



November 2021

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Is it a good idea to invest in bare land?

There is a saying in real estate:

"It is not the house that increases in value, it is the land beneath it"

Land is a scarce resource that represents most of the value in any property asset while the structure on top of the land depreciates over time as the materials wear down. If you check your rates or government valuation, you will find this to be true, particularly with older properties.

We buy houses based on their features, but what we are also paying for the section of land that the house is built on.

Does that mean that buying an empty section would make a smart, relatively care-free investment? The answer is, "it depends". Here are a few key points to consider if you want to add 'land-banking' to your list of investments.

Sales Ability & Liquidity

In a hot market, buying land always looks like a good idea. It is not uncommon to hear stories of sections going up in value by hundreds of thousands of dollars in a few short years, especially in the main centres. But in a down market, bare land can be hard to sell, with sections often languishing on the market for months, gathering little to no interest.

Potential buyer market

Part of the reason why sections can be hard to sell is because the potential buyer market is limited. You need to find a buyer who has the funding, flexibility, vision and patience to build brand new. Someone who can take a blank canvas and turn it into a new home.

Banks are often reluctant to lend money against bare land unless there is an actionable plan in place to build a home on it within 12 months.

Ongoing cost

Bare ground is not an expense-free investment. There are rates to pay, plus maintenance costs as the grass will most likely need to be occasionally mowed. If you have borrowed money to buy, you will have mortgage costs too.

Conversely, if you paid cash, then there is the opportunity cost of that investment. Specifically, the return you could have received if you had invested that money somewhere else.

You will be hoping that the increase in value of your land increases enough to cover these costs and more, but you won't be able to realise that value growth until you choose to sell.

Unlike a house (which you can rent out) there is little possibility of earning a return from your vacant land during your period of ownership.

But what about the upside!

As I alluded to at the beginning, land is a finite resource.

Buying bare land gives you an opportunity to secure your ideal spot for future benefit, even if you don't plan to build anything there in the immediate future. You might buy a section in a small town you want to move to one day, or near a school you want your children to go to when they are older.

Some sections also have potential to be subdivided in future, especially if you expect a zoning change at some stage. Buying rural land on the edge of expanding suburbs can pay off massively if you are prepared to hold the land long-term.

In summary

Before you jump into any bare land purchase, seek expert impartial advice. It is critical to speak with an experienced lawyer before going ahead, especially if the title has not yet been issued. It is also imperative that you complete your due diligence if you are planning to build. Check with the local council re any building restrictions and consult with an architect and builder. If the land is not level, you may need to consult with an engineer as well.

If you are looking at buying land strictly as an investment, consider the alternative options alongside that decision, including buying an existing home that you can rent out to help cover any costs of ownership.

Ready to make a purchase?

I am here to assist. Call me today to discuss your requirements and I will do my best to help you achieve your real estate goals.