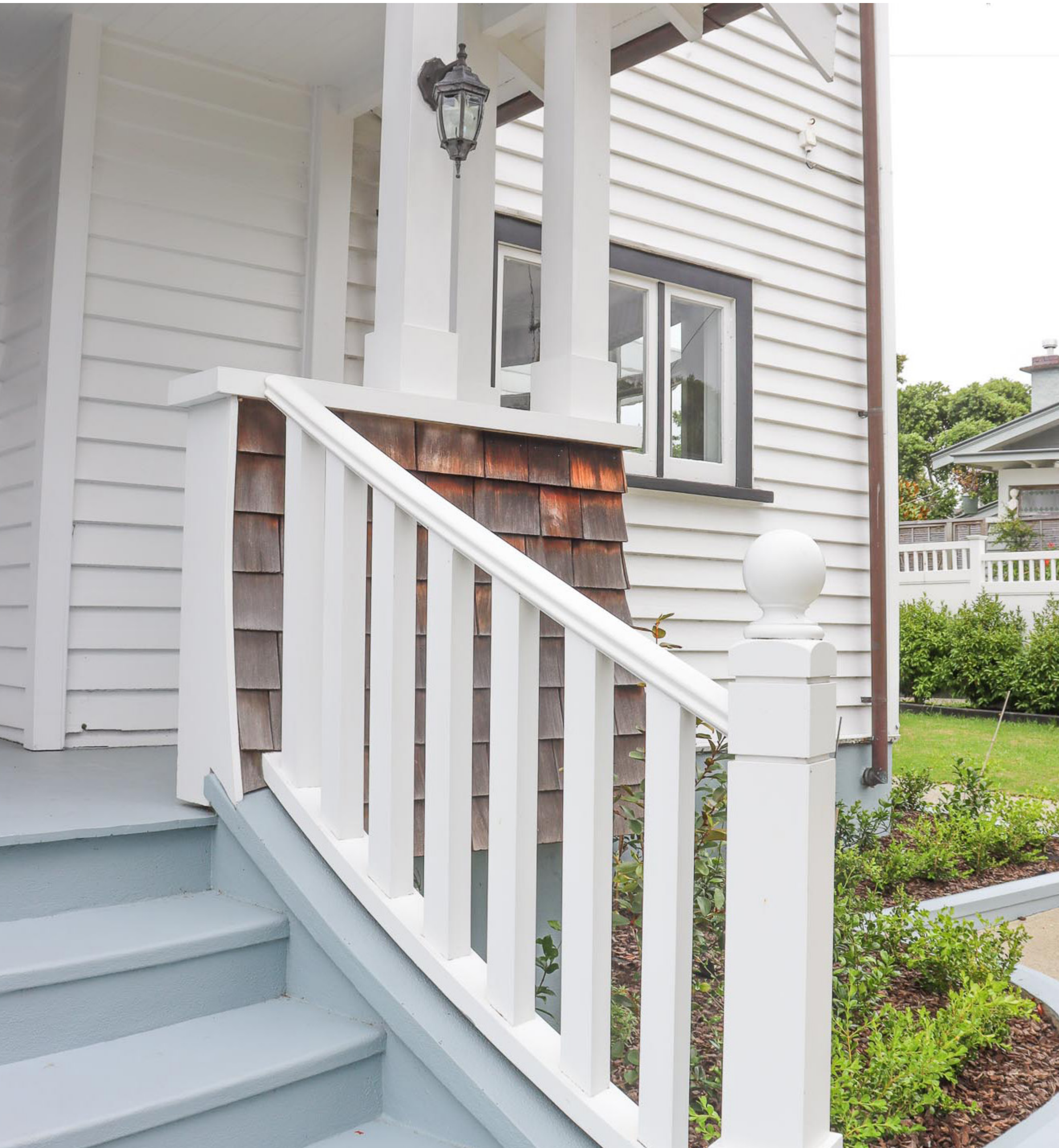
Newsletter

FEB 22

ADVICE KNIGHT
MORTGAGES + INSURANCE

LOOKING TO PURCHASE AN INVESTMENT PROPERTY? We explore one option to demonstrate how the numbers can stack up. **P.4**

