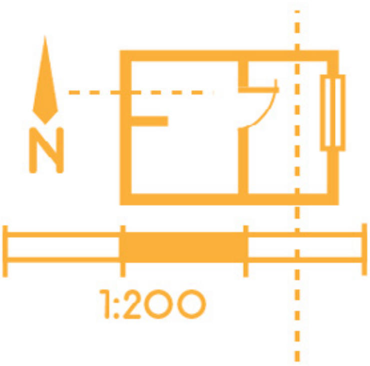
OCKHAM RESIDENTIAL

OCKHAM RESIDENTIAL REALTY LIMITED, LICENSED REAA 2008

THE A-Z *OF* BUYING OFF THE PLANS



Welcome

We know buying an apartment off the plans can be a little intimidating if you haven't done it before. And so that's why we recently hosted a workshop—Ockham's inaugural webinar!—on buying off the plans. Our objective: to demystify the buying process so you can go into things with your eyes wide open.

Ockham sales team leader, **Joss Lewis**, was the webinar host. Joss was joined by **Jan McNamara** (Mac & Co. Lawyers) who covered off the legal stuff, and **Scott Lewis** (Wayne Henry Mortgages) who explained the ins and outs of all things finance.

A fast-paced hour-long intro, *The A-Z of Buying Off the Plans* webinar is available online. We heartily recommend it! But this compendium gives a bit more detail, serves up some useful extra resources, and (cos it's Ockham) squeezes in a couple of #dad/#mum jokes along the way.

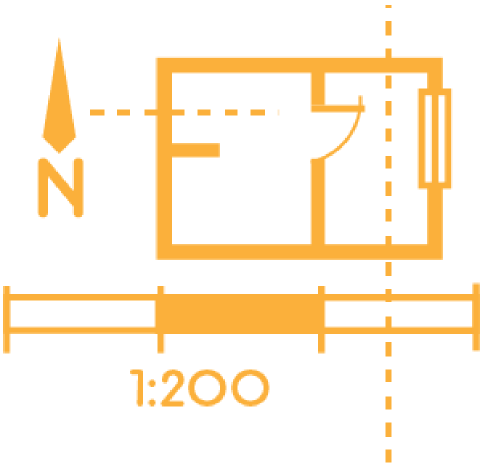
We hope this guide is helpful: please get in touch with the team if you'd like to know more.

Joss Lewis
E: joss@ockham.co.nz
Ph: 021 245 5155

Lisa Redgrove
E: lisa@ockham.co.nz
Ph: 021 415 980

Zara Kehoe
E: zara@ockham.co.nz
Ph: 021 162 4451

BUYING OFF THE PLANS WITH OCKHAM



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Joss Lewis
Ockham Residential

Joss Lewis is Ockham's esteemed Sales Team Leader. With 18 years' experience in real estate, Joss has helped hundreds of purchasers through the process of buying off the plans. She has knowledge, experience and empathy to burn (plus she's a very good stick).

From Sales Suite to Home Sweet Home: A Road Map

PRO TIPS:

- Numero uno on the list? Research, research, research. Ask lots of questions. Then ask some more.
- Don't be (unduly) influenced by flashy brochures. Look at a developer's track record.
- Are earlier developments by the same company standing the test of time? What do they look like a decade or so after they've been built?
- A support crew of seasoned pros is a must, and that means a lawyer and a financial advisor — Uncle Gaz on his own doesn't cut it.

HOW WE DO THINGS AT OCKHAM

Ockham sales team leader Joss Lewis understands the trepidation some buyers have about buying off the plans. "I meet people week in week out who have never bought off the plans before," she says. "It's an act of considerable trust to put your hard-earned savings into a home that exists only in plans and renders. People are understandably a little daunted at the start."

But there are serious advantages to buying off the plan, she says. With the right guidance – and a decent support crew – the road map from go to whoa can be a straightforward, even enjoyable ride.

Here's the typical process for buying off the plans with Ockham:

1. KiwiBuild buyers: Apply for KiwiBuild pre-qualification

If you're keen on buying a KiwiBuild property, suss out your eligibility and see if you can get pre-approved. Pre-approval status lasts for six months, and having it confirmed will speed up the buying process later.

While you're at it, check if you're eligible for a First Home Grant, and also if you can withdraw your KiwiSaver and put it towards your deposit.

2. Do your research: Give the sales team a (friendly) grilling

Pop into our sales suite and have a chat with 'the Sirens of Surrey Crescent' – our friendly sales team.

Pore over the plans, and any other materials that can help you visualise your future home. Joss Lewis: "At Ockham, our sales suite has a display kitchen and bathroom, models of the developments, fittings samples, and our website has virtual tours. We love answering questions and showing off our designs!"

