position.

Whether you are a homeowner looking to start your investment portfolio, or you are putting off home ownership and wanting to get on the ladder another way, there are multiple reasons for wanting to invest in property. Here is what you need to know to assess your position and understand how feasible it is for you to get started.

How much can I borrow?

As we touched on in the common questions section, this will be dependent on how much 'equity' you have and/or how much you have for a deposit on the property. Currently the Reserve Bank requires investors to have an equity value of 40% in an existing property or 20% if it is a new build property. This means the loan on the total value of your property/ properties can be no more than 60% – 80% of the total value.

The easiest way to assess your equity is to get an up to date valuation on any current properties. Your financial adviser/mortgage broker will be able to support this process. Interested in getting a gauge of how much you could borrow? We have a [handy useable equity calculator here](#) which can give you a good guide.

Can I use the equity in my owner occupied home or other investment properties?

Yes. If any of your properties have 'usable equity' you can use that portion of the value of your property as leverage against your new property.

Your usable equity is calculated as the value in your property above 20% (the bank's threshold for security) less your current loan (mortgage) amount.

Example

Owner occupied value:	\$500,000
Remaining mortgage:	\$200,000
Equity:	\$300,000

Equity to remain in owner occupied property – 20%:	\$100,000
Usable Equity:	\$200,000

In this scenario, a homeowner has \$200,000 of usable equity to put toward an investment property. Using the example of a new build property, we can now work out the maximum purchase price of the new investment property.

Property type:	New Build
Required LVR:	Max 80%
Equity available for deposit:	\$200,000
Maximum purchase price:	\$1,000,000

However, \$200,000 of usable equity does not necessarily mean you should purchase a \$1,000,000 investment property.

Understanding your position. Continued.

Servicing ability

A \$1,000,000 property with a \$200,000 deposit would require a loan of \$800,000. As you can see below, a loan of this size would require you as an investor to charge over \$1,000 a week in rent to cover the cost of your loan. Note, this is using a test rate of 6% which is above current rates, this is required as the banks will always test your servicing at a rate above advertised rates.

Loan Amount

\$ 800,000

Interest Rate ?

1

3

5

7

6%

Loan Term

1 yr

30 yrs

30 Yrs

Payment Frequency

Weekly

Results	
Your Weekly Payment	\$1,106.10
Total Payments	\$1,725,523.19
Interest Costs	\$925,523.19
Principal Payments	46.36%
Interest Payments	53.64%

Want to learn more? Try our free [mortgage repayment calculator](#).

Understanding your position. Continued.

Bank assessment

Rental income will be assessed at 75 – 80% (of the total value of the rental income) when applying at main banks, which means you will not be able to account for the full rent you charge when calculating loan affordability for your new investment property. Depending on the chosen property and loan amount, there may be a requirement for a top up amount on top of rental income to service the loan.

Like an owner-occupied property, the bank's assessment for servicing the loan will require qualifying your expenses and calculating your uncommitted monthly income, which is your remaining income after all expenses and loan payments. The criteria for this is subject to change so your Lateral Partners Advisor will be able to help you to understand your servicing ability.

Banks will also now measure your debt-to-income ratio when considering your ability to pay back a loan. This means that your debt cannot be at a factor that is a certain size of your annual income. For example, debt to income of 6x means your debt is limited to \$600,000 if your annual income is \$100,000.

Example

3-bedroom townhouse in Christchurch

Purchase price:	\$700,000
Deposit:	\$200,000
Mortgage:	\$500,000

Weekly Mortgage Repayments at 4.5%:	\$584.24
Market Rent:	\$650

In this example, you can see that your rent payments can cover your mortgage payments, however the calculation is not usually this basic, as each bank will assess this differently.

Bank assessment on rent: $\$650 \times 0.75 = \487.50

Based on this alone, there is a top up over and above rental income of almost \$100 required to service the mortgage from the bank's perspective. This will have to be covered by another income source, i.e. your monthly salary.

Other expenses

In addition to this, there are other expenses to consider that may not be covered by your rental income such as property management fees, solicitation fees, accountancy fees and any maintenance costs associated with the property.

