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

We usually know winters behind us when the market starts to pick up. Not this year. In the nearly 16 years we have been in business this has without doubt been the busiest winter season. The winter immediately following the earthquakes was busy but still dwarfed by 2023. It hasn't stopped. Lots of new listings and lots of people wanting to rent them. May it continue.

Again, as we approach an election traditionally the market slows. Not this year. It is as if investors feel a change of Government is a formality and they are back in the market looking at increasing their portfolio's. House prices at a low (for recent times), demand at a high, rent levels strong – it seems to be a good market sector to be in for landlords.

Nor has the threatened exodus of landlords from the housing market happened. The media tells us 'Many landlords have left the sector' but we have no evidence of this. Property always sell for a variety of reasons but we are unaware of any that have sold due to current market conditions.

There is strong confidence in the residential rental market at this moment.

Landlords. Someone is speaking up in SUPPORT of you.

Financial advisor Hannah McQueen recently released an article about landlords.

"*Forget rugby! I think demonising landlords may have become New Zealand's national sport.*

To be fair there are certainly some who deserve the reputation – those who flout their tenants right to privacy; allow them to live in hovels; complain despite owning a dozen or more properties and make no effort to make any of them nice places to live in.

They make good headlines and serve to give the rest of them a bad name. But in my experience they are in the minority.

The recent report released by the Treasury, which found interest rates and tax changes aren't the biggest factor driving up rent but rather wage increases and the lack of housing supply, likely isn't doing much to help matters.

While no doubt the data is sound, the key conclusion many seem to draw is that landlords are keeping a close eye on wage inflation so they can whip that out of their tenants' pockets and into their own. From what I see that's simply not the case.

I work with many "mum and dad' investors. The reason they're considering raising the rent is because the cost of holding the property has increased beyond what they are able to absorb.

Property investors are providing a service just like every other business, and just like any other business they must review their pricing when costs rise.

Unlike any other business, many of then are losing the ability to count the biggest cost of providing that service – interest – as a legitimate expense and as a result are starting to pay tax on profits that actually do not exist. That deductibility was not a perk and its removal is not the end of any gravy train.

In addition, we have increases in mortgage interest rates, council rates, insurance and maintenance costs.

For clients, their investment property is what is going to help them afford to retire. If they just break even then they are back to square one with even less time to close that retirement saving gap.

Investors we work with buy new property. So, they are providing quality homes and adding to the country's housing supply. Arguably this addresses one of treasury's 'causes' – a lack of supply.

They are in it for the long term. They ride out the tough times. From my observation they absorb as much of the higher costs as they can and are reluctant to hike the rent".

Nice to have others batting for us.

Lack of supply also features in recent comments from ACT leader David Seymour. He believes that we 'have to build like the boomers' referring to the much higher build rate of earlier years. He blames both major parties for what he calls ineffective demand-side policies.

ACT contends that clear supply targets have to be established; construction has to be ramped up and be

aligned with Informetrics and The New Zealand Initiative's forecast of 51,000 new homes annually for the next 5 years.

A fresh approach is needed not just tinkering around the edges. Persistently high construction costs and excessive bureaucracy are factors elevating housing prices.

Reform the Resource Management Act. Reform infrastructure funding. Reallocate a billion of dollars of GST to local councils based on their building consent activities. Enable the use of innovative techniques and materials. Leverage building insurance as an alternative to building consent authorities.

The real estate market has been tough over recent months. It has led to a decline in the number of registered sales people.

August 21 = 16,422
August 22 = 16,865
August 23 = 15,925

Of these Christchurch has 1,771 or if you include registered but inactive agents 2,189

But there are those who believe this downward trend will continue – not because of the state of the market but due to transformation within the industry.

Technological Advances:
Have revolutionised the way real estate transactions are conducted. On-line platforms and mobile applications have made it easier for both buyers and sellers to connect directly reducing the need for intermediaries. With virtual property tours, high-quality photographs, and readily accessed property history and information available on-line buyers are more empowered to conduct their own research.

The rise of blockchain technology and smart contracts has the potential to streamline the process further reducing the need for extensive paperwork and negotiation. As these technologies become more trusted the role of agents may diminish.

