YOUR GUIDE TO INVESTING IN

New Zealand

An overview to help Investors understand the buying process, property tenure, tax implications, letting and management, necessary forms and much more within New Zealand.

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BUYERS GUIDE

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YOUR GUIDE TO INVESTING IN

New Zealand

The processes to acquire, manage and maintain investment property differs across all jurisdictions, so understanding things like data, terminology and legal obligations can get tricky if you don't have the right guidance. In this guide, we explain everything you need to know about investing in New Zealand from loan to value restrictions and taxes to property management laws.

Contents

1.0 Investors Guide to Purchasing Off Plan

Purchasing investment grade residential property off of the plan either overseas or in your country of residence, should be a straightforward process.

However, our experience tells us there are some important nuances between different countries in the way in which the process and market works, which investors need to be aware of. To help bring some clarity to this often complex and confusing area, we have written a series of Buyer Guides.

Our guides are a free resource for our investors to help them navigate the residential investment process. At Du Val PropTech, our aim is to democratise residential real estate investment, by equipping investors and potential investors with knowledge and accurate market information, all in one place.

There is a lot of information available on-line not all of it is accurate or informative. It is also difficult to find reference documents for multiple jurisdictions in one place. We hope you find our guides a useful source of information. Anyone investing in real estate should of course seek guidance from a professional tax accountant and lawyer operating in the same jurisdiction as the property.

If you are a member of Du Val PropTech, your Portfolio Manager will have guided you through each of these core markets in detail, but you may find our guides a useful tool to refer back to.

For those new to investing or who haven't yet signed up to Du Val PropTech www.duvalproptech.com, we hope that the guides provide a useful overview of purchasing investment property in different jurisdictions. Should you need any clarity, our team of portfolio advisors are on hand to take your call or respond via email.

Prices or costs quoted throughout this guide in New Zealand dollars ($NZD).

If you would like to reach out to our advisors with any questions, please contact us at www.duvalproptech.com

> .....equipping investors and potential investors with knowledge and accurate market information, all in one place.

2.0 Restrictions on New Zealand Property Ownership

New Zealand has some restrictions on foreigners purchasing real estate. Generally, only New Zealand citizens and residents are permitted to buy houses and homes to live in.

However, there are certain exceptions where foreigners can buy in New Zealand. Overseas buyers are allowed to purchase off plan apartments for investment, but not to live in themselves (although there are some scenarios, albeit limited, where overseas buyers can purchase for owner occupation).

Purchasing Apartments

Overseas buyers can purchase apartments off-plan in large apartment developments in three ways:

	To buy	For Owner Occupation	Must on sell
Transitional exemption certificate	✓	✓	x
Exemption certificate	✓	x	x
Individual application	✓	x	✓

Transitional Exemption Certificate

Foreign buyers may buy an apartment in a development that has a Transitional Exemption Certificate without needing any further consent. The purchase must be the first sale (i.e. not the assignment of a contract or the re-sale of an existing property) and settle before 22 August 2023. There are no other restrictions, buyers can live in the apartment and do not have to on-sell it.

A list of developments with Transitional Exemption Certificates is available on the New Zealand government website: https://www.linz.govt.nz/overseas-investment/applying-for-consent-purchase-new-zealand-assets/register-exemptions/transitional-exemption-certificates-for-large-residential-development

Exemption Certificate

Foreign buyers may purchase apartments in larger developments, which comprise 20 or more apartments that have been granted an Exemption Certificate without needing to obtain further consents. Certain criteria and rules apply; buyers must purchase the property before construction of the apartment is complete and buyers are not permitted to live in the apartment as owner occupiers.

A developer is only permitted to sell 60% of the scheme to foreign buyers under the terms of the Exemption Certificate. The developer must maintain records and provide a copy of the certificate to purchasers before they enter into a sale and purchase agreement.

A list of developments with Exemption Certificates is available on the New Zealand government website https://www.linz.govt.nz/overseas-investment/applying-for-consent-purchase-new-zealand-assets/register-exemptions/exemption-certificates-for-large-residential-development

Individual Applications

If a development does not have either a Transitional Exemption Certificate or an Exemption Certificate and a foreign buyer wants to buy an apartment that is over the 60% limit for an Exemption Certificate, it is possible to apply for a one-off consent.

The development must have one or more multi-storey buildings, where each building will consist of at least 20 or more apartments.

In this scenario, the buyer is not permitted to live in the apartment and importantly, they must on-sell it within a timeframe set by the Overseas Investment Office. However, in practise timeframes to on-sell apartments are rarely set.

The fee for this consent is $NZD 2,040.

Penalties

If these requirements are not adhered to, purchasers may face significant penalties, and may be required to dispose of the property.

Exceptions for Singaporeans

Singaporean nationals are not subject to these restrictions due to the Free Trade Agreement between the two governments. Singapore Permanent Residents may apply for consent for a home to live in, but certain rules apply.

