www.quinovic.co.nz

INVESTOR IQ

QUINOVIC
Experts in property care and return

Welcome to your monthly update from Quinovic Merivale on property investment news and opportunities. *15 February 2019*

A non-eventful time at the office over recent weeks. We continue to get new opportunities. We continue to get strong response to listings. Overall nothing special to report.

It has also been a very quiet time in the media. Not just about Quinovic but about the property management sector in general. A couple of relatively insignificant findings from the Tribunal have been reported but little else.

One decision I did see from the Tribunal was that they fined a former Housing New Zealand tenant for removing some carpet and for painting the floorboards – pink! The reason for the fine was that the damage was more than 'fair wear and tear'.

I found this an interesting outcome given the Governments stated intention is to make changes to the law which would allow tenants to make alterations to the property. I have to conclude that on this occasion the carpet had been destroyed and that the tenant was 'not able to restore the property to its previous condition'. Mind you until such time as we see the proposed law changes we don't know if restoration will be a requirement.

Also reported in the media was that Wellington is now the most expensive city in New Zealand for renting. Yes, with an average rent of $565 pw – it has overtaken Auckland where the average is now $550 pw.

There is a severe shortage of rental properties in Wellington. A recent ad for a 2 bedroom property in Newtown attracted 137 inquiries. A property in Wainuiomata – a 20 minute drive from the CBD – attracted 95 inquiries.

Tenants are being encouraged to look further afield – to Upper Hutt or to Porirua and beyond. The one saving grace in Wellington is that most of these areas are well serviced by public transport into the city.

There continues to be much publicity around the success or failure of Kiwibuild. It has become a political hot potato. It is obviously a disaster at this point in time – especially a PR disaster. Not helped by a report that Kiwibuild properties in Wanaka that failed to attract any interest are now being sold to the public outside of the Kiwibuild program.

We don't think anyone denies that there is a shortage of properties within New Zealand and that a supply of new property will be beneficial to so many. But not the sort of houses being built or at the price they are being built for. The economics of home building needs to be reviewed. There seems little doubt that over recent years the cost of building has risen substantially but the question yet to be addressed is why? Pressures on materials and manpower resultant from our earthquakes would have been a reason but those have now stopped. Land cost are high due to restrictive zoning practices and unduly long application processes but even if you take those costs out of the equation the per square meter price to build remains high. Addressing this prior to commencing Kiwibuild may have eased the backlash.

The latest report from the Property Foundation and Massey University shows a slight improvement in home affordability. This they claim is driven by falling quarterly house prices and record low mortgage rates.

Nationally the average price of a house has fallen 4.4% or $19,500. Some areas show price drops higher than this – Central Otag0 $20,000 / Northland $24,000).

The results year on year shows an improvement of 2.1% nationwide.

In absolute home affordability index point terms the top 5 regions for home affordability in New Zealand are Southland (10.3 index points), Taranaki (12.8 index points), Manawatu / Whanagui (14.3 index points), Otago (16.4 index points) and Canterbury / Westland (18.0 index points). The 2 least affordable regions remain Central Otago Lakes (50 index points) and Auckland / Thames / Coromandel (46 index points).

National house prices relative to income has fallen from 9.1 times annual wages to 8.8 times. Still very high.

It is apparent from the study that for New Zealand housing affordability remains a national and regional problem in the short and medium term.

Christchurch sits at 79% of the national average in terms of affordability.

Christchurch average house prices have inched up by 0.2% over the last 3 months ending 2018 up 0.6% which whilst still lagging the rest of the country is an improvement. The city's average is $496,562

INVESTOR IQ

www.quinovic.co.nz

QUINOVIC
Experts in property care and return

Welcome to your monthly update from Quinovic Merivale on property investment news and opportunities. *15 February 2019*

We all await the findings of the Tax Working Group led by Sir Michael Cullen. It has been suggested that the group will propose a form of Capital Gains Tax by the workings of this have yet to be revealed. The report is to be released by the end of February.