Need help with assessing your position as an investor?

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

Understanding your loan.

Fixed rate vs. floating rate

Your loan structure is a very important part of the process, and it can be costly if you don't set it up right.

Fixed rate

Fixed rate mortgages offer you certainty. This is when you lock in a given rate for a fixed period of 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 – we can give you insight into this.

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) 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. For example, if you had a loan term of 30 years you can expect it to fluctuate multiple times over this period. However, it is often reflective of changes in the OCR (though not always) and because of this, it shouldn't catch you too far off guard. We'll keep you informed of that as well.

The benefit of a floating rate mortgage is that it 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 of interest.

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

Split loan strategy

Splitting your mortgage up into multiple tranches can be a smart way to hedge against interest rate risk and allow you to have more flexibility in paying off your mortgage.

For example, if you have a \$600,000 mortgage, you could opt to have it in three separate portions of \$200k.

This way, you could fix one portion for 5 years, one portion for 1 year and keep the other portion on a floating rate. This would mean you can pay off your mortgage in lump sums through the variable portion, and have protected yourself from changes in interest rate by fixing for two different terms.

Understanding your loan. Continued.

P&I vs. Interest only rates

Principle & Interest (P&I)

There are two ways you can structure your mortgage. The most common type of loan is a principal and interest loan, where each repayment consists of a portion of interest and a portion of the principle. This way, with each payment the overall loan amount decreases until you own the property outright with no debt against it.

Within P&I loans there are two structures you can choose from. The most common is called a table loan, where you make equal repayments throughout the term of your mortgage. To start with, your repayments will be made up mostly of interest and a small portion of principal and as time passes your repayment will include less interest and more principal.

The other type of loan is a reducing loan, where you pay an equal amount of your principal off each time. This means your repayments get less over time because as your principal declines, you are paying less and less interest.

Interest only

The other loan structure that is common with investors is an interest only loan. This is where the loan amount stays the same and you only pay the interest expense each time. It means you pay more interest in the long term, but helps with cash flow in the short term. Investors use these loans to turn negatively geared investments positive.

Negatively geared is when the rental income received is less than the operating and mortgage expenses associated with the property. This means you have to make a personal contribution to meet the mortgage repayments.

Opting for an interest only loan will often decrease your mortgage repayments below the rental income received, making your investment positively geared or 'self-sufficient'. This allows more kiwis to become property investors, especially those who can't rely on a high income to service multiple mortgages.

However, banks typically won't let you stay on interest only forever, as they want you to eventually pay down the principle. Banks will typically only let you be on an interest only loan for a period of 5 years. After that period, you will be converted to a principal and interest loan and may end up paying higher repayments than you would have initially due to the term of the loan decreasing.

The portion of the market made up by interest only loans has diminished in recent years, with banks becoming more strict when assessing your portfolio. Interest-only loans come with more risk but can be very helpful depending upon your strategy. Your Lateral Partners advisor will be able to talk you through in detail how they apply to your specific situation.

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

Investment strategies.

Buy and hold

When it comes to investing in property, there are tried and true strategies that are common in the New Zealand market. The most common strategy for investors involves simply buying and holding a property and waiting for the market to do the rest of the work.

It is suggested from historical data (approx. 25 years' worth) that property in New Zealand returns around 6% annually on average. This will differ year to year, and every region (and specific property) will experience various levels of growth; however, this provides a basic understanding of the buy and hold strategy.

As this is a passive strategy (following the provision of initial capital) there is little further intervention required after purchase, particularly if you engage a property manager to manage the tenancy and the outgoings. If the rental income covers costs, maintenance, and mortgage repayments, then an investor can realise profit/equity from capital growth over a long-term period, for example 15 years+, and can use the additional equity increase to continue to grow their portfolio.

Buy and sell

The buy and sell strategy is what is considered an active strategy, and usually involves more complexity than the buy and hold strategy. There are multiple ways you can buy a property and sell it for profit.

One strategy is to simply take advantage of rising market conditions and buy a property with the expectation that the market price is going to increase in the short term, then sell that same property for a profit.

