Invest in New Zealand

With a booming economy and a rapidly expanding population, more and more investors are crossing the Tasman to find their very own slice of heaven

No stamp duty. No land tax. A mortgage approved in as little as five working days. Affordable housing with enormous potential for capital growth. So where is this investment paradise, and where do I sign up?

Seasoned Australian property investor Paul Brown asked himself this question when sizing up the New Zealand property market. Having built, renovated and sold homes in and around Sydney, Brown realised that affordability was in a downward spiral and yields had fallen below 4%.

Across the Tasman, Brown spotted a number of rapidly growing towns on the South Island offering yields in excess of 10%. "My wife and I looked around and bought several properties using the cash flow from our Australian investments. Over the last three to four years we've accumulated 18 properties," he says.

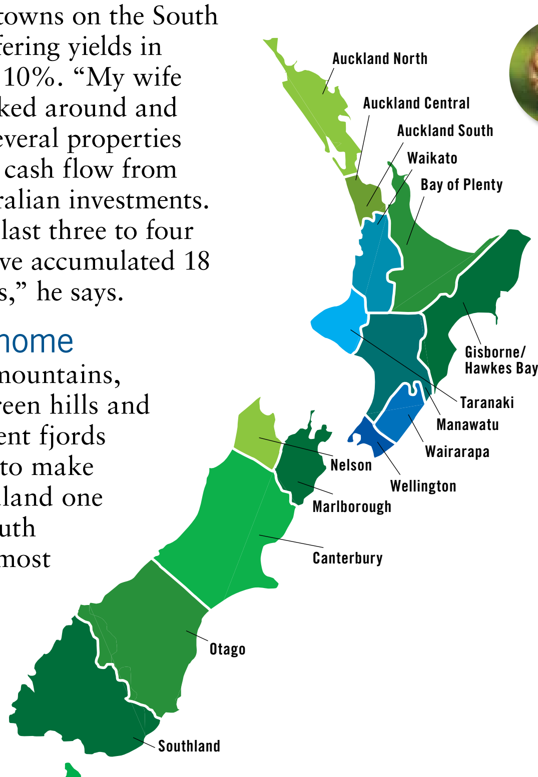
Island home

Rugged mountains, rolling green hills and magnificent fjords combine to make New Zealand one of the South Pacific's most picturesque locations. Clean air, a relaxed atmosphere and close-knit communities are attracting newcomers in droves. In 2003, the New Zealand Department of Statistics forecast that the population would increase by around 64% by 2020.

A strong economy in recent years has been underpinned by low unemployment, strong domestic demand and foreign investment, although some of that shine has come off after a series of interest rate rises in 2005. Rate hikes chiefly resulted from short-term inflationary pressures driven by surging oil prices and a falling New Zealand dollar.

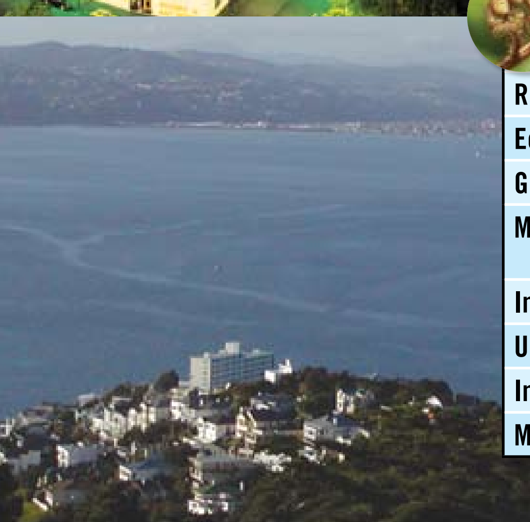
House prices in most regions have tended to grow in line with the national economy, with growth rates in the median price band easing off in the early months of 2006. "What's happened is that the median price for the whole of New Zealand has stayed in a very tight bracket since October last year: from $285,000 to $300,000. In the 24 months before that, prices were going up very steadily and the market has now levelled off price-wise," says Howard Morley, president of the Real Estate Institute of New Zealand.

