INVESTOR IQ

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QUINOVIC
Experts in property care and return

Welcome to your monthly update from Quinovic Merivale on property investment news and opportunities *22 March 2021*

Hi everyone. Boy this month passed quickly. We seem to have been super busy with both new properties and new tenancies. Perhaps tapering off a little this last week but still good for this time of the year.

Thanks to the wonderful support of our client base making recommendations to their friends and family we have experienced sound growth over the past few months. In fact, we had the largest increases across the Quinovic New Zealand network for November, December and January and we came in second for February. We are thrilled – back to the good old days when Merivale was frequently the top performer. Again, thank you everyone.

BREAKING NEWS:
Prior to Covid-19 this office frequently ran seminars for existing clients and others looking at becoming residential landlords. They were extremely successful and informative. Well, we are back in the game!

Entitled ‘’Do’s and Don’ts with Investment Property” the seminar is designed to bring everyone up to date with the latest information regarding investment properties and the current market conditions.

Four professionals will each address the seminar for 15 minutes followed by time for questions.

Sarah Hartley, Senior Solicitor at Mortlock McCormack Law specialising in property and commercial law, will be discussing the various property types and ownership structures available to investors and the legal benefits and costs associated with each.

Sharon Layton, Business Owner of Quinovic Merivale, will discuss the latest changes to the Residential Tenancies Act and how that can impact on landlords.

Cameron Robertson, Sidekick Accounting, will discuss ways to structure your accounting effectively to ensure all taxation and accounting processes are adhered to.

Lee O’Connell, New Business Consultant at New Zealand Home Loans, will address the current LVR changes and how to best structure your borrowings to get ahead with personal debt and become debt free along with how to leverage against your current equity.

This FREE event will be held at New Zealand Home Loans office. There are only 50 spaces available so get in quick.

DATE: Monday March 29th, 2021
TIME: 5.30pm
PLACE: New Zealand Home Loans, 45 Mandeville Street, Riccarton, Christchurch 80112

RSVP:
https//www.facebook.com/events/156537039649402
Or call Sharon 0273550359

We look forward to seeing you there.

The Financial Times has taken a swipe at the Government for using the Reserve Bank as a “convenient scapegoat” to fix the housing crisis rather than dealing with supply. The FT was responding to last month’s instruction from the Government to the RB to consider the impact on house prices when making monetary and financial decisions. The FT stated ‘’Engineering deflation in consumer prices to address the particular, idiosyncratic problems of the housing market would be a serious mistake”. In other words, the Board doubts that the housing crisis can be fixed by the RB tinkering with interest rates and by requiring would-be buyers to have a larger deposit. The real issue it says is housing supply. “Politicians are unwilling to address housing supply even in a land-rich country such as ‘New Zealand. Changing

regulation and reforming planning law is a much more constructive way to address market deficiencies. Ardern's administration will need to look much closer to home".

Economist Cameron Bagrie is warning investors that there is an inevitable increase in interest rates on the horizon. He does not see the OCR hitting zero or going negative as it has in several countries. "The general trend over the past 30 years has been for low and lower lows for interest rates – generally the trend has been an investors friend and that trend has been downwards". "An upwards move will make borrowing more expensive. This could potentially stop the rise in asset value and perhaps – as Westpac is predicting – send them backwards".

Economist Shamubeel Eaqub has referred to the current housing situation as "a huge Ponzi scheme that was ripping apart the social fabric of New Zealand".

Tony Alexander, economist, says "A rise may not be a rapid thing – even a 1% increase would cause quite an impact in the market".

In the latest ASB Housing Confidence Survey 73% of respondents believe that housing prices will rise - this compares to only 48% who believed this in the last survey.

The Green Party are calling for direct economic stimulus from the Government in the form of income support instead of the Government relying on the Reserve Bank to control the housing market. It wants to see debt to income ratios especially on investment properties. It wants a stop to interest only mortgages which they claim benefit investors who have no intention of paying back the mortgage before the 'flick' the property at a massive profit.

In February 41% of all property sales went to investors. Of that 41%, 71% took advantage of low interest rates or interest only loans. The remaining 29% paid in cash.

Of better news to landlords – demand for rental properties is reaching 'astronomical' levels in regional New Zealand bought about by a shift from the major cities, increasing employment opportunities in the regions, ultrafast broadband availability, and in one commentator's view, the fact that many mum-and-dad investors have been scared off investing in the sector by Government legislation.

Media attention has turned on several large real estate companies throughout the country accusing them of accessing wage subsidies despite record property prices, property sales and a booming market. No criticism of the initial claim as no one knew what impact Covid-19 would have on the market. But when it became obvious that there was no impact, in fact quite the reverse, the feeling is that these wage subsidies should have been paid back. Information is that $13 million was paid in wage subsidies to real estate companies - $4 million of that to Barfoot and Thompson alone for its 600 employees. However, given that many agents are self employed and paid on commission questions are being asked as to how these figures were determined.

From MBIE some clarification around recent changes to the Residential Tenancies Act.

