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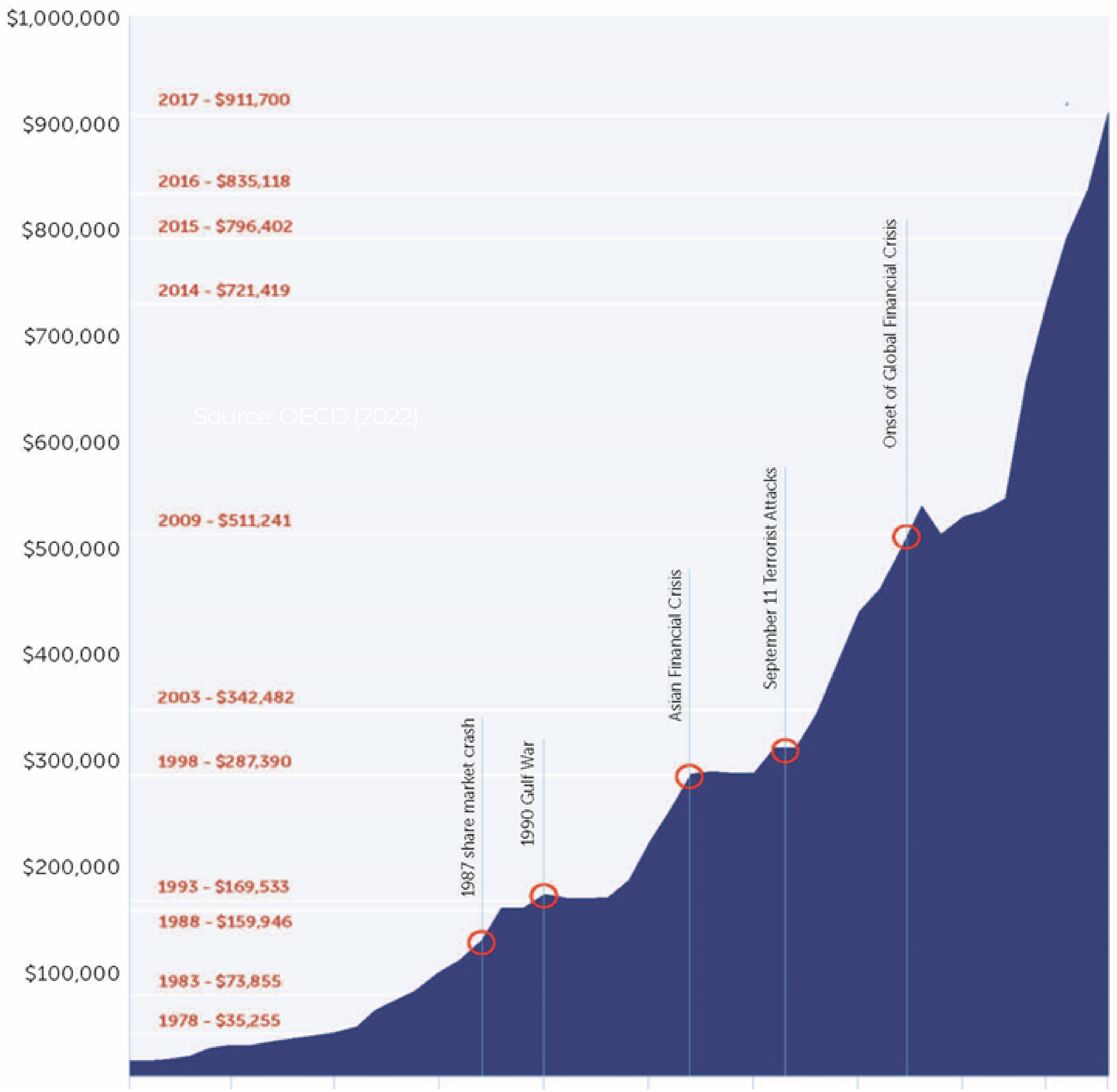
PROPERTY OWNERSHIP

