

The benefits of buying a new build investment property

FACTSHEET

At enable.me we consider a 'new build' property to be a better investment choice than an existing property.

A new build is a property you purchase that hasn't yet been lived in at the time you buy it.

This includes a home that is purchased:

- Off plan (construction not yet started)
- During the build (construction has started)
- Completion (construction has ended)

There's a variety of reasons why we prefer them to an existing property including financial, tax, and timing. Find them detailed below.

What's covered in this guide?

- Deposit amount
- Guarantees
- Repairs & maintenance
- Healthy Homes compliance
- Settlement
- Bright line test
- Tax deductibility

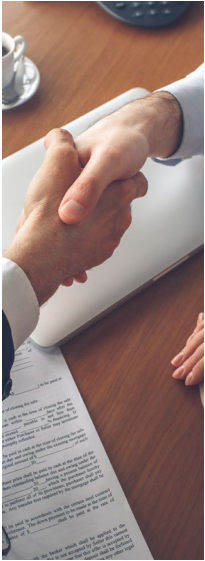




20% vs 40% deposit

With a new build, you only need a 20% deposit to secure a mortgage as an investor, versus a 40% deposit – which is a bigger hill to climb before you can invest.

This means buying new requires less of your capital or equity.



10-year guarantee on build & materials

All new build properties in New Zealand are covered under the ‘implied warranties’ of the Building Act 2004 which are valid for 10 years. Some builders are members of industry associations that offer additional cover in the form of a Master Builders or Certified Builders Guarantee, and some larger group builders offer their own form of guarantee consistent with the Building Act of 2004.

At a minimum, this guarantee ensures the building work will be consistent with the Building Act and Building Code, and that the materials used are suitable for the job. So, if your roof leaks - or something else breaks when it really shouldn't have based on normal wear and tear – it's likely to be covered by the guarantee and fixed at no cost to you.

When you buy an existing home, it's likely that protection expired many moons ago – or, at best, you only have a couple of years left. If the property requires major fixes, you'll need to pay for those out of your pocket.



Low to no repairs or maintenance

On top of that guarantee, new build properties have fewer repair and maintenance requirements than an existing property. This is because everything is new and there's been no wear and tear or ageing of materials.

An existing property, for example, may require new carpet to be installed to make it pleasant to live in or require a new oven. A brand-new home, on the other hand, comes with brand new carpet and brand-new appliances which shouldn't need replacing for quite some time.



Healthy Homes Compliant

One of the requirements of renting out a home is that it is compliant with the healthy homes standard. This standard outlines the minimum requirements for heating, insulation, ventilation, moisture, drainage and draught stopping in rental properties.

Many new builds will by default have these requirements baked into the build. This is due to standards in the building code – but also because it makes the property a more attractive purchase.

If you buy an existing property, there's no guarantee the property will be compliant. If it isn't, you either can't rent it out, or you'll have to spend time and money to bring it up to spec.

This means a new build property is less likely to incur big expenses and makes it easier to plan the impact on your finances and easier to get the property tenanted quickly.



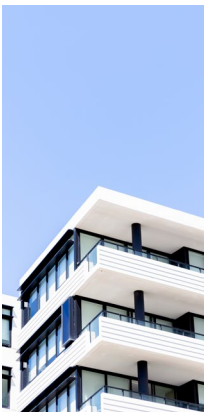
Delayed settlement

This is a less well-understood benefit of buying a new build property. Many people like that instant gratification of buying an existing home, so it's in their possession right away. Done & dusted.

However, this requires you to be in the perfect financial situation right now (and have access to that larger 40% deposit). It doesn't give you any time to save a little extra for the deposit or build a buffer to help with any unexpected costs.

When buying new, you'll often have a bit of time between paying the 10% deposit and settlement. That time can be used to save that little extra and prepare yourself financially for becoming a landlord.

This means we can continue to improve your financial situation before you have to part with your money.

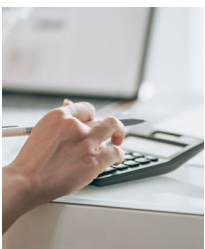


Shorter 'Bright line' tax period

While New Zealand doesn't have an "official" capital gains tax, the bright line tax rule is ostensibly a light version of one.

The bright line rule means if you sell a residential property (that is not your "Main Home") within a certain period of time you'll have to pay tax on any profit you make.

As of 1 July 2024 the bright line is 2 years on a property. This is useful for an investor because if they purchase a new build, they and you have nominated the entity that will own the property on the Sales & Purchase agreement at the time you go unconditional, this is when the 2-year bright line period begins.



Mortgage interest is tax-deductible

When you own an investment property, some of the expenses you incur can be deducted from your rental income. This effectively makes the property less profitable from a tax perspective - and means you pay less tax.

Mortgage interest could be considered one of the costs of owning any kind of rental property and therefore be deducted from its taxable income.

Our Property Philosophy

- Buy new in a high growth area. Understand benefits and risks and have a clear strategy to break even.
- Buy as soon as you can and know your hold strategy.
- If you need a fast settlement buy complete, if you have a buffer and can take on more risk buy off plan or during the build process.