You should also dig a little deeper into the company you're buying from. Buying off the plans means it could take a year or two before a development is completed, so things like track record and quality of delivery really matter. Play detective. Drive by the site of your future home to get a feel for it, check out other builds by the developer, and ask around. See our next section for a list of ways to go about this and searching questions to ask.

3. Assemble your support crew

Find a good mortgage advisor to tell you how much you can borrow, and a lawyer who will review a Sale and Purchase Agreement for you. "Having a good support crew is my number one piece of advice for buying off the plans" Joss says. "Peace of mind. Reassurance you're on the right track. It makes all the difference."

If knowledge equals power, professional expertise is a superpower. Experienced pros will help you make a purchase that is sound, secure, and right for you.

4. Sign a Conditional Sale and Purchase Agreement (and KiwiBuild Deed)

It starts to get real at this stage. Once you decide to move forward with your purchase, the sales team will draw up a conditional Sale and Purchase Agreement for you. "We like to do this in person face-to-face (or over a web call, in Covid-times)," Joss says. "We go through it with you very carefully."

After you sign that Sale and Purchase Agreement, the apartment is under contract (ie: will be reserved for you), though the sale is not yet finalised. The Agreement includes a five-working-day finance and due diligence condition: a cooling-off period where you can walk away with no reasons given, and without penalty, if you change your mind.

If you're buying a KiwiBuild apartment, you will also need to look over and sign the Kiwibuild Deed. This sits alongside the Sale and Purchase Agreement.

5. Due diligence (five working days)

Crunch time. This is when your lawyer will review the agreement and related documents and make sure you fully understand your purchase.

Get all your financial ducks in a row for the deposit: you could get an agreement in principle from your bank, though this is not essential. At a minimum, we recommend seeking advice from a mortgage advisor. If you intend to put funds from a KiwiSaver First-Home Withdrawal or First Home Grant towards your deposit, this is the time to get those applications in.

6. Going unconditional

Hurrah! You can now go ahead with the purchase. Your lawyer will let us know that the conditions are satisfied and the agreement will become unconditional for you.

This means your Sale and Purchase Agreement has been approved. It's official: the sale is made.

Recommended drinks pairing for going unconditional: Moët or anything fizzy and jubilant.

7. Pay a 10% deposit to secure the apartment

At the same time you go unconditional, you'll be expected to pay the 10% deposit for your apartment. "Your lawyer can tell you more about how to formally take this step," says Joss.

At Ockham, deposits are securely held in trust by our lawyer until settlement. They cannot be used to cover construction costs or fund the development in any way.

8. Construction updates

Depending on when you bought the apartment, construction may already be underway.

The developer does the hard work now — sit back and relax. Ockham sends out exclusive progress updates and reports to owners during the build so you can enjoy seeing it all spring to life.

You may even want to do a reccy past the building site to look at the crane and earthmover action. Construction brings out the joyful sandpit-child in all of us, especially when it's for your very own home.

9. Prepare for settlement

Settlement is when you — or your bank — pays the balance of your apartment to the developer. In other words, it's when the title of the apartment is transferred to your name, and your mortgage kicks in. A momentous day.

As the build nears completion, you should receive a heads-up from the developer — around three months ahead — for when settlement is likely to take place. In the run-up to settlement, you'll need to finalise your mortgage arrangements with your broker. Most banks give mortgage pre-approval for up to three months, although this timeframe can vary. Your bank will likely require a registered valuation of the apartment at this point. Our team meets with valuers on-site to sort that.

In the 10 working days prior to settlement, you can also conduct a pre-settlement inspection and see your new apartment for the very first time. You can start planning your move-in day, boxing up your possessions, and mentally arranging your furniture.

10. Settlement

Settlement takes place once the build is complete, and the Titles and Code of Compliance Certificate (CCC) have been issued by the council. Ockham's lawyer will send a notice to your lawyer, and 10 working days after that, you'll be settling.

More excitingly, settlement is when you can get your keys and move in. "It's actually one of the best days in my job," Joss says. "Watching people claim their brand-new home is a really special moment for us."

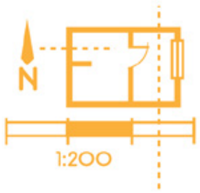
Once payment is made to the developer, which your lawyer will assist you with, your apartment belongs to you. You did it!

We're not saying you should now walk from room to room exclaiming 'That's *my* wall!' and 'I own *this* floor!', but what you do in the privacy of your own home is up to you.

More info:

- *Stuff* have written a couple of excellent, in-depth stories on the subject. Definitely seek out Buying off the plan? Here's what you need to know and Common pitfalls to watch out for when you're buying off the plan.
- The *Canstar* website has a comprehensive What to Look Out For When Buying Off the Plan webpage which covers the pros and cons in detail.
- *Property Press*' 6 essential tips for buying off-the-plan apartments cites 'reputation' as its top thing to look out for: "Research, research, and more research. You are essentially buying an idea that doesn't exist in reality so an important first move is to check out the developer thoroughly. What is their track record for completing construction on time and to the quality promised, what are some of their other developments like…their pedigree and reputation are vital."

