IQ INVESTOR

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. *24 November 2020*

As I sit here listening to the rain it makes the 'heat wave' of last week seem a long time ago. Still a little rain for the garden can't be all bad.

The past month has been a very good one for us – thank goodness.

Firstly, Quinovic Merivale was selected by another property management company to take over the management of a small portfolio of city apartments that they had which really didn't fit within their traditional portfolio. These are wonderful, near new apartments within blocks of inner-city or fringe inner-city apartments that we already manage properties in. We are very excited about these new properties and we welcome those owners to the Quinovic Merivale family.

Secondly, apart from these new properties, we have also been successful in gaining the managements of several other properties throughout Christchurch so we are ending a difficult year on a higher note. We have to hope that 2021 will not be such a challenging year for everyone.

As you will have seen on various media the property market continues to defy predictions and prices continue to soar. Commentators have a range of reasons for this

- Pent up demand from prior to the elections
- Record low interest rates and access to special grants
- Increased immigration of New Zealanders coming back from all around the world due to Covid-19
- Continues shortage of new properties coming onto the market driving up competition for those properties available.
- Increased activity from first home buyers
- Increased activity from investors
- Increased demand for rentals throughout the country but particularly outside of the traditional city areas such as Auckland and Wellington

---

The Property Investors Federation got itself into strife with both the public and the Government with its suggestion that the record number of first home buyers entering the market were responsible for the increase in prices – or at least in part. It is true that first home buyers are more active in the market than at any time over recent years. And no doubt there is a vicious circle created by FOMO – fear of missing out. But surely getting first time buyers into the market is a positive thing. There seems to be confusion within the media as to the split of the current market. One report had first time buyers sitting at 42% of buyers – another had in in the mid 20's. Another report had Investors at 44% of buyers. We find this hard to believe as at current prices vs current rental levels it is hard to see an economic return without taking projected capital gains into account. A gamble but in parts of the country a calculated one.

Again, there is confusion in the media around the growth of the Christchurch market over the past 12 months. Some are quoting 4-5%, others over 9%. We know of individual sales that are well in excess of the RV. Regardless it is a relief for many that the local market is finally showing strong signs of growth.

There has been considerable criticism of the Reserve Bank for failing to put in place controls to assist the limitation of price increases. A return of the old LVR's (loan to value ratios) has to date been ignored by the RB.

However, this call has not been ignored by some banks. So far both ANZ and ASB have placed their own controls on future lending to investors at least. Investors will be required to have a 30% deposit rather than the current 20% from December 7th, 2020.

"As a responsible lender it is important for us to help customers make good borrowing decisions and that customers have a level of borrowing that they can comfortably pay back" says Ben Kelleher, ANZ managing director of personal banking.
ASB's Vittoria Shortt issued a similar statement. "ASB believes a balanced and sustainable housing market is in the best interests of all New Zealanders. This is about helping Kiwis build their financial futures during exceptionally challenging times".

Again, commentary around the RB

An article by Martin Bradbury that we found on the internet. "Welcome to NeoKindness".

"The shock that the Left are now facing as they suddenly appreciate that Adrian Orr (Governor RBNZ) has not in fact been creating money to loan to the Government at

0% interest to rebuild the desperately needed infrastructure and underfunded public services and social welfare system with, but that in fact it's actually going to corporate banks to feed property speculation is taking time to sink in. The banks are laughing all the way to themselves".

"Jacinda's NeoKindness is aimed at making the speculative property class feel richer. Home ownership is still seen as a means to make money – it is not seen as a human right".

"We need a multiple property tax, we need an inheritance tax, we need death duties, we need a land tax and we need a capital gains tax"

"We need a massive State House for Life building program to remove desperation from the housing market".

"Unfortunately, we have NeoKindness instead".

Not everyone is optimistic. An article we found on 'Property Noise' lists reasons why we should be concerned.

- Property markets go up and down in terms of price due to supply and demand. The reality is that there will be less demand.
- There will be fewer mortgage applications. Less applications means less buyers.
- Banks are already telling buyers 'if you are not already a client do Not apply for a mortgage'.
- Bank lending levels will fall back – they simply can't continue to lend at current levels.
- Unemployment (following Covid) could skyrocket. Fewer jobs, less lending, less sales. Opposite side of the issue. If unemployment skyrockets many will be faced with having to sell homes, baches, rentals in order to meet financial obligations.
- AirBNB. There is already evidence of investors converting these to standard rentals. They will not command the weekly amount that they were getting as AirBNB. Some investors will face financial fallout.

Westpac Chief Economist Dominic Stephens believes that major tax reform is necessary to solve New Zealand's overheated housing market.
"I think a Capital Gains Tax is the best way to solve this problem" says Stephens. CGT has been ruled out by Prime Minister Jacinda Ardern who says "other solutions" are being considered. "These solutions will not be in the form of a land or wealth tax" she added.

Stephens believes that as more people are locked out of the housing market pressure will mount on the Government as they demand a tax change. "I believe that social tensions between the housing haves and the housing have nots are going to reach boiling point during the next 5 years and this will create a constituency for change".

The Real Estate Institute of New Zealand (REINZ) is focussing on another part of the puzzle. They are asking the Government to make changes to the Home Start Grant. This grant gives $5,000 or $10,000 to first home buyers who are required to buy properties below a certain price cap. Bindi Norwell, CEO of REINZ says "There are not many houses now that actually qualify, in fact only 33% of houses across the country qualify. That's ALL properties not just those that are for sale".

Finally, Property institute CEO Ashley Church believes "first home buyers may find it even tougher to purchase their first home in years to come. In 7 – 10 years the median house price will be at least twice what it is now – that's the reality".

Christchurch seems to be attracting high demand from North Island Investors who are particularly interested in the Rolleston market. Rentals stay strong across all areas, with the most difficult to rent remaining rooms in shared accommodation and two bedroom townhouses.

The right homes in the right areas are attracting multiple applications at rents higher than the vacating tenant.

Kind regards,
Sharon, Caroline, Tracey, Sue and Andrea