Requirements to for Foreign Investors to invest in New Zealand

There are particular requirements for foreign purchasers when investing in New Zealand:

IRD (Inland Revenue Department) Number

Foreign buyers must obtain an IRD Number. This is an 8 digit number you must have if you wish to buy, sell, or transfer New Zealand property. Purchasers must have an IRD prior to settlement.

To apply for an IRD number, buyers must have a New Zealand Bank account or alternatively have a Customer Due Diligence form completed by a New Zealand reporting entity to submit with your IRD application form.

A list for reporting entities can be found on the government website https://aml.dia.govt.nz/AMLReportingEntities

For mortgage purposes a New Zealand bank account and an IRD number are required.

...investors are able to obtain an Investment Visa, which allows the holder to apply for permanent residency at the end of the visa

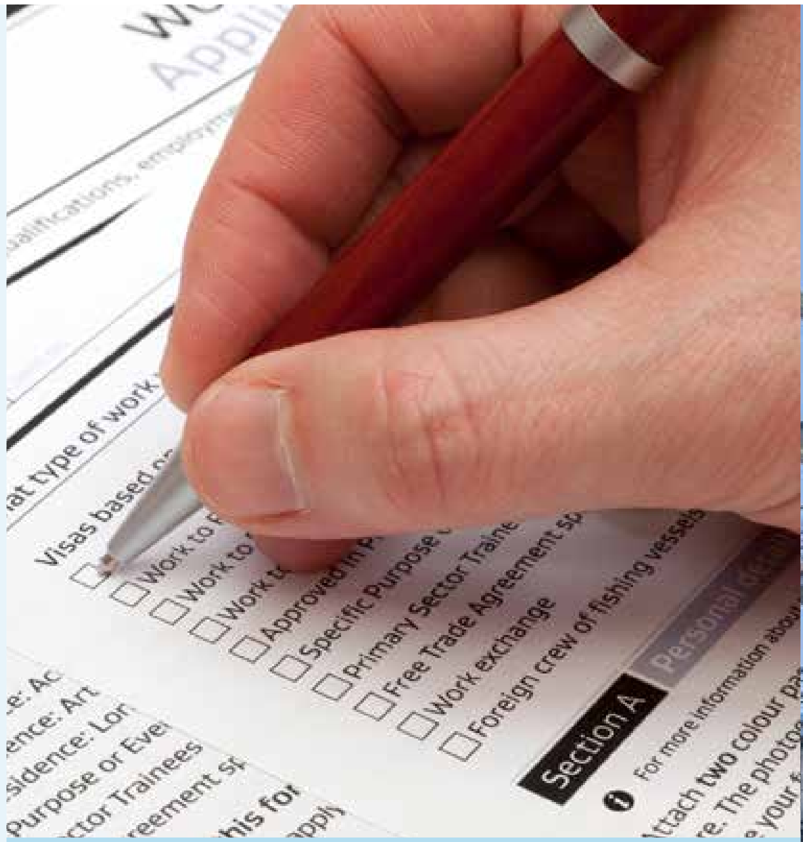
VISAS

New Zealand does not offer residency or citizenship to foreigners when they purchase residential property. However, investors are able to obtain an Investment Visa, which allows the holder to apply for permanent residency at the end of the visa. Details of the Investment Visa are set out below:

Investor 1 Resident Visa
– Requires $NZD 10 million to be invested in an ' acceptable' investment in New Zealand over a 3 year period. The holder may apply for permanent residency when the Visa expires, there are no other requirements.

Investor 2 Resident Visa
– Requires $NZD 3 million to be invested in an 'acceptable' investment in New Zealand over a 4 year period. The holder may apply for permanent residency when the Visa expires. Applicants are required to have an English-speaking background.

Both the Investor 1 and Investor 2 visa permit the applicant, their spouse, and any children under 24 to relocate with them. They are permitted to work and study in New Zealand.



For information on visas please refer to our New Zealand Country Guide and the government website: https://www.immigration.govt.nz/new-zealand-visas

3.0 Forms of Property Tenure

New Zealand has four primary types of property tenure; freehold, leasehold, unit title (also referred to as strata title / stratum estate) and cross lease.
Each title grants different rights, responsibilities, and restrictions to the owner.

Freehold (or Fee Simple)

- This is the most common form of title in New Zealand. It is the 'permanent and absolute tenure of land or property with freedom to dispose of it at will'. The owner of a freehold property owns the and any building built on the land for an unlimited period for time. Easements may give rights to neighbouring owners or utility providers to use or pass over the land.

Leasehold

- Is the legal right to live in or use a building or piece of land for a period of time. Leaseholders do not own the land the property sits on. The owner of the leasehold property will have a lease with the freeholder (the landlord) stipulating how long the lease is for. Ownership of the property returns to the freeholder at the end of the lease. Typically, leaseholders will pay an annual rent (ground rent) to the freeholder.

