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Experts in property care and return

Welcome to your monthly update from Quinovic Merivale on property investment news and opportunities *20 June 2023*

After getting cold and wet watching hockey this morning, it is nice to be inside writing this newsletter in the warm. And they lost – again.

Another month and really the market hasn't changed. Strong demand, weaker supply, no empty properties and keen interest in four new listings that only went on-line last Friday. Nice for our owners, nice for us but not so good for those out looking for quality rental properties.

One noticeable change this month – a sudden increase in people looking for high-end rental property. That is properties over $800 per week. We certainly have some on our books at this level but not as many as say 3-4 years ago. Mony of what we did have then have since been sold with owners taking advantage of the strong retail prices of up to as year back. We had one such listing a week back – 5 applications on it withing 2 days – 3 of those very strong applicants. If you know of anyone with a high-end rental available please let us know.

Are you feeling nervous about being a landlord in today's environment? The following report from Tony Alexander may help to ease your mind.

ANALYSIS: If you are having difficulty trying to make sense of all the things happening around you which are relevant to your business, your investments, your house purchase, and your work, then don't fret. You're not alone. We are passing through one of the most unique environments I have ever seen. It's not a shock like the early days of the pandemic or the 2008-09 Global Financial Crisis. Instead, there are many shocks in play.

Here are a few of this moment in time's unique characteristics which you might want to take note of and drag out a year from now when challenged about your spreadsheet projections, which have all turned out wrong.

First, there is a record migration boom underway (excluding the early pandemic months) of a net 73,000 inflow in the year to April. This 1.4% boost to our population means extra pressure on rental accommodation, which we were not expecting. It means some support for consumer spending, which will offset the effects of high interest rates, and it means extra availability of labour, which will constrain wage and non-wage labour costs.

Second, balancing out the net implications for the likes of inflation and interest rates is impossible. Speaking of which, we have just seen the fastest pace of increase in fixed mortgage rates that anyone here has experienced. How quickly will the jump from rates below 3% to over 6% cause householders to rein in their spending? And is the negative impact on the housing market over with or does *it still have a way to run?*

Third, we are living through a post-pandemic period. None of us has done this before and this at a minimum is good enough reason not to believe anyone's forecast of just about anything. After all, the pandemic was unique also to all of us and our forecasts made back in the first half of 2020 proved wider of the mark than any I have ever seen before.

Fourth, after rising strongly for 12 years there is a downward correction in house building activity underway. Many people entered the sector with insufficient capital, experience, and realism to recognise the signs of a downturn 18 months ago. Many of these unfortunates will now get weeded out, and firms and individuals with credit exposure to these failing optimists are going to lose money – as the media have been reporting already for the past year. We can only guess at the extent to which house building will decline over the next 2-3 years because of the excesses built up since 2011, and therefore can only guess at how much the interplay of falling supply growth and rising housing demand pushes rents then house prices higher over 2023-26.

Fifth, there is the biggest cost of living shock in three decades underway. Many people have not seen this before and the fact that there is a binge on offshore travel underway and continued strong levels of eating out being recorded suggests to me that hundreds of thousands of people have yet to cut their cloth to suit this higher cost environment. How much will most areas of retailing decline as this reality sets in? Impossible to know.

Sixth, this is an election year. My monthly survey of businesses alongside Mint Design has revealed a high level of discontent with the government and its relationship with the business sector. This is going to cause potentially greater than usual postponing of projects ahead of the October election.

Seventh, labour is uniquely in short supply and despite high levels of business pessimism and plans to cut staff numbers there is strong hoarding of labour occurring both here and offshore. This is producing a profit squeeze which will underpin inflation while depressing spending in areas like advertising, capital works, and research to degrees we cannot know.

Now, let's add in pure guesswork surrounding the impact of AI, climate change (effects and mitigation), world trade retrenchment away from China, geo-political issues in the South China Sea and eastern Europe, a record NZ current account deficit, which may or may not scare offshore investors, and other factors.

The upshot is that the last thing you should assume when contemplating the next 1-3 years is stability. And the last thing you should expect is that your and my numerical forecasts and cash flow projections will be correct.