CHANGES TO INTEREST DEDUCTIBILITY FOR RESIDENTIAL PROPERTY RENTALS What are the rules? **P.6**

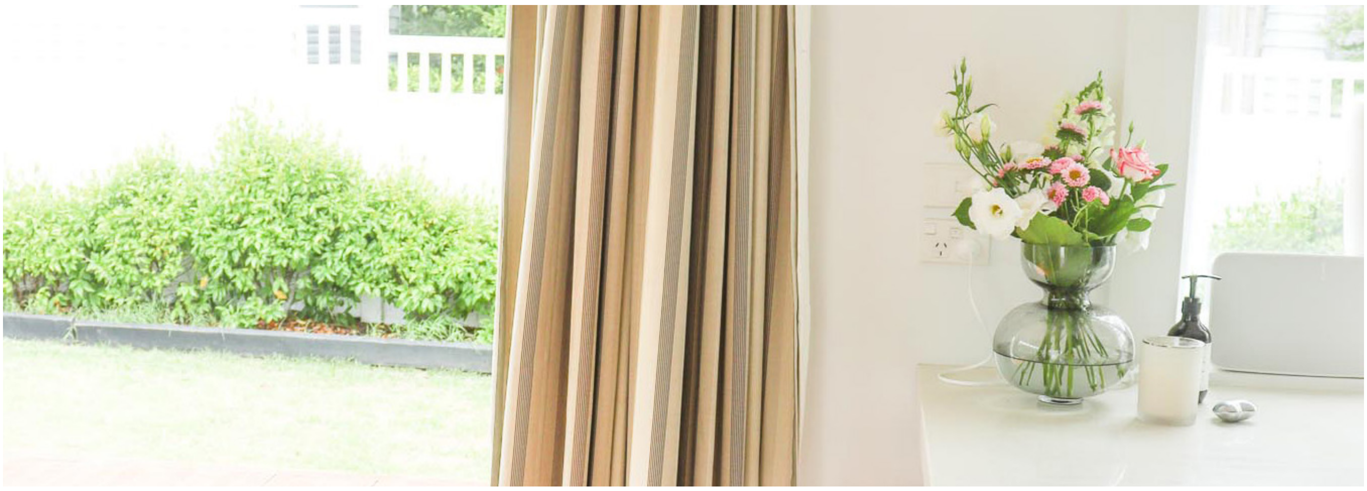


Welcome

We trust you all enjoyed a well-deserved break over the New Year period and that 2022 has started on a positive note. We have been busy adjusting to the new lending rules introduced in December (CCCFA) and have certainly been fielding our share of bemusing questions from the lenders. These questioning everything from grocery bills to lotto tickets and even saving behaviours. We do recommend getting in touch well before your next intended purchase or top up to allow us to sensibility check your requirements before we present the formal request to the lenders.

The housing market itself has seen a little softening in December and a number of commentators are expecting more to come through 2022 with higher interest rates and tougher credit conditions having an impact on affordability and sentiment alike. In any market there are good buys and bad buys to be had. The savvy investor will always do well in the long run and holding one's nerve can really pay off. In the wise words of Warren Buffet 'Be fearful when others are greedy and be greedy when others are fearful'.

In this edition we provide an on the market example of a new build property with the aim of giving you the tools to analyse a new purchase.



In this issue

What's on the market?

And how do the numbers stack up?

The market ran hot through 2021 with the 'average' price for a New Zealand property creeping up towards $1m. While many of us would like to explore investment property options, a lot of us don't know where to start. Here we explore an advertised 'live' property so you can see how the numbers could stack up for you.

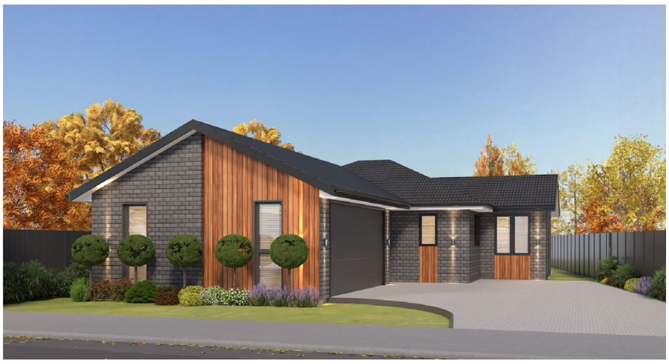
We are seeing a number of Aucklanders move out of the city, seeking more affordable housing and enhanced lifestyle. So to, a number of savvy investors chasing higher rental yields in places like Christchurch, Tauranga and Palmerston North.