Artificial Intelligence (AI):
AI and data analytics are transforming the way real estate professionals work. Predictive analytics can help buyers and sellers make informed decisions while AI driven chatbots can provide instant responses to common queries. Such technologies are increasingly being integrated into real estate platforms providing a wealth of information and support without the need for intermediaries.

Furthermore, algorithms are becoming better at matching buyers with properties that match their preferences reducing both the time and effort of agents to find suitable listings.

Shifting Consumer Preferences:
Today's consumers are more tech-savvy and self-reliant. Many prefer to take an active role. This shift has led to a reduced reliance on traditional agents.

Cost considerations:
Having an agent comes at a cost – typically a commission fee. These may be seen as high and many are seeking more cost-effective ways to buy and sell.

Regulatory Changes:
Changes within the real estate industry may introduce new licencing requirements, stricter oversight or changes to commission structure making it more challenging for individuals to enter or sustain a career in real estate.

Time will tell.

There is talk around a new tax on those keeping houses empty.

About 5% of new Zealand's housing stock were considered empty during the 2018 census. That's 95,000 dwellings.

According to the Empty Homes Report roughly 10% of empty homes were intentionally being kept empty while 35% were empty because they were holiday homes. 8% were empty for personal use – second homes, 23% were empty due to renovations and repairs and around 17% were vacant rentals some due to non-compliance with Healthy Homes Standards. 6% were empty for other reasons – mainly awaiting sale.

Research shows that in the 20212-22 financial year the Government earned 4.7% of its total tax revenue from property tax. The OECD average is 5.7%.

Some sort of ‘empty house tax’ could be a source of revenue and is in place in several countries overseas. In Paris, for example, empty houses incur an annual surcharge of 160% of the standard property rates. In Vancouver vacant homes are taxed at 3% of the property’s land value. In Ireland the empty house tax is 3 times the property’s rates and in Melbourne house owners who leave a property empty for 6 months face an annual charge of at least A$5,500.

Responses within these countries suggest that taxes and penalties steer investors towards more productive areas of the economy.

Following the Vancouver model an empty house tax in Queenstown alone could generate $255 million per year. Revenue from an empty house tax could be channelled into a new build program. Or alternatively it may encourage investors to enter the rental market which would increase supply and may help to minimise rent increases.

Miscellaneous articles found:

Politics
Many existing and would-be property investors will be keeping a close watch on the polls and whether or not National can form/lead the next government – which we now know would mean a reinstatement of mortgage interest deductibility for all properties, a Brightline Test back at two years (rather than the five or 10 system at present), and a softening of the foreign buyer ban. But what will the overall impact of these changes be? This Pulse takes a look at some of the issues surrounding potential housing/tax policy changes. 1. Brightline There’s been a lot of focus on the possible buying implications of a shorter Brightline test from July 2024. Some investors would no doubt be tempted to make their first purchase or expand their existing portfolio by the reduced risk of having to pay capital gains tax if they needed to then sell within a short horizon. But what about the selling side? There are likely to be some existing investors struggling a bit with cashflow at present given higher mortgage rates, but who don’t want to sell because a large capital gains tax bill would be even worse. If they suddenly found themselves off the hook for that bill, some extra listings and sales could follow soon after.

Foreign Buyers:
There’s the potential new ability for foreign buyers to purchase NZ properties with a price of $2m or greater, albeit with a 15% tax attached. On one hand, there’s no real way of knowing how many of them might actually target NZ, and for context we estimate that only about 3% of our housing stock has a value of $2m or more. Then again, the shorter Brightline Test would add some appeal, and there may also be greater effects in areas that we already know are popular with foreign buyers, such as Queenstown where about 10% of properties are valued at $2m+.The extra demand could just exacerbate the shortages of stock at ‘affordable’ prices that already exist. On a side note, National’s estimated annual tax take from foreign buyers is $740m. But that seems pretty ambitious. For example, there have been around 2,600 sales at $2m+ in the past year, and if you assume 5% of those went to foreign buyers at an average price of $3m, the tax would only raise roughly $60m. In some ways, to make National’s figures ‘work’, you have to assume that the large majority of sales above $2m would go to foreign buyers – which seems unlikely.

Interest Deductibility:
There’s the possible reinstatement of full mortgage interest deductibility over a phased period, with 50% this tax year and 2024/25, 75% in 2025/26, and back to 100% in 2026/27. On this particular change, we think the idea that it would open the floodgates for investors to purchase again is probably wide of the mark.