Good (and Searching) Questions to Ask Before Buying Off the Plans



PRO TIPS:

- It's impossible to overstate the importance of your developer's track record. A good brochure is just a good brochure. Far more important is that they build what they say they will. In other words…deeds not words!
- Remember apartments can include add-ons such as carparks and storage units, which may or may not be included in the purchase price.
- Another thing to consider are Body Corp fees. The developer can estimate these for you, but keep in mind they may change annually.

EIGHT ESSENTIAL QUESTIONS TO ASK

When researching their purchase, many people don't know what to ask. Here's a list of interrogative questions that will help you scrutinise your developer and be sure the purchase is right for you.

1. Which apartment is the best fit for me? What's best for you isn't just how many bedrooms, or which floor — or how high the ceilings are — but the actual physical layout, too. "We suggest getting a tape measure and pacing out the floorplan," Joss says. "It can be easy to write off space as too small or too large before you see it laid out in front of you."

2. What stage is the development at? Land is a significant investment so owning the site is a good sign the developer is raring to go. Any experienced developer will either have the Resource Consent already in place, or their application will be well underway.

3. Which construction company will build the development? At Ockham, we have our own in-house construction team — Ockham Construction — because we believe this gives us greater quality control and oversight. However, developers often contract-out construction work, which isn't necessarily a bad thing. But make sure you also give the construction company a decent look-over. If something went wrong during a build, which party is liable?

4. Who is the developer? What is their track record? Do they deliver what was promised? On time? You're placing your money and future home in the hands of the developer, so it's worth learning more about them.

Ask how many developments the company has completed on schedule in the past. Take a drive past some of their previous builds to get a sense of the style and how they've weathered.

5. What's the project timeframe? When will construction kick-off, and what's the expected completion date? Construction is a fiendishly complicated game with heaps of moving parts — not least Covid — but an experienced developer will plan accordingly and be able to mitigate most issues as they arise.

6. What are the nuts and bolts of the construction… the fixtures and fittings? Tiling, taps, carpet… your apartment will likely have everything, including the kitchen sink, already set up. Ask to see samples. "At Koa Flats and Aalto, two of our recent developments, we show you the tiling colours you can choose from," says our Joss.

7. What does the price include and is it negotiable? Typically buying off the plans means the price is set, but apartments can come with or without parking spaces, storage lockers, and other amenities. Will you need all of these, or are you paying for something you won't use?

8. What are the Body Corporate fees? The sales team should be able to give you an estimate of what the Body Corporate fees will be — with the actual amount confirmed just before settlement and reviewed annually after that.

Your Body Corp fees include insurance for the building itself, though not the personal contents of your apartment.

One more thing. "Body Corp fees also don't include rates," Joss says. "So, factor that in when you're working out your budget."

More info:

Two fantastic websites we can't recommend highly enough. They're both clear, well-written and cut through the jargon, gibberish and hyperbole. They're also wholly independent.

- The New Zealand Government's *Settled* website has a wealth of resources for first home buyers. Start with Understanding the home buying journey, then move onto to their specialist First Home Buyers section. They also have a rather nifty — and downloadable — Buyer Journey Guide which covers everything off in a logical and easy-to-follow way.

- *Sorted* is aimed more generally at helping New Zealanders get on top of things financially. It's worth a rummage through, no matter where you are in life — it has a ton of brilliant resources and tools and tips and guides on everything from budgeting to improving your credit rating. It also has extensive home buying info. Really, really (really!) worth your time.

THE REALLY IMPORTANT LEGAL STUFF: WHAT YOU NEED TO KNOW

Jan McNamara
Mac & Co. Lawyers Limited

Jan has worked in the legal profession for over 25 years, initially as a legal secretary before qualifying as a lawyer. She has extensive experience in property and commercial matters, spending time in big city firms and in a boutique entertainment law firm. Her warm, straightforward approach is highly regarded by her clients, many of whom have travelled with her throughout her career.

Why you need a lawyer: #1 Before you sign anything

PRO TIPS:

- Get independent legal advice before signing anything. Find an experienced property lawyer who will explain all the ins and outs of your agreement.
- Your lawyer will go through your finances with you to be sure you can get your deposit together (and meet your future mortgage repayments).
- It's an obvious (and slightly unhelpful) maxim in this market but buy what you can afford. The consequences of over-extending are severe.
- Your lawyer will run the rule over the small print in your agreement, stuff like force majeure, defects, and sunset clauses. As well as being there to legally protect you, these clauses make great film titles.