That said, prices in a number of regional towns and holiday resorts have continued to perform strongly. "I think the beauty of New Zealand is that it's so decentralised; there are a lot of regional areas in which you can find good positive cash flow



NZ MEDIAN HOUSE PRICES

Region	Median price: March 2006	Median price: March 2005	Percentage change
Northland	$280,000	$242,000	16%
Auckland	$385,000	$372,500	3%
Waikato	$272,500	$249,000	9%
Hawkes Bay	$277,750	$240,000	16%
Manawatu/ Wanganui	$179,500	$155,000	16%
Taranaki	$249,000	$220,000	13%
Wellington	$323,000	$289,000	12%
Nelson/ Marlborough	$280,000	$287,000	-2%
Canterbury/ Westland	$266,050	$266,050	0%
Central Otago Lakes	$312,500	$308,750	1%
Otago	$219,000	$198,000	11%
Southland	$129,000	$127,000	2%



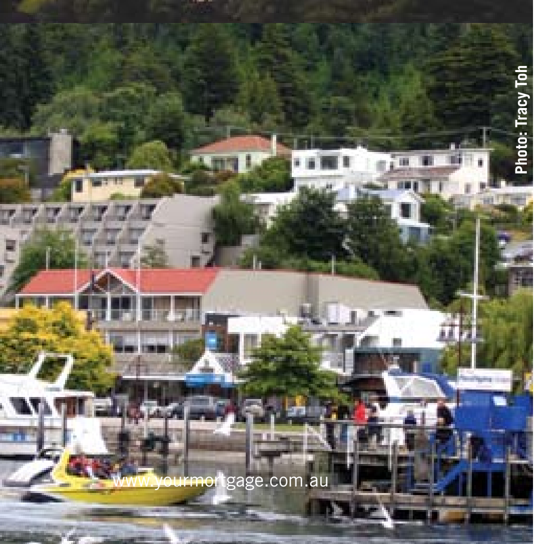


Photo: Tracy Toh

returns. New Zealand offers higher yields but more security because of this decentralisation," says Brown.

Holiday properties have traditionally been highly valued by investors, particularly those who reside overseas. "A lot of our markets in the major cities have probably settled more so than in the resort markets of Queenstown, Nelson and Rotorua," says Stephen Hebbend, principal of Southern Lakes Real Estate.

"The most attractive type of property is a holiday home in a managed development that provides strong returns. There's no maintenance and when they come over to visit they've got something to call their own and they can holiday in it."

NZ AT A GLANCE

Population	4.12 million
Rate of population growth	2%
Economic growth	2.9% (year to March 2006)
GDP per capita	US$23,200 (2003)
Major exports	Beef, lamb, timber, oil, manufactured goods
Interest rate	7.25%
Unemployment	3.6%
Inflation	3.2%
Median house price	$302,000

BROKER ME A DEAL

Remember, if you wish to use the services of a mortgage broker to find an NZ investment loan, you must use one who is accredited to write NZ mortgages. You can either visit a broker while you are checking out property in NZ, or alternatively use an expat now based in Australia.

New Zealand Mortgage Solutions:
www.nzms.com.au

New Zealand Property Solutions:
www.nzpropertysolutions.co.nz

Rules and regulations

New Zealand's similar political, legal, banking and regulatory environments make it easy for Australian investors to get involved.

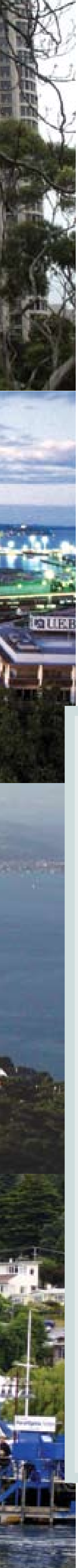
As a result of the Closer Economic Relations (CER) trade agreement struck between Australia and New Zealand in 1988, Australians can take out NZ dollar-denominated mortgages and purchase property – although they pay tax in Australia, not New Zealand.

Fortunately, a double taxation agreement between Australia and New Zealand means that Australians earning rental income from properties in New Zealand only pay tax once – in Australia. While New Zealand itself has no capital gains tax (CGT), Australian residents must pay CGT on any gains derived from New Zealand-domiciled assets.

"Even though the property is located in New Zealand and earning income there, if you are a resident in Australia for tax purposes you have to account for the income and expenses in your Australian tax return," says Andrew Clark, principal of accounting firm Clark and Jacobs.

Expenses such as interest incurred on borrowings, depreciation and maintenance expenses relating to investment properties can be offset against rental income received, as is the case in Australia.

The prime cost depreciation rate on buildings is 3% in New Zealand, compared with 2.5% in Australia, while the diminishing value rate is as high as 4%. Furniture and fittings can generally



be written off at 33% per year over three years.

"They're slightly more generous in New Zealand in terms of depreciation, although they're starting to pay a lot more attention to it. In Australia depreciation is only claimable on a property built after 1983, whereas in New Zealand it applies to any property," says Clark.

