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Welcome to your monthly update from Quinovic Merivale on property investment news and opportunities *21 July*

It's the middle of July and it doesn't seem like winter has hit us yet. But what has finally hit is the traditional 'quiet period' in the market. Not as bad as in previous years but a definite slowdown in tenant enquires. Accordingly, for the first time in quite some time, we have available properties on our books. Fortunately, not too many.

What has been unusual this month has been the number of tenants seeking to break rental agreements. Two due to their buying a property of their own. Three by people seeking to move out of Christchurch. For the latter it is difficult to refuse the request. The Tenancy Tribunal would almost definitely approve especially if the move is for employment of family reasons. The process does provide us time to find replacement tenants so these properties are not necessarily vacant but will be coming up soon.

What is also obvious is that people are considering the purchase of new apartments within the CBD as rental investments. Nothing wrong with that BUT please ask us prior to entering into a commitment. Our concerns are i) there are many new apartments coming onto the market and they are not all equal. Things like location, size, layout, price come into contention but more concerningly b) there is an expectation of rent levels that may be ambitious. Usually when a number of rentals in the same area come onto the market together it drives prices down. Landlords compete for potential tenants – often the same people looking at a number of alternatives. We are happy to do a rental appraisal for you and to research what else is available withing the area and at what price. We do this for free!

As expected, as we get closer to the elections the various parties are announcing policies that impact on the residential rental market sector. We try hard not to demonstrate any political bias and we will endeavour to cover all announcements equally. However, there may be occasions when we will add our own Editorial comments when we think them necessary.

First off the ranks was the "Pledge to Renters" from the Green Party.

In this they 'promise'

- to give everyone in New Zealand a healthy home. (ED – they will need to be in power and to convince partners. It is also impossible to promise this as no legislation to date has impacted on privately owned houses and we know many of them fall well below Healthy Home Standards.)

- To set a National Rent Policy to ensure rents are set at genuine affordable levels for those on low incomes (ED. We don't understand how this would differentiate between properties at the lower and top levels of the rent market. Are they saying rents will be capped at a level regardless of the size, quality, location of a property?)

- That rent increases will be capped at 3% per annum. They chose this as it represents the upper limit of the Reserve Bank's inflation target.

  (ED. So to them the fact that inflation is currently running at 6%; that rates increases vary from around 7-14%; that insurance premiums have increased by more than 15%; that maintenance costs have increased by much more than 3% is irrelevant. Landlords have to absorb these increases.)
- That rent increases are annualised and rents cannot be increased between tenancies should that happen within a 12-month period. (ED. But they don't clarify what would happen if the rent is increased after 12 months from the last increase but within less than 12 months of a new tenancy. We suspect that this 'grey' area

will create issues in the future).

- A Rental Warrant of Fitness would be introduced to guarantee all rental properties are safe, warm and healthy. (ED. But no mention of how this would be monitored)
- A national register of all landlords and property managers would keep track of how many homes were rented, ownership, rent changes over time, and compliance with the WOF.

Greens leader James Shaw says "Renters deserve better. Thousands of children are admitted to hospital each year for respiratory illnesses relating to living in damp, mouldy homes" (ED. From what information is this based? How many come from privately owned homes? How many come from Kainga Ora houses? - owned by the Government but given a considerably longer time to meet healthy homes standards – and most likely needing a further extension of time. By inference Shaw is saying that private landlords are solely responsible for this situation).

Housing is a serious issue for New Zealand. No one disputes this. But to address this issue what is need is mature, well considered and deliverable policy. It will require Government and private landlords to work together. Driving a wedge between major players in the sector is not going to benefit anyone.

We came across this letter in the Wairarapa Times from a landlord.

Headed 'Landlords are a necessity'.

"I see the Greens are dividing renters and landlords again with their policies such as rent controls.

Under the current Government, there have been so many levers pulled to ensure that house prices come down while interest rates, council rates, insurance tax and maintenance associated costs go up.

Why don't the Greens focus on these costs which fundamentally get passed on to the rent charged?

The Greens and the current Government say that they are helping tenants but the tax grab and the extra rules have bought significant negative impacts.

