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. *18 March 2019*

How can we start this newsletter without acknowledging the terrible attack on the two city mosques and on the Muslim community. The hatred shown by an ill-informed individual (or perhaps group – this is yet to become evident) towards a group of innocent people at their time of prayer is unprecedented in this country. The fact that the main perpetrator is not a New Zealander but simply chose to undertake his violence within our city was beyond our control. Regardless this situation may make many of us consider what we feel about such acts in whatever country around the world and encourage us all to work towards a loving and understanding multi -racial community. Our thoughts go out to all those members of our community who lost loved ones last Friday and to our Muslim community in general.

Not only has the weather been good this past month but business has also much improved. After the doldrums of the end of last year this year has been much more positive. There is activity on the new business front and activity from potential tenants. Long may it continue but given we are heading into autumn and winter things usually quieten down around this time.

New business is a mix of longer term rental properties moving to us from other suppliers and of new to market rentals, sadly a reflection of the slower property market in Christchurch. But even here there are a few signs that this may also be on the improve. One home we know of sold recently after only 3 days on the market. Of course this is offset by others that seem to have stuck for some time.

From the tenants perspective demand is coming from young professionals, young couples and families. There is some interest in modern apartment style properties within the 4 avenues but most interest is for properties in the suburbs, on transport routes, close to facilities and schools.

And good signs also on the rental level front. We have been able to renegotiate upwards rentals with existing tenants and for newly listed properties rentals have definitely stabilised.

Sadly the obvious remains true. Those properties that are over-priced or in poor condition are being by-passed by potential tenants. There is adequate stock in the market for them to be choosy. They are also aware of the new insulation standards that have to be in place by the end of June this year (not to be confused with those improvements recently announced that have to be in by 2024) so if this is still to be done they are opting for a property with this work already up to standard.

As far as the media is concerned there have only been two matters of importance over the past month. Capital Gains Tax and Kiwibuild. So let's look at the latest on these plus a couple of other matters that perhaps missed the headlines but are of importance.

Kiwibuild – life continues to be difficult for Minister Twyford. He continues to sell the benefits of this major Government initiative and it continues to attract considerable negative attention – mostly but not only from the opposition.

The targets originally set by the Government have been 'scrapped'. Yet they say that they are still aiming for 1,000 new builds by the end of June. To date only 70 have been built and a further 220 odd are 'on the books' to be completed by June. A step in the right direction according to the Government who at the same time admit that 'some matters are still to be ironed out'.

70 is not very many with only 3 months left to run. What makes it even worse is that only 35 of those have been sold. There are several hundred people who have registered their interest in Kiwibuild but they are simply not attracted to what has been offered to date. Properties remain empty across various parts of the country and in some cases are now being advertised for sale on the open market.

According to the opposition this is because the properties are not located in areas that people wish to buy in – either geographically or in terms of demographics; they are not the size of style of house that people are looking for; or at the price expected for them do not represent 'affordable housing'. The Government has proudly announced agreements with building contractors to supply many more hundred new homes but these arrangements have also attracted considerable negative commentary. In Christchurch for example much has been made that some of these homes have already been constructed – allegedly before any contracts have been signed – with the underlying suggestion that builders are simply moving unsold spec homes, (we don't see this as being a negative if the result is more people in their own homes), in some cases at a higher price than they had previously been advertised for.

What needs to be understood is that under a Kiwibuild supply contract the Government is effectively underwriting the risk for developers, guaranteeing that the Government will foot the bill for any losses incurred over unsold properties. The scheme was touted as a way of encouraging developers to build affordable homes that otherwise may NOT have been built.

The other point raised is that Christchurch doesn't need any influx of Kiwibuild homes the vast number of new homes built over recent years and a slow demand for housing. We leave these arguments to the Government and Opposition.