The below property is a new build which provides some advantages like tax deductibility of the mortgage interest, discounted new build interest rates, Reserve Bank LVR exemption, reduced home maintenance costs and healthy home compliance benefits.

Note, equity can be used from an existing home to get around lending deposit requirements for some clients.

Example Property

Lot 3 Kennedys Green, Halswell, Christchurch City, Canterbury (trademe.co.nz)



- Purchase Price $855,000
  (possibly some haggle room there…)
- Rental Income appraised $590 - $630pw
  (midpoint $610pw)

Assuming you apply a 10% deposit towards the purchase price of $855,000, and borrow the remaining 90%* ($769,500) on currently available new build interest rates (e.g. the 'Back my Build' Package currently at 2.29% - rate discounted for a 36m period), you would be looking at interest costs initially of $339 per week vs $610 per week rent (a $271+ surplus per week).

If you wished you could book in some longer-term certainty, perhaps a 24m fixed at 4.10% or a 36m fixed rate of 4.55%, where weekly interest cost would increase to $607 pw or $673 per week respectively.

*Pricing assumes 'blended LVR' less than 80% across owner occupied and rental.

Annual Income:		$31,720
Annual Expenses (estimated):		
Rates		$2,500
Insurance		$1,000
Maintenance		$1,000
Interest	$31,550 (based on 24m fixed rate)	
Total Expenses:		$36,050
Annual surplus /deficit		-$4,330
Weekly surplus/ deficit		-$83.30

So in this example you would likely need to top up the investment by around $84 per week assuming the 24m fixed rate. Alternatively, the 'Back my Build' discount could be used to give you a head start with discounted interest cost – allowing you to pay the mortgage down during the discount period.

Note the above is for illustrative purposes – we are not recommending the above property as right for your situation (and indeed higher yielding properties are available) If you would like to review your investment options, you can try our Advice Knight Investment Calculator or sit down with us for a no obligation and no charge discussion.

Calculating a property's yeild (how much return your rental property generates) is a common way to evaulate its return.