Rents in New Zealand have increased by 4.3% in the past year which sounds steep. However. that is tame compared to rates, insurance and interest rate increases.

New taxes and higher costs have meant investors are not buying. In fact, a recent survey found 125% of owners intend to exit the market.

Mow we are expecting an annual gain of over 60,000 people through migration which will require an estimated 19,000 more houses putting more pressure on rental demand.

Right now many landlords are stretched with very poor returns from such an investment.

Many are topping up the rent to keep the tenant living in their rental home, so although rent is expensive people need to realise that it is still cheaper to rent than buy.

If the current picture is not goo for landlords and tenants and demand keeps increasing then the outlook is rather bleak.

Whoever wins the next election needs to work with the media and change the narrative that landlords are 'uncontrolled tax dodging speculators". Sir Michael Cullen, previously Finance Minister for Labour said "Landlords are a necessary part of the housing market".

We need a policy to encourage the supply and building of more rental properties so when supply meets demand tenants can have a greater choice and rents will settle."

Tim Horsbrugh, Carterton.

National has also announced (or inferred) policy.

- Committing to reinstate full interest deductibility for rental properties
- Take the 'bright-line' test back to two years
- To reinstate the 90 days 'no cause' rule
- Changing the rules around fixed term tenancies automatically rolling over to periodic tenancies.
- A promise to let under 30-year-olds "raid" their Kiwisaver accounts for rental bonds. Chris Bishop says "Getting 4 weeks rent in advance (bond) for a tenancy agreement is not easy. Our policy means that (young) people with money saved in Kiwisaver will be bale to use that money to pay the bond. The money will transfer from their Kiwisaver to Tenancy Services and returned to the Kiwisaver account at the end of the tenancy. (ED. Assuming of course that there is no legitimate claim by the landlord against that bond. Not sure if we like this one as each $1,000 taken out of Kiwisaver now is worth about $9,000 at time of retirement).
- An inference that under National foreign buyers would again be allowed to buy property. (ED. According to CoreLogic an average of 90,000 property sales are transacted annually. Foreign buyers represented 3,801 in 2018 and 492 in 2022. A significant drop but hardly a major contributor to the housing crisis).

Research by Valocity, One-Roofs data partner, shows landlords are having to dig deeper into their own pockets to top up rental properties. It is creating a dilemma for landlords – short term pain for hopefully longer-term gains. Their figures show that back in 2021 landlords were topping up around $5,000 pa. In 2022 this was around $12,000. First quarter this year, with tax deductibility changes, interest rate rises etc this was now around $30,000 per property. We take it from these findings that historically landlords were comfortable with topping up given the rise in capital values year on year. Now with capital values falling (but with optimism of a reversal over time) this decision to top up is a harder one to make.

From the real estate sector:

Property values in Christchurch are down 2.5% on average over the last quarter. However, in May they bounced back by 0.8% so perhaps the bottom has been reached.

Property sales are on the increase month on month – up 24-30%Available stock for sale was 26,685 – up 0.9% year on year but down 6.8% on previous month.

Days to sell – 49 nationally (up 6 days year on year)

We came across these 2 articles on the New Zealand property Investors federation web site. You may find them interesting.

1) "New Zealanders, especially tenants, benefit and rely heavily on the service private owners provide by supplying rental homes" said Sue Harrison, President of the NZ Property Investors Federation (NZPIF). "Private owners bridge the massive gap between state owned rentals and demand for rental homes, currently providing over 85% of supply. The huge emergency

housing population costs millions per day and over 24,000 applicants are sitting on the Governments housing waiting list, as reported by the Ministry of Social Development in March this year. It's renters who would benefit if there was an immediate repeal of the new interest deductibility rule as the impact on the rental market is well underway with owners selling up and potential owners staying away."

Trade Me reports that the number of properties available to rent nationwide in May was down 19% annually, while demand was up 35%. The Government's building program is never going to keep up with the demand so more private rentals are essential in increasing supply for tenants. It's not possible for the state to scale up and worse still the Government has proved to be a high-cost and inefficient landlord at the expense of taxpayers.

