Te Tohu Whakahaere Pūtea
*Certificate in Money Management*

# Activity Workbook

## Wāhanga Tuatoru:
## Ngā Whakatupuranga Hanganga

*Module 3:*
*Property Investment*

## Clip Art Images

Clip Art Images were retrieved from Microsoft Clip Art Online.

## Programme Developers and Authors

Te Wānanga o Aotearoa acknowledges Aotahi Ltd (Aotahi) as the developers and authors of the programme. Other sources of material have also been acknowledged in the publications where appropriate. Aotahi is a Māori-owned business education company specialising in developing and managing educational programmes and resources for entrepreneurs / small business owners in Aotearoa. For further information regarding Aotahi, visit www.aotahi.com.

## Disclaimer

The information in this publication is not intended as a substitute for professional advice. Te Wānanga o Aotearoa expressly disclaims all liability to any person / organisation arising directly or indirectly from the use of or reliance on, or for any errors or omissions in, the information in this publication, including any references to third parties. Whilst efforts have been made by Te Wānanga o Aotearoa to ensure the accuracy of the information provided, the adoption and application of this information is at the reader's discretion and is his or her sole responsibility.

## Copyright

© Te Wānanga o Aotearoa, 2007. All rights reserved. No part of this material may be reproduced or copied in any form or by any means (graphic, electronic or mechanical, including photocopying, recording, taping or information retrieval systems) without the prior permission of Te Wānanga o Aotearoa. For further information and contact details refer to www.twoa.ac.nz.

This publication was updated in October 2013.

# TABLE OF CONTENTS

**The Activities.....7**

*Activity 1: Property Market Trends Quiz.....9*

*Activity 2: Residential or Commercial?.....13*

*Activity 3: Investment Type Crossword.....15*

*Activity 4: Property Terms Word Find.....17*

*Activity 5: Terminology Word Scramble.....20*

*Activity 6: Rent or Own?.....26*

*Activity 7: Deposit Calculations.....28*

*Activity 8: Home Buying Checklist.....30*

*Activity 9: Fill the Gaps.....34*

*Activity 10: The 'Why?' Building Quiz.....36*

*Activity 11: Home Ownership Terms.....40*

*Activity 12: Mortgage Features.....42*

*Activity 13: Getting the Right Mortgage.....44*

*Activity 14: The Impact of Time.....47*

*Activity 15: Mortgage Crossword.....49*

*Activity 16: Mortgage Quiz.....51*

*Activity 17: Paea's Rental Yields.....54*

*Activity 18: Investment Return Facts.....60*

*Activity 19: Leveraging Equity.....63*

*Activity 20: Paora's Property Portfolio Plan.....65*

*Activity 21: My Ideal Tenant.....67*

*Activity 22: Property Purchase Rationale* ..... *69*

*Activity 23: Self-Management Assessment* ..... *71*

*Activity 24: Maia's Tenants* ..... *73*

*Activity 25: Property Management Quiz* ..... *78*

*Activity 26: Sale Methods: Who Benefits?* ..... *82*

*Activity 27: Pricing My House* ..... *84*

**Suggested Answers** ..... **93**

*Activity 1 Answers: Property Market Trends Quiz* ..... *95*

*Activity 2 Answers: Residential or Commercial?* ..... *97*

*Activity 3 Answers: Investment Type Crossword* ..... *98*

*Activity 4 Answers: Property Terms Word Find* ..... *99*

*Activity 5 Answers: Terminology Word Scramble* ..... *100*

*Activity 6 Answers: Rent or Own?* ..... *100*

*Activity 7 Answers: Deposit Calculations* ..... *101*

*Activity 8 Answers: Home Buying Checklist* ..... *102*

*Activity 9 Answers: Fill the Gaps* ..... *102*

*Activity 10 Answers: The 'Why?' Building Quiz* ..... *103*

*Activity 11 Answers: Home Ownership Terms* ..... *105*

*Activity 12 Answers: Mortgage Features* ..... *105*

*Activity 13 Answers: Getting the Right Mortgage* ..... *107*

*Activity 14 Answers: The Impact of Time* ..... *109*

*Activity 15 Answers: Mortgage Crossword* ..... *110*

*Activity 16 Answers: Mortgage Quiz* ..... *110*

*Activity 17 Answers: Paea's Rental Yields* ..... *112*

*Activity 18 Answers: Investment Return Facts ..... 115*

*Activity 19 Answers: Leveraging Equity ..... 117*

*Activity 20 Answers: Paora's Property Portfolio Plan..... 118*

*Activity 21 Answers: My Ideal Tenant ..... 120*

*Activity 22 Answers: Property Purchase Rationale ..... 120*

*Activity 23 Answers: Self-Management Assessment ..... 120*

*Activity 24 Answers: Maia's Tenants..... 121*

*Activity 25 Answers: Property Management Quiz ..... 122*

*Activity 26 Answers: Sale Methods: Who Benefits?..... 123*

*Activity 27 Answers: Pricing My House ..... 125*

# The Activities

## Activity 1: Property Market Trends Quiz

Time Allocation: 1 hour

Use the content of Section 1.1 of your Module to help answer the following 10 questions about trends in the property market.

1. Explain what happened to returns on property between 1974 and 1980.

_____

_____

_____

2. What tends to happen to property prices following a period of strong growth?

_____

_____

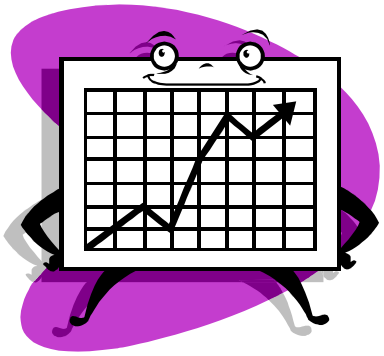
_____

_____

_____

_____

_____



3. According to the Module, what is an 'affordable' mortgage?

_____

_____

_____

4. Approximately when, over the last 10 years, was housing in New Zealand the most unaffordable?

_____

_____

_____

5. What does the supply curve for property show?

_____

_____

_____

6. Why does the supply curve for property slope upwards?

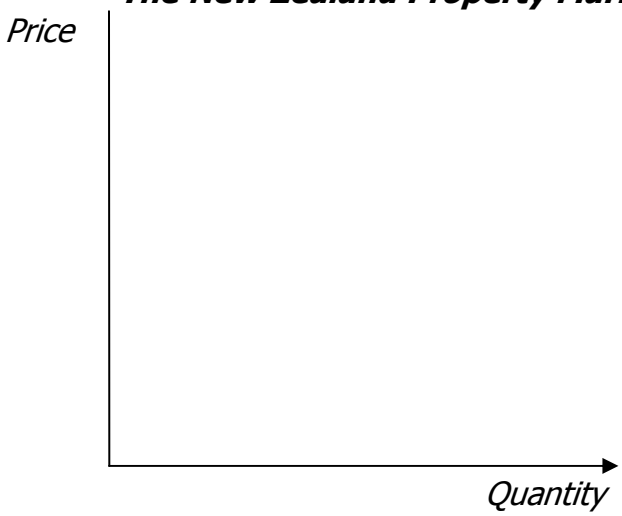
_____

_____

_____

7. Draw a supply and demand diagram for the New Zealand property market. On that diagram, show the impact that an increase in average household incomes would have on the *supply* curve and answer the question given.

***The New Zealand Property Market***



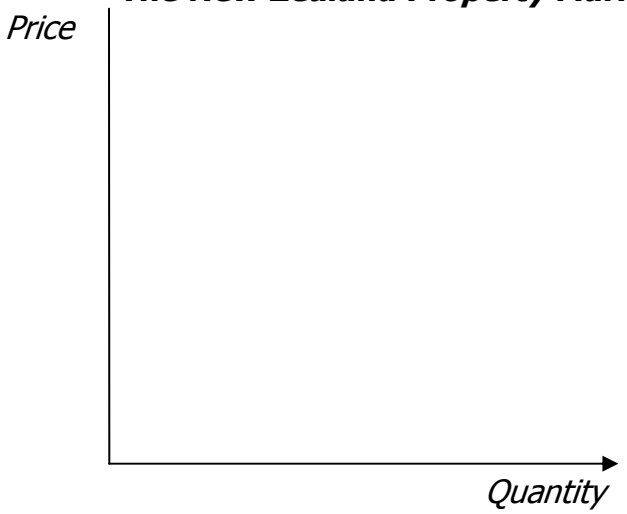
What impact would this change have on the quantity of properties sold and on market prices?

_____

_____

8. Draw a supply and demand diagram for the New Zealand property market. On that diagram, show the impact that an increase in average household incomes would have on the *demand* curve and answer the question given.

***The New Zealand Property Market***



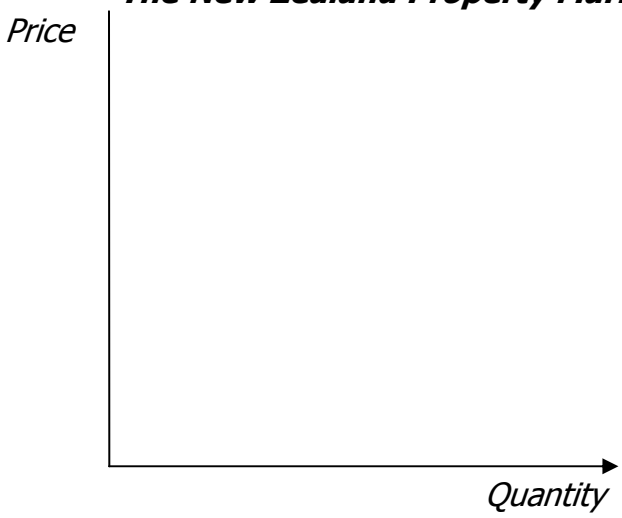

What impact would this change have on the quantity of properties sold and on market prices?

_____

_____

9. Draw a supply and demand diagram for the New Zealand property market. On that diagram, show the impact that an increase in average household incomes would have on *both the supply curve and the demand curve* and answer the question given.

***The New Zealand Property Market***




What impact would this change have on the quantity of properties sold and on market prices?

_____

_____

_____

_____

_____

10. Why does the supply curve for property eventually become vertical?

_____

_____

_____

_____

## Activity 2: Residential or Commercial?

Time Allocation: 30 minutes

There are two types of property investment – residential and commercial. Five areas of consideration that should be taken into account when deciding what type of property investment is best for you are identified in this activity.

For each area of consideration, identify at least one difference between residential property investment and commercial property investment. Then identify which of the two types of property investment you consider is most favourable for the area of consideration. An example is provided for you.

***Example***

| ***Area of Consideration: Finding Tenants*** |
|---|
| ***Difference:*** *There is a higher demand amongst tenants for residential property – everyone needs somewhere to live. On average, it is more difficult to find a tenant for a commercial property.* |
| ***Type of investment I consider most favourable:*** *Residential* |

| **Area of Consideration: Term of Tenancy** |
|---|
| **Difference:** |
| **Type of investment I consider most favourable:** |

| **Area of Consideration: Interest Rates** |
|---|
| **Difference:** |
| **Type of investment I consider most favourable:** |

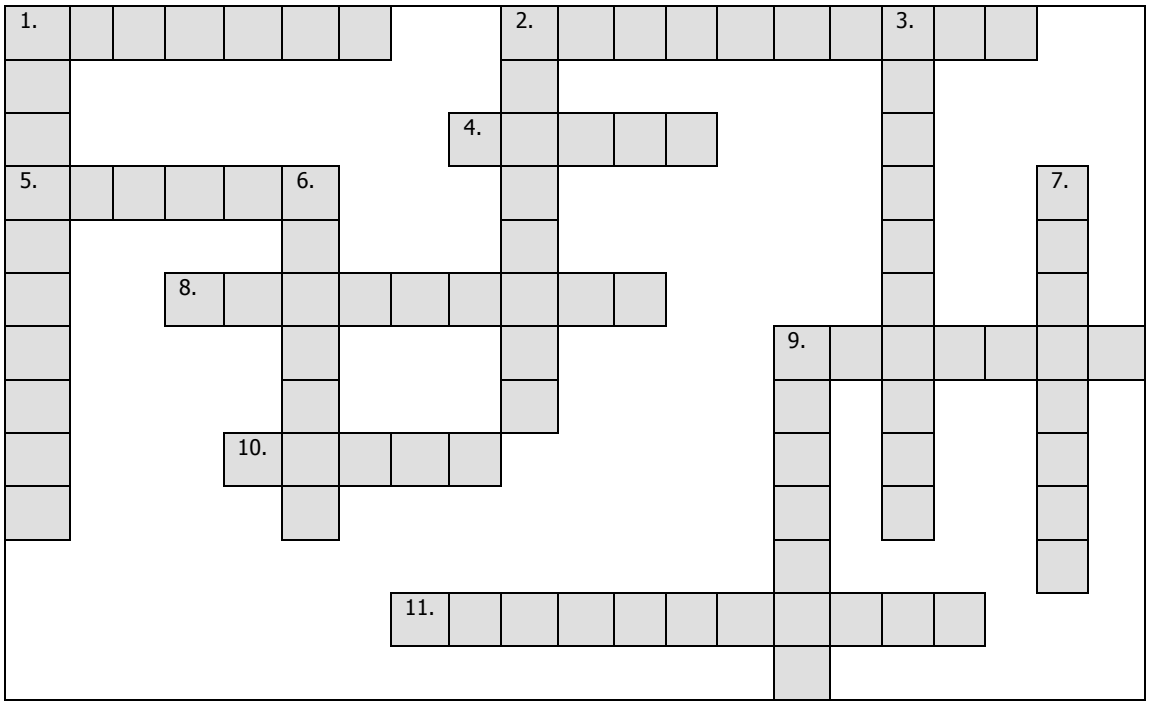
| **Area of Consideration: Repairs and Maintenance** |
| --- |
| **Difference:** |
| **Type of investment I consider most favourable:** |

| **Area of Consideration: Entry Costs** |
| --- |
| **Difference:** |
| **Type of investment I consider most favourable:** |

| **Area of Consideration: Risk and Return** |
| --- |
| **Difference:** |
| **Type of investment I consider most favourable:** |

# Activity 3: Investment Type Crossword

Time Allocation: 30 minutes




**Down**

1. When selecting a commercial office property, make sure it is _____ -friendly (10).

2. One of the basic features to look for in an industrial property is high _____ (8).

3. _____ property is usually the cheapest form of commercial property (10).