Unit Title (Freehold Strata Title or Stratum Estate)

- Is the most common form of ownership in apartment buildings. Unit title holders are ascribed an apartment and have an undivided share of the ownership of the common parts (i.e. lobby areas, driveways, gardens etc). Membership of the Body Corporate is automatic. Annual fees are payable to the Body Corporate for the upkeep of common areas and services.

Cross Lease:

Holding a cross lease ascribes two interests in the property – a share of the freehold title (with the other cross leaseholders) and a leasehold interest in the area of the building (typically the apartment) that you occupy. Leases are typically for 999 years. This form of title is similar to Share of Freehold in the UK.

4.0 Purchase Process for Buying Off-Plan Property in New Zealand

The purchasing process is generally the same regardless of the developer in New Zealand, although there may be some minor variations depending on the developer, such as the requirement for stage payments.

Offer

When a buyer has identified a property they wish to purchase, and they make an offer to a vendor which is accepted, they will need to pay a First Deposit (equivalent to a reservation fee for UK property) to the developer directly or to the property agent. The first deposit fee may vary but will be in the region of $NZD 1,000 - $NZD 5,000 depending on the development and the developer.

Overseas Investment Act 2015

Buyers from overseas (excluding Singaporeans and Australians) must ensure the development they are purchasing has the relevant exemption certificate for foreign buyers, or they must submit an individual application to the Overseas Investment Office. Most sale and purchase Agreements will require purchasers to confirm that they are a New Zealand citizen or are able to purchase property in New Zealand in accordance with the Overseas Investment Act 2005.

Agreement for sale and purchase of real estate (Particular Terms and Conditions of sale)

The agreement for sale and purchase will be provided to the purchaser. This is a legally binding contract between a vendor and a purchaser. The agreement will detail the terms and conditions of the sale, and the general terms and conditions of sale, together with schedules and annexures such as floor plans and outline specification.

Solicitors & Other representation

Before signing the Agreement, buyers should appoint a solicitor, conveyancer, or licensed real estate agent. The buyer's appointed representative will review the sales contract prior to the purchaser signing the Agreement. Purchasers are advised before signing any agreement that they must not rely on any information from a property agent and must seek their own professional advice including but not limited to legal advice, accounting advice and financial and investment advice.

Where an agreement relates to the sale of a residential property and the agreement was provided by a licensed real estate agent, or by a licensee on behalf of the agent, the Purchaser must be provided with a copy of the 'Sale and purchase agreement guide' by the Real Estate Agents Authority. The buyer will be requested to acknowledge receipt of this document.

The purchaser's solicitor will carry out the necessary due diligence with regard to the terms of the Agreement and purchase of the property. The purchasers' solicitor should request a Land Information Memorandum (LIM). Prepared by the local council, this provides a summary of the current information pertaining to the property / land held by various council departments.

Signing the Sale and Purchase Agreement and Deposit

When the buyer has satisfied themselves that they are happy with the terms of the Agreement, they will sign the contract. The Vendor will also sign the contract. A second deposit is then due within 10 working days to bring the full total paid to date to 10% of the agreed purchase price.

The total Deposit required is 10% of the agreed purchase price. This is payable in 2 tranches:

First Deposit:	NZ $1,000	Payable on signing Sale and Purchase Agreement (S&PA)
Second Deposit:	10% of purchase price less NZ $1,000	10 working days after signing the S&PA

The Deposit will be transferred to the trust account of the Stakeholder. On settlement the Deposit will be paid by the Stakeholder to the Vendor.

At this point the contract is legally binding, both the buyer and the developer are committed to the sale. Should the buyer withdraw from the sale, the buyer will forfeit the deposit they have paid and have no recourse for this to be returned.

The buyer risks being sued by the developer for any financial loss if they subsequently sell the property for a lower price than was agreed with the original buyer.

Construction Updates

Many investors purchasing off the plan property will do so 2 or 3 years prior to the building being completed. Reputable developers will keep buyers regularly updated with regard to the construction process and if this impacts the settlement date.

Obtaining a Mortgage

If buyers require a mortgage, they should seek the advice of a mortgage broker. It is recommended to start preparation 3 - 6 months in advance, especially for overseas purchasers as the process may take longer than for resident purchasers.

Practical completion Certificates

Residential property developers in New Zealand must complete their developments to a specific standard. The Building Act 2004 requires developers to apply for a Code Compliance Certificate (CCC) which confirms that the Council is satisfied on reasonable grounds that all building work has been completed in accordance with the building consent issued for the development. Residential developers must have a CCC to complete the sale of a property.

Settlement Preparation

A settlement date will be included within the contract with a provision that this may change due to the construction process taking more (or less) time than anticipated. The developer and agent (if any) will keep you updated with changes should they arise.