THE (CRITICAL) IMPORTANCE OF DUE DILIGENCE

You must—and we mean must—get independent legal advice before buying off the plans. As the old trope goes, buying a house is the biggest financial decision most of us make in our lifetimes. You don't want to rush things or blunder on in. No matter how alluring the apartment, how convinced your best mate is that this is the deal—the steal!—of the century... no matter how charming the salesperson (and, to be fair, ours are exemplary examples of the genre), do not commit to anything until you've carefully gone through the sale and purchase agreement with a lawyer.

The very first question lawyer Jan from Mac & Co. Lawyers asks is this: is there a due diligence or Purchaser's Solicitor's Approval condition? Because there needs to be. Says Jan: "A due diligence clause or what's called a Purchaser's Solicitor's Approval gives you time to check the development is all the developer says it is. That you're going to get what you think you're going to get. It will also allow you to cancel within a certain timeframe – to walk away—without having to give a reason. We recommend five working days minimum for this clause, (though we prefer 10), as there's quite a lot to work through."

THE FOUR THINGS YOUR LAWYER DOES FIRST

During your due diligence or (and, sorry, it's a bit of a mouthful) Purchaser's Solicitor's Approval period, your lawyer will do the following:

1. **They'll ask how you plan to pay the developer's deposit.** You'll need to pay a deposit up-front to the developer to secure the apartment (typically 10% of the purchase price). Do you have this in savings, or are you planning to use your KiwiSaver or obtain a First Home Grant (formerly known as HomeStart)? Jan: "If you're using your KiwiSaver or First Home Grant you'll need to get cracking with your application so it can be withdrawn in time. Note: the standard deposit for a home loan is 20%—so the bank will expect an additional 10% deposit from you when you settle ie. the total deposit you'll need is 20% all-up.

2. **They'll check your finances are in good shape.** Jan: "We'll talk to you about your current financial situation. We want to know you'd cope if your circumstances changed in between signing the agreement and settling (which might be a couple of a years)." Stress-testing – methodically assessing your finances and ensuring you have wriggle-room if the going gets tough – is strongly in your interests.

Of course, in a market of spiralling house prices, the traditional axiom of 'Only Buy What You Can Afford — Or Wait' is tough. Many people will be borrowing right to their limit — that's just the reality. But a good lawyer will want you to go into this with some resilience built in.

"We've had a few cases recently," Jan continues, "where people's circumstances have changed because of Covid. People with great careers, perhaps in the travel industry, had signed up to agreements and unfortunately, they've lost their jobs. And then they find that the bank will no longer lend to them.

"These are things we talk about when we're doing your due diligence. What would be your Plan B? For some people it might be having family help you out, or on-selling the apartment to someone else, or getting someone to come in and buy the property with you."

It's important, she says, that you feel secure and confident before committing your hard-earned savings to a deposit. "We want to make sure you've got some measures built in — that wriggle room — so that you'll still be able to complete settlement and not lose your deposit. Nobody wants that to happen."

3. They'll objectively assess where the development is at. We can all get over-excited — be wowed by the glossy brochures, spurred into action by excited queues at launch parties and, particularly in the past year or two, a real sense of FOMO. Your lawyer will ignore all that fluff and ask some searching questions of the developer. Has a resource consent been granted yet? Is construction underway? Does the developer own the land? As your representative, they want to be sure you're buying into something that's definitely going ahead.

Jan: "We're looking for some certainty. With some developers it could just be a really good idea they've got in their head. They haven't got a resource consent, they may not even have bought the land yet. They've got lots of pretty pictures and plans, but nothing is very certain. There's a hell of a lot of risk there. We want you to be very aware of what you're potentially getting into."

4. Related: They'll have a hard-nosed look at the developer. A good lawyer is impervious to even the most stirring marketing copy. No matter how good something sounds on paper, the only thing they care about is: is it going to happen, and will it be just like it was promised on the packet? Here they're guided by deeds not words. What has developer built in the past? What's their reputation like? Do their developments look just like they did on the plans? Do they deliver on-time? Have their developments had any problems or gremlins (and, if so, has the developer fixed these quickly and at minimal inconvenience (and certainly no cost) to the buyer? In short: what's their track record?

Note: All the above is good sense — and Jan's webinar presentation was a masterclass in Plain English clarity. However, it is not legal advice — and we reiterate that you must seek your own *independent* legal advice.

More info:

The legal stuff, as Jan herself will tell you, is not especially thrilling reading. However, like Brussels sprouts, it's good for you. Here's some additional 'homework':

- The New Zealand Law Society have a detailed webpage on Buying and selling a property. Compulsory reading!
- *Settled* also have several fine — and free — downloadable guides. The New Zealand Residential Property Sale and Purchase Agreement Guide is more interesting than it sounds, and their general Buyer Journey Guide, Buying and not sure what to do when? is an easy, infographic-heavy, six-page read.

