



# property investment guide

[www.beyondmortgages.co.nz](http://www.beyondmortgages.co.nz)

Financial Advice  
NEW ZEALAND



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## [ Introduction ]

Residential property investment is one of New Zealand's greatest wealth creation tools. In this guide we will assume you have decided that property investment is the wealth creation vehicle you want to drive.

Accordingly, we will not compare the positives and negatives of property investment versus other investment options, rather we will focus on answering as many questions associated with property investment and finance as possible so you are prepared for the journey ahead.

Residential property investment  
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## [ Who invests in property? ]

It is not rare for people to want to invest in real estate. It is the most common investment vehicle utilised in our country.

There are approximately 180,000 property investors in New Zealand, and guess what? They actually look just like you. The average investor only ever owns 1-2 properties at a time, (not to say that must be the way). Only 10% of people own more than two investment properties at a time and only 10% of people actually treat property investment as a business.

At Beyond Mortgages we believe the above two facts are closely related. Now read the above carefully, it does not say that for 10% of people property investment is their business, it says that for 10% of people they treat property investment as a business. The majority also have 9 to 5 jobs or run completely separate businesses apart from their property investments.

We believe this point is a critical one and suggest that for you to be a successful property investor, you treat your property investment as a business. Set that frame of mind from the start and it will stand you in good stead.



## [How do I get started?]

The main elements of property investment revolve around capital gains on property, the yield you can obtain from the property and the taxation benefits of property investment, but where to start?

The deposit for your investment is as good a place as any, many first time investors don't understand that you do not have to have paid your house off before you invest. Many people have good equity in their own home while still having a mortgage. You do not need to save a deposit, you can raise 100% plus costs from the equity in your home.

One of the major benefits of property investment is that the capital gains made on the property can be tax free as long as you are focused on a medium to long term investment. You only have to look as far as Australia to find that this is not the case in many countries. This means that whatever profit you sell your investment property for, it is yours to keep (or invest).

Yield is the income you make from the property. To work out the exact yield follow this calculation; Yield is income from the property less expenses (excluding interest) divided by the property's value multiplied by

100. In an ideal world, if your yield covers the interest rate you have a very sound investment (however, often economic conditions do not allow for this to be possible).

There are less taxation benefits associated with property investments as there used to be, so you need to discuss the benefits with a tax accountant. We can refer you one if needed.

Also be very careful that your investment actions are not deemed to be property trading, as property trading is taxable. Property trading is generally defined as short term development or buying, improving and selling property short term, as opposed to property investment which is exempt from capital gains tax. If not sold short term for a profit.

As mentioned before we believe that treating your property investment as a business is a critical success factor and with any successful business you need to set goals to aim for. Understand what you want to achieve and then set yourself a goal to achieve it.

# [Ownership structure]

Establishing the correct ownership structure is a critical element of successful property investment as is the correct finance structure (covered later). We have seen many people who made a wise investment with their property purchase but did not maximise the opportunity by failing to establish the most effective ownership or finance structure for their circumstances.

Ownership structure is a specialised area and our golden rule is always seek professional advice from an accountant or solicitor for the most effective structure for you. There are no right answers around structure, it is different for different people who each have their own circumstances. We have outlined the most common ownership structures below, but please take the time to consult a professional for advice on this aspect of property investment at the outset.

## **Partnerships**

Advantages are they are easy and cost effective to set up, downside is partners are jointly and severally liable for any debt incurred in the partnership by the other partner.

## **Sole Trader**

Advantages are it is easy and cost effective to set up, downside is there is unlimited liability on any losses made.

## **Ordinary Company**

Advantages are your liability is limited and you are taxed at the company tax rate. Downside is the cost and increased level of administration.

## **Trading Trust**

Advantages are income can be distributed to beneficiaries and assets are protected from personal creditors. The downside is you cannot distribute losses to beneficiaries.





# [Location and Property Type]

Now remember that it is not an owner occupied home you are buying here, so the emotion can be somewhat removed. However, it is good advice to stick to some basic fundamentals like, 'what type of tenant do I want to attract?' As an example, the needs of a family will be very different to that of a professional couple.

Location will remain important as it will drive capital gains and ability to attract tenants.

Try to think like a tenant, if you were renting what would you be looking for in a rental property?

Be aware of guaranteed returns. Some new investment developments offer a guaranteed rental return for a set period, while this may look appealing on the face, it is advisable to look beyond the initial guarantee and ask yourself what you could rent the property out for when the guarantee expires.