When the buyer has been advised of the confirmed settlement date, they will need to arrange for the remaining balance (usually 90% of the purchase price) to be paid. The solicitor will arrange to draw down the mortgage funds from the bank and the purchaser will need to pay any further sums, if for example, their loan is for 50% of the property price.

In the many countries also favoured by offshore investors (such as the UK and Australia), Stamp Duty is the most significant additional cost due at settlement. However, in New Zealand, no Stamp Duty (or an equivalent) is due.

Settlement

On the day of settlement, the solicitor will transfer the remaining balance to the Vendor's solicitor and will complete the final procedures. There is no requirement for either the Vendor or the purchaser to be present at settlement.

Settlements must usually be completed no later by 3.30pm on the Settlement Date. If Settlement is completed after this time, the buyer may pay interest on the amount required to settle, until such time that Settlement occurs.

Post-completion

Most investors will appoint a letting management company to find a tenant and manage the property and many developers will have a recommended letting and management agent who can advise landlords.

Your Guide to Investing in New Zealand

5.0 Property Tax in New Zealand

In 2016, the US based Tax Foundation ranked New Zealand's overall tax system as second in the world for its competitiveness and top for its individual (personal) taxes.

In New Zealand property taxes are levied on property investors, in the following situations:

- **Purchase Taxes** – taxes imposed at the time of purchasing property
- **Income Tax** – taxes levied on income generated from rental income
- **Capital Gains Tax** – taxes levied on any capital gain, generated at the time of sale

Purchase Taxes

Income tax is payable on the net rental income (whether the property is leased on a short or long term basis). The 'Actual Cost Method' is used to work out the tax payable. This amount is based on Gross Rental Income less allowable rental expenses. Allowable rental expenses include:

- The cost of insuring your rental property
- The rates for the property
- Payments to agents who collect rent, maintain your rental, or find tenants for you
- Fees paid to an accountant for managing accounts, preparing tax returns and advice
- Repair and maintenance costs
- Fees for arranging a mortgage to finance the rental property
- Fees for drawing up a tenancy agreement
- The cost of getting a valuation required to get a mortgage, but not insurance valuations
- The costs of taking legal action to recover unpaid rent
- The costs for evicting a tenant
- Mortgage repayment insurance
- Depreciation on capital expenses
- Travel expenses for travelling to inspect your property or to do repairs
- Legal fees involved in buying a rental property, as long as the expense is $10,000 or less.

Finances Charges

Investors can claim the full interest cost incurred in borrowing the funds.

Non-Cash Expenses

In New Zealand, residential investment properties are divided into three parts, the land it sits on, the building and chattels.

Building Depreciation

In New Zealand, buildings are considered depreciable assets. However, since 1 April 2011 the Inland Revenue Department does not allow depreciation on assets with an estimated life of 50 years or more. This effectively means that it is not possible to depreciate residential buildings.

Depreciation Recovery

In order to determine the depreciation deduction, investors need to accurately identify the cost of each chattel.

Brand new asset

If an investor has purchased a new chattel, then the cost will be easy to identify, the cost is the price paid.

Purchasing a property with existing chattels

If an investor purchases an existing property, then a professional chattel valuation is required.

Chattel Depreciation

In New Zealand, plant is referred to as a chattel. Any item that is separate to the building can be considered a chattel and depreciable. To determine what is considered to be a depreciable chattel, you need to consider the following:

1. If the item is not attached to the building, then it can be depreciated separately
2. If the item is an integral part of or firmly attached to the building, then it is considered to be part of the building and cannot be depreciated.

The Inland Revenue Department publishes a list of items that qualify as chattels and are, therefore depreciable, those are set out in the table on the right hand side.

Chattel Depreciation Table

Asset Class	Estimated useful life (years)	DV rate (%)	SL rate (%)
Chattels (default class)	5	40	30
Air conditioning and heat pumps (through wall or window type)	10	20	13.5
Air ventilation systems (in roof cavity)	10	20	13.5
Alarms (burglar/smoke, wired or wireless)	6.66	30	21
Appliances (small)	4	50	40
Awnings	10	20	13.5
Bedding	3	67	67
Blinds	8	25	17.5
Carpets	8	25	17.5
Clotheslines	8	25	17.5
Crockery	3	67	67
Curtains	8	25	17.5
Cutlery	3	67	67
Dehumidifiers (portable)	4	50	40
Dishwashers	6.66	30	21
Drapes	8	25	17.5
Dryers (clothes, domestic type)	6.66	30	21
Freezers (domestic type)	8	25	17.5
Furniture (loose)	10	20	13.5
Glassware	3	67	67
Heaters (electric)	3	40	67
Heaters (gas, portable and not flued)	5	50	30
Lawn mowers	4	20	40
Light shades/fashion items affixed to a standard light fitting*	10	67	13.5
Linen	3	13	67
Mailboxes	15	13	8.5
Microwave ovens	4	50	40
Ovens	8	25	17.5
Refrigerators (domestic type)	8	25	17.5
Satellite receiving dishes	12.5	16	10.5
Stereos	5	40	30
Stoves	8	25	17.5
Televisions	5	40	30
Utensils (including pots and pans)	3	67	67
Vacuum cleaners (domestic type)	3	30	21
Washing machines (domestic type)	6.66	25	17.5
Waste disposal units (domestic type)	8	20	13.5
Water heaters (heat pump type)	10	20	13.5
Water heaters (over-sink type)	10	20	13.5

* Light fittings are connected to electrical wiring and part of a residential rental building which, without the function of lighting, would not be considered complete.