Why you need a lawyer: #2 Before you go unconditional

PRO TIPS:

- Sale and Purchase agreements are looooooong. And rarely very interesting. Nevertheless, lawyers love 'em! They love all this fine print and remember… the devil can be in the detail.
- At first glance, a lot of the clauses may seem standard boilerplate, but they were still set in place by the developer's lawyer. Your lawyer will check the crucial clauses are in your favour.
- Your lawyer will check that your deposit is held in trust with the developer's lawyer until settlement.

THE DEVIL (CAN BE) IN THE DETAIL

Once you and the developer sign a conditional agreement, your due diligence period is triggered. You have five working days or whatever the agreed time is to check and double-check everything — and this is where your lawyer really earns their keep. "We start reviewing the agreement," Jan says. "We go through the fine print with a fine-tooth comb. This is what lawyers are good at."

There is some additional complexity when you're buying off the plans. "There is no building to check out," Jan says. "There is no record of title for your property in existence yet. The agreement should contain everything of what it'll look like when you come to settle."

FULL LEGAL REVIEW OF YOUR AGREEMENT

Your lawyer will review the Sale and Purchase Agreement. Here are 10 things they'll check:

1. Vendor/developer conditions. These are the clauses in the agreement which allow the vendor to cancel the agreement (up until a certain time). Jan: "The developer will have a number of conditions in the agreement which are designed to look after their interests. Fair enough. These might include the development being subject to finance, subject to them selling a certain number of units in the block… subject to them getting a resource consent, or even purchasing the land.

"As your representative, we want to see that you have certainty and clarity as quickly as possible. And so we'll look at how long the developer has to satisfy their conditions. If it's three to six months, then that's fine — you can understand it takes a bit of time for a developer to get everything organised. But if it runs over a year or longer, then we start to get a bit concerned."

Because if a development drags on before eventually falling over, the buyer may have missed the boat. "Sure, you get your deposit back," says Jan. "But you will have lost your place in the market. And over the past decade, particularly the past year, that could leave you seriously disadvantaged.

2. Plans/specifications. Your lawyer will carefully review the plans and specifications. Jan: "This agreement is your guarantee that what you will end up with is what you have signed up for. Detail is so important here. We will go through this with you: we want you to be certain that what you think you're getting — the dream you have inside your head — is contained within that agreement."

3. Settlement details. Usually settlement — where you pay the developer the full purchase price and, in return, get the keys, will take place 10 working days after issue of the Code Compliance Certificate (CCC) and issue of title. Jan: "We want at least 10 working days. Fewer and you may be too rushed to get everything you need done. And there is a fair bit to do — arranging for your bank to send paperwork for signing, meeting with lawyers to sign said paperwork, arranging movers, arranging a pre-settlement inspection etc…"

4. Safety of your deposit. Is your 10% deposit safe? Where is it being held? Jan: "Your deposit should not be going into the developer's pocket or trading account. It should not be used to fund the development. We want to see that your deposit is safe — it should be paid to the developer's lawyers trust account where it is kept until settlement. If it's not, I would not recommend you continue with this development."

5. Sunset clause. There'll be a sunset clause in your agreement which says that if the settlement requirements (such as issue of CCC and title) are not met by a certain date, then the contract can be cancelled. Jan: "If something goes wrong for the developer — if they can't get finance or their consents sorted; if their main contractor goes into liquidation and things look like they might drag on forever — the sunset clause gives you the opportunity to say: 'We've waited long enough: we're going to cancel this agreement.' And you get your deposit back. Think of this as an ultimate cancellation clause."

"Or you might decide you won't walk away—that you're happy to hang in there until the building is completed.

The crucial detail, Jan says, is that the sunset clause should offer protection to the buyer, not the developer. She shares a cautionary tale. "We had some cases a few years back when a developer took ages to build the development. The market rose considerably during the time they took to build it. So, when they reached the sunset date, they just cancelled all the contracts with their buyers and then on-sold them at a much higher price. All those purchasers who had waited so patiently for that development to be built lost their chance to buy in that market.

"And so we always make sure the sunset date is in your favour."

6. Changes to the plans/materials. Most agreements allow the developer to alter the plans to meet Council consents, or if certain building materials are unavailable. Jan: "The developer will have a clause in there which allows them to swap out materials, or change the design of the apartments if they have building consent issues or anything like that. But we want to see there's a clause in there that any changes do not materially alter the value of the dwelling, and that any new materials will be of a similar standard and value. We don't want to see you disadvantaged in any way."