When buying a property, shop, shop, shop and then shop some more! You can't look around enough when you are buying an investment property.

There is an old saying that often you make your money when you buy not sell ...

Make sure a property has the infrastructure around it tenants will want/need, such as schools, transport, medical, shopping, social, sports clubs, etc.

What is the weather like in the area? Does the house get good sun late in the day or early, is it wind blown?

Ask questions. Why is the current owner selling, is there an undesirable neighbour next door or have they just grown too big for the house? Is it currently a rental property? If so will the tenants be staying on and for how long? Will the current property manager be a good option for you to continue on with?

Is the Rateable Valuation relevant? Often this is not the case as the Rateable Valuation is only a snap shot at a set point in time and is the figure that drives the rates payable on the house, it does not mean it is still worth that figure.

What have similar properties in the area been going for? Shop around, ask your real estate agent. How much did this house sell for previously? For further reports and information we can refer you to a professional valuer.



Often recent improvements to a property look great, but make sure you check out to see if the improvements had council consent. You can do this by having a (LIM) Land Information Memorandum report done; generally this is done by your solicitor. A LIM report shows consents and codes of compliance, rates owing, any problems with drainage, flooding or erosion. You can also obtain a short LIM report from you local council at minimal cost.

You should also get the certificate of title checked out. You need to understand the

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different ownership types that exist from freehold, to cross lease, unit title, company share or leasehold. The certificate of title will also highlight any covenants (restrictions) or easements (rights) on the property. Our advice is to always consult a solicitor in the matter of title.

# [The purchase process]

Always get your finance pre-approved; it effectively can make you a cash buyer if all your finance conditions have been met. Pre-approval generally lasts for 60-180 days, costs nothing and can easily be renewed. Once pre-approved there are a few different methods of purchase you should be aware of.

The most common is **Offer and Negotiation**.

A written offer is made on a sale and purchase agreement (normally through a real estate agent). It is unlikely the seller will accept your first offer if it is lower than the asking price. In most cases, negotiation results and counter-offers are made.

At **Auction**, you are bidding on an unconditional basis. This means you must do your homework prior to the Auction and complete builders reports, valuations etc, if required, prior to the Auction. Generally, a deposit of 10% is payable immediately after the Auction. If the property does not sell at Auction, it is 'passed in' and interested purchasers will have the opportunity to negotiate with the vendor.

With a **Tender**, you place your 'best' offer in writing to the vendor who receives all offers by a set date and chooses the one they like best (a bit like a blind auction). The vendor is not obliged to choose any tender made, and may pass the property in or negotiate with the highest offer. You can place conditions on your offer but be aware the more conditions the less likely your offer will succeed. It is advisable to meet as many conditions as possible prior to Tender to make your offer attractive to the vendor - but remember unconditional is SOLD! And once unconditional you are legally bound to buy the property, if the vendor accepts your offer.

Remember:  
our service is  
**FREE!**

99.9% of the time

# [Purchase costs]

You need to be aware of all costs associated with buying a property. Take a note of the following categories and ensure you understand what costs are associated with each one.

We have indicated some likely expenses, but you should obtain legal advice in relation to the property you are looking to buy. Of course remember our service is FREE 99.9% of the time.

• A reapportionment of rates paid on the property	\$
• Household insurance, including contents	\$
• Solicitors costs	\$
• LIM and/or Certificate of Title searches	\$
• Valuation and/or Builders Report if required	\$
• Mortgage Adviser	\$ Nil





## [Property management]

Do you want to, and do you have the expertise to manage the property? This is an important aspect of your overall property investment. Of course managing the property takes a lot of time, but doing it yourself will also save you money. There is no right answer here, it is down to personal preference.

To enable you to make a clear decision you should understand that property management is not just collecting the rent. You will from time to time get troublesome tenants and they will need to be managed. The property will need to be marketed for new tenants and they will need to be vetted, the property will need

to be maintained, and any problems dealt with quickly. Don't let us scare you away from managing the property yourself, just ensure you understand what is required.

If using a professional property manager, select one carefully. They are very



important to your business (effectively they are employees of your business).

Ask yourself what experience do they have to be managing your investment property? Check out things like how often do they do property inspections? Who do they use for their property maintenance? If they can't tell you it is not a good sign. What is their vetting process, how do they deal with rental arrears? Remember you are employing someone to take care of this part of your business so you have a right to ask and know the answers to these questions.