HOUSING **MARKET** OVERVIEW

HOUSING **MARKET**

Property Values over time

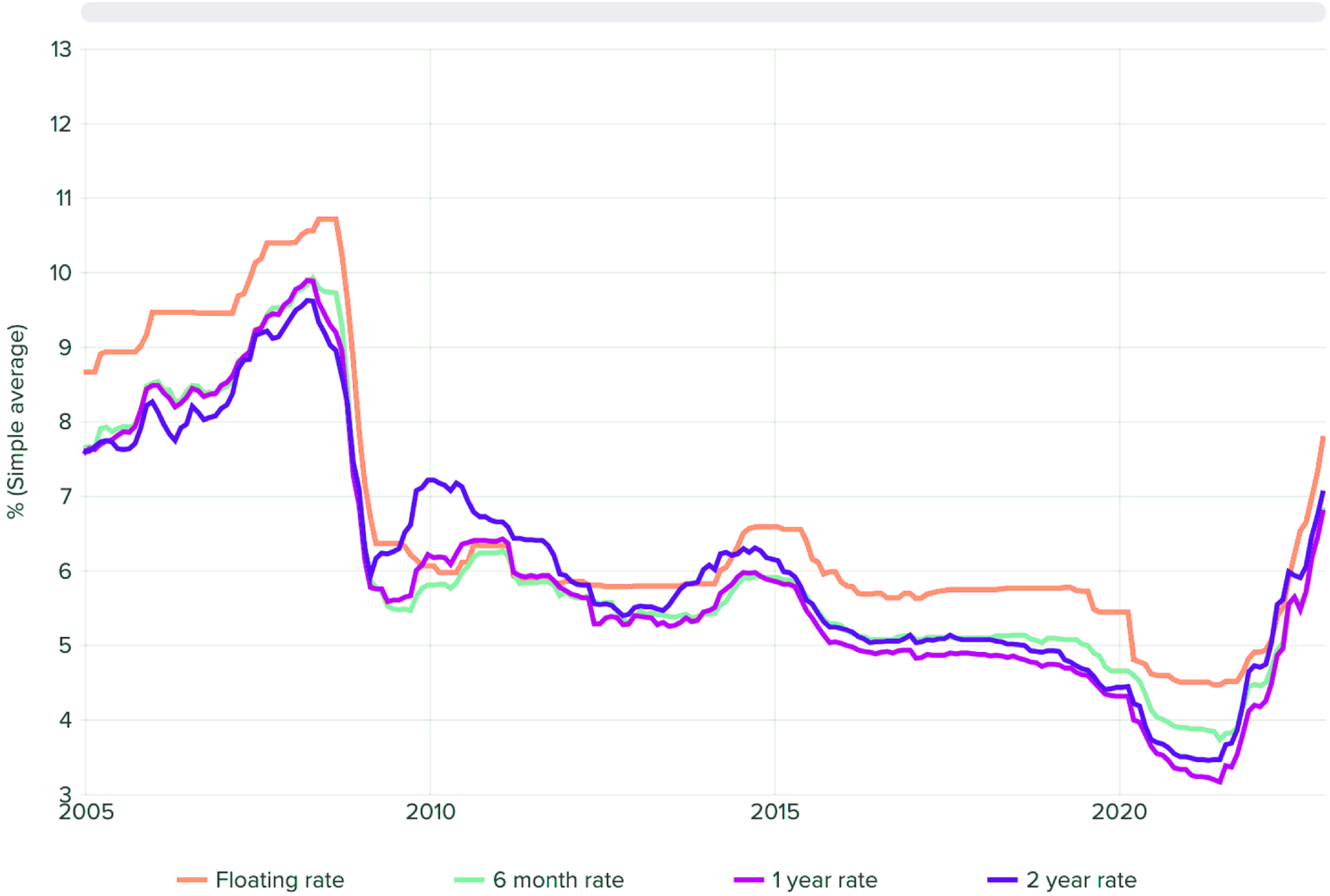


HOUSING
MARKET

Floating & Short

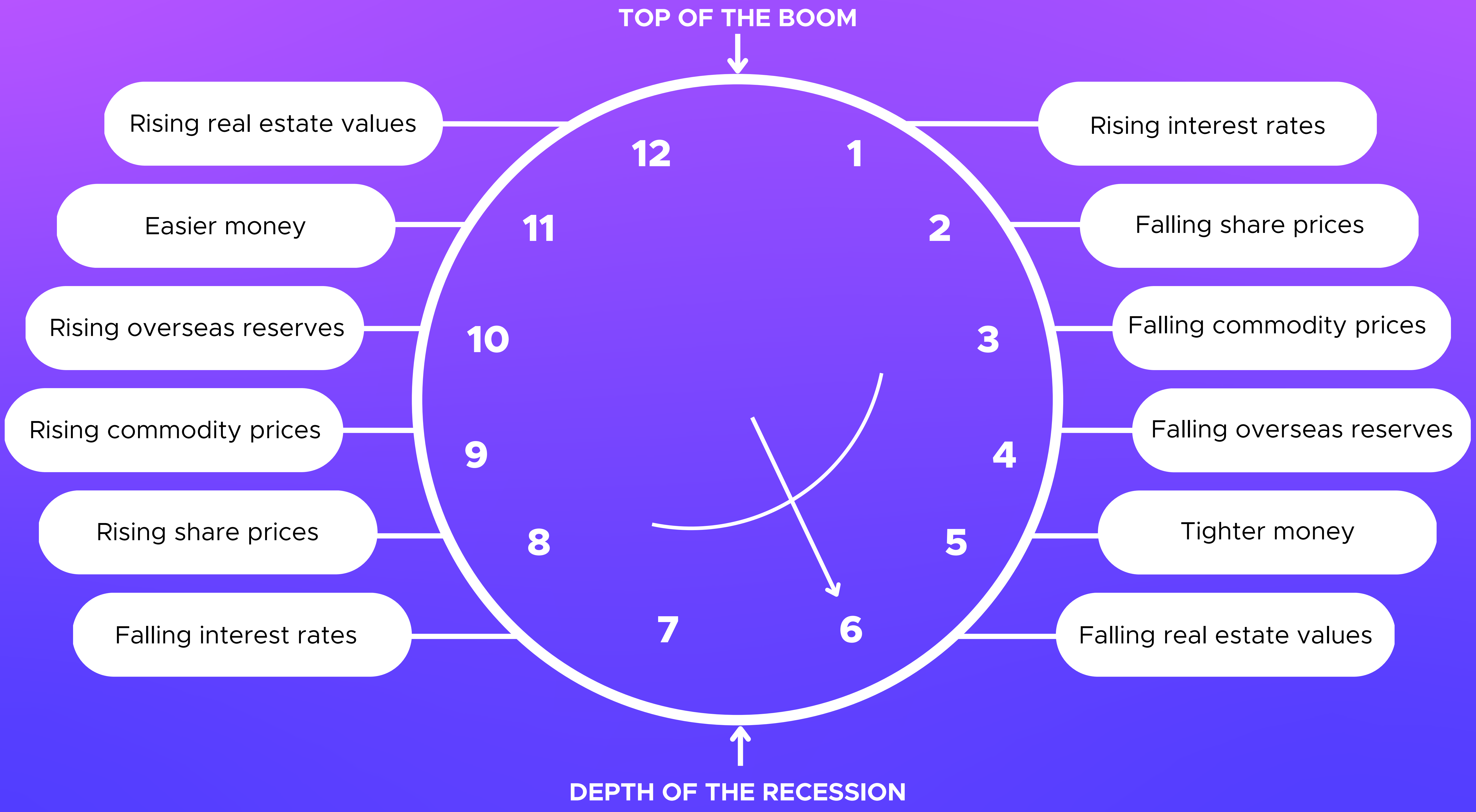
Interest Rates

New standard residential mortgage interest rates for selected terms less than three years including floating.



HOUSING
MARKET

The Cycle



Investing is all about
time in the market
not timing the market

Types of property

There are four main types of property ownership in New Zealand – freehold, leasehold, unit title and cross lease

Freehold

Leasehold

Unit Title

Cross Lease

Types of property

Freehold

Freehold, also known as ‘fee simple’, is the most common kind of ownership in New Zealand. It is usually the simplest kind of ownership.

If you have a freehold property, **you own the land and (generally) anything built on the land** unless there are any registered or unregistered interests.

Interests that might restrict your use of the property include:

- easements that give neighbouring property owners or utility providers rights to use part of your land to pass over or connect to services
- restrictions under the Resource Management Act 1991
- whether the land is Māori freehold land.

Types of property

Cross Lease

In a cross lease,
you own a share of the freehold title in common with the other cross leaseholders and a leasehold interest in the particular area and building that you occupy.

If you hold a cross lease you own two interests in the property:

- a share of the freehold title in common with the other cross leaseholders.
- a leasehold interest in the particular area and building that you occupy. These leases are usually for 999 years for a nominal rent like 10 cents per annum (which is usually not demanded to be paid).