7. Other clauses: force majeure, Covid, pre-settlement inspection, defects, warranties. Several other clauses typically in an agreement need lawyerly scrutiny. Is there a Force Majeure clause? This covers an 'act of God'— a natural disaster or some similar unexpected event which makes it impossible to keep a business running. What about Covid? Jan: "Your lawyer can assist in ensuring that Covid lockdowns can only defer settlement and the sunset date and are not grounds for cancellation."

Are you entitled to have a pre-settlement inspection? Is there a post-settlement defects remediation period (and, if so, for how long)? Many questions! Your lawyer will expect to see them all covered off in the agreement.

8. Interest rate for late payment. If you're late settling, what are the consequences? How much interest will you have to pay?

9. Body Corporate/residents' society information. An apartment sale and purchase agreement usually has a decent-sized section about the Body Corporates. It's a subject that warrants a discussion on its own— and indeed is another webinar in our Ockham A-Z series.

But your lawyer will also run the rule over the Body Corporate guff for you. Jan: "If it's a unit title, we'll review the Body Corporate rules and budget, unit entitlement, and Pre-Contract Disclosure Statement." And the rules on little lions. "Some Body Corporates have restrictions on pets which will affect you and your personal menagerie." And while the BC rules tend to be fair and reasonable requirements to allow for harmonious communal living, it's important to be aware of them as you'll be bound by them.

10. Review the Head Title. Jan: "We'll check if the developer is the owner of the land and, if not, ascertain what the agreement is between the developer (as purchaser) and the owner of the land, especially: settlement date and any outstanding conditions in that contract. We'll also review any interests registered on the Head Title, such as easements, covenants, caveats and consent notices." Sound like fun? Yeah, nah... definitely something to delegate. And Reason #482 why you must get independent legal advice.

More info:

That's enough — this is a pretty intense section. You're spared!

Why you need a lawyer: #3 Before settlement

PRO TIP:

- Home straight! Though there's still a bit of paperwork to plough through. But this is why lawyers were invented.

Settlement is a sensible-sounding word — functional and pragmatic—but a case could be made that this final stage of the home-buying journey deserves something more celebratory. Like 'Wootment', 'Sett-yeah-boi-ment', or our favourite, 'AWESETTLEMENTNESS'. This is the moment where your patience is rewarded: you get the keys and your house becomes your home.

But there's a lot of admin amongst the Wooting over these final weeks that your lawyer will assist you with.

YOUR LAWYER'S SETTLEMENT CHECKLIST

As settlement nears, you'll need to give your lawyer a heads-up that the great day is not far away. If you've bought an Ockham apartment, you will have received our Owners' Circles, the regular email updates we send to buyers during the build. We'll let you know well in advance what you need to do.

When you contact your lawyer they'll start working their way through the list which includes:

- **Paying the balance.** They'll liaise with your broker and the bank and get all the necessary paperwork signed, sealed, delivered before settlement.
- **Processing 2.6 tonnes of paperwork.** Here's a list of some of the stuff you pay them to take care of — tax declarations, Overseas Investment Office Statements, KiwiSaver withdrawals and declarations, Anti-Money Laundering, mortgage and loan documentation. Jan: "It's all about the detail. The fine print. It's boring for you, but lawyers love it."
- **Transferring the title into your name.** You are now lord/master/mistress/king/queen of all you survey.
- **Advising you of your ownership structure options** Jan: "We'll talk to you about the best ownership structure for your situation. You might be buying with friends, or with family, or be in a relationship... we'll run through your options.

A few bits and bobs then. But the keys are now imminent.

HOW MUCH $ SHOULD I PUT ASIDE FOR THE LEGAL STUFF?

Buying off the plans tends to be more expensive than buying a house that's already built because there are two distinct stages. Jan explains. "You've got this initial stage where we're reviewing this very long contract for you and getting all the things in order to make sure you're ready to commit to that purchase. Every lawyer will have a different price for that—feel free to ring around.

"At our firm, it's usually between $1,200-$1,400 plus GST for that first initial stage. We'll bill that once you're committed to the purchase, and you've paid your deposit.

"Then there's our normal conveyancing charges when you settle the purchase at the end. Say 18 months later. That cost varies depending on the type of property and your financing arrangements, but it's usually about $2,000 for this second stage."

More info:

- Planning for Settlement Day for Buyers and Settling on Settlement Day When Buying from our friends at *Settled* covers the basics.
- Their Settlement for Buyers checklist is super-comprehensive and definitely worth the download.
- This *Canstar* story about stress-free settlement is also a goodie.

THE INS AND OUTS OF ALL THINGS FINANCE

Scott Lewis
Wayne Henry Mortgages

You won't find a nicer chap in the mortgage broking universe than Scott Lewis (Wayne Henry Mortgages). With a background in the banking, insurance and telecoms industries, Scott brings a wealth of experience and business acumen that will move mountains. He has a knack for solving problems and coming up with creative solutions for clients, whether they're first home buyers or seasoned old salts.

