

A happy new year to you all. We hope that you had a wonderful festive season and time off to relax. Now we face another year but early signs are indicating a change.

Whilst the office was closed for several days' members of our team worked right through the break. And we have been busy. Many requests for a rental appraisal, several new listings, good numbers of potential tenants attending viewings and some very high standard applications for properties. Three of our new listings went within 48 hours with multiple applications for them. Long may this continue.

What are people looking for?

- New or near new. Across the market there are a large number of such properties so potential new tenants are expecting more.
- Close to transport, schooling and shopping. More of our recent applicants DO NOT own a car.
- Family homes are always in demand.

Let's take a look at what is available in the market as of today compared to figures from July 2018.

By number of bedrooms: July 18:

	1	2	3	4	5+	
Christchurch	189	378	480	200	91	1347
Banks Peninsular	6	5	8	4	0	23
Selwyn	2	10	32	29	4	77
Waimakariri	1	10	33	19	3	66
						1513

January 19, 2019:

	1	2	3	4	5+	
Christchurch	179	367	409	185	91	1231
Banks Peninsular	4	3	4	1	0	12
Selwyn	3	11	25	33	4	76
Waimakariri	1	3	18	13	4	39
						1358

What does this show us?

- A drop of 155 properties – or 10%. Whilst not an insignificant drop this does not truly reflect the change. January and February are the busiest times of the year. Many leases are scheduled to fall due for renewal around this time and the number of properties available usually lifts substantially. This has not happened this year. We are finding more lease agreements are being renewed - people are staying in place rather than moving between properties. There is some movement however. Some tenants are seeking to re-rent at a lower cost and some are looking at up-grading to a more modern property. But overall the market is fairly stable.
- We are a little surprised by the fall in available properties in the outlying areas. There has been a marked drop in the number of people looking to rent in say Pegasus or Lincoln. But others are moving there as this is where many of the new homes are available. Schooling and shopping has improved considerably over recent years. It can also be accounted for by a drop in 'spec house' building in these areas. Many of the rentals that have been available over recent years have been unsold 'spec' builds.
- Volumes by bedroom numbers have been consistent. The large number of 1 bedroom properties would be a worry as we get limited interest in this size. However it is a price driven option for some tenants. Larger 5+ bedroom properties can also sit for a while. The demand for such properties had been driven largely by the re-construction sector. Companies had been renting such properties for staff they bought into Christchurch. That demand has now fallen right away.

Welcome to your monthly update from *Quinovic Merivale* on property investment news and opportunities.

22 January 2019

By rental level:
July 18:

	0 - 200	200 - 300	300 - 400	400 - 500	500 - 600	600 - 800	800 +
Christchurch	57	158	460	385	137	100	50
Banks Peninsular	2	4	6	8	1	2	0
Selwyn	1	5	17	34	16	4	0
Waimakariri	0	6	20	31	5	4	0

January 19th, 2019

	0 - 200	200 - 300	300 - 400	400 - 500	500 - 600	600 - 800	800 +
Christchurch	58	141	383	368	156	90	35
Banks Peninsular	2	2	3	1	3	1	0
Selwyn	2	2	15	29	22	4	2
Waimakariri	0	1	8	19	8	2	1

What can be seen from this?

- That there has been no marked change in property numbers available in each classification. However what we can't see from this is if the 'calibre' of home in each rent level as changed. We doubt if it has as previously reported we have not seen significant changes in rent levels over the past few years.
- Property numbers at the top end have fallen and this may indicated more realistic rentals being asked or it just may be that fewer top end properties are currently available.

We have certainly had recent success in leasing properties at the top end over recent months so there is still a demand – albeit limited – for such homes. Looking at some of the homes currently available above \$800 per week we would suggest there remains a degree of optimism – or a lack of reality – within the sector.

To us these comparisons give us hope. With falling availability there comes higher demand. With higher demand comes stable rent levels – maybe even an improvement. As we always say. The right property, at the right rent will always go.

The Real Estate sector reports low levels of sales in December. Seasonally adjusted sales fell by 12% when compared to December 2017 led by Auckland where sales fell by nearly a quarter. REINZ Chief Executive Bindi Norwell says that part of the reason was 'unrealistic expectations on the part of vendors'. A shortage of stock for sale may also be a contributor with some regions reporting the lowest level of available properties since records began back in 2007. Gisborne for example has only 83 properties listed for sale. The number of properties listed for sale fell 1.8% in December the lowest level over the past 5 months.

Further problems for KiwiBuild. Their boss, Stephen Barclay, has resigned after only 6 months in the role. As reported last month he had not been working in the office for some time and apparently an employment dispute was behind this.