6. A _____ clause in a commercial lease agreement restricts decreases in the rent payable (7).

7. Retail tenants are most likely to be affected by poor _____ conditions (8).

9. Residential property investment is the most _____ form of property investment (7).

**Across**

1. It is usually easier to find _____ for residential properties (7).

2. Entry costs are higher for _____ property investment (10).

4. Retail property investment is usually the most _____ form of commercial property investment (5).

5. Interest rates charged for commercial property investment loans are usually _____ than those charged for residential property investment loans (6).

8. Tenants for commercial properties usually pay _____ in addition to rent (9).

9. When selecting a commercial property, make sure it has adequate _____ for the intended business use (7).

10. Tenants for a commercial property are usually given the right, but not the obligation, to _____ the lease (5).

11. Landlords for residential property investments are responsible for the cost of _____ (11).

# Activity 4: Property Terms Word Find

Time Allocation: 1 hour 30 minutes

**Part A: (30 minutes)**

Find the following terms hidden in the word find:

- Auction
- Bond
- Caveat
- Covenant
- Chattels
- Encroachment
- Gearing
- Fixtures
- Landlord
- Leasehold
- Mortgagee
- Mortgagor
- Requisitions
- Survey
- Vendor

| | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| C | L | E | A | S | E | H | O | L | D | A | N | I | H | A | V | E | A | N | O |
| T | H | E | R | P | I | E | C | E | E | G | A | G | T | R | O | M | O | F | L |
| C | H | O | R | C | O | L | A | Y | T | E | C | E | E | K | W | H | A | T | A |
| S | T | H | E | E | T | I | M | E | M | R | C | W | O | L | F | I | V | E | N |
| B | E | E | N | R | Q | T | A | V | R | I | O | N | G | A | T | T | H | A | D |
| S | K | R | Y | O | O | U | N | R | I | G | V | H | T | M | A | R | V | E | L |
| I | N | G | N | G | A | S | I | U | S | I | E | V | E | N | D | O | R | N | O |
| G | T | I | M | A | D | H | E | S | O | S | N | H | Y | T | H | E | A | T | R |
| S | I | W | E | G | E | T | L | I | I | T | A | T | L | E | Q | B | W | H | D |
| C | N | O | I | T | C | U | A | A | U | T | N | G | H | U | T | M | Y | E | Y |
| G | S | I | V | R | T | H | A | S | Q | U | T | E | I | N | I | C | O | U | L |
| D | U | H | A | O | C | H | A | T | T | E | L | S | D | A | N | E | E | C | H |
| L | R | L | N | M | A | N | S | T | U | K | I | S | E | R | U | T | X | I | F |
| H | A | O | W | D | O | U | T | W | A | T | N | T | I | C | O | M | N | U | P |
| A | N | S | A | N | I | A | G | E | I | R | I | N | A | C | A | D | S | H | G |
| A | C | M | E | L | E | I | V | O | I | N | A | F | A | S | L | N | A | N | E |
| I | E | M | F | V | O | R | N | F | R | E | E | L | M | Y | B | O | I | L | O |
| L | I | P | A | O | P | S | M | A | R | A | E | N | U | I | D | B | P | E | H |
| I | K | C | I | E | N | C | R | O | A | C | H | M | E | N | T | N | O | P | U |
| N | A | T | E | A | H | U | E | L | I | G | E | A | R | I | N | G | B | E | T |

**Part B: (1 hour)**

Test your understanding of the words you found in the word find by writing brief definitions for 10 of these in the spaces provided. Do NOT look at the Module while you do this.

*Caveat*

_____

_____

_____

*Covenant*

_____

_____

_____

*Chattels*

_____

_____

_____

*Encroachment*

_____

_____

_____

*Gearing*

_____

_____

_____

*Fixtures*

_____

_____

_____

*Leasehold*

_____

_____

_____

*Mortgagee*

_____

_____

_____

*Requisitions*

_____

_____

_____

*Vendor*

_____

_____

_____

_____

_____

## Activity 5: Terminology Word Scramble

Time Allocation: 1 hour 30 minutes

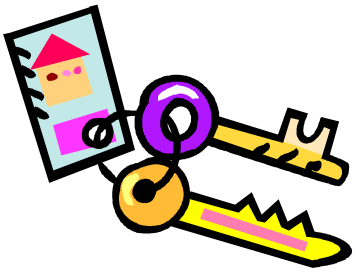
The table on the following pages contains 15 (scrambled) terms relating to property investment. Your task is to unscramble each of these terms and then write an explanation / definition as to what they mean.

Use the below list of clues to help you identify the scrambled terms, but beware – the clues are NOT given in the same order as the terms in the table! When you do match each clue to the scrambled term, make note of the clue number in the relevant column of the table.

**Clues:**

1. A type of ownership of a property.
2. Confidential written offers are submitted.
3. Once this occurs, the transaction proceeds.
4. The landlord.
5. Your ownership.

6. A tenancy contract.
7. The tenant.
8. A type of financial return.
9. A group of people.
10. The minimum price.
11. An illegal use of another person's property.
12. Finalisation of a sale.
13. A right relating to others' property.
14. The vendor's value.
15. Do it yourself.



| Clue No. | Scrambled Term | Unscrambled Term |
|---|---|---|
| | SINGAK ERICP | |
| | Explanation: | |
| | | |
| | MTETETELSN | |
| | Explanation: | |
| | | |
| | DDEE OF EAESL | |
| | Explanation: | |
| | | |

| Clue No. | Scrambled Term | Unscrambled Term |
|---|---|---|
| | BYDO ROROCTEPA | |
| | Explanation: | |
| | | |
| | SELESE | |
| | Explanation: | |
| | | |
| | HERDFLEO | |
| | Explanation: | |
| | | |

| Clue No. | Scrambled Term | Unscrambled Term |
|---|---|---|
| | VIPRETA SLEA | |
| | Explanation: | |
| | | |
| | TEASENME | |
| | Explanation: | |
| | | |
| | PALITAC GINA | |
| | Explanation: | |
| | | |

| Clue No. | Scrambled Term | Unscrambled Term |
|---|---|---|
| | MENARENCOTHC | |
| | Explanation: | |
| | | |
| | QUIETY | |
| | Explanation: | |
| | | |
| | VESERER CRIPE | |
| | Explanation: | |
| | | |

| Clue No. | Scrambled Term | Unscrambled Term |
|---|---|---|
| | DENTRE | |
| | Explanation: | |
| | | |
| | SORLES | |
| | Explanation: | |
| | | |
| | LANDOTIONNICU | |
| | Explanation: | |
| | | |

## Activity 6: Rent or Own?

Time Allocation: 50 minutes

**Part A: (30 minutes)**

- Read through the advantages and disadvantages of home ownership outlined in Section 2.1 of the Module.
- In the table provided below, identify the advantages of home ownership and the advantages of renting, which apply to your personal situation. That is, identify those advantages of home ownership that are relevant to you and those advantages of renting that are relevant to you.
- If you already own your home, complete this table for someone close to you who has not yet bought a home (e.g. a family member or close friend).

| Advantages of Home Ownership | Advantages of Renting |
|---|---|
| | |

| Advantages of Home Ownership | Advantages of Renting |
| --- | --- |
| | |

**Part B: (20 minutes)**

- Based on your answers to Part A, decide whether you think home ownership or renting is best for you at this point in your life.
- Explain the main reasons for your decision.
- If you consider renting to be the best option right now, identify if you think home ownership may be a better option at some stage in the future and, if so, estimate when the right time would be.

| |
| --- |
| |

## Activity 7: Deposit Calculations

Time Allocation: 40 minutes

This activity is designed to give you practice in calculating deposit percentages.

**Part A: (20 minutes)**

Complete the table below by working out what percentage the deposit is of the purchase price for each of the 10 scenarios. An example is provided for you.

| Scenario | Deposit | Purchase Price | % Deposit |
|---|---|---|---|
| *Example* | *$15,000* | *$190,000* | *7.9% (calculated as $15,000 / $190,000 x 100)* |
| 1 | $26,000 | $180,000 | |
| 2 | $30,000 | $150,000 | |
| 3 | $10,000 | $200,000 | |
| 4 | $18,000 | $170,000 | |
| 5 | $21,000 | $340,000 | |
| 6 | $20,000 | $190,000 | |
| 7 | $35,000 | $300,000 | |
| 8 | $28,000 | $120,000 | |
| 9 | $50,000 | $200,000 | |
| 10 | $15,000 | $100,000 | |

If a lender has a requirement for a minimum deposit of 20%, for which of the above scenarios would the mortgage be approved?

Scenarios: _____

**Part B: (20 minutes)**

Complete the table below by working out what the maximum purchase price of a property could be for the deposit amounts and minimum deposit percentages shown in the table.

An example is provided for you. This example shows that, if someone has a deposit of $25,000 and the minimum deposit percentage required by a lender is 20%, the maximum they can afford to buy a house for is $125,000.

| Scenario | Deposit | Minimum % Deposit | Maximum Purchase Price |
|---|---|---|---|
| *Example* | *$25,000* | *20%* | *$125,000*<br>*(calculated as $25,000 / 0.2)* |
| 1 | $26,000 | 10% | |
| 2 | $30,000 | 30% | |
| 3 | $10,000 | 20% | |
| 4 | $18,000 | 25% | |
| 5 | $61,000 | 20% | |
| 6 | $20,000 | 10% | |
| 7 | $35,000 | 15% | |
| 8 | $28,000 | 20% | |
| 9 | $50,000 | 25% | |
| 10 | $85,000 | 20% | |

# Activity 8: Home Buying Checklist

Time allocation: 1 hour

**Part A: (30 minutes)**

The ASB Home Buyer's Checklist given in the Module is given below and on the following pages.

Complete this checklist for your own personal situation to identify how important various features of a house are to you when shopping for a home.

**ASB Home Buyer's Checklist**[1]

| | Irrelevant | Low | Medium | High | Critical |
|---|---|---|---|---|---|
| **Location Features** | | | | | |
| Neighbourhood:<br>How important to you is a desirable neighbourhood? | | | | | |
| Views / outlook<br>Do you want views of the city, water, bush, etc.? | | | | | |
| Quiet location<br>How important to you is a quiet location? | | | | | |
| School zones<br>How important to you are school zones? | | | | | |
| Sunny orientation<br>How important to you is a warm sunny property? | | | | | |
| Distance to work<br>How important to you is it that your home is close to work? | | | | | |
| Distance to shops<br>How important is it that your home is close to shops? | | | | | |
| Public transport<br>Do you want good access to public transport? | | | | | |

[1] ASB. *Buying Checklist*. Retrieved 19 September, 2013, from https://www.asb.co.nz/story_images/1830_603685041010HBch_s5039.pdf

| | Irrelevant | Low | Medium | High | Critical |
|---|---|---|---|---|---|
| **Internal Features** | | | | | |
| Interior Condition<br>How important is it that the inside of the house is new? | | | | | |
| Bedrooms<br>How important to you is the size of the bedrooms? | | | | | |
| Living areas<br>How important to you is the size of the living areas? | | | | | |
| Indoor / outdoor flow<br>How important is indoor / outdoor flow? | | | | | |
| Kitchen<br>How important to you is the size and condition of the kitchen? | | | | | |
| Bathrooms<br>How important is the size and condition of bathrooms / ensuites? | | | | | |
| Floors / floor coverings<br>How important is the quality and condition of floors and floor coverings? | | | | | |
| Heating<br>How important is heating (fireplace, gas, central heating, etc.)? | | | | | |
| **Outside Features** | | | | | |
| Size of section<br>How important is the size of the section? | | | | | |
| Exterior condition<br>How important to you is the exterior condition? | | | | | |
| Street appeal<br>How important to you is street appeal? | | | | | |
| Low maintenance<br>Do you want a low maintenance property? | | | | | |

| | Irrelevant | Low | Medium | High | Critical |
|---|---|---|---|---|---|
| Privacy<br>Do you want privacy? | | | | | |
| Gardens<br>Do you want gardens? | | | | | |
| Lawns<br>Do you want lawns? | | | | | |
| BBQ area<br>Do you want a BBQ area? | | | | | |
| Pool / spa<br>Do you want a swimming pool? | | | | | |
| Fencing<br>How important is it that the property is fenced? | | | | | |
| **Other Features** | | | | | |
| Character / feeling<br>How important is the character of a house? | | | | | |
| Garage / carport<br>How important to you is a garage or carport? | | | | | |
| Off-street parking<br>How important is vehicle / boat parking? | | | | | |
| Workshop<br>Do you want a workshop? | | | | | |
| Storage space<br>Do you need good storage space? | | | | | |
| Office space<br>Do you need office space at home? | | | | | |
| Teenage space<br>Do you need space for teenagers? | | | | | |
| Security<br>How important to you is home security? | | | | | |
| Insulation<br>How important to you is insulation? | | | | | |

**Part B: (30 minutes)**

After completing the buyer's checklist, develop your own 'property comparison checklist'. Do this by identifying those features of a house that are critical to you (the 'must have' features) and those that are of high importance to you and listing them in the table below.

*An example of how to do this is given in the Module.*

| | House 1 | House 2 | House 3 | House 4 |
|---|---|---|---|---|
| **Critical features** | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **Other features, in order of importance** | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

## Activity 9: Fill the Gaps

Time Allocation: 30 minutes

Below is a passage adapted from Section 2.2.3 of your Module. Without referring to your Module, see if you can fill in the gaps with the missing words. Either write your answers in the gaps or in the spaces provided at the end of the passage.

***Legal Matters and Advice***

Before you sign any _____ _____ (1), and preferably even before you start looking seriously for a new home, it is always important that you first get good legal advice.