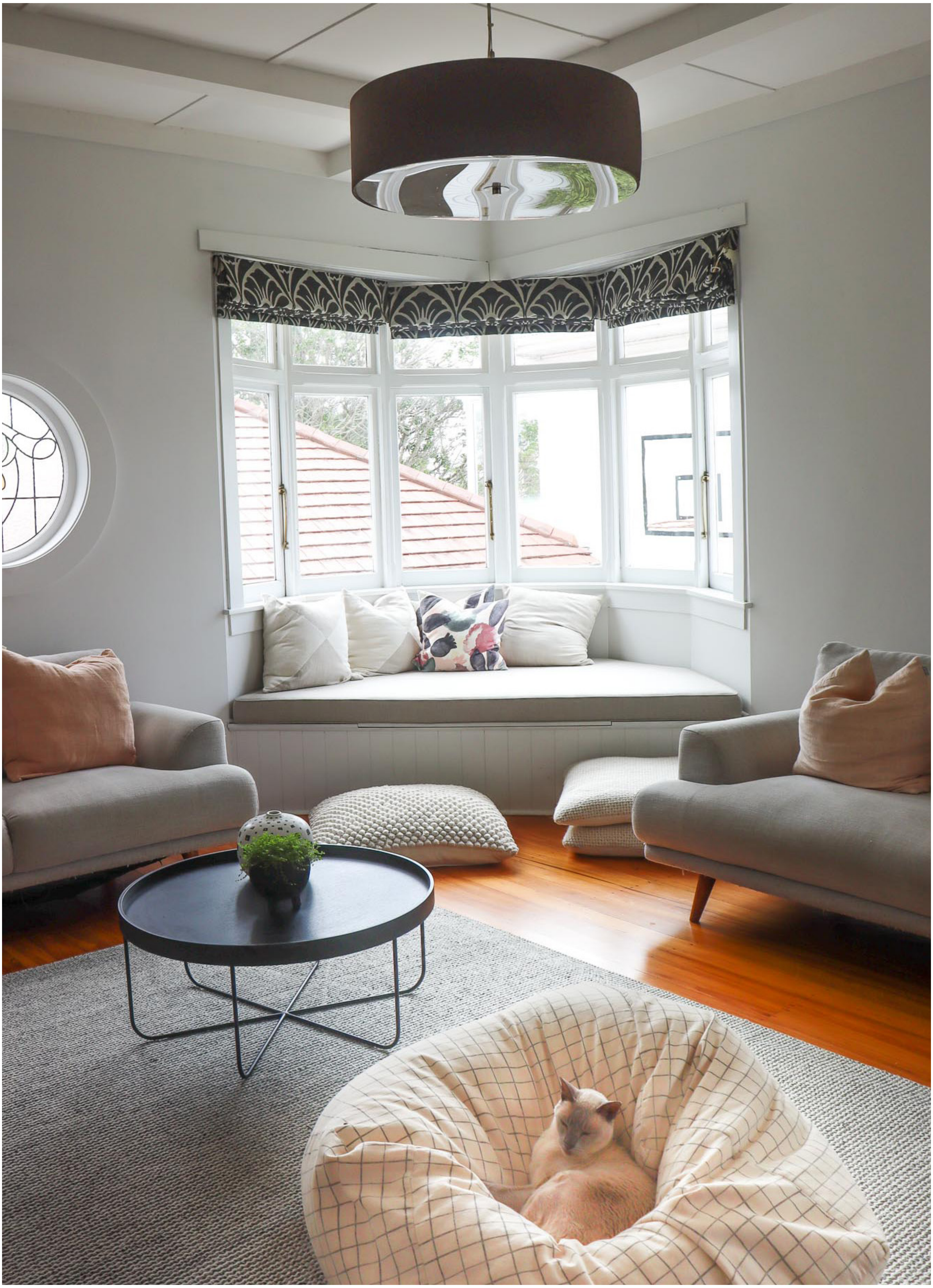
HOW DO I WORK OUT A RENTAL PROPERTY'S GROSS YEILD?

(ANNUAL RENT / PROPERTY PRICE) X 100

If we take this Christchurch property as an example, the yeild would be:

($31,720 / $855,000) X 100 = 3.71%

Net yeild deducts the operating expenses such as tax, rates and insurance and will give a clearer picture of return.