Types of property

Unit Title

Unit title ownership also referred to as a 'strata title' or 'stratum estate' is most common in a **building where there are multiple owners.**

As a unit owner you own:

- your particular apartment or unit and any accessory units, like garages, car parks, private courtyards and storage areas contained in the record of title
- an undivided share of the ownership of the common property (eg lifts, laundries, lobby areas, driveways and gardens).

Body corporations – Handle the management and maintenance of the buildings

Types of property

Leasehold

With leasehold ownership, **someone else owns the land, and you pay rent to them.** You purchase an exclusive right to possession of the land and the buildings on it for a specific period of time according to terms set out in a lease. In some cases, you will own the buildings or other improvements on the land.

If you buy a house that is built on leasehold land, the terms of the lease will set out:

- the amount of rent you have to pay to the freehold owner - this is usually called ground rent
- how often the ground rent is reviewed by the freehold owner
- rates and other expenses relating to your property.

At the end of the lease term, you will need to return the land and the buildings to the freehold owner in the condition specified in the lease.

Ground rent can change and will usually increase. Increased rent and a shortening lease term can have a serious impact on your ability to sell your leasehold interest at a later date.

HOW TO CREATE A DEPOSIT

Cash savings / investments

Kiwisaver

Gift or Loan from family & friends

Sale proceeds from previous property

Equity out of current homes

Tip

If you want to buy your first house,
ramp up your KiwiSaver contribution

KiwiSaver = pre-tax
so more money

Savings = post-tax
so less money

WHAT IS A **MORTGAGE?**

"Death pledge"

"legal agreement by which a bank or lender that lends money at interest in exchange for taking title of the debtor's property, with the condition that the conveyance of title becomes void upon the payment of the debt."

MORTGAGE

Types of mortgages

- Table loan
- Revolving credit
- Offset loan
- Reducing loan
- Interest only

Table Loan

This is the most common type of home loan.

You can choose a term up to 30 years with most lenders. Most of the early repayments pay off the interest, while most of the later payments pay off the principal (the initial amount you borrowed).

- Table loans provide the discipline of regular payments and a set date when they will be paid off.
- They offer the certainty of knowing what your payments will be, unless you have a floating rate, in which case repayment amounts can change.

- Fixed regular payments might be difficult for people with irregular income.

Revolving Credit

Revolving credit loans work like a giant overdraft.

You can have your pay go straight into the account and bills are paid out of the account when they’re due. By keeping the loan as low as possible at any time, you pay less interest because lenders calculate interest daily.

You can make lump-sum repayments and redraw money up to your limit. Some revolving credit mortgages gradually reduce the credit limit to help you pay off the mortgage.

- If you're well organised, you can pay off your mortgage faster. This also suits people with uneven income as there are no fixed repayments.
- Putting surplus funds into this account rather than a separate savings account will give bigger interest savings and also avoids the tax on the savings account interest.

- It needs discipline! It can be tempting to always spend up to the credit limit and stay in debt longer.

Offset Loan

An offset mortgage setup can reduce the amount of interest you pay on your mortgage.

Typically, interest is payable on the full amount of a loan. But by linking your loan to any savings or everyday accounts you already have, you pay interest on that much less.

The more cash you keep across your accounts from day to day, the more you'll save, because interest is calculated daily. Linking as many accounts as possible – whether from a partner, parents, or other family members – means even less interest to pay.

- You pay less in interest and pay off your mortgage faster. Typically there is no fixed term.

- The linked savings accounts do not earn any interest when they offset a loan. That said, interest on debt is typically higher than the interest you would earn on savings, which makes the offset worthwhile.

Reducing Loan

Reducing or straight line mortgages repay the same amount of principal with each repayment, but a reducing amount of interest each time.

These are quite rare in New Zealand. Payments start high, but reduce (in a straight line) over time. Fees are similar to table loans.

- We pay less interest overall than with a table loan because early payments include a higher repayment of principal.
- These may suit borrowers who expect their income to drop, for example, if one partner plans to give up work in a few years' time.

- If we can manage higher payments, it would be better to take a table loan with payments high for the whole term, so we pay less interest.