You need to choose a reputable _____ (2) lawyer – you can get recommendations from friends, family, work colleagues or your local district _____ _____ (3). Useful information and a list of property lawyers in your area are also available on the website www.propertylawyers.org.nz.

It is important that the lawyer is _____ (4) and acting only for you. It is also a good idea to ask your lawyer to write or update your _____ (5) at the same time – some do this for free, or for a reduced fee, when you ask them to do the legal work for your home and mortgage.

New Zealand laws involve a certain legal process when it comes to buying property, so a lawyer is necessary. This legal process is known as

_____ (6) and involves transferring the _____ (7) for a property from one owner to another.

When buying a property, your lawyer's first tasks will involve organising _____ (8) and reports and examining the seller's proposed contract. This contract is often the real estate agent's standard Agreement for _____ (9) and _____ (10) of _____ _____ (11).

Once you and the seller have reached agreement, you will usually pay a _____ (12) to the seller's real estate agent.

**Your Responses:**

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

11.

12.

## Activity 10: The 'Why?' Building Quiz

Time Allocation: 1 hour 30 minutes

Answer the questions provided regarding the process of building a house.

1. Why is it a good idea to engage the services of a geo-technical engineer when selecting a section?

_____

_____

_____

_____

_____

2. Why should you check survey details for a section?

_____

_____

_____

_____

_____

3. Why do lenders not usually release the full amount of money for a mortgage all at once before the building process begins?

_____

_____

_____

_____

_____

_____

_____

4. Why, once a house has been built, might a lender not want to give you the full amount of money on the mortgage that you had agreed to pay the builder?

_____

_____

_____

_____

_____

5. Why can an architectural designer in New Zealand not call themselves an 'architect'?

_____

_____

_____

_____

_____

6. Why should you be wary of using a builder who provides a quote which is much lower than all other builders?

_____

_____

_____

_____

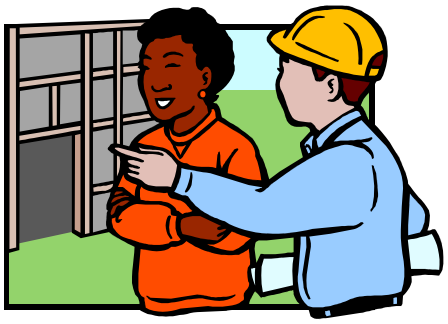
_____

_____

_____

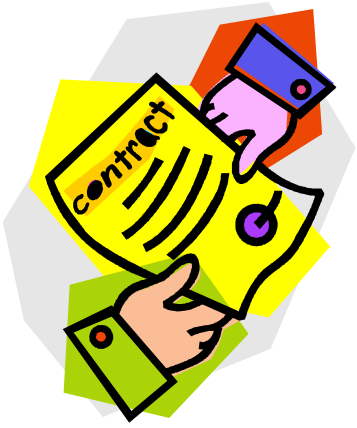
_____

_____



7. Why, when entering into a contract with your builder, is it a good idea to purchase a copy of the New Zealand Standard Form of Contract even if your builder has their own form of contract that they prefer to use?

_____
_____
_____
_____
_____
_____
_____
_____




8. Why would the following clause in a building contract not be valid?: "The building work will not necessarily be carried out in accordance with the relevant building code."

_____
_____
_____
_____
_____

9. Why is it best for the person who completes the application for a building consent to be familiar with the Building Code?

_____
_____
_____
_____
_____
_____

10. Why is it a good idea to get a Project Information Memorandum before applying for a building consent?

_____

_____

_____

_____

_____

11. Why might someone need to apply for resource consent in order to build a house?

_____

_____

_____

_____

_____

_____

_____

12. Why is it important to obtain a Code Compliance Certificate once your home has been built?

_____

_____

_____

_____

_____

_____

_____

_____

_____

## Activity 11: Home Ownership Terms

Time Allocation: 30 minutes

- A list of home ownership definitions / explanations is given in the table below.
- This is followed by a 'Table of Terms' which contains 15 home ownership terms.
- Match each of the definitions / explanations with the relevant term. Do this by placing the number of the definition / explanation in the second table alongside the term.

| No. | Definition / Explanation |
|---|---|
| 1 | A term that refers to dividing an area up to be used for various purposes. |
| 2 | Someone who is registered with the New Zealand Registered Architects Board. |
| 3 | A type of land ownership whereby owners (to a certain extent) have unrestricted rights to do as they please with their land. |
| 4 | A file of information relevant to a building project. This file is put together by the local council. |
| 5 | An extra fee sometimes charged by a lender if the amount of the deposit given is low compared to the amount of the mortgage. |
| 6 | An arrangement whereby more than one person owns a home together and where if one person dies, ownership is transferred to the other. |
| 7 | The process involved in transferring the Title for a property from one owner to another. |
| 8 | A right to live in a property for life. |
| 9 | A legal restriction or agreement relating to a property that the owner of the property must follow. |

| No. | Definition / Explanation |
|---|---|
| 10 | A file of information about a property put together by the local council. |
| 11 | A type of ownership title where you share the ownership of the land with others. |
| 12 | Another term for 'fee simple'. |
| 13 | An arrangement whereby there is more than one owner in a property and each owner can leave their share of the property to anyone they wish in their Will. |
| 14 | A document issued by a Building Consent Authority which confirms that building work completed is consistent with that allowed under the building consent which was issued. |
| 15 | Someone who specialises in building design, but is not registered with the New Zealand Registered Architects Board. |

**Table of Terms**

| Term | Definition / Explanation | Term | Definition / Explanation |
|---|---|---|---|
| Architect | | Joint tenancy | |
| Architectural designer | | License to occupy | |
| Code Compliance Certificate | | LIM | |
| Conveyancing | | Low-Equity Premium | |
| Covenant | | PIM | |
| Cross-Lease | | Tenancy in Common | |
| Fee Simple | | Zoning | |
| Freehold | | | |

## Activity 12: Mortgage Features

Time Allocation: 1 hour

Each of the scrambled terms below is a type of mortgage. Unscramble these terms. Then complete the table given by making notes about some of the key features of each of these types of mortgage. You may need to refer to your Module to complete this task.

| Scrambled Term | Unscrambled Term |
|---|---|
| GVLVREONI ECTRDI | |
| CDGREUIN | |
| GBDGRIIN | |
| EATLB | |
| EDSNOC | |
| TTIEESNR OYNL | |

| Type of Mortgage: |
|---|
| **Key Features:** |
| **Type of Mortgage:** |
| **Key Features:** |

| **Type of Mortgage:** |
| --- |
| **Key Features:** |
| **Type of Mortgage:** |
| **Key Features:** |
| **Type of Mortgage:** |
| **Key Features:** |
| **Type of Mortgage:** |
| **Key Features:** |

# Activity 13: Getting the Right Mortgage

Time Allocation: 1 hour

Read the three scenarios presented in this activity. For each scenario, decide what type of mortgage you think would be most appropriate and explain your decision.

**Scenario 1: Pei & Denise**

Pei and Denise are both in their twenties. They have three young children, two of which are in day care. Pei has a steady job at the local electricity company conducting maintenance on lines. He has been in the job since he finished school and expects to stay in the position for years to come. He earns a salary of $46,000 per year, however there not many opportunities for pay rises.

Denise has recently finished a Bachelor of Teaching and is now working full-time at the local high school. Although Denise is fairly confident that she will not have any problems with keeping her job, she also feels that there is very little likelihood of her receiving a promotion. This is because, with three young children, she is not willing to devote too much extra time to her work.

Pei and Denise often find that they are 'juggling' their money to pay their regular bills, especially with children in day care. They have taken budgeting advice and are trying to be better prepared to manage their finances. They have, however, managed to save a small deposit for a house. They have decided to buy a house now so they can pay it off over their working life.

| **What type of mortgage do you think will suit Pei & Denise? Why?** |
| --- |
| |

**Scenario 2: Lauren & Pete**

Lauren is the main income earner in her household. She has two businesses, one which is well established and provides her with a salary of $100,000 per annum, plus a share of the profits (which can amount to $50,000 or more each year). Lauren's other business is a new business which, for the next few years, will require her to sometimes put in more money – up to $15,000 each time. After a few years, this business is expected to generate a steady, but small, profit.

Lauren's partner, Pete, is employed as a shearer. He earns very good money, however, due to the seasonal nature of the job and his own health problems (which include strains in his right hand and in his back), his income is very unreliable. Pete expects he will be able to earn between $45,000 and $70,000 per year for the next three years. After this, he will need to retire from shearing.

Lauren and Pete have two children and would like to have two more once Pete stops shearing. Although it is quite likely that Pete will stay at home to look after their children, Lauren feels that she may also want to take one year's maternity leave for each child she has. This will have a large effect on her income.

However, while they are both earning good money, the couple has decided to buy a house. Lauren is an excellent budgeter and feels that she could contribute a large amount of money towards their home within the next few years.

**What type of mortgage do you think will suit Lauren & Pete? Why?**

**Scenario 3: Nina**

Nina is single and is in her fifties. She owns a house but is still paying the mortgage for it and will be for the next eight years. Nina is saving for her retirement in a number of ways. However, when she recently reviewed her progress towards her savings goals, she realised that she is likely to be about $100,000 short of her savings target for when she turns 65.

Nina is confident that the property market is going to perform well over the next ten years and therefore decides to invest in a couple of properties. Nina has cash available to put a 20% deposit on two properties.

However, Nina already has a mortgage. As such, she knows that she cannot pay very high monthly payments towards the mortgages on her investment properties unless she uses some of her other investment savings. This is something she really does not want to do.

**What type of mortgage do you think will suit Nina? Why?**

# Activity 14: The Impact of Time

Time Allocation: 1 hour

For this activity you will need access to the internet. You will be using an online mortgage repayment calculator to look at the impact that different payment frequencies and terms of mortgages have on the interest cost of a mortgage.

- Go to the 'Sorted' mortgage repayment calculator available at http://www.sorted.org.nz/calculators/mortgage-repayments/.
- Use the calculator to answer each of the questions for the following scenario:

**Tia's Mortgage**

Tia has found a house that she would like to buy. She thinks the cheapest she is likely to get it for is $345,000. Tia has a deposit of $70,000, so would need a loan of $275,000. She has shopped around the banks and found that an interest rate of 7.5% will apply.

1. How much will Tia pay, in interest, for the house if:

   a) She spreads the mortgage out over 25 years and makes payments monthly? $_____

   b) She spreads the mortgage out over 25 years, but makes payments weekly? $_____

   c) She has a mortgage term of 20 years and makes payments monthly? $_____

   d) She has a mortgage term of 20 years, but makes payments weekly? $_____

   e) She has a mortgage term of 10 years and makes payments monthly? $_____

f) She has a mortgage term of 10 years, but makes payments weekly? $_____

2. Look at your answers to Question 1 above. How much less (or more) does Tia pay in interest if:

a) She has a 25 year mortgage, but makes payments weekly instead of monthly? $_____

b) She has a 20 year mortgage, but makes payments weekly instead of monthly? $_____

c) She has a 10 year mortgage, but makes payments weekly instead of monthly? $_____

d) She makes payments monthly, but reduces the term of her mortgage from 25 years to 20 years? $_____

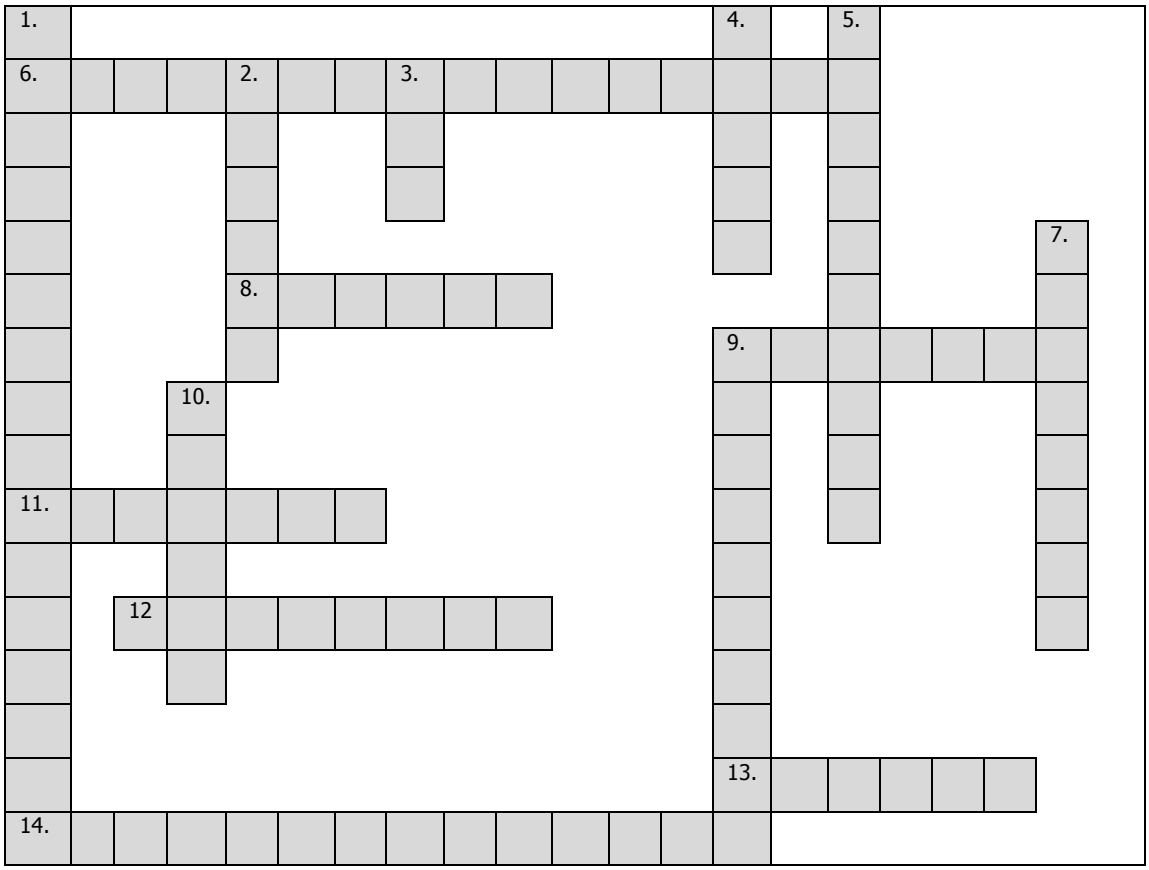
e) She makes payments monthly, but reduces the term of her mortgage from 25 years to 10 years? $_____

f) Instead of having a 25 year mortgage and making payments monthly, she has a 10 year mortgage and makes payments weekly? $_____

3. What conclusions can you draw about the impact of the term of a mortgage and the frequency of payments on the total cost of a mortgage?