An alternative strategy requires adding value to the property, this may be in the form of further development or renovations to the property. Each of these strategies with a short-medium term outlook will be subject to a tax, enforced via the 'Bright-line test' which is applied when an investment property is sold within 5 years of purchase. We expand on this further in our section detailing current legislation.

Investment strategies. Continued.

Subdivide

Another strategy of consideration is subdivision. You may have an existing property with excess land, or you may be looking to purchase new land that is big enough to divide up and sell in parts. Either provides an opportunity to profit off the sale of that land. Alternatively, if your financial situation allows, you may be able to develop that divided land yourself and build an investment property on the land to grow your portfolio.



Buying new vs. buying existing

There are advantages to buying both new or existing properties, however, the choice is going to come down to what aligns with your specific investment strategy.

Existing properties will often be attractive to those in search for a here and now investment. Potential value can be assessed prior to purchase as you as an investor may see an opportunity to develop the land or renovate the property in return for a profit on the future value.

Depending on the age of the property, you may incur proportionately higher maintenance costs for an existing property vs. a new property. As well as a lower maintenance bill, a new property has a few other advantages based on current regulatory standards that are enforced by the government.

New builds are entitled to tax and other exemptions to encourage the development of new properties in a short-supplied market. Additionally, if you purchase a 'turn key' property off the plans, you may experience capital gains during the build time if the market rises. For example, purchasing a fixed price contract build with a 12-month completion timeframe may see your property surpass the purchase price value upon completion if the market has moved since the build commenced.

What to look for in your investment.

Location

Whether it's buying to hold, buying to add value, or buying to do both, it is important to identify a location of interest where this is not only financially possible, but also economically viable to be successful in.

The most important factors to consider when deciding where to invest, directly link to your goals, financial position, and risk appetite. Auckland, for example, is a safer place to invest due to higher demand and lower supply leading to a strong capital growth in the area. But it is lacking good investment yields. So, if your goal was to build an income from your investments, Auckland may not be an ideal investment location for you.

However somewhere like Invercargill might get you a better yield, but there is a higher economic risk due to a lower population which reflects directly in a lower demand for houses, and in turn the area lacks in capital growth comparatively. Invercargill might be somewhere you might consider investing to build an income, but maybe not for the capital gains.

Another important factor to consider is whether the region is under or overvalued, and what the current trends, growth, or what developments are happening in the region to gauge what the future holds.

This is important to consider because you need to be aware of what is happening in the area so that you won't be financially penalised due to a downturn in the region, for example. Christchurch earthquakes drastically impacting housing prices not only in affected areas but throughout. It's not always negative, however, as you could also take advantage of potential future growth in the region, for example, increase in migration, housing developments, etc.

As you can see, really nailing down your future goals, current financial position, and risk appetite first is crucial for your property investment journey.

What to look for in your investment. Continued.

Property types

Different types of property will suit different types of investors. Some properties will be more suited to capital growth, whereas others will give you higher rental yields. Some properties will require more involvement from the owner and others will have extra financial costs associated. Generally speaking there are three types of residential property, these are standalone houses, townhouses and apartments.



Standalone houses

Advantages

High Capital Growth – Statistics show these types of properties experience the most capital growth

Renovation possibilities – These properties will give you the most opportunity to add value through renovations

Complete control over the property – You don't have to ask permission from a body corporate or residents association to make changes to the property.

Unique – Standalone houses are often different to other nearby properties and thus can make it easier to sell or rent out

Disadvantages

Expensive – Standalone properties tend to come with a higher purchase price than townhouses or apartments

Low yield – Standalone houses may not be the best option if you want a good cashflow and aren't willing to top up the mortgage

What to look for in your investment. Continued.