Non-Deductible Expenses

Expenses which cannot be deducted from rental income are:

- Capital expenses
- The purchase price of a rental property
- The principal portion of mortgage repayments
- Costs of making any additions or improvements to the property
- Cost repairing or replacing damaged property, if the work increases property value
- Real estate agent fees charged as part of buying or selling the property
- Depreciation on the rental's land or buildings
- Investors' time when they do repairs and maintenance work themselves
- Legal fees involved with selling the rental property

The difference between repairs and improvements can be complex. If you are unsure about whether work done on your property is considered repair or improvement, you should seek advice from a Tax Advisor/Tax Agent.

New Zealand's Personal Income Tax Brackets are as follows:

0-14,000	10.5%
14,001-48,000	17.5%
48,001-70,000	30%
70,000-And Above	33%

Taxes on Disposal

Generally, there is no tax on Capital Gain, however it does apply in some specific circumstances, including the following scenarios:

Intention Rule

The 'intention rule' sets out that 'it's your intention when you buy a property that matters'. What is intended when the property was purchased will determine the tax situation at the point of sale. If the property was purchased with a firm intention to re-sell the property, then tax on any profits must be paid.

The government states that if you are selling your main home or if you bought the property as a long-term rental investment, (in most cases) you will not have to pay tax when you sell.

If individuals have a pattern of buying and selling property, the government may consider you to be a property dealer and you may have to pay tax when you sell property. There is no set number of properties you can buy and sell before you may need to pay tax on profit from sales.

Any gains are taxed at normal income tax rates.

Bright-Line Rule

If a property is bought and subsequently sold within 5 years from the date of purchase (2 years if the property was purchased on or after 1 October through to 28 March 2018 inclusive) income tax will be payable on the income earned from the sale. This applies regardless of the intention when the property was purchased.

The taxable gain or the loss is calculated by deducting the original purchase price, acquisition costs, disposal costs and costs of capital improvements from the sale proceeds.

Property gains will be included as income in the income tax return and will be taxed at the ordinary marginal tax rates.

Residential Land Withholding Tax (RLWT)

In addition to the bright-line property rule, a withholding tax may also be deducted at the end of the property sale if you are an offshore owner and have owned the property for less than the bright-line property rule period.

In this instance, the RLWT is calculated based on the lower of the following three methods:

- 33% (or 28% if the Vendor is a company or trust) x (current purchase price – the Vendor's acquisition cost)
- 10% x the current purchase price
- Current purchase price – security discharge amount – outstanding rates

Remember, taxes applied under the Intention rule, the Bright-line rule and RLWT typically will not apply if you have a medium to long term view and do not sell the property within 5 years of years of purchase.

> In New Zealand property taxes are levied on property investors, in the following situations: Purchase Taxes, Income Tax & Capital Gains Tax

6.0 Protection for Buyers

It is important for purchasers to do their homework and buy from a reputable developer in New Zealand. They should ask for their 'track record' and ensure they have delivered good quality properties in the past and are financially secure.

Buyers should also ensure that there is no cost escalation clause in their agreement, whereby developers can pass on construction cost increases to the purchaser. Reputable developers will not include a clause of this nature.

Deposits

Buyers usually pay a deposit of 10% on signing the sale and purchase agreement. The deposits are typically protected as they are held in a trust account by a stakeholder until settlement when it is released to the Developer. When purchasing an existing property, the deposit is typically paid to the real estate agency which is required to hold the deposit in its Trust account. Buyers should always ensure this is detailed within their contract before signing a Sale and Purchase Agreement.

Building Warranties

New Zealand Law provides various protection for purchasers of new residential property. All residential building work in New Zealand, no matter how big or small, is covered by the implied warranties set out in the Building Act.

The warranties:

- Last for 10 years
- Apply whether they are in your contract or not – and your contract state they do not apply
- Also apply to work done by subcontractors employed by the main contractor

The implied warranties are:

- All building work will be done properly, competently, and according to the plans and specifications in the approved consent
- All the materials used will be suitable and, unless otherwise stated in the contract, new
- The building work will be consistent with the Building Act and the Building Code
- The building work will be carried out with reasonable care and skill, and completed within the time specified or a reasonable time if no time is stated
- The home will be suitable for occupation at the end of the work
- If the contract states any particular outcome and the homeowner relies on the skill and judgement of the contractor to achieve it, the building work and the materials will be fit for purpose and be of a nature and quality suitable to achieve that result

12-Month Defect Period

The Building Act also gives you an automatic 12-month repair period from the date of completion. Get your building contractor to confirm the completion date in writing to avoid any confusion.