While many believe that most rental properties are held by large-scale landlords, a 2015 NZPIF survey shows that a whopping 75.8% of residential landlords own just one rental property. In fact, just 0.1% of all private landlords own 10 or more properties. The majority of private rental owners are ordinary New Zealanders - school teachers, doctors, tradies, and office workers - who take on considerable risk to purchase and maintain additional properties. The service rental home owners provide to society is to supply medium term accommodation to those people who cannot or do not want to buy their own.

Rental homes provide key services of huge benefit to tenants such as a home, protection from weather, climate control, utilities such as power and running water. The problem is all of these services are expensive to maintain. A roof to keep out weather, heating systems, and repairs to underground water lines are some of the most expensive repairs (think tens of thousands of dollars, not hundreds).That's after paying rates, mortgage and insurance which have all increased significantly.

And now a significant handbrake for rental owners expanding the gap between supply and demand of available housing~~,~~ is their inability to claim mortgage interest as a legitimate business expense. Understandably, owners of private rentals plan to achieve some return for the risk they take and for the services they provide to tenants, often to help fund their own retirement years. Making it more difficult to be able to cover costs and earn any return for their time, money and effort means that more rental home owners are driven out of business, so fewer rentals are available for those desperately looking for a home.

Borrowing money to buy a business asset from which you derive income and for which you are taxed on that income, less any expenses of operating your business, including interest costs, is 100% standard business taxation rules all around the world. It doesn't matter what that business asset is - a machine, a warehouse or in this case a house. Owners must work hard to diligently maintain their asset, follow the rules, and also care about their tenants who need to respect their home as well.

Changing the interest deductibility rules for rental properties by whatever Government wins the upcoming election is top priority for our tenants' sake." said Harrison. "It is essential to ensure that more private rental owners are not forced to sell their rental properties leaving more tenants without homes. There are far fewer owners than tenants and losing any rental homes breaks down the system and they are hard to replace, crippling supply. Any increase in a business's costs must eventually funded by the end user, in this case the tenant, and therefore ends up as a 'tenant tax'. Is this what the current Government wants, at a time when they are supposedly fighting to reduce the impact of rising costs on those on lower incomes?"

Instead of forcing though ill-conceived tax laws which increase rental property owners' costs and risks, incentives must be put in place to encourage private ownership and to close the gap between supply of and demand for rental homes" said Harrison. "Owners, tenants and the Government are all in this together with taxpayers funding housing, so let's find solutions that work".

2) The Monetary Policy Committee today agreed to leave the Official Cash Rate (OCR) at 5.50%.

   The level of interest rates are constraining spending and inflation pressure as anticipated and required. The Committee agreed that the OCR will need to remain at a restrictive level for the foreseeable future, to ensure that consumer price inflation returns to the 1 to 3% annual target range, while supporting maximum sustainable employment. Global economic growth remains weak and inflation pressures are easing. This follows a period of significant monetary policy tightening by central banks internationally. Global inflation rates continue to decline, assisted by the normalisation of international supply chains, and the decline in shipping costs and energy prices. The weaker global growth has led to lower export prices for New Zealand's goods.

In New Zealand, inflation is expected to continue to decline from its peak, and with it measures of inflation expectations. Core inflation is expected to decline as capacity constraints ease. While employment is above its maximum sustainable level, there are signs of labour market pressures dissipating and vacancies declining.

Consumer spending growth has eased and residential construction activity has declined, while house prices have returned to more sustainable levels. More generally, businesses are reporting slower demand for their goods and services, and weak investment intentions.

The return of net inward migration continues broadly as anticipated, and is assisting to ease labour shortages. The net impact of immigration on overall capacity pressures remains uncertain. The ongoing recovery in tourism spending is supporting demand.

The repair and rebuild underway in regions of the North Island due to severe weather events will support economic activity in the near term. Broader government spending is anticipated to decline in inflation-adjusted terms and in proportion to GDP.

The Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range of 1 to 3% per annum, while supporting maximum sustainable employment.

Enjoy these mild days.

Sharon.