

# The Value of Building a New Home

Much has been written and reported around the current property 'boom' occurring in New Zealand and the exponential rise in property values across the country. Much has also been written that until we solve our supply issues, values will continue to at least hold if not grow as there are currently more buyers than available housing stock. Of real interest, however, is that there is strong evidence from our analysis of improved sales to show that the dollar per square metre rate (\$/m<sup>2</sup>) is higher when purchasing an existing home as opposed to building a new one. This would suggest, currently, it is better value to build a new home than buy an existing one.

Body Text To clarify when someone wants to build a house and requires money from the bank to do so, as valuers we are asked to complete a valuation 'As Is' and 'As If Complete' for Mortgage Security purposes. As valuers we analyse a \$/m<sup>2</sup> rate on a new build and that analysis includes everything from a bare section to the time its built, including things like plans, consents, kitchen, laundry, bathrooms, decks, landscaping, driveway and any other improvements such as swimming pools. What we are finding after analysis is that the cost to build the house is less than if you bought an

existing home of a similar size and design.

The New Zealand Building Economist (NZBE) recently released new data for their regional house costs guide. This shows the average \$/m<sup>2</sup> rate to build a new house in the central region of which Hawke's Bay is included is \$2,550 per square metre for a medium quality one storey home. Our own construction costings evidence shows that there is a consistent range of between \$2,500 - \$3,000 per square metre to build a home in Hawke's Bay. Whereas we are starting to see a real creep in \$/

m<sup>2</sup> rates when buying existing homes which are starting to analyse to a range of \$3,500 - \$4,500.

For example, a recent new build in Te Awa of a 178 square metre home with three bedrooms analysed to a rate of \$2,700 per square metre to build. Analysing extremely comparable sales evidence, the same property would have cost \$3,600 per square metre to buy purchased on the open market. This works out to be the equivalent of approximately a \$100,000 difference. This is highlighting a growing trend of evidence that suggests you are paying a premium to buy an existing property.

## REGIONAL HOUSE COSTS

Gross Floor Area (Ex GST) of \$/m <sup>2</sup>	AUCKLAND	BOP/WKO	CENTRAL	WGTN	CHCH	DUDN
Basic House	2,277	2,174	2,139	2,174	2,427	2,139
Med. Quality House – One Storey	2,726	2,588	2,553	2,588	2,852	2,553
Med. Quality House – Two Storey	2,967	2,588	2,933	2,588	2,944	2,852
Executive House – Two Storey	6,256	6,222	6,222	6,233	6,256	6,027

HOUSE TYPE	Gross Floor Area m <sup>2</sup>	HOUSE TYPE DESCRIPTION
Basic House	90-130	Concrete slab or particle board floor, kitchen, bathroom, WC, fibre-cement weatherboards, galvanised steel roof and standard quality fittings.
Med. Quality House – One Storey	100 - 250	Concrete slab or particle board floor, kitchen, bathroom, WC, linea/cedar pine weatherboards or painted fibre-cement cladding, Colorsteel roof, standard quality fittings.
Med. Quality House – Two Storey	150 - 300	Concrete floor slab, concrete tile roof, kitchen, bathroom, ensuite, internal double garage medium standard fittings, brick veneer to ground floor with cedar or pine weatherboards to upper storey.
Executive House – Two Storey	200 - 600	Executive quality, insulated concrete floor slab, standing seam roof, designer kitchen, bathroom, two ensuites, security, TV fire protection, underfloor heating, gas fire, multiple garages with concrete floor, superior quality fittings.

Information supplied by NZBE May 2021

\*Figures quoted are inc GST

Sales analysed in our office on existing housing stock (comparing a 'basic house' type with floor areas between 90-130 square metres) have analysed to a \$/m<sup>2</sup> rate ranging from between \$2,900/m<sup>2</sup> to \$5,000/m<sup>2</sup>. Bear in mind that these rates or for existing housing stock, not brand new homes and built anywhere between early 1900's to 2015.

These \$/m<sup>2</sup> rates also come off the back of well reported issues around supply, materials and the sheer difficulty in being

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able to find land, a builder and all the tradesmen required to complete a new build which are only serving to increase the cost to build a home. Figures produced by NZBE (see table) show the latest average \$/m<sup>2</sup> rate to build a new house as at May 2021. Whether this trend holds, remains to be seen, as material costs have risen up to 25% over each of the past five years (Stats NZ) and the shortage of skilled tradespeople means those costs have increased, too. As building activity increases, so too do material

costs and we are beginning to see supply constraints which will probably only increase. . However, there is growing evidence to show that there is more value in building a house than buying an existing home. Bearing in mind of course that a new build will be more energy efficient, with brand new fixtures and fittings and very low maintenance costs.

Of course, building takes time and effort and in our time poor world, maybe we need to pause, take a breath

and consider the options. If you want value, maybe building your next home will be a more appealing option.

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