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Experts in property care and return

Welcome to your monthly update from Quinovic Merivale on property investment news and opportunities. *19 October 2020*

No doubt most of us had a late-night last night watching the election results. Probably fair to say few surprises other than the size of the win. Given that Labour has the mandate to govern alone it will be interesting to see if they choose to do so.

What impact on the property sector? Looking at new builds. We all know that Labour has come under considerable scrutiny with regards to Kiwibuild and their failure to build even 1% of the promised new houses. They have done better in the social housing space building some 12,000 new units – but on the other hand the waiting list for social housing has more than doubled over the past 3 years. On the matter of affordability house sales have inevitably been helped by historically low interest rates and strong competition between the banks in the mortgage sector. House sales volumes have confounded every commentator. However, the same conditions of low interest, high migration, increased buying activity from first home buyers and investors have driven prices up to record levels across most of the country. To buy in Auckland now people are requiring over $150,000 as a deposit. So, for many, home affordability has worsened.

Looking forward what is the government promising in the housing sector. More houses – both for the open market and in the social housing sector. But if has been very quiet as to how they plan to achieve this. Why wont the problems that faced Kiwibuild continue – shortage of qualified labour, rapid increases in the cost of materials, shortage of materials, shortage of land, affordability. There is a long way to go in this sector.

However, these same issues may in fact assist the rental sector. Many of the changes that Labour was seeking are behind us now – or at least we know of the timing. Healthy Homes standards are well known, most rentals have been assessed for items like heating, draughts, dampness, moisture extraction, drainage. Landlords may have already completed whatever was needed to comply and those who have yet to finish – or even start – have until 30 June, 2021 to do so. We believe that there will be further changes introduced by Labour during this term – especially if they decide to take in the Greens or the Maori Party as coalition partners. Perhaps not wealth tax!!!!

Leading economist Cameron Bagrie is warning that inequality and housing affordability are only going to get worse as interest rates drop further. (Heartland Bank 1.99%)

The Reserve Bank aggressively dropped the official cash rate from 1.0% to 0.25% in March in an effort to keep money flowing as the impact of Covid-19 started to be felt by economies worldwide. It has stayed there ever since and some commentators are tipping it will go into negative first quarter next year.

This has created much activity in the housing sector. OK for those that can afford a mortgage but for those that can't rising prices simply make the dream of home ownership even harder.

So, the demand for rental property remains high. Those that can't afford to move are being challenged for good properties by an increasing migration (Kiwis returning home from offshore but also internal migration as people move from very high-priced regions to other parts of the country). In some markets there are literally no properties available for rent. Christchurch is not one of those but the market has remained quite stable as Christchurch has become one of the hot-spots of New Zealand with families moving here attracted by what are seen as low housing costs.

Excerpts from Tony Alexander / Real Estate Survey.

- The residential real estate market is out-performing expectations
- Number of new listings is increasing – vendors think the market is offering them good prices – but still low
- Property appraisals have increased
- More people are showing up at open homes and auctions
- Prices strengthened by 4.6% over past 3 months
- More first home buyers in the market
- FOMO has impacted the sector – fear of missing out
- More investors in the market.
- Still strong offshore interest but mainly from Kiwis living abroad.
- Concern about prices falling back
- Getting mortgage funding remains difficult
- Increasing concerns around job security / income

- Lack of evidence that shows investors are selling up due to Government intervention
- Investor demand strong – low interest rates, price growth expectations, cheap properties becoming scarce, retirement planning (housing still seen as a good retirement option)

From Renters United:

Renters United is calling on politicians to 'stop rents increasing' saying they are becoming 'unaffordable in New Zealand'. Immediate and long-term action is needed to end steep rent increases.

It will be launching its 'Fair Rent Now' campaign soon a campaign delayed by Covid-19 but also now comes after recent changes to the Residential Tenancies Amendment Bill which has addressed some of their concerns. (Banning of rental bidding / increased periods between rent increases as examples).

'Unaffordable rents affect all renters. For aspiring homeowners, it diverts income away from saving for a deposit. For those on low wages it forces impossible choices between paying bills, feeding the family and losing their home'.

RU believes that successive Governments have turned a blind eye to rent increases which have climbed higher and put-stripped wage growth. RU demands that Government 'addresses our housing crisis and support the renters who bear the brunt of it'. RU proposals include:

- Building 'tens of thousands' of new state, council and community homes
- Building 'tens of thousands' of new affordable homes for purchase – to help renters get into ownership
- Introduce economic incentives and sanctions that together would force the replacement of the worst private rental homes
- Limit rent increases to no more than inflation
- New rents should be set within a reasonable range of the median rent of comparable houses in the area.

We have said this before. We believe that there is a place for Renters united (and similar organisations) to contribute to discussion in this sector. What is lacking at this point is a common sense and fairness – their arguments, some may say fairly, are very one-sided and anti-landlord in their direction. Parties from both sides of the argument need to sit down and discuss the current situation and make every endeavour to find a satisfactory path forward. This constant bickering and lack of progress is pointless.

The past month has been a very positive one for us. There has been a definite lift in demand for our services with new properties coming into our system regularly. Demand for appraisals has grown with these properties (hopefully) coming on within the next few months. Demand has also grown with an increase in potential tenants. We do have vacant properties but very few. As usual we have properties coming up where we know the tenants will be leaving – though the turnover of tenants has become a much lower aspect of our business. Tenants are reluctant to leave a property which is being well managed and where the landlord has been fair with regards to any matters that may arise.

We are proud to have been selected to take over a small portfolio of rentals which are located within several of the newer apartment complexes around the city. We would like to think we were selected because of our reputation but the fact that we already manage apartments within those complexes also played a part. We look forward to welcoming these new owners over the next few weeks.

Lastly, I attended the national conference of all Quinovic franchisees last week. The big change was that the original franchisor, who established the Quinovic brand and network over 30 years ago has retired and has sold the franchise to new, experienced investors. They are keen to introduce new initiatives to the group which I am certain will make the Quinovic experience even better for our owners. No prizes for us this year but I am thrilled that this office maintains its position among the top offices in the country for customer satisfaction. This is measured by those short surveys that you are asked to complete a few times each year. Thank you for the feedback that you give as it helps us to lift our game and to provide the level of service that you seek.

Cheers Sharon, Caroline, Andrea, Sue and Tracy