If you choose to manage the property yourself we have provided some helpful tips below.

Remember this is a business - your tenants are customers not just mortgage payers, treat them well and it will stand you in good stead (remember put yourself in their shoes).

Remember this is  
a business - your tenants  
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mortgage payers

If marketing the property always advertise the suburb name first as people generally know the area they want to live in. Highlight the main features of the property.

Use your mobile number not your home number, (screening calls). Also ask a good exiting tenant if they know of anyone looking for a property to rent. This can be a good way of finding new tenants.

Always get referees, don't be scared to do a credit check, ask for previous landlords details. Don't choose the best of a bad bunch. Ask questions but don't interrogate.

Always attend to required maintenance in a quick manner, get repairs done to a quality finish, treat your tenants well. How would you feel if your toilet was blocked?

Don't become mates with your tenants. It can make disputes or rent reviews difficult. There is a tenancy tribunal which enforces the Residential Tenancies Act 1986, (get a copy of the Act and understand your and the tenant's rights).

# [ Finance process ]

As suggested earlier in this guide, where possible always get your finance pre-approved before you go shopping for your house.

While this may not be critical it certainly is advisable. If you make an offer on a house before you arrange your finance always make sure you put a clause in the offer 'subject to satisfactory finance approval', generally you should allow 5-10 days for this clause to be satisfied. When applying for a mortgage there are a number of steps that will occur, which are shown below in a chart that will take the mystery out of the process.

Event	Timing
Application for pre-approval completed with mortgage adviser	As required
Pre-approval received from lender	72 hours
Offer made on a property	As required
Conditions of approval met	Borrower to provide to adviser ASAP
Is a valuation report required?	As required
All conditions to lender for unconditional letter of offer	As soon as possible
Letter of offer sent back to lender and documents to solicitor or bank branch for signing	Adviser to send to lender immediately
Mortgage documents produced and sent to clients solicitor for signing	Within 72 hours of letter of offer being sent back to lender
Borrower executes Mortgage documents	As booked with solicitor
Settlement occurs and you move into house	As per Sale and Purchase agreement
Ongoing Mortgage review with Beyond Mortgages	Anniversary of fixed rate term

# [ Checklist of items required ]

When applying for a mortgage there are some standard items you will be required to provide to us that will assist in the quick and efficient processing of your mortgage application. Please prepare for your interview by collating the information below and bringing as much as is listed below as possible.

## 1. Mortgage Application

Completed and signed mortgage application (contact us, download PDF from our website or apply direct online at [www.beyondmortgages.co.nz](http://www.beyondmortgages.co.nz))

## 2. Confirmation of income

Three consecutive pay slips, letter from employer or copies of the last two years accounts if self employed.

## 3. Proof of deposit/equity

Copies of last three consecutive months bank statements, share certificates, letter of gifted deposit etc.

## 4. Copies of the last three months transactional bank statements

If looking for finance with an institution where you currently have no accounts. Make sure the statements have running balances and your name on them.

## 5. Copies of the last six months mortgage statements

If looking to refinance from another financial institution.

## 6. Identification - copy of passport, drivers licence etc

If looking to arrange finance with an institution where you currently have no accounts.

## 7. Copy of the Trust Deed (fully signed)

If borrowing or security is to be in the name of a trust  
(This may come at a later date).

## 8. Copy of the Certificate of Incorporation and Constitution

If borrowing or security is to be in the name of a company.  
(This may come at a later date).

## 9. A fully signed copy of the Agreement of Sale and Purchase

Signed by both parties (if purchasing a new property). This may come at a later date.

## [Finance costs]

There are some costs that will/may be associated with arranging your mortgage as follows:

• Loan application fee	Up to \$500 may be charged by the lender, however by applying through Beyond Mortgages this can be negotiated.
• Registered valuation fee	If a valuation is required this will cost approximately \$600.
• LEP or LEM	Low Equity Premium or Low Equity Margin

Please be aware that in most cases where a lender is lending over 80% of the property value. Lenders charge a Low Equity Premium (LEP) this can be a one off cost and in most cases can be capitalised on to the loan or paid for by cash. Low Equity Margin (LEM) is where Lenders can add a margin to any given interest rate for any lending over 80%. If LEP or LEM is required it does not provide the borrower with any form of insurance protection. It is enforced by the lender to allow them to lend you a higher than preferred LVR (loan to value ratio) on a property. Ask your adviser for a more in depth explanation.