Just announced today by the Government is that the future success of Kiwibuild is totally dependent on the availability of kitset / prefabricated homes made locally and also imported from overseas. Perhaps this is a veiled acknowledgement that we simply do not have sufficient supply of materials and manpower to meet the objectives. In itself we don't see this as a problem as it may address key issues such as cost and time frame. "Offsite manufacturing is mission critical to delivering the Governments housing and urban development program" said Minister Twyford. "Without it we will struggle with workforce constraints and low productivity which hinders volume, quality and prices that people can afford". Apparently the Government has a 'short-list' of 44 prefab firms and will soon start to 'evaluate their proposals to start manufacturing off-site. This announcement has drawn a response from Prefab NZ whose director Pamela Bell states "The prefab sector has been crying out for this sort of commitment – long term, big scale contracts that will justify scaling-up. Prefabrication is at a tipping point. We need to see these contracts in place by the end of the year if these companies are going to be able to invest effectively. If projects like Kiwibuild are done successfully it could mean a long-term transformation for how New Zealand builds it homes. If we don't then we would have wasted the best opportunity that's landed on our plates as a construction industry".

We have no doubt that one way or another Kiwibuild will continue to hog the headlines for some time to come.

<u>Capital Gains Tax</u> – where to begin? It is becoming increasingly obvious that the recommendations of the Cullen Committee will not be imposed in full. The end result – whatever that may look like – will be considerably watered down.

It would seem that CGT on businesses, farms and other assets will not be applied. It seems that GST may not be applied to the assets of the Maori Trusts established with their Treaty Payments. It

seems that even Winston is not as vocal about GST not being applied to anything. He has instead gone out to members of the New Zealand Party and asked them what they want. Now there's a surprise!

But the one thing that does still seem to be central to all commentators is that GST should be applied to rental property. That's not a surprise! This is simply a continuation by this Government in hitting landlords and investors. Then they do express surprise when a shortage of rental properties has arisen in several markets and lo and behold rents are being forced up through supply and demand.

Printed below is a summary by Tony Alexander of the BNZ – his views regarding GST. This is a summary. If you wish to read the full report go to NZPIF.org.nz / go to heading NEWS / go to NZPIF news / find article headed Tony Alexander / go to 'read here'

CGT In Summary For issues of taxation system equity there should be a capital gains tax regime in New Zealand. But people need to realise that all taxes alter behaviour and in summary some of the alterations at the margin which one could expect include these.

-Lower NZ share prices as investors switch to shares offshore. -Higher foreign ownership of the NZ share market as Kiwis sell.
-Extra investment in one's own house, stretching the gap between entry level housing and the next steps up the family home ladder. Extra family financing of home purchases widening the gap in wealth and home ownership between those with parents able to spare cash and those without.
-Reduced construction of new houses for rental purposes.
-Extra initial house sales by some investors and reduced availability of rental stock as young people currently crammed in at home buy and shift out. Tenants get displaced. Reduced relative rental stock availability will place upward pressure on rents and government payments of the Accommodation Supplement.
-Reduced setting up of new businesses.
-More running of businesses to maximise cash withdrawals while discouraging business growth through long-term investment in assets.
-While some tax sensitive battered down property investors may sell, others may hold onto their properties and businesses while Labour are in power waiting for a National government to abolish the tax – probably while leaving any personal income tax cuts in place as the fiscal accounts are in good shape. History suggests National would not however reverse this reform and I have yet to find any businessperson in recent days who believes their promise to reverse a CGT.
-Reduced use of homes for work purposes leading to greater demand for offices, greater road congestion, and greater demand for properties close to city centres.
A CGT tax regime would not be the end of the world for NZ. But in the context of a country needing to encourage rather than discourage deepening of the capital stock, encourage the local share market, facilitate faster business failure in order to boost productivity growth, and address issues of housing availability and cost, other policies should probably take priority. And were I one of the coalition partners considering which elements of the working group recommendations to support, my focus would be on achieving desired goals through other means which would be more targeted.

Other articles we found that may be of interest.