So long as you provide written confirmation of the defect within 12 months, your contractor must put it right within a reasonable timeframe. If there is a dispute it is the contractor's responsibility to prove that the defective work or products are not their fault.

The warranties do not apply if a defect is caused by:

- Events beyond human control
- Accidental damage caused by others — but not subcontractors or anyone that the builder is legally responsible for

- The buyer not carrying out normal maintenance
- The buyer not carrying out or arranging to have done repairs as soon as practicable after a defect becomes apparent
- The buyer not following the contractor's advice.

If the contractor goes out of business, the buyer is not protected — but they may still have legal rights against the subcontractors. This emphasises why it is so important to buy from a reputable developer with a good track record.

Activating the warranties when the warranties are breached:

- Most breaches can be resolved through the negotiation process set out in your contract
- If your contractor does not fix the breach within a reasonable timeframe, seek legal advice as you may be able to have another tradesperson repair the work and have the contractor pay the costs
- If the warranties are breached and the building will not be safe for occupants or lacks the expected quality set out in the contract, your contractor may have to pay you for the loss of value to your home. Or they might have to re-reimburse you for their faulty building work
- You may also have the option to cancel your contract, though you should seek legal advice
- You can take the tradesperson to the District Court or the High Court. To be successful in court, you will have to show you have suffered loss or damage as a result of the actions of the tradesperson. The court can award you compensation for the breach.

7.0 Mortgages / Property Loans

Buyers are advised to speak to a mortgage broker of various lenders prior to committing to a product. There are various types of investment property mortgages such as fixed term, floating or interest only.

In New Zealand, loans for investment property are referred to as 'Investment Property loans' rather than 'buy-to-let' mortgages as in the UK or 'Investor Mortgages' in Australia.

Interest rates will vary although typically, the higher the deposit the lower the interest rate. The Loan to Value (LTV) available will of course depend on individual circumstances, although typically for foreigners requiring an investment property loan, this will be around 50% of the property value. For Singaporeans, Australians, and New Zealand expats this typically rises to 70% LTV.

Buyers should compare fees, interest rates and charges as these will of course differ between lenders. In circumstances where purchasers borrow more than 80% of the property value, buyers are required to take out Lenders Mortgage insurance.

8.0 Purchase Costs & Understanding the Investment

In addition to the cost of the property, there are additional costs to consider when purchasing property in New Zealand. In other many countries favoured for offshore investment, by far the greatest additional cost is Stamp Duty and the amount varies depending on whether the purchaser is a resident investor, or a non-resident investor. However, in New Zealand, Stamp Duty (or an equivalent) does not apply to residents or non-residents.

The Du Val Prop Tech Platform (www.duvalproptech.com) provides our members with an extensive suite of interactive property analysis tools to evaluate and compare any investment transaction in Australia, New Zealand or England, specific to their domicile status and income.

For the purposes of this guide, we provide below the costs of a transaction for a $500,000 property. The costs are the same for residents and non-resident purchasers.

The table below highlights the fixed transaction costs for a property of $500,000. We have not included the costs associated with arranging mortgage finance etc. as these costs will vary depending on a purchaser's individual circumstances. Whilst legal fees may vary, all purchasers regardless of their status should appoint a solicitor or licensed conveyancer, hence including these as a 'fixed' cost in the sense that all buyers will incur legal fees.

Resident and overseas investors:

	Amount
Property Price ($)	500,000
Stamp Duty ($)	0
Mortgage Registration ($)	0
Land Transfer ($)	80
Legal Fees ($)	1,000
Total Purchase Price ($)	501,080

As is demonstrated by the table above, the purchase or upfront costs are very low when compared to other countries. For investors, it is also important to understand more than just the initial cost of the investment.

In order to drive financial performance, investors must maintain accurate and up to date records and understand what they say. Businesses record their key financial data and records in three key statements – which are linked to each other. Those three statements are the cashflow statement, income statement and the balance sheet. Guidance as to how these three statements work and their application to real estate investment is set out below.

Ideally, investors should prepare these documents in excel before purchasing an investment property. This will provide a forecasting tool to help review the investment opportunity and consider the impact of various assumptions and scenarios to determine what the reality of your investment is from your own financial perspective. Critically the key is not to rely on anybody else's forecasts and information, anybody selling something will, quite obviously, cast it in a favourable light. Investors need to be able to see through that and understand the numbers.