What it All Means:
Overall, if National won the election and made these policy changes, the reduced incentives to buy new builds (although the LVR system would still tend to favour them because of lower deposit requirements) would tend to see demand rise for existing properties relative to new stock – with associated price effects. Indeed, there is some evidence to suggest that a new-build premium has opened up a bit in recent years, which could then go into reverse. More generally, the combined effect of the changes could result in higher house prices than otherwise would have been the case, but perhaps not to a significant degree in aggregate. After all, affordability is still stretched, rental yields low, and mortgage rates high.

Caps on debt-to-income ratios remain on the cards for 2024 too. All that said, however, there’s always the risk of adverse consequences, and a stronger price effect

couldn't be totally ruled out, especially if foreign buyers targeted a market such as Queenstown. Immigration/

Opinion- Tony Alexander:
Statistics New Zealand have just announced that in the year to July there was a net loss of Kiwis offshore of a near record 39,000. This is more than double the average loss each year since 2001 and probably makes sense to a lot of people in light of the many conversations we seem to be having about leaving the country. One of the clear themes to come through from my monthly survey of businesses with Mint Design is that the outcome of the October 14 general election will play a big role in whether plans are advanced for expansion and maybe even personal location. But while some months back these popular discussions about leaving probably dominated people's thoughts and made them think population growth was still slow and suppressing the housing market, now the conversation has likely changed. This is because the flood coming into New Zealand of Indians, Filipinos, Chinese, and South Africans in particular is so large the net flow across all nationalities is now a gain of over a record 96,000 people.

This is equivalent to a 1.9% boost to our population and all of these extra people need somewhere to live. That is placing pressure on the rental market and in turn placing pressure on young people to consider accelerating their plans for making a home purchase. As yet it is hard to find solid evidence that the new rental sector pressure is causing the rate of growth in rents to accelerate. But competition for accommodation is probably enough to turn many minds towards buying. That buying has in fact already lifted strongly as seen in REINZ sales data released recently. In seasonally adjusted terms over the past three months to August house sales have grown by about 8% after rising nearly 20% in the three months to May. Prices are also rising and now sit 2.1% above their lows nationwide. Average Auckland prices have so far recovered 3.1%, Wellington prices 3.5%, and Canterbury prices 3%. Average prices nationwide are still 1.1% below levels at the end of last year but the way things are progressing my long-held view that gains this year will end up near 5% looks to be on track.

Next year gains nearer 10% are likely, especially as falling interest rates will make purchasing possible for many people who currently want to buy but cannot meet debt servicing requirements set by banks. The migration boost next year is likely to still be there, but probably not as large as we have seen in the past year. A gain perhaps near the average from 2014-19 of 55,000 seems reasonable to assume. The strong population pressure is an important development for the home building sector.

For over a year we have seen liquidations of businesses in the residential construction sector and many more look likely to happen. Costs have soared but the ability to recoup these rises from buyers has been difficult. Some people have lost their deposits as projects have collapsed and for now, that has caused some buyers to veer away from purchasing a new build towards buying an existing house. But as house prices climb further, the stock of listings goes down, and worries about finding a property increase, people will turn their attention back towards getting something new built. For builders the message here is, if they have not already done so, to batten down the hatches to get through the period of low demand and be ready for when the buyers come back again. When might that happen? Probably 2025 and perhaps even towards the end of next year – in the cities at least. In the regions there is going to be suppression of housing turnover, prices, and construction by weak export prices for farmers along with the possibility of a strong El Nino weather pattern bringing drought to many areas - on the east coast in particular.

Let's close with an example of how not to do things if you want to fly under the radar.

A TradeMe advertisement for a rental property available in Paeroa has caused a stir due to its very specific, discriminatory and non-negotiable conditions outlined by the owner.

After the usual description of the property went on to say:

"In summary – if you own a pit bull, smoke P, don't work, get out of bed at 11.30am, drive a noisy V8, can't pay rent, want for now to live in the garage, abuse the neighbours, slap the missus up at midnight and generally act anti-socially – don't contact me".

This ad contravened the Residential Tenancies Act and the Human Rights Act for numerous reasons. It has since been withdrawn.

We don't know if a new tenant was found.

Enjoy the start of Spring and daylight savings time.

Best wishes Sharon.