X marks the spot

Areas with rapid population growth (especially in the regions) and holiday destinations with both summer and winter tourist seasons are New Zealand's stand-out investments.

Paying close attention to the fundamental indicators of price, rental yield and occupancy level will form an essential part of your research. Tease out the finer points of your strategy – are you predominantly chasing growth, income or a combination of the two? Will you negatively gear your property?

"The investment has to be a sensible commercial proposition. So don't go investing somewhere just because you can negatively gear; you've got to buy an asset that's going to give you a real capital and income return over time," says Clark.

Examine the population growth, major employment industries and demographics of your selected area. You can build up a detailed picture

"The average fixed rate period is 18–24 months. Nobody is fixing for longer than three years because fixed rates will probably go down before then"

Mary O'Brien, principal, New Zealand Mortgage Solutions Sydney

Fast track to wealth creation

Four years ago, ex-Kiwi carpenter Randall Vlietstra felt he was plodding along to nowhere in particular. "I had nothing. I was behind the eight ball, and at 48 years of age I thought, 'I have to do something'."

After reading a book by Steve McKnight on the basics of positive cash flow investing, Vlietstra was keen to give it a shot. Having tested the water by investing in Mount Druitt, in Sydney's western suburbs, Vlietstra turned to a familiar location – New Zealand's South Island, where he grew up.

"I saw that [McKnight] invested in properties at the lower end of the scale – and I looked at NZ properties on the internet and there they were, at about $40–50,000. I now have 12 properties all together," he says.

Although already familiar with the property purchase process in New Zealand, Vlietstra recognised the importance of research in order to uncover the best buys. "The first time we made an appointment with an agent and flew over for the weekend, then purchased a property. I have a friend who works in real estate and he helped me find a couple of good properties," says Vlietstra.

Having purchased his first two New Zealand investments with his wife using only their credit cards, Vlietstra then found an Australian-based mortgage broker. "After that we didn't need any deposit because we just used the equity in the first two as collateral. The next two properties were $70,000 and $65,000 respectively, and return 11% and 12%. The banks lent 100% straight up and then after that they made us put in 10%."

Vlietstra says his initial strategy of targeting properties at the lower end of the market has paid off. "When I first entered the market I bought in relatively poor suburbs, but I'm getting up to the mid-range suburbs to cut back on the maintenance. Still, I think you've got to start near the bottom."

Brother and sister pursue growth

Having purchased an investment property in Sydney's Potts Point, brother and sister duo David and Rose Scott sensed that revisiting their childhood home might lead them to their next opportunity.

Having moved to Australia from the land of the long white cloud eight years ago to improve their employment prospects, the Scotts were well aware that affordability was dropping in their adopted home. In their early thirties and relatively new to the property market, they suspected that their fortune would lie in high-growth investments.

"We were looking for capital growth, because we are both in our early thirties and were looking to invest for at least 10 years. We looked for cities that were within high growth areas and properties that were very rentable and affordable," says Rose.

"I don't even know why property investors would bother buying in Australia"
Rose Scott

Initial internet-based research uncovered Tauranga, a two-hour drive southeast of Auckland on the east coast of the North Island. "The growth margins looked pretty good and when we looked at Tauranga we saw that it was experiencing massive growth – it's New Zealand's fastest-growing city," says Rose.

Occupancy levels were central to the Scott's purchase decision. "We called around a few real estate agents and asked for some figures with regards to occupancies. We wanted to know how many properties were out there for rent and of that, how many were rented."

The Scott's high-growth aspirations have materialised – in just four years their $190,000 investment is now valued at $300,000, allowing them to purchase a second investment property in Tauranga.

"It's been rented every day since we bought it – there's never been a dry spell and the rent has gone up three times. We started renting it at $210 and it's now $230," says Rose, who found the whole process of buying a property and getting a mortgage far more straightforward in New Zealand.

"There's no stamp duty in New Zealand, it's easier to get a mortgage and they will lend you up to 100% without even blinking an eyelid … In fact I don't even know why property investors would bother buying in Australia," she says.

by visiting Statistics New Zealand at www.stats.govt.nz. Seasoned investors recommend you then speak with a number of local real estate agents to gauge which types of properties are in demand.

"I looked on the web, went to a number of areas in the South Island, then met some agents in New Zealand and built up good relationships with them," says Brown. "One real estate agent spent a lot of time with me, taking me around to look at properties, and he was interested in what I was doing."