Cashflow Statement

The cashflow statement sets out the cashflows generated by the investment. It will set out the total collected cash in a given period and will net off cash expenses throughout the same period. Importantly, it will set out the free cash flow (or lack of it) that the investment generates. By preparing a simple spreadsheet an investor will be able to determine the impact of increasing the achieved rental and importantly the impact of vacancy periods or not achieving forecast rental levels.

This will display how much free cash flow is available at the end of each month. This excess cash can be used to pay income tax, pay down a mortgage or simply be taken as personal income. Equally, the cashflow statement will set out situations where the cash in the investments do not generate sufficient income to cover the costs and will require you to make additional payments to maintain your investment.

Importantly the cashflow does not set out the position before tax, it simply demonstrates the net cashflow the investment generates. Even if the cashflow is negative, there is still a tax obligation. In order to determine what income tax needs to be paid (with respect to your investment) an income statement must be prepared.

Income Statement

Because of the timing differences between the way in which income and expenses are recognised from an accounting perspective, it is necessary to have an Income Statement (sometimes referred to as Profit and Loss Statement). The income statement is where these timing differences are captured and more importantly their impact from a tax perspective.

9.0 Leasing an Investment Property

Over 25% of the 4.8 million population of New Zealand live in rented property. The rental market is well structured with laws in place to protect the rights of landlords and tenants. The government agency Tenancy Services NZ provides a wealth of information regarding the provisions of the Residential Tenancies Act on their website.

Visit the Tenancy Services website
www.tenancy.govt.nz.

Tenancy Agreements and Rent in Advance

There are two forms of residential tenancy: fixed-term and periodic.

- **Fixed-term tenancies**

These tenancy agreements have a specific end date. At the end of the fixed term, the tenancy reverts to periodic tenancy unless the landlord and tenant agree to enter a new tenancy agreement or extend the existing tenancy agreement. If either party wishes to end the fixed term tenancy, they must give notice between 21 and 90 days before the end of the fixed-term tenancy.

- **Periodic Tenancies**

These agreements remain in place until the tenant or landlord gives notice to the other party to end the agreement. The landlord may terminate the tenancy with 42 or 90 days' notice (depending on the circumstances) and the tenant many terminate with 21 days' notice.

Landlords may not request more than two weeks' rent in advance.

Rent can be increased in a fixed term tenancy if the Tenancy Agreement allows for this, and at least 60 days' notice must be given. There are no restrictions that restrict the amount by which the rent can be increased. When landlords increase the rent, they may also request additional bond money, based on the number of week's bond charged in the tenancy agreement. It must be lodged with the Tenancy Services within 23 days (see more information below).

Bonds

Bonds are paid by tenants at the start of the tenancy. The maximum bond allowed by law is the equivalent of four weeks rent. This must be lodged with the government backed Tenancy Services (bonds@tenancy.govt.nz) within 23 days of the start of the tenancy.

Landlord's Requirements

All landlords and tenants have responsibilities under the Residential Tenancies Act 1986.

A landlord's responsibilities include:

- Ensuring the property is in a reasonable condition
- Meeting all relevant building, health and safety standards
- Having an agent if they are outside of New Zealand for more than 21 days
- Providing the tenant with a copy of a signed tenancy agreement, including two separate statements. The statement declares whether there is insulation and its location, type and condition and the second must confirm they comply or will comply with the healthy home's standards. These two statements can be combined into one and provided with one signature.

Letting Fees and charges are payable by the Landlord.

- Letting Fees in Auckland typically equate to one week's worth of rent
- Management Fees in Auckland are typically 7.5%-10%

Furnished or Unfurnished?

There are no legal obligations as a landlord to provide furnished properties for tenants. As a general rule, modern one or two-bedroom apartments in metropolitan cities such as Auckland, usually appeal to 'burden free' young professionals and overseas tenants who tend to prefer fully furnished properties. Thus, offering new build apartments as furnished generally attracts a wider range of tenants, meaning void periods are lower.

In new build apartments where many apartments complete simultaneously, tenants have considerably more choice, so the quality of furniture is important. Furnishing a new build property with second hand or inherited furniture from a grandparent is not going to attract tenants or secure a good rental.

Having said this, expensive high-end designer furniture is not going to result in higher rents. Tenants want good quality furniture and landlords need furniture that is durable. Tenants in most new build developments are not going to pay more rent because the property has an Eames chair in the living room.

Kitchen appliances and flooring are included in new build developments. A 'standard' furnished property should include sofa, curtains or blinds, dining table and chairs, beds and bedroom furniture such as a wardrobe or chest of drawers, and all furniture must conform to the legal fire resistant standard - all fabric furniture such as sofas must have labels proving that they meet this standard.

It is often the case that families (particularly those relocating to New Zealand from overseas due to changes in employment) will have a preference to rent an unfurnished house.