The Reserve bank has chosen not to increase the bank lending rate. However there are other factors which may impact negatively on the current housing market.

The current market enjoys strong foundations in terms of low mortgage rates, a relaxation of the LVR rules for both owner occupiers and investors, still high (albeit slowing) population growth, a strong labour market (though again there are signs of this slowing) and a shortage of new homes being actually built despite very encouraging consent figures.

Counter-acting these factors however are proposed tax changes for investment property, an increased requirement for banks to hold greater capital against their loans and the elimination of foreign buyers in the marketplace.

Growth rates are expected to remain constrained but this may not necessarily lead to falling values as has been seen in some markets world-wide.

The 2018 year ended with a fizz rather than a bang in terms of house sales. December saw the lowest volume of sales for more than 7 years. Sales decreased by 12.9% nationwide but if you take out the Auckland market this is a drop of 8.2%. In Auckland sales fell by 24.3% to the lowest number in 10 years.

The number of properties available for sale has also fallen – by 1.84% nationwide. Gisborne for example with only 83 properties for sale is the lowest level ever seen on records. Such low levels are helping to keep prices up.

We came across this summary which you may find of interest. 2019 from the viewpoint of QVNZ. In part it supports and in part it questions the views of other commentators.

<u>2019 Forecast- QV</u>

It's been another fascinating year for NZ's property market in 2018. With volumes low (but stable) and values generally showing consistent growth across the country (expect for Auckland and Christchurch), a lot of the market interest has focused on government policy and measures to stifle property speculation. So, we've dusted off our data and analytics-driven crystal ball, and present to you our 2019 property and economic outlook. Here's our top 10 list, summarised:

1. LVR changes: The first milestone for 2019 will be the relaxation of the LVR restrictions on 1st January 2019. We're cautious about the effects these changes may actually have on market activity because banks are likely to stick to tough lending criteria, so the pool of potential borrowers who can meet those requirements may not be that big.

2. Foreign Buyers: The foreign buyer ban has already been in place for a few months (from 22nd October) and on 8th February 2019, we'll get Statistics NZ's data on their Q4 activity in the final three months of 2018. It's probably too soon to decipher any flow on effects of the ban just yet, so we'll be watching the figures closely as the New Year begins. In terms of how big the foreign buyer market actually is in New Zealand, it hovers at 1-2% of net ownership changes (buying less selling). We do however caution that this doesn't factor in corporate transactions (where it's hard to distinguish between domestic and foreign buying), which can be as much as 10% of activity. These figures are national by the way; they're higher in Queenstown and central Auckland. Getting back to that ban, if effective (and effectively policed), purchasing by foreign buyers should have fallen away towards zero. Although it's not often talked about, it's important to note that there are loopholes. Foreign buyers can still buy into NZ if they are buying off the plans and holding apartments in bigger developments (20 apartments or more). This is important funding and commitment to buy can help kick off at a time when securing development finance from banks has become harder. Sure, the numbers won't be massive, but ultimately, everything helps when it comes to increasing NZ's housing stock. They can rent them out, just not to family or associates.

3. Capital Gains Tax: The Tax Working Group will be submitting its final report to the government in February 2019 with a recommendation of whether or not to

impose a capital gains tax, and in what form (if the recommendation is indeed for a tax, which seems likely). However, it's important to note that the government would then have to accept that recommendation and also survive the next election (2020) before any tax would come into law, so it's certainly not a short term impact.

4. Ring-fencing of rental property losses for tax relief. Moving forward to April 2019, the intention is to ring-fence rental property losses for tax relief purposes. At the moment, if you're a property investor and you make a loss, you can use that loss to reduce the amount you're taxed on other income sources. The new approach is basically saying that any losses can still be applied for tax relief, but limited to the asset class of property. So, landlords can still use losses to reduce tax across their current property portfolio by applying losses from one property against profit from another property and/or from one year to the next. What is no longer permitted is applying that loss against other forms of income. It's targeting the speculative end of the market who are in it for the capital gain. It will be really interesting to see if this triggers some existing landlords to leave the sector. The bigger investors may restructure in advance, but on its own the ring-fence seems unlikely to cause a mass exodus.