Townhouses

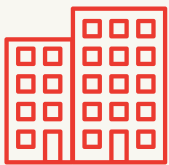
Advantages

A good middle ground between apartments and standalone houses – Townhouses offer a cheaper alternative to houses whilst still experiencing decent capital growth and rental yields

High proportion of new build opportunities – Townhouses are good for investors who want to invest in new builds

Disadvantages

Resident's association fees – These are annual fees to contribute towards maintenance and landscaping of shared spaces



Apartments

Advantages

High yield – Apartments have the most chance of being a positively geared investment e.g. the rent covers the mortgage payments

Cheapest option – They will also allow you to get on the property ladder if you can't afford other properties

Disadvantages

Body corporate fees – Owning an apartment will mean you have to be a part of a body corporate. This may involve high fees relating to the upkeep of shared services like elevators and gyms

Slower capital growth – Statistics show apartments tend to experience less capital growth than other property types

The banks don't like certain apartments – If your apartment is dual key, leasehold, or under 55m² in size, then the banks won't let you borrow as much against it. This means you might need a deposit as big as 50%

What to look for in your investment. Continued.

Property Features What should I look for?

No matter which investment strategy you decide to pursue, it is important to identify some key factors in the property itself which will best suit your strategy.

Renovations

This is a great way to add value to a premises. Cosmetic things like carpets, paint, and lighting can make an old or run-down place look new again, and with there being high demand, especially with first home buyers or families for something that is new, you will easily be able to make a profit from any cosmetic upgrades.

Non cosmetic upgrades are also a consideration- like adding a deck, a carport, or probably the best add value opportunity in renovating a premises, adding another bedroom to the premises.

Subdivision opportunities

As mentioned previously, subdivision opportunities are a great strategy to keep an eye out for. If you are buying purely with the goal to subdivide a big lot of land, then you would expect to look outside of big cities and more into rural areas, as there is still the potential to develop more affordably.

However, if you are looking for an investment to buy and hold, you may want to consider looking at properties which could potentially be subdivided in the future, like your cross-lease or body corporate houses.

You do need to be careful however, as the larger the cross-lease or body corporate (more owners involved) the harder it will be to get people on board to subdivide and share costs.

Economic impacts.

There are a number of economic factors to consider which directly impact the property market and can cause a shift in values, yields, and even supply & demand to name a few.

These factors can directly impact your investment and should be thought about in some depth so that you can understand and make informed decisions for what is best for your investment/investing strategy.

Below, we take a look at some economic factors and how they can impact property directly, and some ways that you can look to combat these.

Demographics

Demographic factors like population growth, migration, and age, can all have effects on the property market and are important to take into consideration.

Population growth due to aspects like migration or an increase in fertility has historically had a considerable impact on the property market. This is due to an influx of people in major towns and cities, which then increases the demand for housing and in turn supply being decreased.

The Auckland property market for example, currently has a large demand for houses and limited supply, which has pushed the housing prices up.

Age is another demographic factor that can impact the property market. As the older generation looks to retire or shift/downsize into something more manageable/smaller, there is a supply influx of houses from these generations.

Generally speaking, an increase in supply causes housing prices to decrease as supply outweighs demand, however this is not the case in every situation e.g., Auckland continuing high demand due to high population and significantly low supply.

Economic impacts. Continued.

Interest rates

The Reserve Bank uses the Official Cash Rate (OCR) to control inflation by influencing the price of borrowing in New Zealand. If the Reserve bank decreases the OCR amount, this makes it cheaper for NZ banks to borrow money from the Reserve Bank, which in turn makes it cheaper (a decrease in interest rates) for consumers (you & I) to borrow money from NZ banks, and vice versa.

In relation to property investing, your mortgage payments will be directly affected by any interest rate changes, especially if you are on a floating interest rate with your bank. An increase would cause a higher cost in borrowing, so a lower return on your investment, and a decrease would cause a lower cost in borrowing, so a higher return on investment.

Fixing your interest rates is one of the best ways in which you can mitigate your risk from interest rate increases. This can be done with the help of your mortgage broker or bank and can be fixed anywhere from 6 months to 5 years.

Along with fixing your interest rates you could look to split your loan into 2+ portions so that you can stagger your loan interest amounts to your banks 6 month to 5 year fixed interest rates, which again mitigates your risk against any interest rate increases. Your Lateral Partners advisor or bank can help you with structuring this.

