

To buy or to build?

Monday 12 March 2018 Landlord



In parts of New Zealand you can buy a house that couldn't be built for the purchase price - so it's worth knowing the costs of construction versus buying an existing home.

New Zealand's property market right now is a tangled beast of a thing – investors are nervous, first home buyers are ravenous and listings are tight.

Yet there is always untapped value out there waiting for the right buyer. There are properties on the market below the price it would cost to build them, even relatively new properties.

How does this happen? It's a combination of factors, but the biggest factor is the higher cost of construction in 2018.

Maltbys associate director Geoff Hayr says their data shows there has been a 25% to 28% increase in construction costs over the past five years.

“It all comes back to supply and demand. In Auckland there's a scarcity of labour resources and construction is booming generally.

“Christchurch is tapering off but, over the past five years, it's contributed to the increase.

“Resources were pulled into Christchurch and now other parts of the country are taking off, so it's harder finding tradespeople. “

Materials have increased in cost, compliance also adds costs and tradespeople are hard to find, he says. The result is that building, renovating and extending are expensive.

So in this month's issue of **NZ Property Investor** magazine we investigate the general balance between house and land prices across New Zealand.

Crunching the region-by-region data produces some surprising results.

First, there are parts of the country where you can buy a house that's only a few years old, including the land, for below what it would cost to build today.

That looks like a fantastic buy for the future. Unless construction costs come down, you've instantly got built-in value when you buy such a house.

Second, there are parts of the country where section prices haven't yet caught to house prices. That means buying land right now could be an excellent strategic move.