

Pre-sales: What qualifies?

To get your projects funded you'll typically need to show pre-sales. The pre-sales requirements can vary significantly depending on the lender and type of project. Working out these requirements is rarely a simple exercise and with so much variance between lenders, it's becoming more complicated.

We've outlined some of the key considerations to help you navigate the process and get your funding applications accepted.

Typical Key Criteria

- Pre-sales cannot usually be to parties related to the developer
- Terms need to be consistent with plans and consents for the project
- Pre-sales be unconditional from the purchaser's perspective
- The form of contract will be reviewed by the lender's solicitor
- Deposits must be held in an acceptable solicitor's trust account
- Multiple unit sales or high value sales to the same buyer are not typically accepted
- Settlement must be soon after practical completion of the development (often 2 weeks)

Minimum Deposit Amounts

- 10% for New Zealand citizens and permanent residents
- 20% for non-New Zealand residents

Sunset Dates

In the past, sunset dates needed to be no less than six months from the expected project completion date provided by the lender's quantity surveyor.

Due to increases in construction delays, contractor failures and the scale of construction projects, sunset dates are now extending out to twelve months or longer.

Other Considerations

For more specialised developments, lenders may require a spread of sales across unit types or require a minimum percentage of qualifying presales of a particular type of unit.

Lenders will also cap the percentage of presales to non-New Zealand residents.

Overseas Investment Amendment Bill

This legislation comes into effect in October 2018 and will further impact on preselling. Exemptions apply to Australians and Singaporeans. There is still scope to sell apartments off the plan and lease back hotel units in larger developments to overseas persons.

It will remain hard for overseas persons to obtain bank mortgage finance for units purchased, so sales of lower priced investment units will be more popular.

Some major developers will continue to look at ways to provide their own funding to purchasers of their units.

Choose the right lender

The right lender will have the experience and knowledge to help you navigate the pre-sales process. You should also ensure your lender is up to date on the latest changes to requirements both legislative and in marketplace requirements.

Because every development will need a unique approach to pre-sales, you'll be well served in choosing a lender that has a track record of successful pre-sale strategy and can provide tailored funding solutions to fit your projects.

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