Finding a reputable lawyer is crucial if you wish to purchase New Zealand property. Unlike in many states in Australia, solicitors – rather than conveyancers – manage the transfer of title, and maintain a large degree of involvement throughout the settlement process.

Which mortgage?

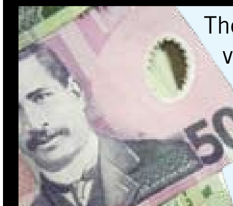
Interest rates are generally more volatile in New Zealand than in Australia and are closely linked to fluctuations in US rates. As a result, fixing rates is extremely popular amongst mortgage holders.

"The average fixed rate period is 18–24 months. Nobody is fixing for longer than three years because fixed rates will probably go down before then," says Mary O'Brien, principal of New Zealand Mortgage Solutions Sydney, who helps Australians looking to invest in New Zealand.

As is the case in Australia, the lending sector is highly competitive, especially since the arrival of non-bank lenders and mortgage brokers. "Because of the interest rate war, advertised fixed rates will continue to be competitive. While the trend for the next two years, alongside the world economy, is for fixed rates to increase, there's always room for negotiation," says O'Brien.

Lending products are for the most part similar to those in Australia, although some extras (like offsets, honeymoon rates or professional packages) aren't yet

CURRENCY MANAGEMENT



The Australian dollar usually has a higher value than its New Zealand equivalent, although parity is not uncommon. Over the past five years, the cross-exchange rate A$/NZ$ has varied from 1.01 to 1.28 (RBNZ). Obviously, Australians wanting to buy property in New Zealand would prefer this ratio to be lower, and may wish to time their property purchases accordingly.

While foreign currency fluctuations are notoriously difficult to predict, understanding the key economic drivers – including interest rates, inflation and terms of trade – can provide clues as to future trends.

It's preferable to have both your income and expenses on a property denominated in the same currency. So if you have a rental income stream on a New Zealand property, you should hold a transaction account with a New Zealand bank, from which you can cover interest payments, maintenance, insurance and rates expenses.

Occasional shortfalls may be fixed by transferring a lump sum via a telegraphic transfer (costs around $30) or via a new internet banking system called Netcode. Planning ahead and transferring enough money to cover a few month's worth of expenses while keeping an eye on the exchange rate should reduce transaction costs.

available. On the flipside, most lenders will accept a 5% deposit and do not charge exit fees, aside from those associated with breaking a fixed interest term.

O'Brien says that some of her clients already hold property investments in Australia, while others are new to investing and haven't been able to find a suitable property in Australia. Purchasing in New Zealand is also popular with first homebuyers because of low deposits and legal fees.

"Property has appreciated in Sydney, so many people have built up a large amount of equity in their homes. It's hard to find occupancy with a good rental return. [Investors] demand rental return, which is now drying up in Australia, so many put their investment dollars into New Zealand," says O'Brien.

Settlement

Once you've decided where to buy, you can apply for pre-approval with a New Zealand lender. If you go through a broker, you must either choose one who is New Zealand-based, or an Australian who is accredited to write New Zealand loans.

Pre-approval gives investors an added degree of confidence when they make the trip to put an offer on a property. An agreement between you and the vendor is then drawn up and sent to each party's solicitor. Once finance has been arranged, the solicitor arranges for an inspection and for the preparation of a land information memorandum (LIM).

An LIM is an overview of the property from the local council's perspective, including the property's history and anything that the new owner should know about it. Your solicitor will then draft an agreement for sale and purchase and, having received the mortgage documents from your New Zealand lender, prepares the transfer of title.

The best thing about settling on a New Zealand property, aside from the fact that it only takes around six weeks, is that you can do it from home. Your solicitor can courier the documents to you in Australia to sign, and settlement can proceed as soon as you send them back.

So if Australia's cooling residential climate has dampened your enthusiasm for investing, you may wish to cast your eye across the Tasman. Affordable properties in growing regional areas, favourable tax treatment and easily digestible banking system make New Zealand a more heavenly proposition each day.

WHERE TO FIND OUT MORE

- **Economic and statistical information:** Statistics NZ – **www.stats.govt.nz**
- **Currency information:** Reserve Bank of NZ – **www.rbnz.govt.nz**
- **Banking:** Netcode – **www.netcode.net**
- **Tax information:** Australian Taxation Office – **www.ato.gov.au**
- **Market research:** Southern Lakes Real Estate – **www.southernlakes.co.nz**
- Bayleys Real Estate – **www.bayleys.co.nz**
- Real Estate Institute of NZ – **www.reinz.org.nz**