After more than 12 months the build program is well behind its committed target of 100,000 new builds over 10 years. To date less than 100.

A recent report by Tailrisk Economics on the matter of Healthy Homes – particularly 'damp homes' has some interesting conclusions. We re-print some of their report here.

The proposed Healthy Homes Regulations: An Assessment Part one:

Introduction In September 2018 the Ministry of Business, Innovation and Employment (MBIE) released a discussion paper on various proposals to improve the insulation, heating capacity, ventilation, moisture egress and draft proofing properties of rental dwellings. This discussion paper is a response to many of the issues raised in that document. The paper primarily discusses the

New Zealand Institute of Economic Research's (NZIER) cost benefit analysis, which provides the quantitative analytical support for the proposals. However, the proposals, and the supporting evidence and discussion have broader implications than just for rental housing, so we first discuss some of the claims made about home heating and health which relate to all home occupants.

It is claimed in many papers and documents that many New Zealand houses, not just rental houses, are 'cold and damp' and that this has material health implications. A key touch point for this assessment is that our homes do not meet the World Health Organisation (WHO) recommendation that indoor spaces be heated to at least 18 degrees Celsius.

It is not altogether clear what the WHO means by a house having an average temperature of 18 degrees. Do they mean that all rooms should be at 18 degrees, 24 hours a day? Or do they mean rooms should be over 18 degrees just when people are in them? On the latter interpretation the temperature in bedrooms should be over 18 degrees through the night, and those living rooms should be 18 degrees right through the day.

A study by the Building Research Association of New Zealand (BRANZ) found that, during the winter months, average living room and bedroom temperatures were 15.8°C and 14.2°C, respectively, during the day and 13.5°C and 12.6°C, overnight. This looks like there is a 'problem' if the WHO 18 degree standard is a meaningful indicator of health risk. But the living room averages are not very useful because they include significant periods when the room is either not occupied, or when the occupant is active and does not need, or want, a higher temperature. In the evenings the typical average temperature is around 18 degrees. The bedroom nighttime temperatures are indicative of the temperatures people sleep in.

Many New Zealanders would see the idea that they should be targeting 18 degrees right through the

day in living rooms as wrong-headed. The idea that rooms should be heated when no one is in them is simply silly. Mostly, New Zealanders do not (excluding the elderly, the sick and children's bedrooms) heat their bedrooms right through the night, preferring a lower temperature, and see bedroom heating as mostly wasteful. They know from experience and their approach is not a health risk.

So the first issue we deal with is who is right. Is the typical New Zealand approach of spot heating, and putting on more clothes and bedclothes in winter a sensible, frugal and energy efficient approach, or have New Zealanders been unwittingly running health risks?

To answer this question, in part three we look at the evidence in the WHO report¹ that support an 18 degree target, and a later report by Public Health England, which reviewed all of the relevant literature on the health risk of indoor temperatures

The bulk of this paper reviews the NZIER's cost benefit analyses of the proposals. In part three we look at their theoretical arguments for intervention. Part four looks at the additional insulation requirement. Part five reviews the heating requirement cost benefit analyses. Where appropriate we adjust the methodology and/or inputs and then present our own cost benefit results. Parts six seven and eight look at the ventilation, moisture egress and draft stopping standards. The final section discusses rent increases and the impact of the Government's payments to assist the elderly with winter heating expenses.

What is the evidence of a systemic problem?

As noted, it is almost taken as self-evident that if that average indoor temperatures are not at the WHO 'recommendation' that there is a problem. No attention has been paid to what tenants actually think. A 2017 BRANZ report, on the New Zealand rental sector found that 82 percent of tenants were

happy with their accommodation. Of the eighteen percent who were dissatisfied, the largest problem was that the house was too small for their needs. 15 percent said the property was cold and damp. That is, cold and dampness was a problem for 2.7 percent of tenants (18 percent times 15 percent). Of that 2.7 percent it is not clear if the problem was due to the intrinsic 1 WHO, (1987), Health Impact of Low Indoor Temperatures: Report on a WHO meeting Copenhagen 11-14 5 properties of the house or to tenant behavior. Most houses will be cold and damp if the tenant does not adequately heat and ventilate the property.

Part two: Key Conclusions

World Health Organisation did not recommend a minimum indoor temperature of 18 degrees!

The World Health Organisation did not, as claimed by MBIE, the NZIER and many academics, recommend a minimum indoor temperature of 18 degrees for the general population. What they did say is that No conclusions could be reached on the average indoor ambient temperature below which the health of the general population may be considered endangered. There was no evidence at all to support an 18 degree threshold.

New Zealand bedroom heating practices do not present a health risk!

There is research evidence that the common New Zealand practice of lightly heating bedrooms is safe for the general population. Winter-weight bedclothes keep people warm; there is no evidence that it is unsafe.