5. KiwiBuild. Then there's KiwiBuild. The programme has had its fair share of teething problems to date, but they'll be hoping to really ramp up momentum in 2019, both in terms of construction volumes and buyer take-up of the houses actually built. Their first headline target was that 1,000 KiwiBuild modest, affordable properties would be completed by mid-2019, and according to the dashboard tracker on their website, they look reasonably on-track to meet that. They've announced some developer partnerships, have sold 40 homes, completed another 33 homes, with another 77 under construction and a further 4,047 contracted to build. An interesting aspect to all this is whether the homes do actually end up with First Home Buyers. If a property goes through ballot and doesn't sell, it can be sold to other buyer types (e.g. investors) but still at the capped price. That's part of the system and not a failure – KiwiBuild's primary aim is to raise the stock of 'starter' homes available, and if they end up with FHBs then that's a good secondary result. Another related topic is the influence of KiwiBuild on the construction sector. In a year in which several major companies went bust, and development funding became a bit harder, could this means firms pivot their focus – perhaps towards smaller dwellings (independent of KiwiBuild, or pre-fabrication? One to watch.

6. Building Consents. New Zealand is currently in the midst of one of the three biggest booms for building consents in the past 50-odd years, driven by Auckland and a gradual shift away from standalone houses and towards smaller dwellings (townhouses, apartments, flats). However, looking at Auckland specifically, we estimate that of the 12-13,000 consents per year, only about half are resulting in a genuine chance in the stock of housing: because there's a lot of infill development going on, i.e. knocking down a property to build a replacement(s). In short, consents and actual construction volumes need to stay high - or perhaps even rise further to make a real dent in the current shortfall of housing. That could be problematic in 2019 for an industry already running at full tilt.

7. Immigration. At least the easing in the net migration balance, which is very likely to continue in 2019, will help to take some of the steam out of property demand and dampen the pressure on the construction sector. However, the effect may only be small and slow – after all, net migration is still very high and will take a fair while to diminish.

8. Interest rates. The official cash rate will remain at 1.75% in 2019 (and probably most of 2020) and that should help interest rates to stay reasonably low and stable. However, the balance of risks around mortgage rates is to the upside. Flow through effects from higher offshore rates cannot be ruled out, and the signalling by the Reserve Bank that capital adequacy requirements will be raised over the next five years could also see mortgage rates rise. Any increases in 2019 will probably be small, but we'll still be keeping a close watch.

9. Market volumes. How all of these factors above interact with each other, and other macro factors such as GDP growth and the labour market, will go a long way to determining the path for sales volumes in 2019. Our central forecast is that volumes will stay at around 80-85,000 in 2019 (similar to 2018), with the LVR relaxation likely to mean that the actual figure is more towards the top of that range than the bottom. But whether they're 80,000 or 85,000, sales will still be well below previous peaks of more than 100,000.

10. Property values. Now for the million dollar question that every property owner or buyer wants to know: will prices move up, down or stabilise? Generally speaking, we'd anticipate similar patterns to 2018, with average prices across the country rising by 3- 5%. It would be no surprise to see Dunedin and Wellington outperforming that figure, and Christchurch and Auckland underperforming. Many regional centres that have fared well this year (e.g. Napier, Whanganui, Palmerston North, and Invercargill) may well do the same in 2019.

In summary: There's a LOT going on. Our crystal ball prediction is another solid year, without any major upheavals. The local market is more stabilised, but there's still the unknown risk of offshore dynamics. Either way, it'll be another busy year, with plenty to watch. Of course, if you're thinking of buying or selling, do your research and you know where to go for that!

Best wishes to you all

Sharon, Lexi, Carolyn, Andrea and Tracey