When it comes to renting apartments, it is possible for Landlords to 'save' money by not providing furniture. They will require less maintenance and potentially incur less time replacing items during or at the end of a tenancy. Having said this, it is typically the case that furnished properties let more quickly and for a higher rent than an unfurnished property. Any initial 'saving' made by not spending money on furniture becomes an expense, with a lower rate and longer void.

In summary, the most important questions to consider are whether a furnished property will a) command a higher rent and b) reduce any void periods. Landlords should always speak with the recommended letting agent or other local letting agents to take the temperature of current tenant requirements in the local area.

From a real estate perspective, the income statement needs to track and separately deal with four key elements:

- **Gross Income**

The gross income is your income from rent and any other perspective such as retained deposits, etc.

From your gross income, net off the expenses. How these expenses are dealt with from a taxation perspective changes depending on the country in which the property is held. Expenses, will broadly fall into three 'buckets' and it is important that they are tracked in these buckets, and not mixed up, they are:

- **Management and Operating Expenses**

These are sometimes referred to as 'immediate deduction' expenses. These are the main expenses involved operating and managing the investment, such as property management, letting fees, etc.

- **Interest Costs**

These are the interest costs for finance. Ensure that any principal payments are removed from this number – (by 'Googling' the PMT function in excel, a simple loan payment schedule can be prepared in order to work this out)

- **Non-Cash Expenses**

– these are generally costs associated with depreciating assets. Residential investment property typically has three components: land, building & fixtures and chattels. Chattels are assets which are not 'fixed' to the land, each country will have different rules to assess this, but generally it depends on how fixed to the property they are for example a floor tile would be considered a fixture, whereas a freestanding bookcase would be considered a chattel. Generally, both the building and fixtures and chattels can be depreciated from a tax perspective.

Then, from a general accounting perspective:

Gross Income less Management & Operation Expenses, Interest Costs and Non-Cash Expenses = Net Taxable Income

However, for property investment how these expenses are treated is different in different countries. In New Zealand, investors have the ability to deduct 100% of their costs associated with finance as well as depreciate chattels which are part of the investment. Whereas, they are not able to depreciate the cost of capital improvements, such as the building or any renovations.

Recognising these costs (or not) at the correct point in the Income Statement, will have a significant impact on the taxable income.

Once the Income Statement and Cashflow have been prepared, investors can then determine three key pieces of information:

- Cashflow generated before tax
- Income tax liability generated by the property
- Net cashflow after tax

By doing this, investors will then be able to prepare scenarios to analyse and determine how the investment will perform depending on changes in rental income, growth etc.

Balance Sheet

For the property investor the Balance Sheet of the investment or investment portfolio is different to that of a traditional company. Whereas a large company would consider both their short-term and long-term assets and liabilities. This is not important to long-term investors and therefore, it is only relevant to report overall long-term assets and liabilities.

The balance sheet is an important tool for an investor as it sets out the financial position and the equity held. This will have an impact on the investor's ability to raise debt and the equity free for other investments. The Balance Sheet sets out the Assets (the property owned) and Liabilities (mortgage debt) the difference between the two is the Equity.

It is crucial to understand the equity position as this will drive decision-making. If an investor is trying to build a portfolio, they may be less concerned with the generation of cashflow and more concerned about 'excess equity' from a loan to value perspective which can be employed in buying more property. Whereas, if an investor has a portfolio to generate income, they may be more concerned about increasing equity and lowering risk and therefore lowering finance costs.

For some it might seem daunting to prepare these documents. However, with some internet research and time mapping out spreadsheets, investors will gain an understanding of these three critical statements. Having a deep understanding of these is the only way investors will be able to drive investment performance.

Alternatively, utilise the Du Val PropTech Analyser Tool www.duvalproptech.com. Our easy to navigate website maps provides all these financial models and calculators for our members. Just input some basic property information, and our models and calculators will do the rest!

Thank you for taking the time to learn about investing in New Zealand.

Want to know more about New Zealand?
Download our Country Guide

This guide was proudly produced by the Du Val PropTech

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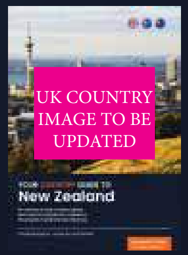

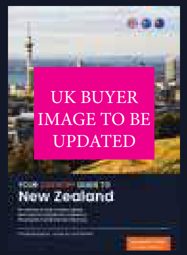

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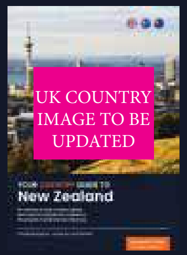

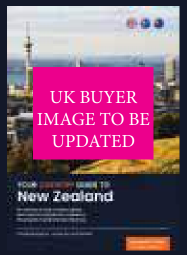

Australia

YOUR GUIDE TO **INVESTING** IN

New Zealand

An overview to help Investors understand the buying process, property tenure, tax implications, letting and management, necessary forms and much more within New Zealand.

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BUYERS GUIDE

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