# Activity 15: Mortgage Crossword

Time Allocation: 30 minutes




**Down**

1. If you have a mortgage for over 80% of the value of a house, you may be charged a _____ _____ _____ (3), (6), (7).

2. A combination of floating and fixed interest rates is called a _____ rate (6).

3. A _____ provides information held by the local authority on the property you want to purchase (3).

4. One of the categories of mortgage lenders (5).

5. Your lender will ask you to supply a _____ valuer's report (10).

7. Another word for a floating interest rate is a _____ interest rate (8).

9. It is helpful to use an online _____ to work out mortgage repayments (10).

10. A type of home loan that allows up to six people to buy a property together is a _____ home loan (6).

**Across**

6. The Reserve Bank of New Zealand controls the _____ _____ _____ (8), (4), (4).

8. The deposit that you put on your house is your _____ in the house (6).

9. Historically, fixed interest rates have usually been _____ than floating interest rates (7).

11. Mortgage arrangements which have fixed interest rates often charge _____ fees if you make lump sum repayments (7).

12. The size of the mortgage you want compared with the value of the house is called a loan-to-_____ ratio (8).

13. A type of mortgage for which the interest payment is reduced if you have money in a savings account with the lender.

14. You can use a _____ _____ to help you find the best deal on a mortgage (8), (6).

## Activity 16: Mortgage Quiz

Time Allocation: 1 hour 30 minutes

Answer the following questions about mortgages:

1. What was the standard amount of deposit traditionally required for a house? In what way has this changed in recent years and why?

2. What insurance options are there that would help cover your mortgage repayments in the event that you are not able to?

3. What risks are associated with being a guarantor?

4. What are two advantages and two disadvantages of fixed interest rates compared to floating interest rates?

Advantage 1:

Advantage 2:

Disadvantage 1:

Disadvantage 2:

5. What is one advantage and one disadvantage of leaving the mortgage security over your house in place once you have paid it off?

Advantage:

Disadvantage:

6. What are three of the questions that you should ask a lender before taking out a mortgage with them?

1.

2.

3.

7. What is a 'low doc' mortgage and why would someone apply for one?

8. What type of mortgage do you think would best suit your own situation? Table? Revolving Credit? Reducing? Interest-Only? Why?

# Activity 17: Paea's Rental Yields

Time Allocation: 1 hour

There are two parts to this activity, both of which relate to a case study scenario. Read the case study information provided and answer the questions that follow. These questions relate to yield calculations and investment decisions.

**Part A: (40 minutes)**

Paea would like to buy an investment property. Her intention is to generate regular income from rental returns. After viewing a number of potential properties, Paea identifies three properties that she would consider buying.

As rental returns are important to her, she has decided that her decision as to which property she will purchase will mainly depend on the yields from each property. She gathers the following information about the properties to use in calculating yields.

**Property A**

At a price of $400,000, Property A is the most expensive of the three properties. Paea had not originally intended to spend this amount on a rental property, but considers there are some benefits of doing so.

In particular, demand for rental housing of this quality in her area means that Paea is likely to find it easy to get good tenants. This, together with the fact that the house is in great condition and unlikely to need much in the way of repairs and maintenance (maybe only $250 worth per year), means that Paea would not need to use a property manager.

Paea estimates that, at a maximum, the house would only be vacant for two weeks per year. Insurance for the property has been quoted at $1,150 per annum and the rates are $2,430 per annum. Paea would rent the house out at $360 per week.

**Property B**

Property B is on the market for $240,000 and the current owners are renting it out for $250 per week.

Although the current tenants seem nice, Paea is not confident that they will be in the house long term. In addition, since the location of the house is not as good as Property A, the typical tenants it attracts may not be as good as she would like and the house may be vacant for an average of four weeks per year.

Paea therefore thinks she would need to use a property manager. The manager she wants charges 7% of the rental price. The property manager can then also take care of repairs and maintenance (estimated at approximately $600 per annum). Other annual costs include rates ($1,900) and insurance ($895).

**Property C**

Property C is located quite close to Property B. It does not currently have any tenants and the owners are very keen to sell as they need the funds for a business venture. It has been on the market for $265,000 (a price which is close to market valuation), but the current owners have indicated they would be prepared to sell it for as little as $225,000.

In the past, the property has been rented out for $255 per week, a price which both Paea and her preferred property manager think is reasonable. As with Property B, Paea thinks that the house may be vacant for an average of four weeks per year and would choose to use a property manager (at a rate of 7% of the rental price) if purchasing this house.

Repairs and maintenance are estimated at approximately $500 per annum and other annual costs include rates ($2,010) and insurance ($912).

***Gross Yields***

Calculate the gross yields for each property:

| Property A: |
| --- |
| |

| Property B: |
| --- |
| |

| Property C: |
| --- |
| |

Based on Gross Yields alone, which property should Paea choose?

_____

***Net Yields***

Calculate the net yields for each property. Use the example provided in the Module to work out how to complete the table below to do this.

| | **Property A** | **Property B** | **Property C** |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| **Net Yield (before tax)** | | | |

Based on Net Yields alone, which property should Paea choose?

_____

**Part B: (20 minutes)**

After calculating the net yield, Paea purchases the property you recommended in Part A of this activity.

Ten years later, the property has increased so much that it will be able to be sold for $200,000 more than it was purchased!

At this time:

- Paea had increased the weekly rent by $140.
- The vacancy rate had not changed.
- Rates had increased by $1,000 per annum.
- Insurance had increased by $190 per annum.
- Repairs and maintenance had increased by $400 per annum.
- Due to increased competition amongst property managers, Paea's preferred manager is only charging 5.5% of the gross annual rent in fees.

**Instructions**

1. In the table on the following page, calculate the new net yield of this property investment based on the updated information given above.

2. Answer the following question:

   *Why is it of benefit to Paea to know the net yield for this property?*

**Calculation of Net Yield**

| | **Property** |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| **Net Yield (before tax)** | |

## Activity 18: Investment Return Facts

Time Allocation: 1 hour

Identify if each of the statements in the table below are true or false. If false, correct the statement.

| Statement | True or False? | Correct Statement |
|---|---|---|
| If someone buys an investment property and the rental income they receive from that property is less than the interest payments on the loan, they are said to be using 'negative gearing'. | | |
| The overall return someone gets on a property investment is affected by taxation and loan costs, as well as the yield and capital gains. | | |
| If you hold a property for a long period of time (e.g. 20 years or more), you will not be taxed on any profit you make from capital gain. | | |
| In order to find out what your original intentions were when purchasing a property, the IRD can look at files that the bank has relating to your mortgage. | | |

| Statement | True or False? | Correct Statement |
|---|---|---|
| A Look-Through Company (LTC) has the advantage over a normal company in that it allows expenses such as mortgage interest to be tax-deductible. | | |
| If you have a mortgage on your house and also have a business entity (e.g. a company or LTC), you can claim the mortgage interest on your home as a tax-deductible expense. | | |
| If you own an investment property in your own name, any profits from rental income get added to your personal income for tax purposes. | | |
| Depreciation involves spreading the cost of an asset out over its useful lifetime. | | |

| Statement | True or False? | Correct Statement |
|---|---|---|
| Rates, insurance and conveyancing costs are all examples of tax-deductible expenses. | | |
| When calculating the capital gain on a property, you do not take into account money spent on renovations – simply base calculations on the purchase price and sale price. | | |
| When you spend money on maintenance, you increase the costs associated with owning the property. This will decrease the yield unless the amount you spend is outweighed by an increase in rental prices. | | |
| The Net Yield is always higher than the Gross Yield because it takes into account costs associated with owning a property. | | |

# Activity 19: Leveraging Equity

Time Allocation: 1 hour

Use the following information to write an example of how someone could use leverage to purchase three investment properties over time.

**Key points:**

- This person has $30,000 to go towards a deposit on a property.
- They want to buy the properties within **five** years.
- They wish to purchase the following properties:
  - Property 1: Valued at $68,000
  - Property 2: Valued at $75,000
  - Property 3: Valued at $90,000
- Their bank will only let them borrow up to 70% of the value of each property, as it is the bank's policy to require a minimum of 30% equity on all 'low value' property purchases (properties valued at $100,000 or less).

When writing your example, you are required to refer to specific amounts.

IMPORTANT: You are to make your own assumptions. For example, what do you assume the values of Property 1 and Property 2 to be when Property 3 is purchased?

You can assume anything you want. For example, when the person buys Property 2, you could assume that:

- property prices have only slightly increased; or
- property prices have increased by a lot; and
- the person has paid nothing off their mortgage; or
- they have paid (for instance) $2,000 off their mortgage.

***Refer to the example of Steve and Tiari given in Section 4.2.3 of your Module for guidance.***

## Activity 20: Paora's Property Portfolio Plan

Time Allocation: 1 hour

Paora, who is young and earns good wages working in a mining job, would like to build a portfolio of investment properties. He would like to do this as fast as possible as he does not want to work in the mines long term.

Paora has spoken to his bank manager, who has told him the bank is prepared to lend him up to 85% of the value of any property he purchases. Paora decides that each time he purchases a property, he will borrow the maximum amount available.

Paora has already saved $39,000 that he would like to put towards his first investment property. He is now keen to work out how much he can spend on this property.

1. What is the maximum amount that Paora can spend on his first investment property?

2. If Paora finds a suitable investment property for the value you calculated above, how much will the value of his mortgage be?

Over the next two years, Paora works hard and pays a whopping $42,000 off his mortgage.

The value of his investment property had increased by 4% in the first year and then by a further 9% (from the value after 1 year) in the second year.

3. What is the value of his investment property now (i.e. after two years)?

4. How much equity does Paora now have in his investment property?

5. If Paora was to now buy two more investment properties, what is the maximum amount that he could spend on them?

After spending some time looking at houses available for sale, Paora selects two more properties to purchase. He spends the maximum amount that his bank will allow. This means that, altogether, his mortgage is worth 85% of the value of the three properties.

6. Now how much is Paora's mortgage for?

Another two years later, Paora has managed to pay $40,000 off his mortgage. He gets all three properties re-valued. The first is worth $309,000 and the other two are worth $260,000 and $269,000. Thus, in total, his portfolio is worth $838,000. Paora would now like to buy more properties.

7. What is the maximum amount that Paora could spend on more properties?

## Activity 21: My Ideal Tenant

Time Allocation: 30 minutes

Different rental properties will attract different types of tenants. This activity involves identifying your 'ideal tenant' and then working out what you should be looking for in an investment property in order to attract this type of tenant.

1. Describe your ideal tenant. Make sure you identify at least four characteristics (e.g. professional couple, no children and a combined income over $120,000)

2. What type of rental property do you think your ideal tenant would be attracted to? What features would this property have? (e.g. location close to city centre, no section and two bedrooms)

## Activity 22: Property Purchase Rationale

Time Allocation: 30 minutes

Complete these five statements by explaining 'why' the first sentence is correct.

1. It is in a real estate agent's best interests to sell a house for the best price possible.

   This is because...

   _____

   _____

   _____

   _____

   _____

2. Even if a property investor's primary motivation is to build a portfolio of properties to earn rental income, and that investor does not have any intention of selling the properties they buy, it is a good idea to buy properties with growth potential.

   This is because...

   _____

   _____

   _____

   _____

   _____

3. If you would like to buy a property that is being sold by tender, it is a good idea to do all the research you need, and organise the reports you require, before submitting your offer.

   This is because...

   _____

   _____

   _____

   _____

   _____

   _____

4. If you are interested in buying a house that is to be sold by auction, do not indicate to the real estate agent how much you will be willing to pay for it.

   This is because...

   _____

   _____

   _____

   _____

   _____

   _____

5. If buying a house by offer and negotiation, it is not necessarily always in your best interests to offer a price lower than what the house is on the market for.

   This is because...

   _____

   _____

   _____

   _____

   _____

   _____

## Activity 23: Self-Management Assessment

Time Allocation: 30 minutes

If you purchased an investment property, would you use the services of a property manager or would you consider managing it yourself?

Answer the questions below to help decide if self-managing a property investment is the right thing for you.

1. Do you feel comfortable and confident to 'chase up' missed rent payments? Is this something you would be prepared to do?

   _____

   _____

   _____

2. How would you describe your inter-personal skills? Are you a good communicator? Do you feel confident meeting with people?

   _____

   _____

   _____

   _____

   _____

3. How comfortable do you feel with managing maintenance issues? Do you have any handyman skills? Do you think it would be easy for you to find the right repair person for various jobs?

   _____

   _____

   _____

   _____

4. Does your personal timetable allow you to respond to tenant issues quickly? For example, would you be in a position to get maintenance issues fixed in a timely manner? Will you be able to check rent payments as they are due?

_____

_____

_____

_____

_____

5. How good are your record keeping skills? For example, do you think you would be able to keep basic records of rent payments that are good enough to be able to produce statements to tenants?

_____

_____

_____

_____

_____

6. How do you think you would cope with remembering and keeping to your legal responsibilities as a landlord?

_____

_____

_____

_____

7. Based on your responses to questions 1 to 6, do you think self-managing a property investment is right for you?

_____

_____

# Activity 24: Maia's Tenants

Time Allocation: 1 hour

**Instructions:**

- Read the case study scenario about Maia and her tenants.
- Identify three to seven actions that either Maia or her tenants took that are consistent with (are 'right' according to) the *Residential Tenancies Act 1986.*
- Next, identify three to seven actions that were illegal under this Act.