Example on offsetting

MORTGAGE	SAVINGS	TERM DEPOSIT CURRENT
$850K	**$50K**	**3.15%**
OFFSET MORTGAGE	SAVINGS	1 YEAR FIXED RATE
$50K	**$0**	**6.50%**

Interest Savings $3250 ——— Term Deposit return $1575

Effectively you are up $1675 in the year by shifting savings to offsetting debt.

Interest only

When you pay the interest-only part of our repayments, not the principal, so the payments are lower.

Some borrowers take an interest-only loan for a year or two and then switch to a table loan.

- We have more cash for other things, such as renovations.

- Ultimately it costs us more. We will still owe the full amount that we borrowed until the interest-only period ends and we start paying back the loan.

FIXED VS. **FLOATING**

Fixed Interest loans

With a fixed rate home loan the interest rate you pay is fixed for a period of six months to five years. At the end of the term, you can choose to re-fix again for a new term or move to a floating rate.

- You know exactly how much each repayment will be over the term.
- Lenders often compete with fixed rate specials.
- You can lock in lower rates if market interest rates are rising.

- Fixed rates often have limits on how much you can raise repayments or make extra payments without paying charges.
- If you take a long term, there is a risk floating rates may drop below your fixed rate.
- If you choose to sell your property and/or break a fixed loan you may be charged a ‘break fee’.

Floating Interest loans

Lenders of floating rate loans will lift or lower the interest rate as interest rates in the wider market change, normally linked to the Official Cash Rate (OCR). This means your repayments may go up or down.

- You have more flexibility to make changes without penalty, such as paying off the loan early or changing the loan term.
- It’s easier to consolidate other, more expensive debt into floating rate loans by borrowing more.

- Floating rates have historically been higher than fixed rates.
- When rates go up the repayments also go up, putting a squeeze on your budget.

MORTGAGE

Things to think about

MORTGAGE

Debt servicing

what effects your loan size

Lending criteria is ever changing and a minefield. You might be able to afford in real life but completely different in the credit world

- Employment - PAYE / Self employed
- Income
- Bonuses / Commissions
- Age
- Dependants
- Kiwisaver contributions
- Student loan
- Current loans, repayments and loan terms
- Guarantees
- Credit limits
- Vehicles
- Living Expenses
- Loan to Value Ratios
- Test servicing interest rates 8.5%

MORTGAGE

Loan to Value Ratios (LVR)

This was introduced in 2013 and is a measure of how much a bank lends against mortgaged property, compared to the value of that property.

Existing Owner Occupied

80% mortgage - 20% Deposit

High LVR

Less than 20% deposit debt servicing criteria will change

Existing Rental

60% mortgage - 40% Deposit

New builds

exempt for Investment properties

MORTGAGE

New Build vs Existing

Pros and Cons of both

New Builds

Pros:

- Less maintenance – Master Build Guarantee, New appliances, Double glazing
- Rental at present has tax deductibility in full

Cons:

- Smaller land size (generally)
- Condensed housing
- The quality of tenants

Existing

Pros:

- Full-size section – Land size, Capital gains, Character Villa/Bungalow/Brick and Tile, Solid Foundations

Cons:

- Maintenance and upkeep
- If rental tax deductibility is grandfathered or not at all

MORTGAGE

How to pay off your mortgage faster

Mortgage

$850K

30 year loan term

4.85%

Monthly repayments

$4485

Total interest: $764,000

Total payments: $1,614,000

Change to fortnightly repayments

$2242

Total interest: $625,000

Total payments: $1,475,000

MORTGAGE

How to pay off your mortgage faster

Savings

$140,000

Paid off

5 years

earlier

Bank vs Second Tier

You have options

Vanilla

vs.

Complex

MORTGAGE

Costs of owning a property

- Mortgage payments
- Insurance on the house
- Contents insurance
- Landlords insurance
- Rates
- Water
- Body corp or residence society
- Electricity / Gas
- Property Management fee
- Maintanence