If a fixed term tenancy was signed before February 11^{th} 2021 then the following law changes do not apply. Security of rental tenure. Assignment of tenancies. All other changes apply. This is the case even if you make changes to a fixed term tenancy agreement – extend, vary or renew – after February 11^{th}. If the fixed term tenancy expires and continues as a periodic tenancy all of the law changes apply.

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If a fixed term tenancy automatically converts to a periodic tenancy upon expiry, is extended or varied after 1st July 2021 the healthy homes compliance date for the property will not change as long as the original fixed term agreement was signed prior to July 1st 2021. Any new or renewed tenancy from July 1st 2021 must comply within 90 days of the start of the tenancy.

Types of changes to a tenancy agreement:

A fixed term tenancy will automatically continue as a periodic tenancy at the end of the term unless;

Continue: A landlord or tenant gives the correct notice to end the tenancy
A landlord and tenant agree to extend, vary or renew the tenancy

Extend: The end date of the tenancy agreement is changed but all other aspects of the agreement remain the same.

Vary: The terms of the tenancy agreement are varied i.e. responsibility for maintenance of gardens.

Renew: A fixed term tenancy is renewed on the same terms and for the same length of time as the original agreement

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We thought you may be interested in this article taken from the NZPIF webpage.

In an opinion piece in the Sunday Star Times on 7 February, Bernard Hickey once again made unfounded, inaccurate and untrue statements about rental property providers in New Zealand.

Hickey has a maniacal dislike of people owning rental property and providing somewhere for people to live. He must by now know that his claims of rental property owners having special tax advantages is wrong, yet he persists in spreading this misinformation.

In his last opinion piece Hickey states that "Rental property investors argue they are taxed at the same rate and in the same way as everyone else. That's just not true." For the umpteenth time Bernard, yes it is. But it isn't just us trying to argue this point, even the IRD have confirmed that it is true.

Hickey tries to defend his point by saying that "Income from wages and company profits are taxed through PAYE and spending is taxed through GST", however this is incorrect and misleading. Company profits are not taxed through PAYE. Company profits are taxed through income tax, just as rental property profits are. The owners of companies that increase in value don't pay tax on this capital gain, just as rental property owners don't if their property value increases. This is also the same for the self-employed, farmers and shareholders.

Why is it that rental property owners are condemned for making capital gains while shareholders aren't? The value of share prices are promoted daily in newspapers, radio and other media. If the increase in value of share prices isn't a factor for investing in shares, then why is there daily interest in how much they have gone up by? As an aside, have you noticed how shares are said to have soared when they increase by a few percentage points, but they merely soften when they go down by the same amount?

Although he is not alone in doing so, Hickey is selective in what he compares rental property to in an attempt to be seen as correct. He says that "Landlords also have access to tax breaks that competing first-home buyers can't get. They are able to claim the interest costs on their mortgages as a cost of doing business, along with maintenance, rates and management fees".

What he doesn't mention is that all businesses claim expenses from their business income, not just rental property. His argument doesn't make sense as a home owner doesn't receive any income from their property to claim expenses against. The rental property owner doesn't get to claim expenses on their own home, only the rental property that they rent out. In addition, if the property is not the owner's home but they choose not to rent it out, they also cannot claim expenses. They are a speculator rather than a rental property owner.

In making his claims, Hickey is implying that rental property owners have an advantage over home owners, specifically first home owners, when no such advantage exists. Such propaganda has been allowed to persist in an attempt to turn the general public against the provision of rental property.

It appears that Hickey has been captured by the Financial Services industry, a collection of extremely profitable companies who have never liked the fact that they can't "clip the ticket" from people buying a rental property. These are the same companies who brought you events such as the Global Financial Crisis, yet still managed to pay themselves vast salaries while convincing Governments to bail out their organisations.

The Financial Services Industry has for many years tried to introduce rules and laws that make it harder for people to provide rental homes for tenants. Hickey is probably New Zealand's poster boy for taking their views public.

For many years they argued for a capital gains tax before realising that it would apply to them as well. In their naivety they thought it would only apply to rental property. However, through the efforts of Hickey and others, they have made rental property providers the villains and may achieve their cunning plan through convincing the Government to further extend the Bright Line Test on rental properties. While portrayed as a tool to rein in property speculators, it is essentially a capital gains tax to dissuade people from providing rental property.

For a number of years, we have known that the real problem with housing is one of supply. It is too expensive to build new homes, takes too long to get them consented, costs too much in fees such as development contributions and we don't seem to want medium density housing in the suburbs.

Hickey even points to the situation of Christchurch where the then National Government "effectively suspended the Resource Management Act and paid for local infrastructure to kick-start a massive house building drive" that increased supply and stabilised house prices. This was private developers and house construction companies that achieved this when the legal impediments were removed.

We know what to do and it isn't to dampen demand from rental property providers. We are in a rental crisis where we need more rental properties, so the last thing we need is to dampen down the best group of people to provide the extra rental properties we need. Thank goodness for low interest rates helping more people to provide rentals, but it isn't enough.

If the Government is to be bold and transformational then they need to stop listening to Hickey and others of his ilk and address the real issues in our housing system. Their recent announcement of amending the RMA is an excellent start in the right direction.

Cheers Sharon, Carolyn, Sue, Matt and Tracey