***Case Study***

Maia has just purchased her first investment property in her home town. When it came to setting the rent, Maia asked a few people she knew who either rented or were landlords in the area for an opinion.

She wanted to charge $265 per week, but was told that $250 would be more appropriate. Maia therefore set the weekly rent at $250 and then started to look for tenants.

There were a number of people interested in renting Maia's house and making a decision was difficult. She finally settled on a family who had a couple of dogs as pets. The family had had difficulty finding a place to live as most landlords in the region would not rent to people with pets, particularly dogs. Maia felt sorry for the family, especially when she saw how the dogs were such an important part of their family.

However, she too was concerned about possible damage to her property, so she rented it to the family on the provision that they pay a bond equal to four weeks' rent. The tenants were so happy that they paid the bond, plus their rent, in cash. The next day Maia went to the stationery store and bought a receipt book so that she could make sure they got a receipt for their payment. She sent a cheque for the bond into the Building and Housing Group the following week.

Maia's tenants continued to pay their rent when it was due and kept the house clean and tidy. Everything went well with the tenancy arrangement until a year later when Maia got a new job in another town and decided to move out of the area.

Shortly after she moved, her tenants tried to contact her by phone and cell phone to let her know that a water pipe had burst and needed immediate repair. Unfortunately Maia was not at home and her cell phone battery was flat. They left messages on each phone and followed up several times via text.

Unable to wait any longer, the tenants arranged for a plumber to fix the pipe. They paid the plumber and then sent the bill to Maia so she could reimburse them. Maia was not at all happy when she saw the bill. Although the rates charged were reasonable, if she had been aware of the need for repairs at the time, she would have got her brother, who is a plumber, to fix the pipes for half the price! She therefore only reimburses her tenants for half of the bill. The tenants are not happy about this and from then on, their tenancy relationship is not so good.

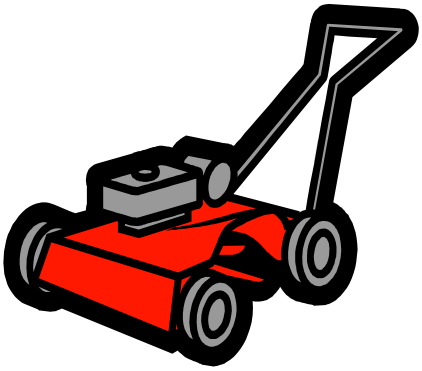
Because of the disagreement with her tenants over the plumbing bill, Maia began to be concerned about how her tenants would now treat her property. She therefore thought she should conduct property inspections more frequently. However, the frequency with which she could do these was limited by the fact that she was in a different town.

Fortunately, her new job involved travelling back to her home town once every three weeks. Maia therefore decided she would take this opportunity to make regular property inspection checks and informed her tenants that she would be doing this. The tenants were not too pleased with this arrangement. In fact, on the third visit, Maia found she was locked out – the tenants had changed the locks without telling her!

Maia was extremely annoyed with this, particularly as she believed her tenants were getting a very good deal on the rental price of the property. She had spoken to a local real estate agent who said that a higher amount of $265 - $270 per week would be reasonable. Maia checked this by researching data about market prices in the region.

Therefore, when Maia's tenants changed the locks, Maia reacted by sending them a letter to let them know their rent would increase to $265 per week, starting from the next fortnightly rent payment. The tenants completely refused to accept the increase. They decided that they would not pay anything at all until Maia agreed to keep the rent at $250 per week.

True to their word, the tenants stopped making their rent payments. On her next visit to her home town, Maia went to see her tenants to sort the problem out.



The tenants were not home, but as she left the property, Maia noticed they had left their lawnmower outside the garden shed. She decided to take it, and left a note for the tenants letting them know it will be returned once they paid their rent arrears.

Not happy at all, the tenants gave Maia 21 days' notice that they would be ending their tenancy agreement and moving out.

**Questions**

1. What are three to seven actions that either Maia or her tenants took that were 'right' according to the *Residential Tenancies Act 1986*?

☑ _____

_____

☑ _____

_____

☑ _____

_____

☑ _____

_____

☑ _____

_____

☑ _____

_____

☑ _____

_____

2. What are three to seven actions that either Maia or her tenants took that were illegal under the *Residential Tenancies Act 1986*?

   For each action you identify, **explain** why it was wrong / what should be done differently.

☒ _____

_____

_____

_____

_____

☒ _____

_____

_____

_____

_____

☒ _____

_____

_____

☒

☒

☒

☒

## Activity 25: Property Management Quiz

Time Allocation: 1 hour

Use the content of Sections 5.1 and 5.2 of your Module to help answer the following questions about property management.

1. Identify two advantages of self-managing a property investment.

   - _____
     _____

   - _____
     _____

2. Which of the following items are taken into account when calculating whether a property investment is cashflow positive, neutral or negative?
   - Rates
   - Taxation of profits
   - Mortgage interest
   - Mortgage principal payments

   _____
   _____
   _____
   _____

3. What are two reasons why it is difficult to find cashflow positive property investments nowadays?

   - _____
     _____
     _____
     _____

- _____

_____

_____

_____

4. When someone applies to be your tenant, and they give you the name and phone number of a past landlord so that you can conduct a referee check, what do you need to take particular care to check?

_____

_____

_____

_____

5. Is it compulsory, under New Zealand law, to have a written tenancy agreement when renting out a residential property in New Zealand?

_____

_____

6. What implications may a rent review have on the tenant's bond?

_____

_____

_____

_____

_____

_____

_____

7. When would a tenant be responsible for paying the water charges for the property?

_____

_____

_____

_____

_____

8. What is the name for the type of tenancy agreement which does not state the date on which the agreement and tenancy is to finish?

_____

9. If your tenant pays their rent by way of an automatic bank payment into your rental bank account, are you required to issue them with a written receipt? If so, how quickly must you do this?

_____

_____

_____

_____

10. Identify two situations in which a landlord is legally entitled to enter their property without the tenant's consent and without even notifying the tenant that they are going to do so?

- _____

  _____

  _____

- _____

  _____

  _____

11. Identify three steps, in order, that you should take if a tenant gets behind on rent payments.

- _____
  _____

- _____
  _____

- _____
  _____

12. If today is the 8th of July, and on the 6th of July your tenant was due to pay you two weeks' rent to cover the period 6th July to 19th July, how many days in arrears is your tenant?

_____

13. Assume that your tenant leaves some of their personal property inside your rental house after their tenancy is finished and they have moved out. If you are given permission by the Tenancy Tribunal to sell it, do you get to keep the money you receive? Explain.

_____
_____
_____
_____
_____
_____
_____
_____
_____
_____

## Activity 26: Sale Methods: Who Benefits?

Time Allocation: 30 minutes

For each of the methods of selling a house shown below, identify which party benefits in regards to the sale price – the vendor or the buyer?

For some methods, you may consider that both parties could benefit. Explain your responses.

**Offer and Negotiation – with an Asking Price Specified:**

**Offer and Negotiation – with Price Being 'By Negotiation':**

**Auction:**

**Tender:**

## Activity 27: Pricing My House

Time Allocation: 2 hours

Figure out what price you could expect to receive for the property you currently live in, if you were to put it on the market. You can do this activity even if you don't own the house you live in.

1. Compare your property to four 'comparable' properties that have sold in the last six months in your area. To do this, start by making notes about the property you live in, in the first table provided.

2. Next, use local newspapers, real estate supplements and / or the internet to find comparable sales in your area.

3. When you have identified four properties, make notes about those properties in the templates provided (note there is one template per property). Do not worry if you cannot find all details in the table about each property – just make notes based on the information available.

4. Finally, estimate what price you could expect to receive for the house you are currently in.

| **Details about the Property in Which I Currently Live** | |
|---|---|
| **Style of Home**<br>*(Consider what the home is made of, how many levels it has etc.)* | |
| **Size**<br>*(Do you know what the size of the section is? What about the floor size of the house?)* | |

| | |
|---|---|
| **Age of Home**<br>*(When was it built? Has it had any renovations? If so, when?)* | |
| **Location and Amenities**<br>*(Remember that amenities add to the perceived value of a property. These could be views, or parks and hospitals.)* | |
| **Chattels**<br>*(Would curtains come with the home? What about a dishwasher or heat pump?)* | |
| **Rooms** | No. of bedrooms:<br><br>No. of bathrooms:<br><br>No. of living areas:<br><br>Garage? If so, how big? |

## The Comparable Properties

| **Property One Sold for: $** | |
|---|---|
| **Style of Home**<br>*(Consider what the home is made of, how many levels it has etc. Does this match with your home?)* | |
| **Size**<br>*(Do you know what the size of the section is? What about the floor size of the house?)* | |
| **Age of Home**<br>*(When was it built? Has it had any renovations? If so, when?)* | |
| **Location and Amenities**<br>*(Remember that amenities add to the perceived value of a property. These could be views, or parks and hospitals.)* | |

| | |
|---|---|
| **Chattels**<br>*(Did curtains come with the home? What about a dishwasher or heat pump?)* | |
| **Rooms** | No. of bedrooms:<br><br>No. of bathrooms:<br><br>No. of living areas:<br><br>Garage? If so, how big? |

| **Property Two Sold for: $** | |
|---|---|
| **Style of Home**<br>*(Consider what the home is made of, how many levels it has etc. Does this match with your home?)* | |
| **Size**<br>*(Do you know what the size of the section is? What about the floor size of the house?)* | |

| | |
|---|---|
| **Age of Home**<br>*(When was it built? Has it had any renovations? If so, when?)* | |
| **Location and Amenities**<br>*(Remember that amenities add to the perceived value of a property. These could be views, or parks and hospitals.)* | |
| **Chattels**<br>*(Did curtains come with the home? What about a dishwasher or heat pump?)* | |
| **Rooms** | No. of bedrooms:<br><br>No. of bathrooms:<br><br>No. of living areas:<br><br>Garage? If so, how big? |

| **Property Three Sold for: $** | |
|---|---|
| **Style of Home**<br>*(Consider what the home is made of, how many levels it has etc. Does this match with your home?)* | |
| **Size**<br>*(Do you know what the size of the section was? What about the floor size of the house?)* | |
| **Age of Home**<br>*(When was it built? Has it had any renovations? If so, when?)* | |
| **Location and Amenities**<br>*(Remember that amenities add to the perceived value of a property. These could be views, or parks and hospitals.)* | |

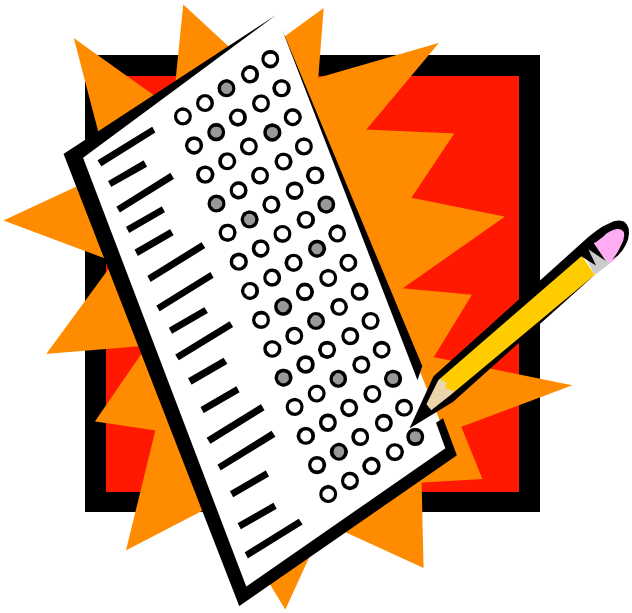
| | |
|---|---|
| **Chattels**<br>*(Did curtains come with the home? What about a dishwasher or heat pump?)* | |
| **Rooms** | No. of bedrooms:<br><br>No. of bathrooms:<br><br>No. of living areas:<br><br>Garage? If so, how big? |

| **Property Four Sold for: $** | |
|---|---|
| **Style of Home**<br>*(Consider what the home is made of, how many levels it has etc. Does this match with your home?)* | |
| **Size**<br>*(Do you know what the size of the section was? What about the floor size of the house?)* | |

| | |
|---|---|
| **Age of Home**<br>*(When was it built? Has it had any renovations? If so, when?)* | |
| **Location and Amenities**<br>*(Remember that amenities add to the perceived value of a property. These could be views, or parks and hospitals.)* | |
| **Chattels**<br>*(Did curtains come with the home? What about a dishwasher or heat pump?)* | |
| **Rooms** | No. of bedrooms:<br><br>No. of bathrooms:<br><br>No. of living areas:<br><br>Garage? If so, how big? |

**Based on comparable sales, I estimate the house I currently live in would sell for approximately $ _____**

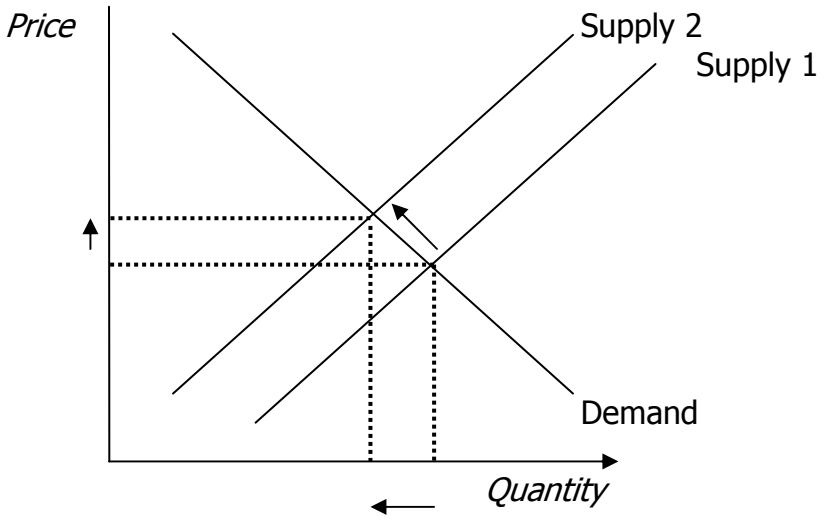
# Suggested Answers



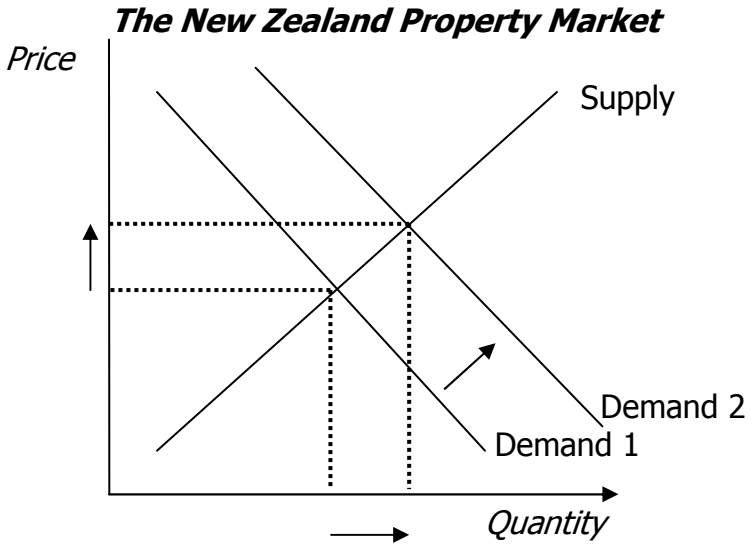
## *Activity 1 Answers: Property Market Trends Quiz*