Different types of buying / selling a property

Auction

Negotiation

Tender

MORTGAGE

What to do when purchasing a property

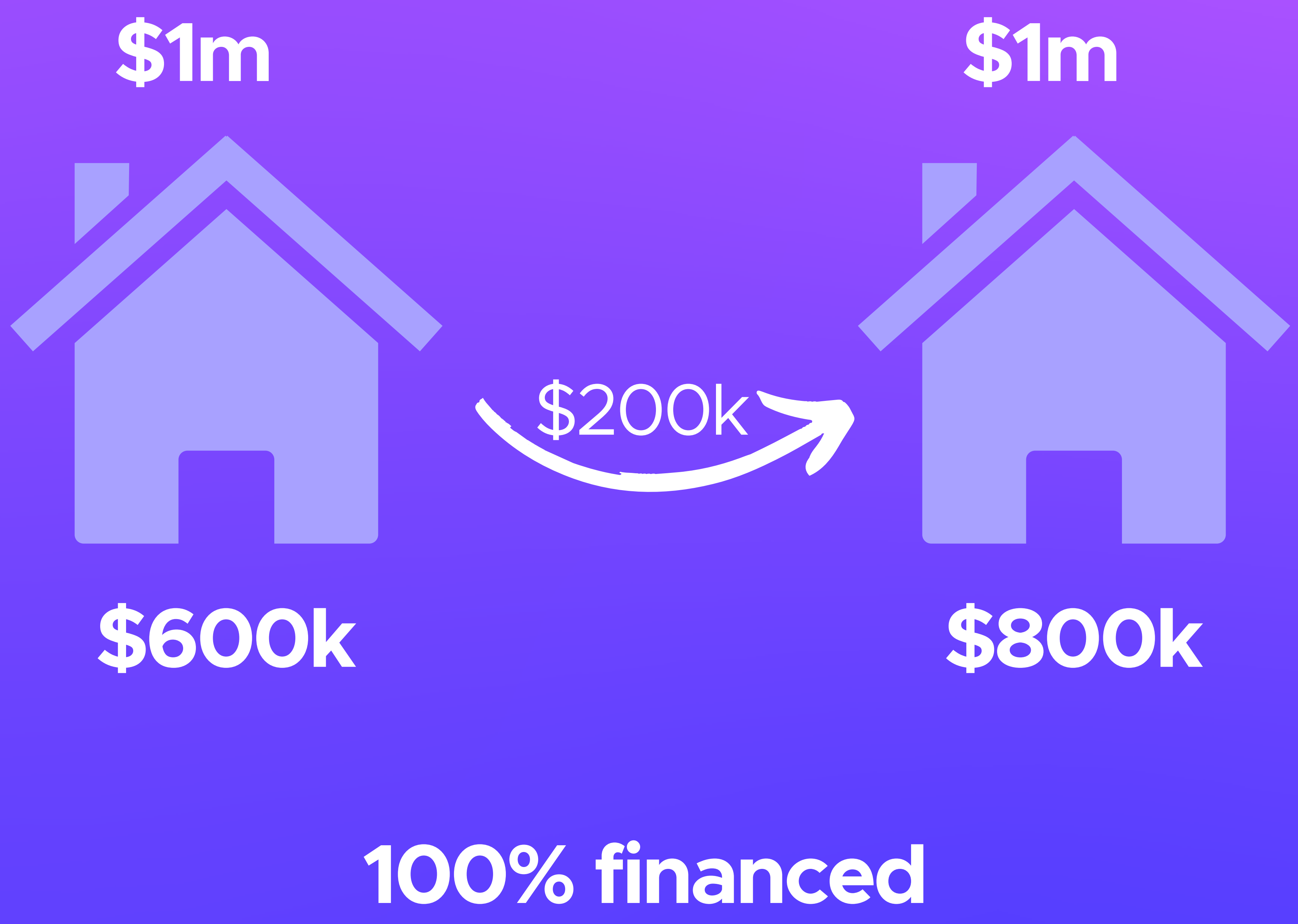
- Understand how it is being sold
- Mortgage approval
- Complete Due Diligence
- Make sure you can obtain house insurance
- Understand if offer is conditional or unconditional
- Make sure you have access to deposit

MORTGAGE

Purchasing a property using equity

How to build an empire

- You have done the hard work by saving and purchasing your first home
- You have paid down debt and or with natural Capital Gains you have created Equity
- Don't be confused between True Equity and Useable Equity



MORTGAGE

Mortgage repayments increasing

Your current mortgage rates

$1m on 2.5%

P&I 30yrs

(25 years left)

Repayments:

$4,486pm

Increase of $2,226pm

Your updated mortgage rates

$1m on 6.5%

P&I 30yrs

(25 years left)

Repayments:

