

BY VICKI HOLDER

New and affordable

In the second instalment of our new affordable homes series, **Vicki Holder** explores the benefits and things to be wary of when investing in a new-build, compared to investing in existing, older properties

Buying new and avoiding hassles

For property investors considering building new both Jeff deLeeuw and Stephen Murray offer the following advice:

- ▶ look for a registered Master Builder that offers a seven-year warranty
- ▶ ask who is standing behind the builder to make sure the work is guaranteed
- ▶ make sure you understand what happens to your money when it goes to a builder
- ▶ ask what the staged payments are for
- ▶ ask for a statement of security from the company's bank
- ▶ get testimonials and references from past clients
- ▶ ask how many other homes they have on the go – if they haven't got many, it's obvious there's a reason why.

When temperatures plummet, it's obvious which rental properties are easier to rent. New homes win hands down over older properties, says Corrina Bell.

For all their character, in the middle of winter, "who would opt for a drafty, old, uninsulated villa over a snug, double glazed, well-insulated, brand new home?" she asks.

As the owner of a company that helps people plan for their retirement to invest in rental property and a property manager working to manage those properties, Bell understands the needs of both investors and tenants.

For the past two years, she has channelled 100% of her investment business customers into brand new affordable homes, as she believes that's the best strategy for capital gains.

"The main attraction for buying a new investment property is that it attracts a better quality tenant," she says. "Because it attracts a better quality tenant, a new home generally commands a higher rent and better returns. Of course it varies from city to city, but you could be looking at a 5% to 20% higher income."

Bell lists other reasons that are music to a property investor's ears. "A new home is simply a better product for investors to buy. It's lower maintenance and comes with builders' warranties. Landlords don't have to even think about maintenance for a number of years.

"And you get a better tax depreciation than for an older home. If you were to work it out, it could mean an extra

\$50,000 over a five or 10-year period."

Sounds too good to be true. And it is, says tax accountant Mark Withers of Withers Tsang in Auckland.

He says there's little difference between an old and a new home as far as tax depreciation goes. The only difference is in the chattels – the whiteware, light fittings, the oven, carpets and so on.

As Jeff deLeeuw, the owner of a GJ Gardner franchise in Hamilton points out, because you know the exact costs of new products in a new home, it's simpler to work out how much items can be depreciated.

deLeeuw cites the no maintenance issue as one of the most important drawcards for property investors. He says new homes have new ovens, new hot water cylinders and the like, which are the things that tend to cause problems in older homes and detract from rental yields.

"You should be able to get better rent for a warmer, more energy efficient home that's better oriented to the sun. Many studies show new homes are more energy efficient which makes them easier to rent."

Stephen Murray, general manager of Milestone Homes, a company which builds new homes for investors mainly in areas like Auckland, Marlborough, Manawatu and the Waikato says, "While the tenant is responsible for the running costs of the home, landlords are starting to understand the energy efficient aspect helps them to attract

"The main attraction for buying a new investment property is that it attracts a better quality tenant"

– CORRINA BELL



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Full-time
property
investor Cliff

Seque, president
of the Otago Property
Investors' Association, has
built around 20 new homes for
investment over a period of time.

He opts for affordable new homes
because "it gives tenants what they want –
something new, insulated, double glazed with
all new facilities."

He has a favourite builder who works on his own
with a labourer.

Seque's latest project, completed in February this
year, was four two-bedroom student flats on around
340 square metres on the Otago University campus.

To build new, he had to bulldoze two old villas,
one of which had been a stalled renovation project
that had been empty for 10 years. He bought the land
for \$320,000 and built the units for about \$310,000;
\$630,000 all up.

Each unit is about 72 metres squared and he lets
each fully furnished to overseas students for \$310 per
week; \$1,240 X 52 weeks, which gives around 10% yield.
The figures stack up, he says.

He has also unit titled them so he won't have any
problem selling the units off when he wants to.

All the furniture is brand new and cost him around
\$10,000. He has no problem letting any of his flats
out and three out of four of the
tenants in his latest rental project
have already renewed their leases
for next year. The only challenge to
building new he says is finding the
land. "You've got to buy at the right
price and know what the rental
returns will be. It's not easy."



Cliff Seque

a better quality tenant which ensures there will be less damage and deterioration to their asset.

“Many investors are struggling to find a good quality rental property. The fact is, there’s not much affordable older property for sale,” says Murray.

“There’s a lot around \$250,000 and below, and at the top end, \$750,000 and above. But traditional rental investors are saying there’s not much good quality property for between \$350,000 to \$400,000.”

Whether or not that price range constitutes affordable is a moot point.

“It’s a good product that will actually appreciate in value. But buying new means thinking about many things: buying land, obtaining consents, compliance and council issues”

– STEPHEN MURRAY

Milestone can build a new home from \$150,000 but the total package depends on the land value and that varies around the country.

GJ Gardner has an Express Range pre-designed for speed and economy for just over \$150,000 plus land. As the biggest building firm in New Zealand, all GJ Gardner’s material purchases are

done on a national procurement basis, says deLeeuw.

Mike Pearce of Universal Homes in Auckland argues with the price of land, there’s no such thing as an affordable home anymore. And there are many traps for the unwary.

