



## PROPERTY INVESTMENT

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# FINANCING A NEW BUILD

LVR changes are hitting builders; **Sandy Richardson** explains which types of new home builds are favoured by lenders

**LATELY THERE HAVE** been articles in the media about whether the RBNZ restrictions have had an impact on new home builds.

The Master Builders' Federation believes that the impact could result in up to 5,000 fewer homes being built annually and, in one instance, a building company in Auckland stated their leads received in June were predicted to reduce by one third by the end of November.

Why is this when banks only lend up to 80% on houses under construction? Are all new home builds treated the same? Let's have a closer look:

### SPEC HOME

This is where a developer will build a home without a particular buyer in mind or under contract. It is built according to their specifications and designed to appeal to the maximum market. This is a completed fit-out; ie finishings, fittings and appliances.

### TURNKEY

These are a type of build that is constructed so that it could be sold to a buyer as a completed product. A developer will fully project manage the build, they will own the land and finance the build ready for a customer to move in. These can be bought off plan, normally a 10% deposit is required, and balance paid on completion which is after a code of compliance is issued.

If engaged early enough, the purchaser may have the opportunity to alter some of the interior design/colours but would be limited to any alterations to the structure, as the developer will have set plans for specific sections, and costings.

### BUILDING UNDER CONSTRUCTION:

This is where the future purchaser holds or buys a section and decides whether they will project manage or whether they engage someone to do this, which can be two separate parties or this can be a builder. Typically there are two types of contracts:

**A labour-only** contract means the builder is only responsible for actual building work, and the purchaser manages the rest of the process including consents, supervising the building work, organising

sub-contractors and materials, insurance and the health and safety plans.

**A fixed-price contract** is where the builder will manage the whole building project including getting consents, liaising with architect/designers as well as organising subcontractors and their prices.

So how is each of these options treated by a lender?

Turnkey and spec homes are generally treated as a sale and purchase on a finished property, and are subject to normal lending criteria. Therefore, most banks typically would lend up to 95% loan-to-value ratio. However, the new RBNZ restrictions are likely to have an impact on anyone looking to borrow more than 80%.

On labour-only and fixed-price contracts, the majority of lenders will lend up to 80%. Lenders will generally prefer fixed-price contracts over labour-only ones, as they offer more cost certainty and less likelihood of overruns. It has been suggested that purchasers who have just over the 20% are shying away from new builds because of the risk that cost overruns could potentially erode their equity to under 80% which could jeopardise any loan approval.

Some commentary also suggests that existing homeowners who are considering building their next home may take a more cautious approach due to concerns regarding their ability to sell the existing property in an uncertain market. This is due to the potential difficulties encountered by their would-be buyers struggling to obtain low equity finance.

However, what isn't well known is that under the RBNZ restrictions exemptions, is that if a purchaser is building a home to live in whilst selling their current home, is that the new loan is treated as a bridging finance, and therefore can be over the 80% threshold and will be exempt for a period of 12 months, giving time for the purchaser to sell their current home.

So although the indicators are pointing towards lower number of houses being built in the coming year, it's still worthwhile sitting down with your lender and exploring the finance option that works for you. ■

## BUILDING A NEW HOME? BRIDGING FINANCE CAN BE OVER THE 80% THRESHOLD

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