Getting your deposit together

PRO TIPS:

- Generally, 20% is a good amount to aim for in an apartment deposit.
- You can use a gift for part of your deposit, but banks will still want to see you've made an effort to save before loaning you money.
- A mortgage advisor is extra-pertinent when buying off the plans. You'll need advice on paying your deposit and a projection for paying your future mortgage once the development is built.
- Banks will want to know a bit about the developer you're buying with before they lend.

ONE DEPOSIT? OR TWO?

A slightly confusing part of buying off the plans: you need to put money aside for two seemingly separate deposits. Scott Lewis explains: "It's important to distinguish between the deposit paid up-front to a developer (usually 10%), and the deposit the bank needs. The good news is that the bank takes the deposit you pay to the developer into account. In other words, they usually require a further 10% at settlement, on top of the initial 10% you paid to secure the apartment. ie. 20% in total.

There are few other quirks when you're buying off the plans. Read on!

1. How much do you need for your deposit?

Deposit requirements vary from bank to bank. But ballpark: unless you're eligible for a first home loan (which we'll touch on that later), you'll typically need at least a 15%-20% deposit at the time of settlement.

Until a few months ago, the deposit you needed to secure an apartment was often considerably more than this. Smaller apartments — and each bank had had their own definition of what constituted 'small' — required deposits of between 35-50%. These rules were a hangover from the early 2000s when a glut of low-quality, 'shoebox' apartments swamped the market.

Times have changed. And *Newsroom*'s Nikki Mandow spearheaded a campaign earlier this year which saw the banks finally catch up the programme. They have since revised their square metreage and deposit rules making it easier to get finance for smaller apartments. Even so all the banks still have minimum square meterage requirements, so it's worth checking these.

The banks will also want to be sure you're buying into a quality development in a good location. "They'll want to know who the developer is," Scott says. "They'll look carefully at their past developments — they'll want to see you're buying something well-built and in a good spot."

2. Getting your deposit together

Besides your savings, how can you rustle up that deposit?

KiwiSaver withdrawal While the KiwiSaver first-home withdrawal is intended for those starting out, there are now some second chance provisions (though you'll need to make your case to Kāinga Ora. This Q&A from the Financial Services Council covers off aspects of that.

In general, to use your KiwiSaver for your deposit, you must be:

- buying your first home.
- intending to live in the property for at least six months (it cannot be used to buy an investment property).
- a member of a KiwiSaver scheme for at least three years.

Note: you will be able to withdraw all the contributions you and your employer have made, along with the tax credits you may have received. However, you will need to leave the $1,000 government contribution in your Kiwisaver fund.

First Home Grants Kāinga Ora also offer assistance towards your first home deposit through what's called the First Home grant (formerly the HomeStart grant). To qualify you must:

- have contributed at least 3% of your income to a KiwiSaver scheme for at least three years.
- plan to live in the house for at least six months.
- have a single income under $95,000, or a combined yearly income of $150,000 or less (before tax) for two or more buyers.

The First Home Grant is $1,000 for each year you've been in KiwiSaver, up to a maximum of $5,000 for five years. If you're a couple buying a house together and you both qualify for a grant, you could receive a combined grant of up to $10,000.

It gets better. If you're buying off-plan or building new, then you could double your First Home Grant up to $20,000 for a couple. That's starting to add up.

One more thing: the property you're buying must fit within the following price caps:

Region	Existing Properties	New Properties
Auckland	$625,000	$700,00
Queenstown-Lakes District	$600,000	$650,000
Kapiti District, Porirua, Upper Hutt, Hutt City, Wellington City	$550,000	$650,000
Hamilton City, Tauranga City, Western BoP, Waipa District, Hastings District, Napier City, Nelson City, Tasman District	$525,000	$600,000
Waimakariri District, Christchurch City, Selwyn District	$500,000	$550,000
Waikato District, Dunedin City	$425,000	$550,000
Rest of New Zealand	$400,000	$500,000

What if I only have a 5-10% deposit? If you haven't got a 20% deposit, then you may be eligible for the First Home Loan Scheme that's offered by a number of banks. It is underwritten by Kāinga Ora and allows lenders to provide loans that would otherwise sit outside their normal lending criteria. Income and price caps apply, and you need to be a New Zealand citizen or permanent resident. Find out more on the Kāinga Ora website.

Gifting Banks will generally accept gifts as a source of deposit for first-home buyers. The person gifting the funds — the generous benefactor! — will need to sign a statutory declaration which states that is indeed a gift, and not a clandestine loan which will have to be repaid in the future.

Important postscript to this: the banks also want to see that buyers have a genuine savings record, either through their KiwiSaver or through regular savings (as evidenced by bank statements). The Bank of Mum and Dad is not enough on its own.