Government policies

Legislation is the way in which governments can regulate a market, economy, create social change, or use it to maintain order. They can use it to encourage consumer confidence in the economy which in turn causes more consumer spending in the market, or they can restrict laws around development or increase taxes to reduce the development capability of investors in the hope to slow down the market.

Policies like the tax deductibility changes or the new bright line test look favourable to those investors developing new builds, but aren't so friendly to those investors who are looking to buy existing homes. More on these later (see 'New Builds' section below).

Legislation and governing restrictions.

Bright line test

The bright line test means that if you sell a residential property you have owned for less than 10 years, you have to pay tax on the capital growth of the property. For example, if you purchase a property for \$600,000 and sell it for \$800,000 in 5 years' time, you will have to pay tax on the \$200,000 gain you have made in that property. The gain made will be treated as your income and will be taxed at your marginal tax rate. This rule only applies to properties that aren't your main home, and the length of the bright line period may change depending on when you bought the property and if it was bought new or existing.

New builds

In order to help increase the supply of new homes to the New Zealand housing market, the government has given investors some financial incentives to buy new build properties.

One of these incentives is that when purchasing new builds, you can deduct the interest expense on your loan against your income, and pay less tax come the end of the year. These interest deductibility advantages will last for 20 years from when the house is finished, and can be passed onto the next owner should you decide to sell. An example of this can be seen to the right.

Example

New build vs. existing for interest deductibility
Purchasing your second investment property

Assumptions

Lending	\$800,000
Tax rate	33%

Without interest deductibility

Rental income	\$40,000
Opex	\$8,000
Gross profit	\$32,000
Tax	$(\$32,000 \times 33\%) - \$10,560$
Interest costs	$(3.5\% \times 800,000) - \$28,000$
Net profit/(loss)	$(\$6,560)$

With interest deductibility

Rental income	\$40,000
Opex	\$8,000
Interest costs	$(3.5\% \times 800,000) - \$28,000$
Gross profit	\$4,000
Tax	$(\$4,000 \times 33\%) - \$1,320$
Net profit/(loss)	\$2,680

Legislation and governing restrictions. Continued.

In the case on the previous page, the investor who can deduct their interest as an expense for tax purposes makes a profit of \$2,680, whereas the investor who doesn't have interest deductibility makes a loss of \$6,560. This means they would have to make a top up out of their own income of \$126 a week to meet the mortgage repayments.

Another bonus of investing in new builds is that the bright line period is only 5 years instead of 10, meaning if you want to sell your property after 5 plus years you won't need to pay tax on the gains that you have made in that time.

Generally speaking a new build is classified as any type of residential property that has been built or is currently being built and the title has been issued within 6 months of completion, but each bank will have their own perspective on this based on their individual policies.

As you can see from the above, LVR rules can be a big hurdle, in order to be able to make the purchase of a new property. Most banks are only allowed to lend you 60% of the purchase price of an existing property. When it comes to new builds, they will usually lend you 80% of the value making the dream of owning an investment property that much more possible.

However, should you decide to purchase another property after this, you will then need 40% equity in the property, as it will then be considered an existing property by the banks. In other words on the day you settle on the property, it will no longer be considered a new build.

These rules make new builds a very enticing prospect for investors and can greatly affect your overall return on investment. However, there are still plenty of advantages to investing in existing properties, and it all depends on your personal preference. Should you decide to work with us, our expert advisers will be able to take you through all of this in further detail and weigh up the best investment for you.

Our experienced team is always on top of market trends and changes in the industry. If you're interested in hearing more, please don't hesitate to [get in touch](#) with us!

Split banking.

Personal Home (Bank A) IP (Bank B) IP (Bank C)

This is something that a lot of people recommend these days, and it can be hard to set up and manage without the help of a mortgage broker. The split banking strategy keeps your investments at different banks so you can play the banks off each other whilst keeping your own home protected. We can talk you through this strategy if it is something you're interested in pursuing.