Be prepared  
for you interview



## [Loan types and finance structure]

The structure of your finance is important. If you incorrectly structure your debt it could cost you thousands in lost taxation benefits.

The main rule to stick to here is don't pay principal and interest on your investment property if you still have money owing on your home. The interest on your owner occupied home is not tax deductible while the interest on an investment property can be 100% tax deductible. It makes no sense to reduce your investment loan while still owing money for your owner occupied home, but get professional tax advice as the tax laws can change.

Be aware of fixing your interest rate for longer than your goal with the investment property is, e.g. don't fix your rate for five years if your goal is to sell the property in three years time, as repaying fixed rate loans early can carry penalties.

If using a flexi mortgage on your home for deposits on investment properties keep the account separate from any personal flexi account you may have, ensuring no confusion around claiming interest as tax deductible.

Don't have all of your investment debt with one bank, some banks get nervous with

an individual having too many investment properties and some will treat you as a commercial borrower when you get past a certain number. This can not only effect your ability to borrow, but can also effect the interest rate they will charge you.

Arranging 100% of the purchase price of an investment property plus costs is common practice. This should not be confused with a first home buyer trying to raise 100% finance. It is very easy to leverage equity held in your existing property to raise all costs to complete your purchase.

Remember some lenders have other fees separate from the interest rate. You should take these into account, application fee, account keeping fee, discharge fee, portability fee, split account fee. It is advisable to set up internet banking for the bank account your rent goes into as it makes it easy to track rental payments.

Make sure you budget and plan to have access to funds to cover unforeseen vacancies and or maintenance.



# [The Role of the Solicitor]

The solicitor performs an important and critical part of the process when purchasing a house. Too many people proceed with a house purchase before they have sought the advice of their solicitor and this can be a costly mistake.

Your solicitor can give you advice on ownership structures such as whether you should purchase as a Company entity, or in a Trust or in your Personal Name. It is advisable to understand the options and establish your ownership structure before you go house shopping.

If you want to get a Land and Information Memorandum (LIM) performed on the property you are looking to purchase your solicitor can assist you with this. They can also arrange to search the certificate of title.

Before and after you have made an offer on a property your solicitor can check the Sale and Purchase agreement to ensure it is satisfactory and advise you in relation to any conditions that may have been placed on the contract by the vendor or in fact by you, ensuring quick satisfaction of those conditions.

Your solicitor will also receive loan documents from the lender which you will execute. They will ensure you understand the full terms and conditions of the mortgage documents.

Finally, your solicitor is the one who will manage the settlement process on the purchase, arranging for full payment of purchase price, coordinating your deposit and the loan to the bank and getting payment to the vendor's solicitor. They will also lodge the change of ownership and registration of mortgage with the land transfer office and provide you with a full settlement statement, showing you what money went where.

If you do not have a solicitor who can act for you ask your Beyond Mortgages adviser for a referral as we have relationships with solicitors across New Zealand who will look after you.

# [Specialist Mortgages]

In today's diverse and expansive mortgage market there are very few people we cannot help. We have access to many lenders who can assist people that may be outside the square credit box of a traditional bank and solutions are available at very competitive interest rates.

If you fall into one of the categories below, don't worry. We have many solutions for you.

- You're self-employed but don't have two years worth of financial statements.
- You have an irregular employment pattern - part-time, contract or seasonal.
- You have an inadequate or irregular savings history.
- You have adverse entries (black marks) on your credit file.
- You have recently arrived in New Zealand.
- You are 55 years or older.
- You have credit card or other expensive debt you want to consolidate.



# [Insurance]

An area you need to be aware of, and where many people let themselves down is insurance. When you buy a family home or investment and take a loan to fund the purchase you need to ensure your assets are going to be protected if something happens to you.

## House Insurance

Insuring the house is essential. The bank or lender will not advance the loan if the house is not adequately insured.

## Mortgage Protection, Life Insurance

It is strongly recommended. When you buy a property and take out a mortgage your risk profile changes dramatically. You need to ensure your life insurance is still sufficient to cover your family's needs if something happens to you.

## Income Protection or Mortgage Repayment Insurance

It is strongly recommended. How are you going to make loan payments if you become sick or lose your job. You need to make sure you can still pay for the roof over your head.