1. Between 1974 and 1980, house prices increased, but at a rate lower than inflation. Therefore, real returns from property actually decreased.
2. Property prices have historically been quite cyclical, meaning that after a period of strong growth, they tend to fall for the next two to six years. However, overall, prices increase more than they decrease. This results in an upward trend in prices over the long term.
3. According to the Module, a mortgage is considered to be affordable if the payment for it is under (or equal to) 40% of someone's take-home pay.
4. According to the graph in Section 1.1.1 of the Module, housing was most unaffordable between about 2006 and early 2007. During that time, mortgage payments were around 80% of take-home pay.
5. The supply curve for property shows the quantity of properties that would be available for sale at each price level.
6. The supply curve for property slopes upwards because as the price that someone can get for a property increases, more people are willing to sell their property. When the price is low, people try not to sell properties unless they have to – they would rather wait until prices are higher.
7. Market prices would increase and the quantity of properties sold would decrease.

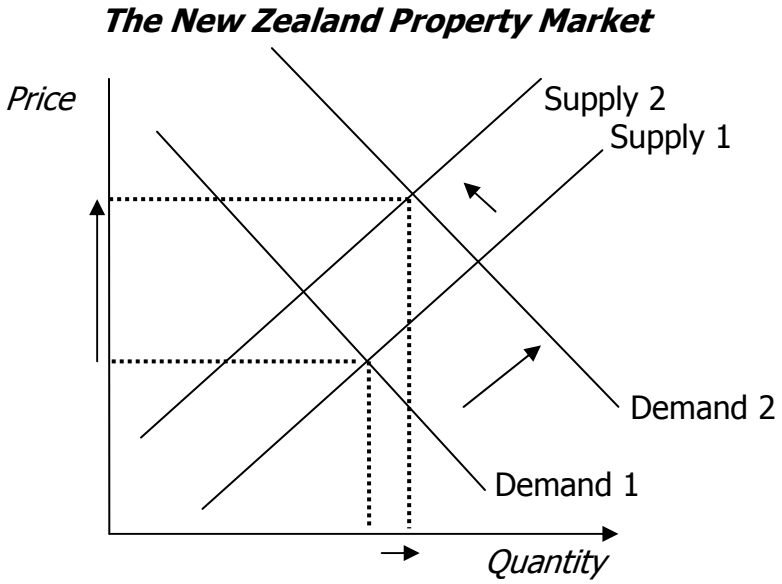
***The New Zealand Property Market***



8. Market prices would increase and the quantity of properties sold would also increase.




9. Market prices would increase, but *it is not clear* how the quantity of properties sold would change. It could *increase, decrease or stay the same*, depending on how much each curve moved. In the graph below, the demand curve is shown to move by more than the supply curve, resulting in a slight increase in quantity sold.




10. The supply curve for property eventually becomes vertical because land is a scarce resource – we will eventually run out of it. We cannot continue to supply property forever, regardless of how high the price is.

## *Activity 2 Answers: Residential or Commercial?*

| **Area of Consideration: Term of Tenancy** |
|---|
| **Difference:** On average commercial tenants tend to stay for a longer term than tenants in a residential property. |
| **Type of investment I consider most favourable:** Commercial |

| **Area of Consideration: Interest Rates** |
|---|
| **Difference:** Lenders typically charge higher interest rates for commercial property investment than for residential property investment. |
| **Type of investment I consider most favourable:** Residential |

| **Area of Consideration: Repairs and Maintenance** |
|---|
| **Difference:** The landlord is responsible for carrying out repairs and maintenance and for the cost of this for a residential property investment. In comparison, the tenant of a commercial property investment is usually responsible for this. |
| **Type of investment I consider most favourable:** Commercial |

| **Area of Consideration: Entry Costs** |
|---|
| **Difference:** Entry costs for commercial property investment are usually much higher as lenders will usually only loan up to 60% or 70% of the value of the property PLUS the average cost of properties is higher. In comparison, banks will often lend 80% of the value of a residential property. |
| **Type of investment I consider most favourable:** Residential |

| Area of Consideration: Risk and Return |
| --- |
| **Difference:** Commercial property investment is generally riskier than residential investment as tenants can be largely affected by economic conditions, and if the tenant does go out of business, the premises may be vacant for a very long time. However, in return for this, property owners generally charge higher rents and thus get larger returns. |
| **Type of investment I consider most favourable:** Tauira may select either commercial or residential investment. That is, although commercial is riskier, they may consider that for them, personally, they favour the opportunity for higher financial returns. |

## *Activity 3 Answers: Investment Type Crossword*

**Down:** 1. Technology; 2. Ceilings; 3. Industrial; 6. Ratchet; 7. Economic; 9. Popular.

**Across:** 1. Tenants; 2. Commercial; 4. Risky; 5. Higher; 8. Outgoings; 9. Parking; 10. Renew; 11. Maintenance.

## *Activity 4 Answers: Property Terms Word Find*

**Part A**

| | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| C | ***L*** | ***E*** | ***A*** | ***S*** | ***E*** | ***H*** | ***O*** | ***L*** | ***D*** | A | N | I | H | A | V | E | A | N | O |
| T | H | E | R | P | I | E | C | ***E*** | ***E*** | ***G*** | ***A*** | ***G*** | ***T*** | ***R*** | ***O*** | ***M*** | O | F | ***L*** |
| C | H | O | R | C | O | L | A | ***Y*** | T | E | C | E | E | K | W | H | A | T | ***A*** |
| S | T | H | E | E | T | I | M | ***E*** | M | R | ***C*** | W | O | L | F | I | V | E | ***N*** |
| B | E | E | N | ***R*** | Q | T | A | ***V*** | R | I | ***O*** | N | G | A | T | T | H | A | ***D*** |
| S | K | R | Y | ***O*** | O | U | N | ***R*** | I | G | ***V*** | H | T | M | A | R | V | E | ***L*** |
| I | N | G | N | ***G*** | A | S | I | ***U*** | S | I | ***E*** | ***V*** | ***E*** | ***N*** | ***D*** | ***O*** | ***R*** | N | ***O*** |
| G | T | I | M | ***A*** | D | H | E | ***S*** | O | S | ***N*** | H | Y | T | H | ***E*** | A | T | ***R*** |
| S | I | W | E | ***G*** | E | T | L | I | I | T | ***A*** | T | L | E | ***Q*** | B | W | H | ***D*** |
| C | ***N*** | ***O*** | ***I*** | ***T*** | ***C*** | ***U*** | ***A*** | A | U | T | ***N*** | G | H | ***U*** | T | M | Y | E | Y |
| G | S | I | V | ***R*** | T | H | A | S | Q | U | ***T*** | E | ***I*** | N | I | C | O | U | L |
| D | U | H | A | ***O*** | ***C*** | ***H*** | ***A*** | ***T*** | ***T*** | ***E*** | ***L*** | ***S*** | D | A | N | E | E | C | H |
| L | R | L | N | ***M*** | A | N | S | T | U | K | ***I*** | ***S*** | ***E*** | ***R*** | ***U*** | ***T*** | ***X*** | ***I*** | ***F*** |
| H | A | O | W | D | O | U | ***T*** | W | A | ***T*** | N | T | I | C | O | M | N | U | P |
| A | N | S | A | N | I | ***A*** | G | E | ***I*** | R | I | N | A | C | A | ***D*** | S | H | G |
| A | C | M | E | L | ***E*** | I | V | ***O*** | I | N | A | F | A | S | L | ***N*** | A | N | E |
| I | E | M | F | ***V*** | O | R | ***N*** | F | R | E | E | L | M | Y | B | ***O*** | I | L | O |
| L | I | P | ***A*** | O | P | ***S*** | M | A | R | A | E | N | U | I | D | ***B*** | P | E | H |
| I | K | ***C*** | I | ***E*** | ***N*** | ***C*** | ***R*** | ***O*** | ***A*** | ***C*** | ***H*** | ***M*** | ***E*** | ***N*** | ***T*** | N | O | P | U |
| N | A | T | E | A | H | U | E | L | I | ***G*** | ***E*** | ***A*** | ***R*** | ***I*** | ***N*** | ***G*** | B | E | T |

**Part B**

Check your answers to this part of the activity by referring to Section 1.3 OR the Glossary in the Module.

## *Activity 5 Answers: Terminology Word Scramble*

In the table below, each of the terms in this activity is unscrambled and matched with the relevant clue. Check your explanations by referring to Section 1.3 of the Module.

| Clue No. | Scrambled Term | Unscrambled Term |
|---|---|---|
| 14 | SINGAK ERICP | ASKING PRICE |
| 12 | MTETETELSN | SETTLEMENT |
| 6 | DDEE OF EAESL | DEED OF LEASE |
| 9 | BYDO ROROCTEPA | BODY CORPORATE |
| 7 | SELESE | LESSEE |
| 1 | HERDFLEO | FREEHOLD |
| 15 | VIPRETA SLEA | PRIVATE SALE |
| 13 | TEASENME | EASEMENT |
| 8 | PALITAC GINA | CAPITAL GAIN |
| 11 | MENARENCOTHC | ENCROACHMENT |
| 5 | QUIETY | EQUITY |
| 10 | VESERER CRIPE | RESERVE PRICE |
| 2 | DENTRE | TENDER |
| 4 | SORLES | LESSOR |
| 3 | LANDOTIONNICU | UNCONDITIONAL |

## *Activity 6 Answers: Rent or Own?*

There are no model answers for this activity as answers are based on your personal situation.

## *Activity 7 Answers: Deposit Calculations*

**Part A**

| Scenario | Deposit | Purchase Price | % Deposit |
|---|---|---|---|
| *Example* | *$15,000* | *$190,000* | *7.9% (calculated as $15,000 / $190,000 x 100)* |
| 1 | $26,000 | $180,000 | 14.4% |
| 2 | $30,000 | $150,000 | 20% |
| 3 | $10,000 | $200,000 | 5% |
| 4 | $18,000 | $170,000 | 10.6% |
| 5 | $21,000 | $340,000 | 6.2% |
| 6 | $20,000 | $190,000 | 10.5% |
| 7 | $35,000 | $300,000 | 11.7% |
| 8 | $28,000 | $120,000 | 23.3% |
| 9 | $50,000 | $200,000 | 25% |
| 10 | $15,000 | $100,000 | 15% |

If a lender has a requirement for a minimum deposit of 20%, for which of the above scenarios would the mortgage be approved?

Scenarios: 2, 8 & 9

**Part B**

| Scenario | Deposit | Minimum % Deposit | Maximum Purchase Price |
|---|---|---|---|
| *Example* | *$25,000* | *20%* | *$125,000*<br>*(calculated as $25,000 / 0.2)* |
| 1 | $26,000 | 10% | $260,000 |
| 2 | $30,000 | 30% | $100,000 |
| 3 | $10,000 | 20% | $50,000 |
| 4 | $18,000 | 25% | $72,000 |
| 5 | $61,000 | 20% | $305,000 |
| 6 | $20,000 | 10% | $200,000 |
| 7 | $35,000 | 15% | $233,333 |
| 8 | $28,000 | 20% | $140,000 |
| 9 | $50,000 | 25% | $200,000 |
| 10 | $85,000 | 20% | $425,000 |

## *Activity 8 Answers: Home Buying Checklist*

There are no model answers for this activity as answers are based on your personal preferences in regards to the desired features of a home.

## *Activity 9 Answers: Fill the Gaps*

1. Mortgage documentation
2. Property
3. Law society
4. Independent
5. Will
6. Conveyancing
7. Title
8. Valuations
9. Sale
10. Purchase
11. Real Estate
12. Deposit

## *Activity 10 Answers: The 'Why?' Building Quiz*

1. It is a good idea to engage the services of a geo-technical engineer when selecting a section to make sure that the section selected is stable enough to build on. The geo-technical engineer can also let you know if the soil is of good quality so that there won't be any unexpected costs or problems associated with building on the particular site.

2. You should check the survey details for a section because the boundaries of a section may be quite different to what they appear.

3. Lenders do not usually release the full amount of money for a mortgage all at once before the building process begins because they need a certain level of security so they can get their money back if necessary. Also, they need to make sure that you spend the money released on building a house and not on some other purpose. For this reason, they usually release funds in stages, as the value of the work completed increases.

4. A lender may not want to release the full amount of money on a mortgage if the value of the house at that point in time is much lower than the amount to be paid to the builder.

5. An architectural designer in New Zealand cannot call themselves an 'architect' because in order to do so, they would need to be registered with the New Zealand Registered Architects Board and hold a practising certificate issued by that board.

6. You should be wary of using a builder who provides a quote significantly lower than all other builders because this may be an indication that they have not accounted for all costs (and thus may need to charge more later). It might also mean that they may need to cut costs along the way and reduce the quality of the house (although this is not necessarily the case).