In a similar vein a recent report from the ANZ says that surging immigration and falling residential construction are further aggravating the housing deficit.

At the end of the 3^{rd} quarter last year NZ had for the first time in a long time roughly enough houses for its population. Albeit not always in the right place.
However, demand in the 4^{th} quarter last year and in the 1st quarter this year has seen the shortfall in new housing supply come in at around 5,500 dwellings.

New builds have fallen due to rising interest rates, rising costs of materials, a shortage of qualified labour and general market nervousness. Immigration on the other hand has reached record levels much quicker than anticipated.

Not a good mix – unless you are a landlord.

The 2023 Budget did nothing for either landlords or tenants. Landlords remain straddled with rising costs and an environment that provided no alternative but to raise rent levels.

Dr. Michael Cullen was quoted as saying "landlords are a necessary part of the housing market' so making life hard for owners also makes life hard for tenants. A wise observation obviously lost on many in Government and in the community.

We try to avoid political commentary but as the elections get closer political parties are starting to announce their policies.

Last week the Green Party announced its tax policy, the implementation of which they claim will help lift New Zealanders out of poverty. There are a mixture of proposed actions including the introduction of several new taxes – particularly a 'wealth' tax and a 'Trust' tax.

"The Green Party has unveiled its election tax policy, which it claims will lift every New Zealand family out of poverty by guaranteeing Kiwis' incomes never fall below $385 per week.

The 'Income Guarantee' will cost about $11b and includes a tax-free threshold of $10,000, further adjustments to tax rates resulting in anyone earning under $125,000 receiving a tax cut, a replacement to the Jobseeker benefit and Working For Families, and payments to all tertiary students.

To pay for it, the Greens are proposing a wealth tax on net wealth over $2 million for individuals and $4 million for couples. A trust tax of 1.5 percent would be introduced, while the corporate tax rate would be hiked from 28 percent to 33 percent. A new top income tax rate of 45 percent would be applied to any income over $180,000.

These measures would bring in about $15.5 billion once fully implemented, leaving revenue for other priorities like investing in the public service and decarbonisations, the party says.
Greens co-leader Marama Davidson said on Sunday that the Income Guarantee would mean families will always have enough money for kai, to buy shoes, and to purchase warm clothes for children.

"Students will no longer have to skip meals to make ends meet and can focus on their study. And if something happens that stops people from working, there is a guaranteed income that's enough to live on," she said.

This is a transformational new way of doing income support that will lift every family out of poverty."

Co-leader James Shaw said any party that "stops short of promising to lift every family out of poverty, is actively choosing to make life harder for thousands of people".

"I am sick of the politics of excuses. Everything we need to make life better for people in Aotearoa exists. What's missing is the political willpower to use it. The time is now to lift every single family out of poverty and to pay for it with a fair tax system."

A wealth tax was also at the centre of the Greens' 2020 election manifesto, but was ruled out by then-Labour leader Dame Jacinda Ardern. She ultimately didn't need to worry about the Greens' policies though, securing a historic majority at that election.

The polls are far tighter this year, however, and it's very likely that if Labour is to be in government post-October 14, it will have to rely on the Greens' support. That gives the Green Party more leverage when it comes to negotiations.

Tax brackets
The tax policy announced by the Greens on Sunday morning guarantees every New Zealander's income will never fall before $385 per week after tax, regardless of their situation. The minimum weekly income for a couple is $770 and $735 for a sole parent.

The Greens want to achieve this by making several major changes to New Zealand's tax and welfare systems, including by indexing tax brackets and adjusting them for wage inflation every three years.

A tax-free threshold would apply to any income between $0 and $10,000. This means the first $10,000 of someone's income is not taxed. Currently, Kiwis pay a tax rate of 10.5 percent on income up to $14,000.

Under the Greens' plan, income between $10,000 and $50,000 would be taxed at 17 percent, while income between $50,00 and $75,000 would be taxed at 30 percent. Income between $75,000 and $120,000 would be taxed at 35 percent.
The table below shows how those rates compare to the current situation.