Cold and damp dwellings are not a widespread problem for renters!

A comprehensive survey by Building Research Association New Zealand found that only 2.7 percent of tenants thought that their rental was cold and damp. Of that percentage it was not clear what proportion was due to inadequate use of heating and a failure to ventilate by tenants.

Cost benefit outcomes are negative not positive!

The NZIER's cost benefit analyses of the proposals were generally 'client friendly'. Key 'unhelpful' documents were sometimes ignored, costs were systematically understated, and unrealistic methodologies were adopted that overstated the net benefits. Our assessments of the net benefits is that they are strongly negative.

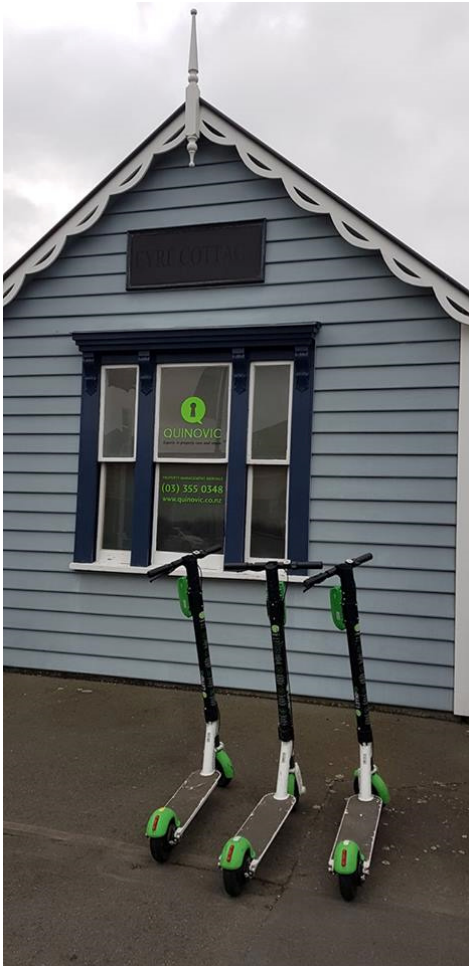
- On the most intrusive insulation top-up proposal the benefit cost ratio is 0.39, and the net cost is \$270 million. The NZIER's estimates were 1.51 and a net benefit of \$130 million. The NZIER assumed that insulation would reduce deaths from the cold, even if renters did not increase the temperature, taking all the benefits through lower heating costs. The NZIER ignored the cost of underfloor insulation altogether. 6
- Our assessment of the heating requirement for living rooms shows a benefit to cost ratio of 0.38 and a net cost of \$418 million The NZIER's estimates were 1.34 and a net gain of \$169 million.
- Our estimate of the benefit cost ratio for requiring plug-in electric heaters in bedrooms is 0.12 compared to the NZIER's 0.26. If heat pumps are required in some bedrooms the benefit to cost ratio falls to .04
- There was no field-testing of the draught stopping proposals so the NZIER did not know how they would work in practice. However, they produced a wildly optimistic 'indicative' cost benefit analysis that showed a benefit to cost ratio of 3.36. Our indicative analysis produced a ratio of .02.
- The research evidence shows that underfloor ventilation of just 20 percent of code provides adequate ventilation. Expenditures to upgrade ventilation and to install ground sheeting will be almost entirely a waste of money.

The full report is 48 pages long. If you wish to read more of the background it can be found on the New Zealand Property Investors Federation webpage. Go to newsletter, article headed 'Damp Homes a Myth'.

Welcome to your monthly update from *Quinovic Merivale* on property investment news and opportunities.

22 January 2019

If correct then these findings draw into disrepute the claims of MBIE and NZIER with regard to damp homes and the effects of such. It also draws attention to the planned changes demanded by the Ministry of Housing to upgrade insulation and heating in rental properties.



Our new company fleet as seen outside of our office. They are the right colour but finding room for signwriting is proving difficult.

This newsletter goes out to many people / organisations that are not currently our clients. We acknowledge that many landlords wish to manage their own investments. But we would like to remind you that we offer an Independent Inspection Service. We will conduct quarterly property inspections and provide you with a full written report. You will find this invaluable should for any reason disputes arise with your tenants or should you find yourself before the Tenancy Tribunal or claiming off your insurance company. For more information please contact Sharon.

We are pleased to advise that Andrea Johnson has been promoted to a new position that encompasses some administrative responsibilities plus the management of our Room x Room portfolio.

We welcome Tracey Mitchell- Wilson to the business. Tracey will be responsible for reception and administrative duties.

Best wishes to you all

Sharon, Lexi, Carolyn, Andrea and Tracey