7. It is a good idea to purchase a copy of the New Zealand Standard Form of Contract even if your builder has their own form of contract that they prefer to use so that you can compare contracts to check that the builder's contract is fair and reasonable and covers all of the important clauses.

8. This clause would not be valid because under the *Building Act 2004*, the following warranty is automatically provided for workmanship on homes: "The building work will be carried out in accordance with the relevant building code." A builder cannot 'contract out' of this clause.

9. It is best for the person who completes the application for a building consent to be familiar with the Building Code as the Building Consent Authority will check the application for compliance with the Building Code – if it is not compliant, then the consent will not be issued.

10. It is a good idea to get a Project Information Memorandum before applying for a building consent because it may contain information that will indicate whether or not the building consent is likely to be approved. That is, the content of the building consent may need to take into consideration factors identified in the Project Information Memorandum.

11. Someone might need to apply for resource consent in order to build a house because their building plans may have potential environmental effects. Another reason is that their building plans may not be consistent with the plan that the local council has developed in order to manage the environment in their area.

12. It is important to obtain a Code Compliance Certificate on completion of the construction of your home because:

    (1) It is likely to be needed by the mortgage lender in order to get the final amount of the mortgage released.

    (2) It may be a condition of a sale agreement if the house is going to be sold at a later date.

    (3) It provides peace of mind that the house has been built to certain quality standards.

## *Activity 11 Answers: Home Ownership Terms*

| Term | Definition / Explanation | Term | Definition / Explanation |
|---|---|---|---|
| Architect | 2 | Joint tenancy | 6 |
| Architectural designer | 15 | License to occupy | 8 |
| Code Compliance Certificate | 14 | LIM | 10 |
| Conveyancing | 7 | Low-Equity Premium | 5 |
| Covenant | 9 | PIM | 4 |
| Cross-Lease | 11 | Tenancy in Common | 13 |
| Fee Simple | 3 | Zoning | 1 |
| Freehold | 12 (or 3) | | |

## *Activity 12 Answers: Mortgage Features*

| Scrambled Term | Unscrambled Term |
|---|---|
| GVLVREONI ECTRDI | REVOLVING CREDIT |
| CDGREUIN | REDUCING |
| GBDGRIIN | BRIDGING |
| EATLB | TABLE |
| EDSNOC | SECOND |
| TTIEESNR OYNL | INTEREST ONLY |

Some of the key features of each of these mortgages are outlined in the following table.

| **Type of Mortgage:** Revolving Credit Mortgage |
|---|
| **Key Features:**<br>▪ Also called a 'line-of-credit' mortgage.<br>▪ Like a big overdraft.<br>▪ You can repay what you like, whenever you like (subject to any minimum repayment).<br>▪ You can draw down on it – up to whatever your limit is, and use this money for whatever you want.<br>▪ People often use it as their main bank account.<br>▪ Suits people with irregular incomes as there are no fixed repayments.<br>▪ Floating interest rates apply. |
| **Type of Mortgage:** Reducing Mortgage |
| **Key Features:**<br>▪ The amount of principal paid each payment stays the same.<br>▪ You make an interest payment on the outstanding amount of principal owed – therefore, as the amount of principal reduces, your mortgage payments also reduce.<br>▪ Suits people who expect their income to be less in the future. |
| **Type of Mortgage:** Bridging Mortgage |
| **Key Features:**<br>▪ A short-term interest-only mortgage that lets you buy a new home before you have sold your current home.<br>▪ Interest rates usually higher.<br>▪ A fee may also apply. |
| **Type of Mortgage:** Table Mortgage |
| **Key Features:**<br>▪ Payment amounts are constant over the entire period of the mortgage.<br>▪ In the earlier years, a large portion of your payment goes towards interest, whereas in the later years, most of the payment is for the principal. |

| |
|---|
| ▪ Most common form of mortgage in New Zealand. |
| **Type of Mortgage:** Second Mortgage |
| **Key Features:**<br>▪ A second home loan secured against your house, usually from another lender.<br>▪ Often has higher interest rates.<br>▪ Often used to provide another source of cash if your first mortgage lender will not allow you to extend your existing mortgage.<br>▪ Only possible if there is more 'equity' in your house to lend against. |
| **Type of Mortgage:** Interest-Only Mortgage |
| **Key Features:**<br>▪ No principal payments are made until the end of the mortgage.<br>▪ At the end of the mortgage term, the principal is paid in full – often through the sale of the house.<br>▪ More commonly used when buying a house for investment purposes. |

## *Activity 13 Answers: Getting the Right Mortgage*

Note that the answers given for this activity are suggested answers only.

**Scenario 1: Pei & Denise**

It is likely that a table mortgage will be best for Pei & Denise. This is because:

- They both have steady incomes and therefore could meet steady payments.
- They do have some difficulty managing their money and, as such, a revolving credit mortgage is unlikely to be suitable (they would probably dip into this more than they should, and with the chances of either of them getting a pay rise being relatively low, they therefore may not be able to 'make up' the payments at a later time).
- A reducing mortgage is unlikely to be suitable as they would need to be able to pay higher amounts at the start of the mortgage. Given that they have a young family and childcare costs, and that they already have difficulty paying their regular bills, paying higher mortgage repayments now is likely to be a problem for them.

- An interest-only mortgage would not be suitable as it is likely that the only way they would be able to pay for the principal of their home at the end of the mortgage is to sell it.

**Scenario 2: Lauren & Pete**

A revolving credit mortgage would probably be best suited to Lauren & Pete. Reasons for this are as follows:

- Lauren receives large lump sum payments in the form of dividends. It would be good to put this money straight onto the mortgage without being penalised.
- Lauren needs access to cash to support her second business over the next few years. Rather than get separate loans for this, it would be handy (and most likely cheaper in terms of fees and interest rates) to simply be able to withdraw these amounts from her revolving credit bank account.
- Although Pete's income is good, given his health problems, it cannot be counted on in the long term (or even in the short term). Similarly, Lauren also intends to take time out from work in a few years to have more children. Therefore, their income could drop dramatically. Given this uncertainty and irregularity in their income, it would be best to try to pay off larger amounts of the mortgage in the short term while their income is high, and then smaller amounts in later years. Revolving credit mortgages give this flexibility. Although a reducing mortgage also has lower payments in later years, the payment amounts will slowly reduce, whereas Lauren & Pete's income is likely to drastically reduce in a short timeframe.
- Lauren is a great budgeter and is therefore likely to be able to avoid the temptation of withdrawing cash from the revolving credit bank account for other, nonessential, purposes.

**Scenario 3: Nina**

An interest-only mortgage would probably suit Nina's situation. The reasons for this are as follows:

- Nina does not have much cash available to meet mortgage repayments. With an interest-only mortgage, you do not have to repay any of the principal until the end of the mortgage, thus the repayments will be minimal.
- Nina intends to sell the houses in a few years, therefore it would not be a problem for her to get the cash to repay the principal when the time comes (she would simply sell the house and repay the mortgage).

- Nina is confident that the prospects for the property market look good over the next ten years, and would therefore be likely to be willing to risk the chance of the amount that she could receive for the houses being less than the principal to be repaid. In any case, if there was a shortfall, Nina does have other funds available that she could use to cover this.
- Interest-only mortgages are most commonly used for investment purposes – such as in Nina's situation.

## *Activity 14 Answers: The Impact of Time*

The following answers have been produced using the 'Sorted' calculator available at http://www.sorted.org.nz/calculators/mortgage-repayments/.

1.a). 25 year mortgage with monthly payments: $334,667.

1.b). 25 year mortgage with weekly payments: $334,170.

1.c). 20 year mortgage with monthly payments: $256,691.

1.d). 20 year mortgage with weekly payments: $256,141.

1.e). 10 year mortgage with monthly payments: $116,715.

1.f). 10 year mortgage with weekly payments: $116,085.

2.a). Tia would pay $497 less if she were to make weekly payments instead of monthly payments for a 25 year mortgage. I.e. $334,667 - $334,170 = $497.

2.b). Tia would pay $549.58 less if she were to make weekly payments instead of monthly payments for a 20 year mortgage. I.e. $256,691 - $256,141 = $550.

2.c). Tia would pay $630 less if she were to make weekly payments instead of monthly payments for a 10 year mortgage. I.e. $116,715 - $116,085 = $630.

2.d). Tia would pay $77,976 less if she were to reduce the term of her mortgage from 25 years to 20 years and make monthly payments. I.e. $334,667 - $256,691 = $77,976.

2.e). Tia would pay $217,952 less if she were to reduce the term of her mortgage from 25 years to 10 years and make monthly payments. I.e. $334,667 - $116,715 = $217,952.

2.f). Tia would pay $218,582 less if she were to reduce the term of her mortgage from 25 years to 10 years and make weekly instead of monthly payments. I.e. $334,667 - $116,085 = $218,582.

3. Conclusions:

- Reducing the term of the mortgage has a significant impact on the amount of interest that is paid. In this example, by reducing the term of the mortgage from 25 to 20 years, Tia would save $77,976.
- Increasing the frequency of payments results in a small reduction in the amount of interest that needs to be paid. The difference is more notable the shorter the term of the mortgage.
- Tia should try, as much as possible, to reduce the term of her mortgage and should make weekly instead of monthly payments.

## *Activity 15 Answers: Mortgage Crossword*

**Down:** 1. Low Equity Premium; 2. Capped; 3. LIM; 4. Banks; 5. Registered; 7. Variable; 9. Calculator; 10. Shared

**Across:** 6. Official Cash Rate; 8. Equity; 9. Cheaper; 11. Penalty; 12. Security; 13. Offset; 14. Mortgage Broker

## *Activity 16 Answers: Mortgage Quiz*

1. The standard amount of deposit traditionally required for a house was 20%. However, in the years before the world financial crisis (which began in 1997), this reduced due to increasing house prices (i.e. a 20% deposit became less affordable). It became more common for people to have 0% deposits or to even have a mortgage for 102% of the value of the house. However, following the world financial crisis, most lenders tightened their requirements,

requiring at least a 10% deposit. Nowadays, most lenders require a deposit of 20% due to lending rules that the Government introduced in 2013.

2. Insurance options available to help cover your mortgage repayments in the event that you are not able to include:

- Mortgage Protection Insurance
- Term Insurance (this pays out if you die)
- Income Protection Insurance (this pays part or all of your income if you become sick or disabled and are unable to carry on with your job – this can then be used to meet your mortgage payments)

3. The main risk associated with being a guarantor is that, if the person you are acting as a guarantor for is unable to make their required debt payments, you will be required to do so.

   Furthermore, you may be required to provide security for the debt, often in the form of your own property and, if so, this could be sold to repay the debt.

   The other risk is that being a guarantor can put a strain on a relationship – if it looks to you like the person you are acting as guarantor for is not looking after their financial affairs properly, this can cause an argument between yourself and the other party.

4. Two advantages and two disadvantages of fixed interest rates compared to floating interest rates include the following:

- Advantage 1: Fixed interest rates are usually lower than floating rates.
- Advantage 2: You know exactly how much interest you will need to pay for the term covered.
- Disadvantage 1: Mortgages that have fixed interest rates often charge penalty fees if you repay a mortgage faster than agreed (e.g. make lump sum payments).
- Disadvantage 2: Fixed interest rates are generally not available for revolving credit mortgages. Therefore, if you have a fixed interest rate, you will not have the flexibility and benefits associated with a revolving credit mortgage.

5. One advantage and one disadvantage of leaving the mortgage security over your house in place once you have paid it off are as follows:

- Advantage: If the mortgage already exists, it will be easier for you to borrow again in the future and this could save you in lawyer and bank fees.

- Disadvantage: If you enter an agreement whereby you become a guarantor for someone else, the bank could move on this security (i.e. your house) if something goes wrong with the debt for which you are guaranteeing.

6. Questions that you should ask a lender before taking out a mortgage with them (as suggested in the Module) include the following:
   - How much is the application fee?
   - What other fees will be charged?
   - What will be the total cost of this loan, including the fees and interest for the sum I am borrowing and the term I have chosen?
   - How much deposit do you require?
   - What changes can I make after the mortgage is set up?

7. A 'low doc' mortgage is one which does not require the full range of documents needed for standard mortgage applications. Someone may choose to apply for one of these mortgages if they have a poor credit rating, as standard mortgages require a good rating.

8. There are no set answers to this part of the quiz as it depends on your own situation.

## *Activity 17 Answers: Paea's Rental Yields*

**Part A**

*Gross Yields*

- Property A Gross Yield = ($360 x 52) / $400,000 x 100
  = $18,720 / $400,000 x 100
  = 4.68%

- Property B Gross Yield = ($250 x 52) / $240,000 x 100
  = $13,000 / $240,000 x 100
  = 5.42%

- Property C Gross Yield = ($255 x 52) / $225,000 x 100
  = $13,260 / $225,000 x 100
  = 5.89%

Based on gross yields alone, Paea should choose Property C.

*Net Yields*

| | **Property A** | **Property B** | **Property C** |
|---|---|---|---|
| **Gross Annual Rent** | **$18,720** | **$13,000** | **$13,260** |
| | | | |
| **Annual Expenses** | | | |
| ▪ Rates | $2,430 | $1,900 | $2,010 |
| ▪ Repairs & Maintenance | $250 | $600 | $500 |
| ▪ Insurance | $1,150 | $895 | $912 |
| ▪ Management Fees | $0 | $910 | $928 |
| ▪ Vacancy | $720 | $1,000 | $1,020 |
| ***Total Annual Expenses*** | ***$4,550*** | ***$5,305*** | ***$5,370*** |
| | | | |
| **Total Annual Rent less Total Annual Expenses** | **$14,170** | **$7,695** | **$7,890** |
| **Price of Property** | **$400,000** | **$240,000** | **$225,000** |
| | | | |
| **Net Yield (before tax)** | **3.54%** | **3.21%** | **3.51%** |

Based on Net Yields Paea should now choose Property A.