The Greens say the plan means anyone earning under $125,000 will receive a tax cut of between $16 and $26 per week.
However, at the $120,000 mark, some significant new changes apply. Any income over this level, but below $180,000, would be taxed at 39 percent.

Currently, the 39 percent tax rate – which was introduced by Labour after the 2020 election – doesn't kick in until $180,000.

But the Greens' plan introduces a new 45 percent tax rate for income above $180,000.

Guaranteed support

The Greens' are also proposing changes to the supports available to Kiwi families, students and those out of work.

In terms of the Jobseeker benefit, which those who are not employed can claim, the Greens would initially raise this to $385 per week. This would take effect from April next year.

Other changes to "restore trust and dignity to the welfare system" include no stand-down period when someone is made unemployment and adjustments to abatements.

From 2025, the party would also shift anyone receiving the Jobseeker benefit, the Sole Parent Support, and the student allowance to a single payment of $385 per week (plus any inflation adjustment). A sole parent top-up of $135 per week would be introduced.

Working For Families would also be replaced with a single payment. Parents would receive $215 every week for their first child and $135 per week for every subsequent child. Parents would receive an additional top-up of $140 a week for every child under three, with Best Start doubling.

"For those in work, the abatement threshold on the top-up will be $60,000 – which is significantly higher than the threshold the Government has set for Working for Families," the party's policy document says.

"The Green Party's plan will mean parents and caregivers can earn more from paid work before their top-up starts being reduced."

The abatement rate would also be changed to 18 percent.

For students, the $385 per week allowance would be available to anyone regardless of their level of study, age or parental income. They will also receive this even if their partner works.

The party continues to advocate for ACC to be turned into the Agency for Comprehensive Care, providing a minimum payment of 80 percent of the full-time minimum wage for everyone not in paid work due to a health condition or a disability.

How to pay for it?

The package would be phased in over two year, with the all measures implemented by April 1, 2025. In the first year, the Greens expect it to cost $11.2 billion, dropping to about $10.7 billion the following year.

To pay for this, the Greens would introduce a 2.5 percent wealth tax on net assets. This would only apply to assets above $2 million in the case of individuals or $4 million for couples.

The tax would apply to most forms of wealth and assets, including properties, shares, bonds and artwork. But not to furniture, electronics or vehicles with a value of less than $50,000.

"Māori land under the Te Ture Whenua Māori Act would be exempt and so would the assets of Post-Settlement Governance Entities, such as land returned under a Treaty Settlement or vested in a Treaty Settlement Entity," the policy document says.

"The assets of charities, NGOs, clubs, and other entities would also not be part of anyone's individual taxable wealth."

As this is a tax on net wealth, if someone owned a house worth $2.5 million, but had a mortgage of $600,000, they would not pay anything on it as it would be worth less than $2 million.

The Green Party says almost all family homes across the country come under the threshold and only 0.7 percent of New Zealanders will end up paying the tax.

A 1.5 percent tax would also be introduced on all assets held in private trusts. The party believes this will prevent people from moving their money into a trust to avoid the wealth tax.

"By extending taxes to trusts, we can ensure the wealthiest 1 percent pay their fair share. Trusts with a beneficial social purpose will be exempt, including Māori land trusts, post-settlement trusts, charitable trusts, or disabled beneficiary trusts."

The Greens' also want to return the corporate tax rate to 33 percent, arguing that corporate profits have soared over the past 15 years. It is currently at 28 percent.

"The Green Party's proposal to return to a 33 percent corporate tax rate is a simple and effective way for large corporations to pay their fair share. This will mostly affect large, multinational corporations whose shareholders are outside New Zealand."

We figure that these proposed changes will impact just about every one of our owners in one way or another.

NOTE: In fairness, as other political parties release policies that we feel will impact on our owners we will print them in future newsletters. We do not plan to promote any one party over others.

A couple of releases from the New Zealand Property Investors Federation. Predictable arguments and we believe we will see many more as we head into the elections.