product spotlight

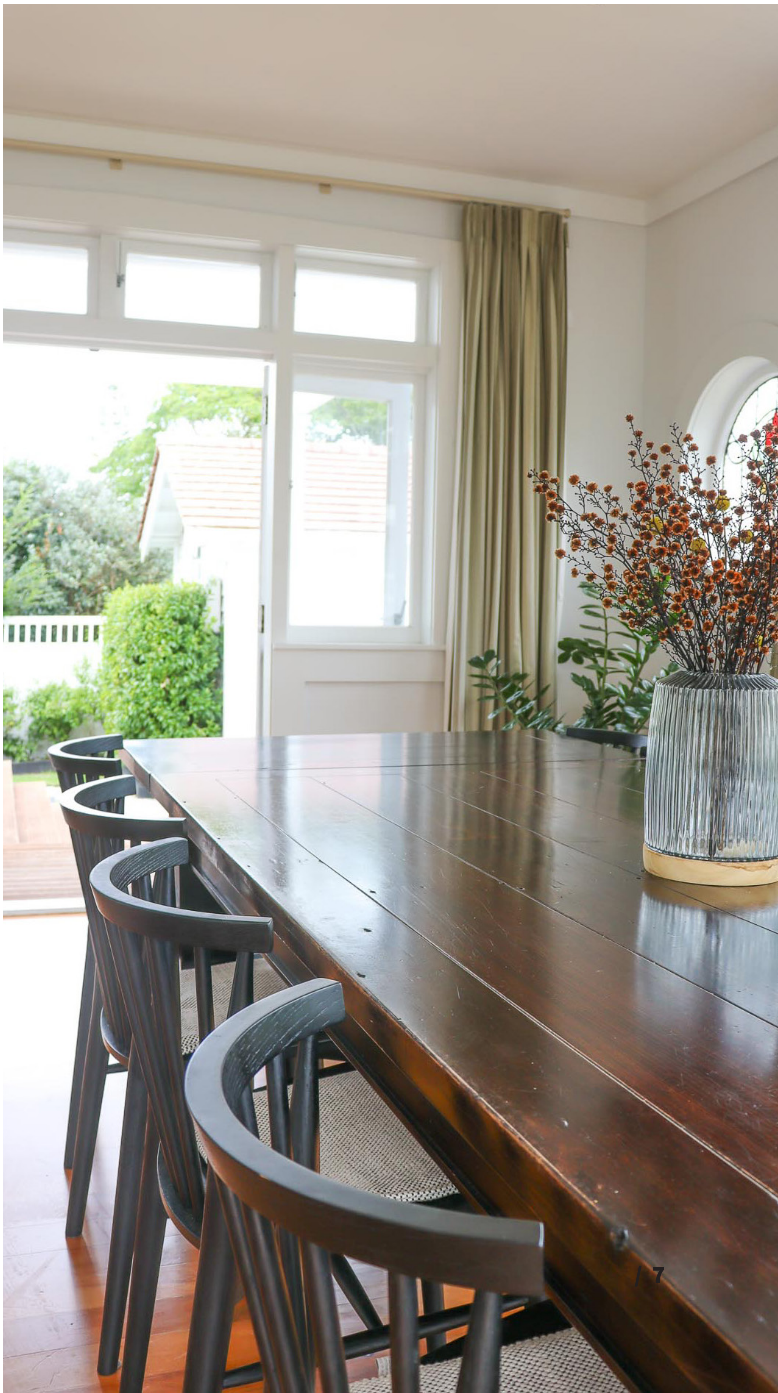
Kiwisaver

How much do you know about your KiwiSaver account?

We are regularly coming across clients that still don't know which type of fund they are in. For many of us, Kiwisaver will become our most valuable asset, yet so few of us have received advice or even selected their provider or fund.

Choosing the right type of fund can mean the difference of hundreds of thousands of dollars come retirement. If you would like a no obligation discussion on your fund we are happy to talk through the options available and help you get the most out of your investment.

CLICK HERE
to test your knowledge on this quick four question quiz and make an appointment to discuss your options to automatically go in the prize draw to **WIN $4000+ of home entertainment technology or travel or 1 of 10 $100 prize partner vouchers!**



Commonly Asked Question:

Interest deductibility for residential property rentals -what's changed?

The Government has removed the ability to deduct interest as an expense from income arising from residential rental properties. This was in response to the pressure on house prices and the 'intention' is to make it easier for first home buyers to own their own home (we would argue it has and will continue to push up rents rapidly, impacting those trying to save for their first home).