**Part B**

| | **Property A** |
|---|---|
| **Gross Annual Rent** | **$26,000** |
| | |
| **Annual Expenses** | |
| ▪ Rates | $3,430 |
| ▪ Repairs & Maintenance | $650 |
| ▪ Insurance | $1,340 |
| ▪ Management Fees | $1,430 |
| ▪ Vacancy | $1,000 |
| ***Total Annual Expenses*** | ***$7,850*** |
| | |
| **Total Annual Rent less Total Annual Expenses** | **$18,150** |
| **Value of Property** | **$600,000** |
| | |
| **Net Yield (before tax)** | **3.03%** |

2. It is of benefit to Paea to know this updated yield so that she can compare it to yields currently available from other investment properties. If another property offers a better yield, she may wish to consider selling her existing property to buy it (although a range of other factors do need to be taken into consideration).

## *Activity 18 Answers: Investment Return Facts*

| Statement | True or False? | Correct Statement |
|---|---|---|
| If someone buys an investment property and the rental income they receive from that property is less than the interest payments on the loan, they are said to be using 'negative gearing'. | True | |
| The overall return someone gets on a property investment is affected by taxation and loan costs, as well as the yield and capital gains. | True | |
| If you hold a property for a long period of time (e.g. 20 years or more), you will not be taxed on any profit you make from capital gain. | False | If you hold a property for a long period of time, you will be taxed on any profit you make from capital gain if your original intention was to sell the property to make a profit in this way. |
| In order to find out what your original intentions were when purchasing a property, the IRD can look at files that the bank has relating to your mortgage. | True | |
| A Look-Through Company (LTC) has the advantage over a normal company in that it allows expenses such as mortgage interest to be tax-deductible. | False | A Look-Through Company has the advantage over a normal company in that, if it makes a loss, this loss is offset against personal income. This reduces tax payable.<br>OR: With both types of company, expenses such as mortgage interest are |

| Statement | True or False? | Correct Statement |
|---|---|---|
| | | tax-deductible. |
| If you have a mortgage on your house and also have a business entity (e.g. a company or LTC), you can claim the mortgage interest on your home as a tax-deductible expense. | False | Any costs associated with owning your home (e.g. mortgage interest, repairs and maintenance) are not tax deductible. |
| If you own an investment property in your own name, any profits from rental income get added to your personal income for tax purposes. | True | |
| Depreciation involves spreading the cost of an asset out over its useful lifetime. | True | |
| Rates, insurance and conveyancing costs are all examples of tax-deductible expenses. | False | Rates and insurance are examples of tax-deductible expenses. Conveyancing costs are not tax-deductible. |
| When calculating the capital gain on a property, you do not take into account money spent on renovations – simply base calculations on the purchase price and sale price. | False | When calculating the capital gain on a property, you need to take into account money spent on renovations. |

| | | |
|---|---|---|
| When you spend money on maintenance, you increase the costs associated with owning the property. This will decrease the yield unless the amount you spend is outweighed by an increase in rental prices. | True | |
| The Net Yield is always higher than the Gross Yield because it takes into account costs associated with owning a property. | False | The Net Yield is always *lower* than the Gross Yield because it takes into account costs associated with owning a property. |

## *Activity 19 Answers: Leveraging Equity*

There are many examples that tauira could write for this activity. One example is given below:

*The investor would use the $30,000 as a deposit on Property 1 and would borrow the remaining amount of the purchase price ($38,000). This means that they will have a deposit of 44.1% ($30,000 / $68,000 x 100). The investor decides that a 10 year reducing mortgage would be very manageable, especially considering they had already managed to save a $30,000 deposit.*

*Three years later, the value of Property 1 may have increased to $78,000, and the investor would have paid $3,800 per year off the mortgage. That is a total of $11,400 that has been repaid. The mortgage balance would then be $26,600 and equity in Property 1 would therefore be $51,400 ($78,000 - $26,600).*

*Given that the total value of Property 1 plus Property 2 would be $153,000 (i.e. $78,000 + $75,000), the investor could secure a mortgage for this second property since they have over 30% worth of equity for this. That is, 30% of $153,000 is $45,900, and they now have $51,400 equity in Property 1.*

*They would therefore secure a mortgage for $101,600 (i.e. $153,000 – $51,400) to cover both properties. The mortgage would therefore represent 66.4% of the value of the properties ($101,600 / $153,000 x 100).*
*Over the next two years, the investor may have managed to pay a further $3,800 per year off EACH property. That equates to a reduction in debt of $15,200 (i.e. $3,800 x 2 properties x 2 years = $15,200). They would now owe $86,400 (i.e. $101,600 - $15,200).*

*If the investor got the properties re-valued and found they had each increased in value by 10%, Property 1 would then be worth $85,800 and Property 2 would be worth $82,500. The total value of these two properties would be $168,300. The amount of equity in the properties would thus be $81,900 (i.e. $168,300 - $86,400).*

*If the investor was to then buy Property 3 at $90,000, the value of all three properties would be $258,300. The $81,900 equity is more than 30% of this amount (i.e. $81,900 / $258,300 x 100 = 31.7%). Therefore, since they are able to borrow up to 70% of the value of a property, they would be able to extend the mortgage to secure this third property.*

*The total amount they would owe would be $176,400 (i.e. $258,300 - $81,900), which is 68.3% of the value of the properties.*

## ***Activity 20 Answers: Paora's Property Portfolio Plan***

1. The maximum amount that Paora can spend on his first investment property is:

   Maximum Price = Deposit Available / % Deposit Required
   = $39,000 / 15%
   = $39,000 / 0.15
   = $260,000

2. Value of Mortgage = Maximum Price – Deposit Available
   = $260,000 - $39,000
   = $221,000

3. Value of the investment property after 2 years is calculated as follows

Value after 1 year = $260,000 x 1.04 = $270,400
Value after 2 years = $270,400 x 1.09 = $294,736

4. Equity = Value after 2 years - Mortgage
   = $294,736 – ($221,000 - $42,000)
   = $294,736 – $179,000
   = $115,736

5. The maximum amount that Paora can spend on his next two investment properties is calculated as follows:

   Maximum value of all properties = Equity available / % Equity required
   = $115,736 / 15%
   = $771,573

   Maximum value of new properties = $771,573 - Value of 1st Property
   = $771,573 - $294,736
   = $476,837

6. Paora's mortgage is now $655,837 (calculated as 0.85 x $771,573).

7. The maximum amount that Paora can spend on more properties is calculated as follows:

   Equity available = Value of current properties – Mortgage
   = $838,000 – ($655,837 - $40,000)
   = $838,000 - $615,837
   = $222,163

   Maximum value of all properties = Equity available / % Equity required
   = $222,163 / 15%
   = $1,481,087

   Maximum value of new properties = $1,481,087 - Value of other properties
   = $1,481,087 - $838,000
   = $643,087

## *Activity 21 Answers: My Ideal Tenant*

There are no model answers for this activity.

## *Activity 22 Answers: Property Purchase Rationale*

1. It is in a real estate agent's best interests to sell a house for the best price possible. This is because *they earn a commission based on the sale price of the house. The higher the price, the higher their income*.

2. Even if a property investor's primary motivation is to build a portfolio of properties to earn rental income, and that investor does not have any intention of selling the properties they buy, it is a good idea to buy properties with growth potential. This is because *an increase in property value increases the investor's equity, which in turn can be used to purchase more properties*.

3. If you would like to buy a property that is being sold by tender, it is a good idea to do all the research you need, and organise the reports you require, before submitting your offer. This is because *the more conditions you put in your offer, the less attractive it will be to the vendor*.

4. If you are interested in buying a house that is to be sold by auction, do not indicate to the real estate agent how much you will be willing to pay for it. This is because *they may tell the vendor who, based on this information, may decide to set a higher reserve price*.

5. If buying a house by offer and negotiation, it is not necessarily always in your best interests to offer a price lower than what the house is on the market for. This is because *the house may be fairly priced and there may be a lot of other interested buyers. By offering a lower price you may miss out on buying the property.*

## *Activity 23 Answers: Self-Management Assessment*

There are no model answers for this activity.

## *Activity 24 Answers: Maia's Tenants*

1. Actions that were 'right' according to the *Residential Tenancies Act 1986*:

- Maia did not set rent substantially higher than market rent.
- Maia asked for a bond that was equal to four weeks' rent (this is the maximum amount she could legally ask for).
- Maia sent the cheque for the bond into the Building and Housing Group within the required 23 working days after receiving it from the tenants.
- The tenants paid their rent as and when it was due. (This applies to their first year in the house, before things turned sour with the arrangement).
- The tenants kept the premises reasonably clean and tidy.
- Maia's tenants had made a reasonable attempt to notify her of the need for repairs to be done.
- Maia's tenants gave her 21 days' notice that they would be terminating the agreement and moving out.

2. Actions that were illegal under the Act:

- Maia did not give her tenants a receipt for their rent payment at the time she received the cash. Although she did take steps to sort it out the next day, for a cash payment, this is not soon enough.
- Maia did not fully reimburse her tenants for maintenance expenses, even though they had made a number of attempts to contact Maia before getting the repairs done. Given that the maintenance expenses were a reasonable cost, Maia should have reimbursed them. It doesn't matter that Maia could have got the repairs done at a much lower price.
- Maia decided to conduct property inspections every three weeks. The most often she could legally do this was once every four weeks. Given that she only goes to her home town once every three weeks, she could have arranged to instead conduct an inspection every second visit (i.e. once every six weeks).
- Maia's tenants changed the locks. They should have got her consent to do this.
- Maia sent the tenants a letter notifying them that their rent would increase starting from the next fortnightly rent payment. She should have given at least 60 days' notice.

- The tenants stopped paying rent. They should have continued to pay the agreed amount of $250 per week.
- Maia took the tenant's lawnmower. Even though the tenants were behind in their rent payments, she does not have the right to take any of their property.

## *Activity 25 Answers: Property Management Quiz*

1. There are a number of possible responses to this question. Some example responses include:
   - Save money due to not having to pay property management fees.
   - Makes you feel more involved in your investment and gives you more control over decisions.
   - Enables you to be more aware of the condition of the property.

2. All of the listed items may be taken into account when calculating whether a property investment is cashflow positive, neutral or negative. Rates and mortgage interest are always taken into account, but it is optional whether you include taxation of profits and/or mortgage principal payments.

3. Suggested responses are:
   - Because property prices are now quite high in relation to the rent that people can afford and are willing to pay. This means that the interest on the mortgage is often more than the rental income.
   - Legislation stops landlords from setting rent prices higher than market rent by a 'substantial' amount.

4. You need to take particular care to ensure that the person you phone is, in fact, the previous landlord. It is very easy for the person applying to be your tenant to give you someone else's phone number.

5. Yes, it is compulsory to have a written tenancy agreement when renting out a residential property.

6. If the amount of rent payable decreases, the tenant is entitled to a refund of some of the bond money they have paid (so that the total amount of the bond is equal to the number of weeks' rent stated in the tenancy agreement). Alternatively, if the rent payable increases, the landlord may ask the tenant

for more bond money (so that the total amount of the bond is equal to the number of weeks' rent stated in the tenancy agreement).

7. A tenant is only required to pay water charges if the premises has a separate water meter and water is charged on the basis of metered usage AND if it is stated within the tenancy agreement that the tenant will be responsible for this cost.

8. A periodic tenancy.

9. No receipt is required for this particular means of payment.

10. Two situations in which a landlord can enter their property without the tenant's consent and without notifying the tenant are:
    - In the case of an emergency; and
    - If they have an order of the Tenancy Tribunal which allows them to do so.

11. Three steps to take if a tenant gets behind on rent payments are as follows:
    - Contact the tenant to discuss the issue.
    - Issue a 14 days' notice.
    - Apply to the Tenancy Tribunal for assistance to resolve the matter.

12. The tenant is two days in arrears.

13. All the proceeds from the sale must be forwarded to the Building and Housing Group. However, you are entitled to have costs involved in storing and selling the goods reimbursed. Therefore, if the amount that the tenant owes you, plus your costs in storing and selling the goods, is more than the amount of the bond, you will be entitled to receive the rest of the money owing to you out of the proceeds of the sale.

## *Activity 26 Answers: Sale Methods: Who Benefits?*

**Offer and Negotiation – with an Asking Price Specified:**

- There is the potential for either party to benefit, however, for the vendor, this potential may not be as high as for other sale methods. This is because the price is somewhat capped by the asking price set.

- A vendor may benefit because usually more buyers are interested in purchasing a property this way. This increases competition for the property. However, unless there is very strong competition, the price is not likely to go above the asking price they set, but if they have set the asking price too high, they will lose buyer interest.
- A buyer may benefit because an asking price is set, which somewhat acts as an upper limit. If they are quick enough to negotiate the sale, they may be able to get a lower price without much competition from other buyers.

**Offer and Negotiation – with Price Being 'By Negotiation':**

- There is the potential for either party to benefit.
- The buyer may benefit because this method of selling discourages other potential buyers. This would reduce competition for the property. Without much interest, the vendor may be prepared to sell for a lower price than originally intended.
- The vendor may benefit because, they may get offers from people who place a high value on specific parts of the property. Therefore, instead of setting a lower asking price (in order to attract a larger pool of buyers) and cutting out the potential for a higher sale price, there is the possibility that someone may place a higher offer which recognises the 'full' value of the property.

**Auction:**

- There is the potential for either party to benefit.
- The vendor may benefit because the auction environment is quite competitive. Buyers may get carried away with the auction and bid more than they would be prepared to pay in one-on-one negotiations.
- A buyer may also benefit, as, once the reserve price is met, they only need to pay slightly more than the next highest bidder. It could be that they were willing to pay much more and, if it had been a sale by tender, they would have submitted a higher offer.

**Tender:**

- There is the potential for either party to benefit.
- The vendor usually benefits because this method encourages buyers to submit their best offer.

- The buyer may benefit because this method of selling also deters potential buyers and thus reduces competition for the property. Without much interest, the vendor may be prepared to sell for a lower price than originally intended.

## *Activity 27 Answers: Pricing My House*

There are no model answers for this activity.