Asset protection

Having your investment properties at different banks will mean your own home is protected. If something unforeseen happens, and you are unable to meet the repayments on one of your investment properties, then the bank cannot take your home as security. If you have all of your properties together, then the bank can end up selling your own home to repay the debt you owe them. Split banking can help to give you peace of mind, knowing that your own home is not at risk.

Greater variety of policies

Banks have different attitudes and policies towards different things. When banks are assessing your mortgage application, they each treat things slightly differently. For example, bank A might only count 70% of income coming from an AirBnB, as they view it as an unreliable income stream. On the other hand, Bank B may accept 100% of the income which will allow you to borrow more when compared to Bank A. By using multiple lenders, you can pick and choose the best bank to fit your specific situation.

Sale proceed protection

If you decide to sell one of your properties to fund your retirement, you would want to make sure the bank can't take that money to pay down debt. This is something that we have seen people get unexpectedly caught out by and can be prevented with a split banking strategy.

Tips and tricks.

Don't get emotional about a property

Think about your investment property as a business. Just like any investment, you are in it to make a profit. Separate any emotions or feelings, and make it purely transactional. Using property managers and other advisors will help with making 'business like' decisions.

Understand the power of leverage

Leverage is your biggest tool in property investment. Make sure you understand the principles of leverage, and how you can use it to your favour and maximise your leverage position with the banks.

Get a recent valuation on current owned properties to unlock usable equity

If you see house prices have risen and want to check how much potential equity is in your property, then you can order a new valuation. Your broker should be able to provide you with an electronic valuation for free, or you can choose to pay for a registered valuation. Your usable equity will be the value of the property minus the debt owing, and the equity that the bank requires you to keep in the property.

Factor in unexpected costs

Always make sure you are financially prepared for unexpected costs by having a 'rainy day' fund. This means you won't get caught out if your property needs some sudden maintenance, or becomes vacant for an extended period. When budgeting, you should always assume your property will be vacant for a few weeks a year and that there will be maintenance costs to pay.

Use a revolving credit on your owner-occupied home

Using a revolving credit facility on a portion of your owner-occupied home loan may allow you to reduce the monthly interest you pay on your home loan which may then allow you to have readily available cash to help increase your equity position. There are risks associated with this type of facility and it requires a high level of account conduct and management. Your Lateral Partners advisor can discuss this with you in more detail.

Things to look out for.

There are some key areas of concerns to look out for when considering an investment property. Of course, we suggest you get a professional (builder, roofer, etc.) to inspect the premises before buying, and we have also come up with a few additional areas to keep an eye out for.

Firstly, always ask the agent or seller if there are any disclosures. This is crucial as the agents have an obligation under the REA to disclose any things of concern at the premises. This can be anything from a death in the home, any leaks throughout the premises, or even minor damages like a hole in a wall from moving out.

The age of a property is a great indicator of what to expect in a property. The older the property the more issues you can expect, within reason. Some older houses are built better than new houses built today, but at the end of the day a simple rule of thumb is that the older the place the more you can expect to pay on renovating or repair & maintenance.

Physical concerns/damages to look out for (existing house)

Signs of a leak on the ceilings

This is a good indicator that there is some sort of leak coming from the roof cavity. It could cost you a big sum of money if the roof is starting to or has already failed.

Under the house

Crawling under the house might not be your cup of tea, but there are a couple of key things you want to check here.

Depending on the age of the house you are looking at, the piping may be old and tired and need replacing. Dux Gest piping for example was introduced in the 1970s & 1980s and is notorious for spontaneously failing.

Flooring

Checking the flooring under the house is also helpful in identifying any leaks which may have occurred in the premises throughout the life of the house.

This is quite easy to identify, as you will notice a water damage mark on the flooring and if the leaks are still occurring, you can even stick your finger into it and feel to see if it is wet and has gone soggy. If this is the case, you need to be aware as these floorboards may need to be replaced in the near future.

Common areas for flooring leaks are around the kitchen or bathroom areas, and also the hot water cylinder area, which could indicate a failing cylinder that needs to be replaced.



Got questions?

We hope that you found this guide helpful as an introduction to the world of property investment. It's a long and 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.