A Hamilton landlord is being ridiculed on line for having increased the rent on his property by $20 per week and in a covering letter blaming the Government for 'raising costs for all landlords'. The feedback relates to facts such as CGT has yet to be introduced; increased levels of insulation (round 1) not in effect until July 1; insulation and heating (round 2) not required for between 2-7 years dependent on which category the rental falls into; it is an attempt to influence the tenants voting; tenants are being punished for the Governments decisions. Whichever way you look at it not a clever move by the landlord.

According to recent research injuries and hospitalisation caused by poor housing conditions are costing the country over $145 million a year in ACC claims and hospital costs. These costs have been contributed to homes that are cold, damp, mouldy, or 'dangerous to live' (there is no definition of what falls into this category). These costs do not include the cost of time of work, GP visits or pharmaceutical costs. Whilst the figures include all housing reference is made to the fact that rental properties were the most problematic. Only 3% of owner occupied homes were deemed as damp or mouldy compared with 12% of rentals.

Minister Twyford advises that it will cost New Zealand rate-payers $200 million to upgrade Housing New Zealand's stock of homes to meet the new rental homes standards. However the fact that the new rules allow the Government until 2023 to meet these new standards has also not gone unnoticed. The Green Building Council has criticised the Government for not leading these changes. To this Minister Twyford has responded that this is due to 'the large number that need to be bought up to compliance'. (Doesn't say much about the condition of our state houses).

The Government is looking at a support program that will encourage developers / builders to build new homes for lease or rental and not for sale. At a recent briefing the Minister was advised that 'build to rent' , which is a common practice in overseas markets, would solve a number of the Governments housing goals - such as improving rental affordability, quality and increasing rental supply.

You may recall in an earlier newsletter we quoted a spokesman from Renters United calling for the Government to legislate that rent increases could not exceed the cost of living increases. Our comment at that time was 'fine as long as the suppliers to landlords also keep their increases at that level'. Intended to be flippant as it was so obvious that this would not happen. The latest Government Cost of Living Survey clearly illustrates that the costs of providing rental property have increased faster than rents - and as an aside that wage increases were in fact 66% higher than rental increases. In the past year (on average across the country) insurance costs rose 15.1%; rates by 5.1%; maintenance costs by 3.5%; construction costs by 3.6% - and rents 2.4%. The increase in the CPI over the same period was 1.9%.

A tenant in Auckland has been ordered to pay the landlord $3,818 after contaminating the home with methamphetamine. After the tenant left the property the landlord conducted meth testing and the reading was 1.84 micrograms per square meter. (The Ministry of health standard is 0.5 mg and the New Zealand standard is 1.5mg. The judgement covered the costs to the landlord of the insurance excess, the meth testing and some minor other issues.

The question has been asked as to why the Government is forcing standards on landlords but is making no effort at all to bring privately owned houses up to the same standards. People living in owner occupied homes that are damp, mouldy or in a dangerous condition (to copy the terminology from the previous report) are surely just as exposed to the risks and exposure of tenants.

From the Real Estate Sector:

- Growth in property values is falling across the country
- True values have fallen in some markets – especially Auckland. Concerns have been voiced that perhaps Auckland will follow major cities overseas such as Sydney and Melbourne where values have decreased significantly. Fears of owners finding themselves with negative equity.
- Auckland is experiencing its lowest level of sales activity for many years
- In Christchurch the market remains relatively flat for values with an annualised increase of 0.8%. Feedback from some agents indicate that supply is low
- The Real Estate sector has reported that over 2,000 sales agents around the country have exited the sector.
- The number of days to sell a property is at a 7 year high at 48 days
- There is concern that the newly imposed increases in the cash security levels that all banks will have to hold may force lending interest rates higher.

As always if there is anything specific that you would like us to research and comment upon please just let us know.

Best wishes to you all
Sharon, Lexi, Carolyn, Andrea and Tracy