We believe the question you should ask yourself is 'how are my family going to cope with keeping our home in place if I am gone or unable to earn income due to disability

or for health reasons?' Buying a home is a major step and one you want to make sure is properly protected in the event of misfortune.

At Beyond Mortgages we can refer you to the right person who will provide you with the best advice when it comes to insurance solutions. Don't ignore the insurance issue, address it!

## Trauma and Disability

While not essential it is strongly recommended. Not only do you need to ensure your family is protected if you die, but what if you face serious disability or illness through an accident or health issue such as cancer or a heart attack?

## Contents Insurance

While not essential it is strongly recommended that you also insure the contents of your family home. Imagine the devastation if fire burned your house and all of it's contents to the ground and you did not have your contents insured.

## [ Why use a Mortgage Adviser ]

At Beyond Mortgages we will save you time and take the hassle out of what is a very stressful process for most people. Let us worry about the right solution and get it arranged for you.

With access to over 20 lenders and numerous different products we have the solution to every different situation.

We will negotiate with the lender to ensure you get the best overall package, including waiving application fees, discounts off your interest rate and often contributions from the lender toward your legal costs.

We will take the hassle out of what is a very stressful process

It is only in extremely rare cases where we are not remunerated by the lender, so accordingly our service is FREE 99.9% of the time. We will also manage your needs well into the future regarding fix rate roll overs and re-financing.

Our industry is young but it is protected by the Professional Advisers Association. All Beyond Mortgages Advisers are fully accredited with the industry body and are all Registered Financial Advisers. Only use a PAA adviser (this is our industry equivalent to the Master Builders Association).



## [ Useful websites ]

You may find these websites contain some useful information that assists you in your property investment business.

[www.beyondmortgages.co.nz](http://www.beyondmortgages.co.nz)

For all your mortgage needs.

[www.pcpropertymanager.com](http://www.pcpropertymanager.com)

For a free download of some good property management software.

[www.nzpif.org.nz](http://www.nzpif.org.nz)

The New Zealand Property Investors Federation which has contracts of local investor associations and free access to the Residential Tenancy Act.

[www.ird.govt.nz](http://www.ird.govt.nz)

Provides excellent information on tax issues as well as forms and books relating to property management and tax deductibility.

[www.trademe.co.nz](http://www.trademe.co.nz)

For buying and selling new and used goods online as well as property.

[www.realestate.co.nz](http://www.realestate.co.nz)

Real estate website for buying, selling and renting property.



# [Interest rates]

To work out how much you may be able to borrow, and what your Mortgage repayments may be, visit our website at [www.beyondmortgages.co.nz](http://www.beyondmortgages.co.nz) or scan the code below to go straight to our online calculator.



*Genuine Independent  
Mortgage Experts*

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cover your risk

### how much can I borrow?

This calculator will give you an estimate of how much you could potentially borrow.

**Simply complete the following fields and click "calculate".**



**Household Details**

Net Monthly Income 1:	<input type="text" value="0"/>
Net Monthly Income 2:	<input type="text" value="0"/>
Other Net Income:	<input type="text" value="0"/>
Credit Card Limit(s):	<input type="text" value="0"/>
Other Monthly Loan/HP Repayments:	<input type="text" value="0"/>
Number of Adults:	<input type="text" value="0"/>
No of Dependents:	<input type="text" value="0"/>
No of Motor Vehicles:	<input type="text" value="0"/>
Interest Rate %:	<input type="text" value="0"/>

**Amount you may be able to borrow based on a 30 year term** \$ 0 to \$0

[reset](#) [calculate](#)

[apply online](#)  
[apply...](#)

[more info...](#)

- How much can I borrow?
- What will my repayments be?
- Sign up
- Unsubscribe

Please **contact** your Beyond Mortgage advisor for more information on the best home loan options for you.

**Disclaimer:**  
The calculations should be used as an indication only. They are neither a quote nor a pre-qualification for a home loan.

[www.beyondmortgages.co.nz](http://www.beyondmortgages.co.nz)

# [ Our website ]

Visit our website [www.beyondmortgages.co.nz](http://www.beyondmortgages.co.nz) today or scan the code below to go straight there for more information and while your there join our monthly newsletter so you can receive the latest mortgage goss.







- Mortgage advisory service
- Home loans
- Refinancing
- First home buying
- Vehicle and asset finance
- House, car and contents insurance
- Investment property
- Commercial
- Business lending
- Top-ups
- Personal insurance

Contact us today to take advantage of our FREE service!



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