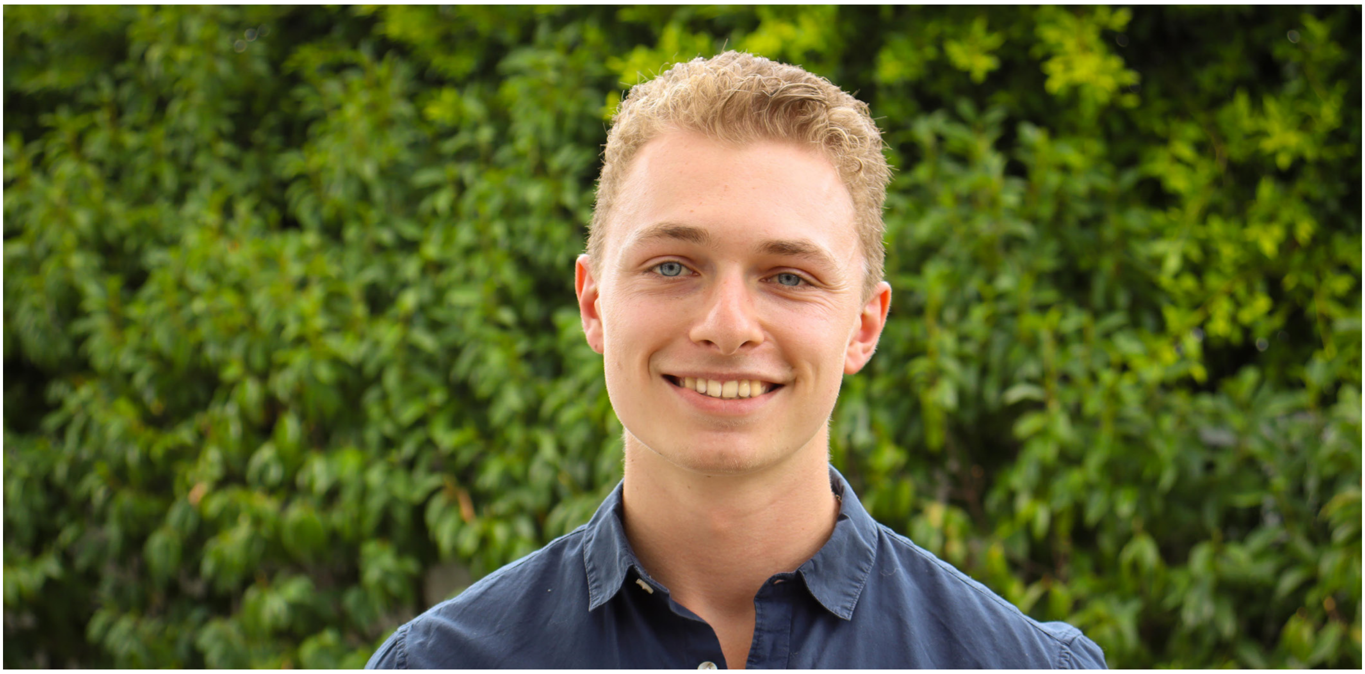
The rule provides for a phasing out of the interest claimable:

- For residential rental property acquired on or after 27 March 2021 interest will not be able to be deducted from 1 October 2021.
- For properties acquired before 27 March 2021 the ability to deduct interest will be phased out over 4 years from 1 October 2021 as follows:

	% Claimable
1 April 2021 to 30TH Sept 2021	100%
1 October 2021 to 31 March 2022	75%
1 April 2022 to 31 March 2023	75%
1 April 2023 to 31 March 2024	50%
1 April 2024 to 31 March 2025	25%
Thereafter	0%

The rules apply to Companies that have residential property investments also. **There are some important exemptions and special cases e.g. new builds.**

We recommend you seek accounting advice to discuss your induvial situation.



New: Chris Dilks

We are very pleased to welcome Chris Dilks to the Advice Knight team. Chris joins as a Financial Adviser specialising in Mortgage Lending and Investment advice. Chris brings a strong property and investment passion to the role, impressively purchasing his first home aged only 20 (a whole year younger than your editor…). He currently owns two rental investment properties and can provide great insights into what to look for in a property.

Chris is strongly driven to assist others reach their financial goals and to get more people onto the property ladder who didn't think it was possible with his excellent can-do attitude.

Most recently, Chris has been working for Canon NZ as a Territory Account Manager and has completed the New Zealand Certificate in Financial Services (Level 5) with both Investment and Residential Property specialist strands.

We look forward to sharing Chris' skillset with you to assist in achieving your financial goals.

Meet the team

Malcolm Knight
Director, Financial Adviser

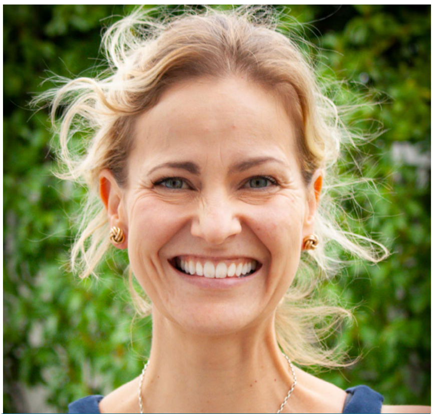
021 024 28000
malcolm@adviceknight.co.nz

