

# YOU AND YOUR PROPERTY

BY RESIDENTIAL PROPERTY LAWYER  
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*The Reserve Bank's decision to introduce a handbrake on bank lending over 20 per cent has already had an effect on the number of house sales. For the first time since HomeLegal was formed six years ago we have seen a reduction in the number of transactions over the same calendar month in the previous year. Real estate agents I have spoken to have told me they have experienced a similar downturn in sales.*

**N**otwithstanding the new rules and the resulting downturn in number of sales, it is my view the policy is good news for parts of the Hutt Valley.

My reason is simple: house prices in the Hutt Valley (particularly areas such as Naenae, Taita, Wainuiomata) are in the main lower than regional norms. First home buyers wishing to purchase their first home in the Hutt Valley for less than \$350,000.00 are entitled to apply for a "Welcome Home" loan (a government-sponsored initiative) which allows those purchasers to buy their first home using only a 10 per cent deposit. There are a limited number of lenders that may offer "Welcome Home" loans. These lenders have been exempted from the 20 per cent LVR policy provided the "Welcome Home" loan criteria are met. Those criteria include:

1. the house must be a first home;

2. it must be owner-occupied;
  3. your income must be less than \$80,000.00 (if a single person) or \$120,000.00 if two or more borrowers;
  4. a maximum house price of \$350,000.00 (in Wellington the figure is \$425,000.00 and in the Wairarapa it is \$300,000.00).
- Many of the houses in the areas such as Naenae, Taita and Wainuiomata were built

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during a period where housing construction standards were of a high quality. Whilst the areas are not as prestigious as parts of the Western Hills or Woburn, there is nothing wrong with the housing stock and prices are very reasonable.

During the 1990s and 2000s many first home buyers adopted a view they were entitled to have a high quality house of the same state and style their parents lived in as their first home. This has not been an historical norm. Previously, people had bought houses and over time upgraded as their financial resources allowed. The introduction of the new LVR policy will (in the main) stop low deposit buyers from buying these high value properties.

Where a person's income is sufficient to service a larger loan but their deposit is too small to purchase a high value property, my

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recommendation is to consider buying a property of a lower value, repay the debt as rapidly as possible, build equity and look to upgrade within three to four years.

A search of TradeMe indicates there are a substantial number of properties selling for less than \$350,000.00 in Lower and Upper Hutt. With a \$35,000.00 deposit, and the criteria met, they would be entitled to purchase one of these homes using the “Welcome Home” loan scheme. Funding the deposit can be achieved through a variety of sources, including:

1. Kiwisaver (if you have been in the scheme for three years or more);
2. a first home buyer’s deposit subsidy (\$1,000.00 per year up to a maximum of \$5,000.00 that you have been in Kiwisaver);
3. your own cash reserves;
4. family money.

A loan of \$315,000.00 spread over 30 years with an interest rate of 5.40 per cent would require payment of \$813.75 per fortnight. Using ANZ’s home loan calculators (found on their website) I have calculated a couple with no children earning \$70,000.00 between them could afford repayments of \$1,306.00 per fortnight. If they repaid the \$315,000.00 loan at that accelerated rate they would repay the loan in roughly 13 years. In just four years they would have a \$100,000.00 deposit for their second house allowing a \$500,000.00 house to be purchased. After seven years they would have 50 per cent deposit in the \$350,000.00 house. That 50 per cent equity (of \$175,000.00) would enable that purchaser to buy a property worth up to \$875,000.00 with a 20 per cent deposit for their second house. In both of these examples I have assumed there has been no change in the value of the property. If the property increases in value there may be even more equity build up.

The new policy has created some challenges for homebuyers but it is by no means impossible to buy a house. You might just have to reset your expectations.

*“If you would like a copy of previous articles on property written by Michael email him on [michael@homelegal.co.nz](mailto:michael@homelegal.co.nz).”*

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