$6,752pm

Option 1

Bank A → Bank B

$1m on 6.5% with Bank B

P&I 30yrs = $5,488pm

(extend 5yrs = lower repayments)

+ 1% cash back contribution ($10k)

Increase of $1,002 per month

Option 2

Bank A → Bank B

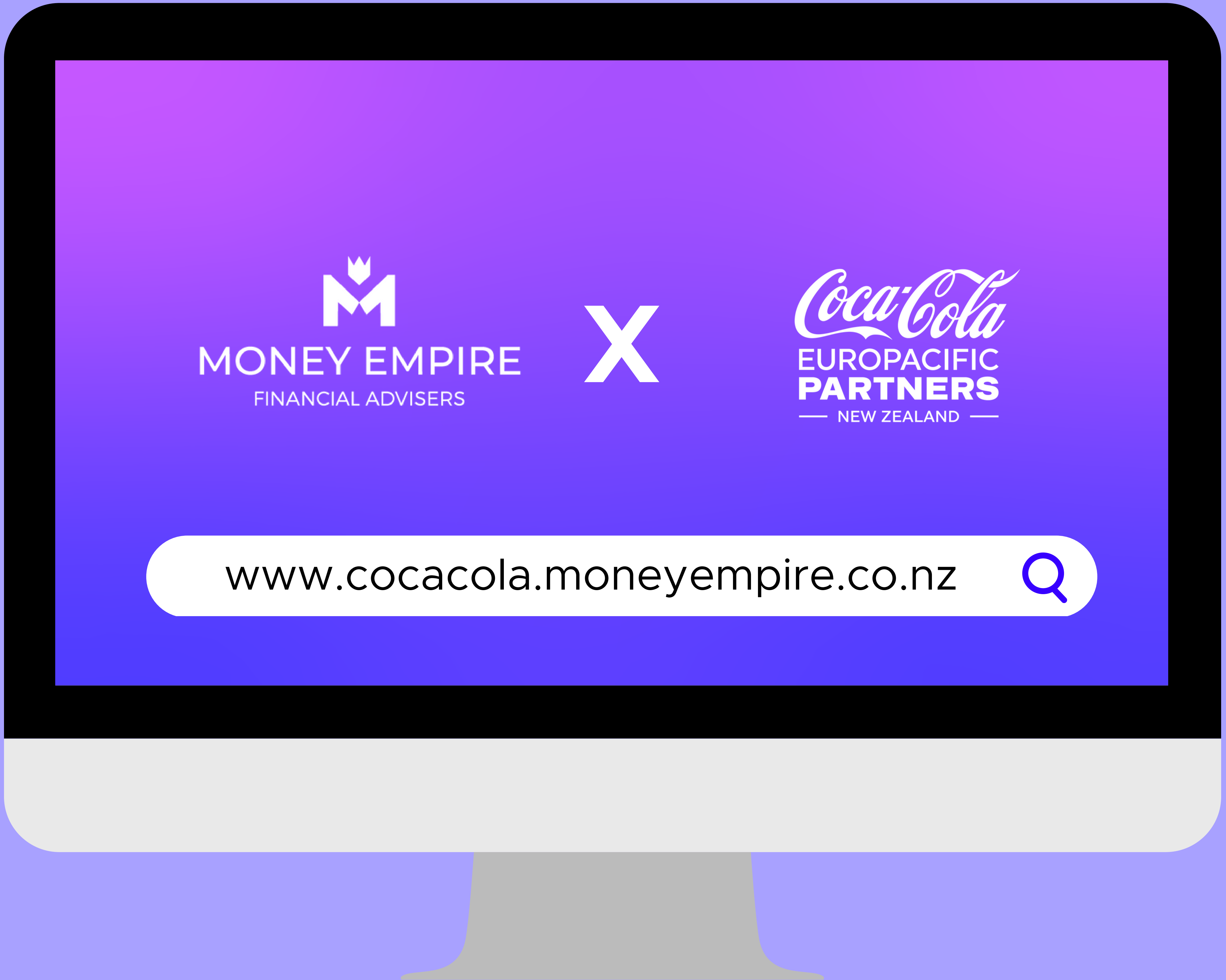
$1m on 6.5% with Bank B

Interest Only = $4,583pm

+ 1% cash back contribution ($10k)

Increase of $97 per month

Why use an adviser?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