Katy Dilks
Lending Support Manager

katy@adviceknight.co.nz

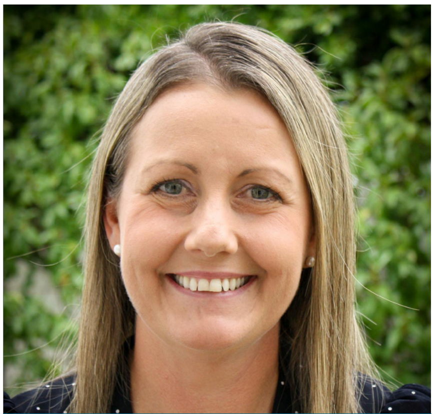
Hayley Carr
Lending Manager

hayley@adviceknight.co.nz



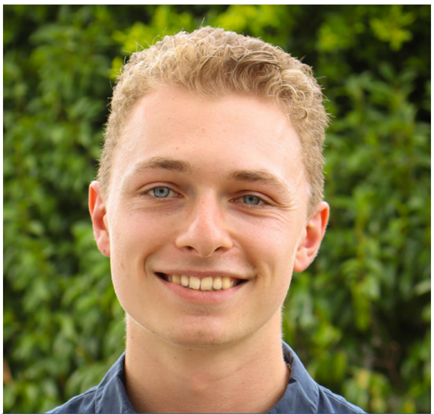
Lisette Knight
Marketing / Operations

lisette@adviceknight.co.nz



Cristy Williamson
Adviser Support

cristy@adviceknight.co.nz



Chris Dilks
Financial Adviser

021 169 2845
chris@adviceknight.co.nz

Disclosure
Please **click here** to download our disclosure information; key information you need to know to help you understand what type of advice we are able to give you, so that you can make an informed and confident choice when engaging Advice Knight.

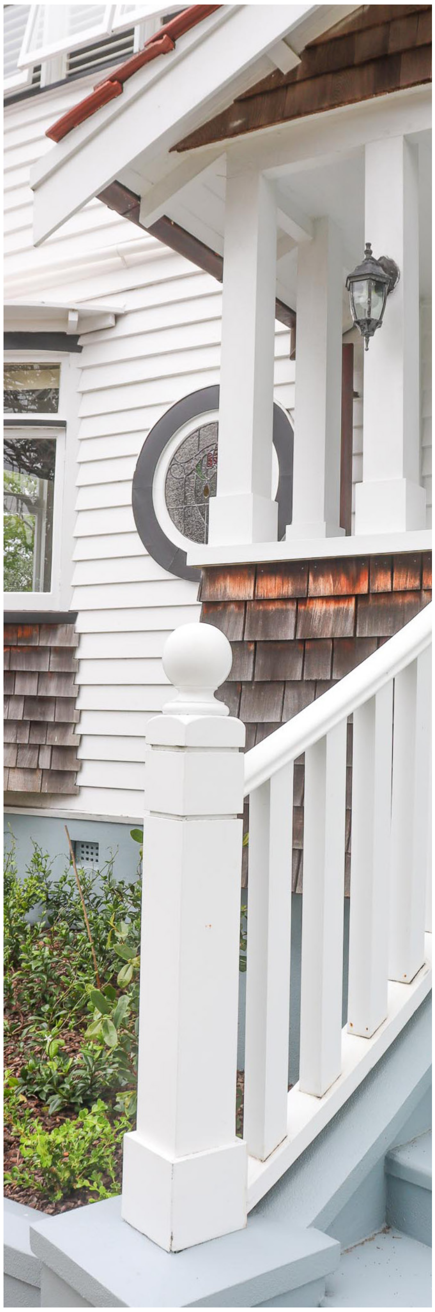
Final word

"We have two lives and the second begins when we realise we only have one" Confucius.

Remember that property is a long run vehicle for wealth creation and can be tremendously financially rewarding over time. Some get nervous when the media paint a negative picture for house prices and can pull the ripcord prematurely.

Property has a high cost of selling (plus effort for buying/replacing) while compounding interest and inflation play a big part over time – both eroding the value of the mortgage while pushing up the rents. I don't meet people who are glad that they sold a property 10+ years ago, but I've met plenty that have regretted it! Do weigh up the options carefully and work out your long term financial plan.

Malcolm Knight
Director, Financial Advisor



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