He says you’d be hard pushed to get a section in Auckland for under \$200,000



A typical new home built by Milestone

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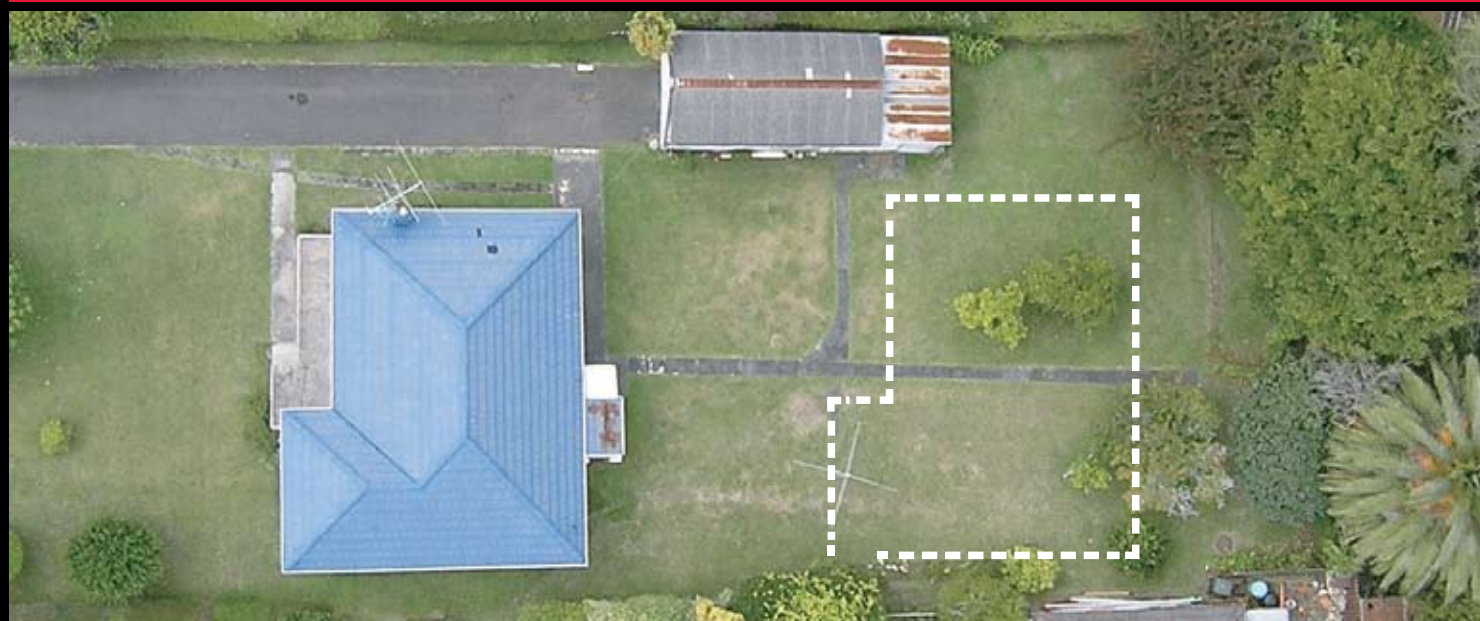
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G.J. Gardner. **HOMES**

Numbers stacking up

Peter Hill built a three-bedroom Milestone Homes home in Amesbroke, 5km from Nelson, two years ago.

He bought the land for \$125,000 so the house with all the landscaping completed came to \$330,000 all up.

It took three months to build with all consents. And he rents it for \$420 a week, reduced from \$450 "because there was a bit of a lull".

He says tenants are becoming more and more fussy. "They want warmth in winter."

Hill owns two rental properties. The other in Christchurch is just 10 years old.

As a busy person, he'd never consider buying an older rental property. "It comes down to no maintenance. It stacks up. A new home is better. It's made of permanent materials."

Apart from the initial cost, he says, "there's no outlay for at least 10 years. I don't need to go around repairing things. Once the tenants are in there, you don't have to do a thing. Everything is under warranty."

Hill says there are no downsides to buying new homes. "They're getting dearer by the day to build. There's only one way for houses to go and that's up. You know you'll achieve good capital gains. They'll never be cheaper than now. Land is king and buying property means you're in control of your destiny."

that hasn't got base height and geo-tech problems.

In subdivisions in Rodney, the council requires underground water tanks for all properties, which add an extra \$14,000 to each.

Still, building a new home with a reputable building company offers some certainty about what you get. You buy a plan and build a sound, safe investment with a fixed price contract and fixed completion dates.

Murray says new homes still stack up well against other investment options.

"It's a good product that will actually appreciate in value. But buying new means thinking about many things: buying land, obtaining consents, compliance and council issues. We shouldn't let these things scare people. Investors need to partner with [someone experienced] to take the hassle out of it. It means they can get into a property a lot faster and start to rent it out quickly."

As far as obtaining finance for a new home goes, the banks have made it difficult. Horror stories abound about developers and builders going under owing clients money.

John Roberts, a mobile lender with the ASB Bank explains the reason lending criteria for "a construction loan" are more stringent, is because before a home is built, there is less equity to offer the banks security. Building loans are difficult – unless there is a lot of value in the land, or the lender has substantial cash.

"Early on, there's a lot of expense to get out of the ground. To the bank, the property is worth a lot less than it costs them. As the project evolves, it gains value. Finance frees up once the house becomes more of a house. It's a lot easier with existing homes as you know the value. You know what you're getting and that's of value to the bank."

As far as the bank goes, he adds, there are extra costs when you're building as you need to get a valuer to go in at different stages to be able to borrow more.

Murray says the government has a role to play in putting some protection in around new home builds. He suggests client trust accounts should be mandatory for building companies to ensure the banks and consumers are protected. ▲

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