3. Have you got pre-approval from the bank?

Pre-approval from a bank is where they assess your financial position and agree to loan you money, subject to you finding a property. It's sometimes referred to as 'conditional approval', as the bank's willingness to extend the loan depends upon you meeting a few conditions.

There are a few things to keep in mind with pre-approvals:

1. They're usually offered for a set time, typically three months (with the option to extend subject to your financial position remaining the same).
2. Should your circumstances change, the bank has the right to withdraw their offer.
3. Should their lending criteria change, the bank may also pull the pin.

Scott: "The challenge with buying off the plans is that the time between buying, and the building being finished — and settlement — is often between 18 months and two years.

"From the bank's perspective, this is a risk. Your circumstances could change during this time, or they might adjust their lending criteria. The economic environment could be different. And so, they can be hesitant to give a guarantee of a loan two years hence."

This is where your financial advisor or mortgage advisor come into play. Scott: "They'll give you the good oil on the bank's current lending criteria and help map out a plan to see you through to settlement."

More info:

- Nikki Mandow's *Newsroom* series is advocacy journalism at its finest (and stars not only Ockham's Mark Todd but features a cameo from Scott Lewis). Start with The lending trap: Small apartments, big deposits. Move onto Small apartment crisis: The fightback begins. Then read Higher house price caps would have helped only a few hundred first home buyers. And then — a couple of months later — check out the result: ANZ changes mortgage rules for small apartment lending.
- Kāinga Ora have a detailed section on their website which covers the KiwiSaver First Home Withdrawal scheme. It also includes a specific Buying your first home with KiwiSaver downloadable brochure.
- The rules around first home withdrawals changed in late 2020. The Financial Services Council produced a resolute Plain English Q&A which explains all the new guidelines.

What your bank looks for

PRO TIPS:

- It's invasive, but banks can and will want to look at your spending patterns. In the months before you apply, keep the late-night Uber Eats binges and spontaneous new iPhone splurges to a minimum.
- Be self-honest about what you can afford. Put together a 'dummy budget' that tests whether your lifestyle can sustain mortgage payments.
- Try not to buy stuff on 'interest-free' credit as these debts can muddy your financial records. That means AfterPay and LayBuy, too.

AKA WHAT CAN I DO TO IMPROVE MY MORTGAGE-WORTHINESS?

It's a simple enough equation. The banks will look at what you earn, what you spend... what debts you have, what assets you have salted away.

But there are other factors, Scott says, that buyers often overlook. "They also look at whether or not you have kids," he says. "If so, how many. They have a little calculator where they add in these variables, and it influences how much they're prepared to lend."

Here are seven things the banks look at when they're assessing your loan application:

1. Your deposit. We talked earlier about what level of deposit the bank wants. It's typically 20% and it determines what LVR (loan to value ratio) the bank will lend against.

2. Your income. Is your income enough to service the mortgage you're taking on. Note, banks do their sums on a higher rate than in market. At the moment, this an interest rate of around 5.45-6.5% — a good 2-3% higher than their current lending rates. They're not just being mean here: they want to be sure you can meet your repayments if things get tough.

3. Your level of personal debt. From the bank's perspective, this is all about risk. If you have less than a 20% deposit, then you should aim to have less than $10,000 in short-term debt. Consider reducing your credit card limits to what you really need.

4. Account conduct. Banks will ask to see your bank statements when you apply for a loan. It's important you can demonstrate that you can live within your means and have what's called 'good account conduct'. Too many takeaways; too much obvious pubbing and partying isn't a great look. Neither is living pay cheque to pay cheque. You want three to six months of relative virtuousness.

5. Loan affordability. Related to #4. You want to demonstrate to a lender that you can afford the new lending. That is, you want to show them that your income is enough to cover your new monthly commitments on top of your regular, everyday expenses.

Top Tip: A good way to do this is to work out your future mortgage repayments and put this money aside into a separate savings account (that you don't touch). You can share this exercise with the bank before you take out the new loan — it gives them some reassurance, you too.

6. Body Corporate fees. If the property you're buying incurs Body Corporate (BC) fees (as all apartments do), then you will need to set money aside for your first BC contribution which you pay at settlement. Note: the banks also factor BC fees into loan servicing as a monthly outgoing cost.

7. Avoid "interest-free". If you've bought stuff on interest-free deals, pay them down. Banks take a dim view on people with too much consumer debt — and these will also become harder to repay once you've got a mortgage to contend with.

More info:

You're probably getting homeworked out by now, so just one link here. We've mentioned it already, but the *Sorted* website is a fantastic resource that will help you get on top of your finances, no matter where you sit on the tycoonish spectrum. We all know the grim stats on housing affordability: the mountain can seem unclimbable, especially for first-home buyers. But this website — and the many tools and guides it contains — will give you some sense of empowerment.