Making landlords and tenants into adversaries has been a popular narrative with the media and helps the current Government bring in some heavy disincentives to own rental properties. There have been so many levers pulled to ensure that house prices come down while interest rates, rates, insurance, maintenance and associated costs have gone up. The Government say they are helping tenants, but the tax grab and extra rules have brought significant negative impacts.

Rents have increased in New Zealand ahead of what is already a big influx of people migrating to this country. A Trade Me rental price index in February showed the median weekly rent had hit $600 for the first time and is up 15% on the same month in 2020. There are a number of reasons why there is upward pressure on rents. Rental property owners are having to cover many extra costs, at the same time as demand is outstripping supply in many regions. As well as investors not purchasing, our survey found there are 15% more owners than usual planning to exit the market. This is at a time when extreme weather events have created extra demand for rentals and also as a result of the quest to obtain skilled workers, NZ is now experiencing an annual gain of 52,000 people through migration. This growth in population will require, it is estimated, 19,000 more houses.

It's easy to set the parameters that will stall a housing market, but when that inevitably means fewer homes to rent and higher prices to own them, it is tenants that suffer as property owners struggle to manage the financial risks and personal stress of rental home ownership. When the cost of living is being bandied about, a caring Government would pay more attention to ensuring supply is sufficient for tenants.

Whichever party or parties win the next election will need to change the current portrayal of private rental home owners as 'uncontrolled, tax dodging speculators'. The vast majority of rental home owners are hardworking investors helping tenants into good homes and the only part that is speculation is how far a Government will go to bring a sledge hammer to the housing market.

The demonising of rental home ownership helps make targeted fiscal punishment seem more acceptable, but has also brought about the current situation of high rents and rental shortages.

Yes, it's great to see first home buyers achieving a home, but there are ways to assist this without causing a shortage of rental homes for tenants unable to even consider buying homes.

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Sadly, its many diligent rental home owners selling up, leaving fewer homes available to rent so tenants are being caught between decreasing ability to purchase their first home and increasing difficulty in coping with rising rents. The consequence of fewer rentals in the rental market is that the waiting list for social and emergency housing will continue to grow in spite of the best efforts of those involved.

It's private sector rental owners who can assist the Government achieve its stated goal of more housing for more people. It is the role of NZPIF to have dialogue with the policy makers because we are at the grassroots of providing housing for New Zealand's rental market. Thank you to all our members of local nationwide Property Investor Associations for supporting this.

As the value of properties throughout the country are falling dramatically, we have survey results that prove the structural damage being done to the rental marketplace.

The marketplace relies very heavily on private ownership of around 85% or rental homes. Owning rental homes is a business with a range of expenses beyond the mortgage involved, so there needs to be some rewards as part of the risks of the investment involved.

The Reserve Bank only has eyes for bringing down inflation, which has brought a sledge hammer to the property market. As yet nothing is being done to help ease the pain for landlords and therefore tenants, who are the end users of our mostly privately funded rental market place.
Instead, the financial burden has been increased for those brave enough to risk owning tenanted investment homes by increasing both interest rates and taxes, along with tighter rules for managing difficult tenancies. The upshot is when we lose good properties and good stewards of tenancies (landlords) it is a slow process to replace the rental homes.

This is playing out now as the demand is steadily increasing with borders open once again. The pain caused by a shortage in supply is increasing.

Now from the "Who's the stupid one?' files

An Auckland tenant fell behind in rent payments by $62,000. Landlord took him to the Tenancy Tribunal to have them evicted. He lost. The adjudicator instead ordered the tenants to pay off the debt at $30 per week on top of his rent of $640.

Do the sums. At this rate the debt will be paid off by September 2063!!!!!!!!!!!!!!!!!!!!!

Back to the question. Who's the stupid one?

The landlord – why would you allow rent arrears to get to this level?
The adjudicator – why would you think 40 years to repay was a sound judgement?

Seems to us that the obvious winner in this is the tenant who gets an interest free loan of $62,000 for up to 40 years. Where do we get one of those?

Wishing you all the best as winter hits home.

Cheers Sharon.