

Hi all. Hope you are enjoying our extended summer. Good weather always seems to bring out the people and we are seeing demand remain at a high level for this time of the year.

Mind you some of the feedback following the Governments announcements around tax relieve for landlords may indicate that some have been out in the sun too long. The basic facts are missing from their rhetoric.

- This is not a new tax break but the restoration of tax rules that were arbitrarily removed by the prior Government. Owning rental property is a business and the reinstatement of interest deductibility brings property investors back in line with other businesses where interest costs are a legitimate deductible expense.
- Over 72% of rental properties in New Zealand are owned by private investors.
- Less than 5% of those rentals are owned by 'mega-landlords' that the media have become so fixated on.
- Over 90% of those meet healthy homes standards – which is far more than those properties managed by Kainga Ora despite them, having already had 2 extensions to the deadline.
- Private landlords MUST stay in the market – and in fact grow their portfolios – if the country has a genuine chance of meeting housing requirements in the future.
- Unless the stock of rental properties increases rapidly the alternative remains housing families in motels and substandard, overcrowded facilities. It is likely that the cost of doing this – excluding the social cost and problems that arise – far exceeds the cost of the tax benefits granted.

In our opinion many of the spokespeople arguing about this change show good intention but a considerable lack of maturity. There seems to be a feeling that private landlords owe tenants accommodation regardless of whether or not doing

do makes economic sense.

Everybody – Government, social agencies and private landlords – must work together to solve this housing problem. We firmly believe that private landlords are already carrying their fair share of the burden.

One affect from reducing property values and static or increasing rental levels is that yields have been increasing. Yield is the property's income potential relative to its purchase price. Yield is not a measure of cashflow as cashflow is impacted by debt level, vacancy rates, insurance, rates and maintenance.

In Q1 of 2022 the REINZ national average selling price was \$650,000. The median rent was \$589 a week. The yield was 4.7%. In Q1 2023 the average price was \$566,050 while the average rent was \$620 a week. The yield was up to 5.7%. By Q2 2023 yield had dropped back slightly to 5.6% and stayed at that level for the rest of the year.

But 5.6% gross is not a great return for investors looking for income especially when they face significant increases in outgoings such as rates and insurance and uncertain prospects in regard to capital gain.

We came across some interesting statistics in regard to movement in indicative gross yields across 3 categories of rental property. For Christchurch:-

Quarter:	1 bedroom unit:	2 bedroom unit:	3 bedroom house:
Q1 2022	4.9%	5.4%	4.3%
Q2 2022	6.2%	5.7%	4.6%
Q3 2022	5.6%	5.5%	4.7%
Q4 2022	5.4%	5.8%	4.9%
Q1 2023	5.8%	6.4%	5.1%
Q2 2023	5.5%	6.3%	5.2%
Q3 2023	5.9%	6.6%	5.3%
Q4 2023	6.2%	6.0%	5.1%



Looking at these figures you can see that the consistent best performers were 2-bedroom units. Heavily influenced by the large number of new 2 bed units that have come on the market. Some were priced competitively at the same time as inner-city rentals became more popular and rents were comparatively higher – people love something new.

Immigration remains a significant reason behind the countries housing shortage. The annual net migration to New Zealand last year surged to an unprecedented 130,000. A 91% increase in migrant arrivals offset in part by a 30% increase in migrant departures.

74,200 New Zealand citizens left the country last year. 27,300 New Zealand citizens returned home. 49,100 non-New Zealand citizens left the country and 229,800 non-New Zealand citizens arrived.

This large increase in net migration is raising complex social issues of which housing is only one. There is a call for a tightening up of immigration criteria especially around skill levels.

There has been a slight increase in property values in Christchurch over the past 3 months. Of the 82 suburbs analysed only 7 have seen the average value drop while 17 have seen values increase by around 3%. Aranui has recorded the largest increase at 2.8%. Fendalton is the priciest suburb with a median price of \$1.66m while Phillipstown is the cheapest at a median of \$447,000.

Housing Minister Chris Bishop sees housing affordability as 'arguably the single most pressing economic, social and cultural problem' facing the new Government. Increasing the supply of land was key to lowering housing costs and improving living standards, productivity, wages, social housing and restoring 'the home ownership dream'. His goal is to 'flood' urban housing markets with land zoned for housing development – through

densification in existing suburbs and creating new suburbs. This will include providing councils funding tools for infrastructure upgrades and incentives to grow. Councils are being required to zone enough land for 30 years of housing growth. Councils will have greater discretion but they also have to provide more housing.

Some migrants are being scammed even before they reach our shores. Foreign nationals arrive only to find that the rental property that they signed up for and paid significant amounts to secure are in fact already occupied. Masquerading as legitimate landlords or agents the scammers provide seemingly authentic documentation and coerce renters into signing falsified tenancy agreements and demand money transfers into New Zealand bank accounts. Additional money is then sought in order to furnish the properties prior to the tenant's arrival.

As always we remain short on 3-bedroom suburban houses close to good schools, transport routes and shopping facilities. Please let us know if you are aware of any that may be coming available soon.

Kind regards
Sharon

For those of you based in Auckland and attending my functions next week- I look forward to the opportunity to say Hi and put faces to the names of some more amazing clients