

Cold and wet in Christchurch today – just to prove winter is with us. Winter is having its usual impact on our activities though we are pleased with the numbers turning up for viewings, especially of 3-4 bedroom family homes.

Appropriate therefore to look at a headline in The Press and on the media yesterday:

DEMAND FOR RENTAL PROPERTIES PLUMMETING!

This may have woken a few owners up but you can relax. This is NOT what we are experiencing.

- Yes - things may be taking a little longer. Quite usual this time of year.
- Yes – there are a lot more properties on the market. This is not an indication of a falling demand but more the outcome of properties becoming harder to sell. Owners are therefore entering the rental sector.
- No – rents are not dropping. Christchurch average rent \$575.
- Yes – immigration remains high
- Yes – interest rates remain high
- Yes – bank finance remains hard to qualify for.
- Yes – new lending to income criteria will make it harder on potential borrowers.
- Yes – the removal of first home subsidies will make it harder on potential borrowers.
- Yes – unfortunately many New Zealanders are living in fear of losing their employment.
- Yes – the cost of living remains high – though inflation is falling.
- Yes – it remains a good time to be a landlord.

So, we remain buoyant and confident in the residential rental sector. It is evident that some of the issues raised in this article do impact on other parts of the country and may well come to Christchurch over time. So, we all need to remain alert.

Having said that residential rentals remain a good investment it is fair to say that some investors are leaving the sector – or at least not expanding their portfolios.

Reserve bank figures show that the number of mortgages approved to residential property investors fell from almost 7,000 per month in mid-2016 to just over 2,000 per month in April 24. Further investigation shows that indicative rental yields have become so low that many rental properties would in fact have significant negative cash flows. Currently investors are not confident that capital gains on the property would offer encouragement to proceed with the investment.

For residential property to regain its former position of providing reliable and worthwhile income stream there would need to be:-

- A substantial drop in property prices
- A substantial increase in rents
- A major decline in mortgage interest rates
- A mix of all three.

It is recognised that such downturns in the economics are cyclical and that many long-term investors will not be deterred.

The media continues to inform us that the property sales sector is slow and in trouble. We came across this list of reasons as to why this is so.

- Rising / high interest rates
- High inflation
- Stagnant wage growth
- Increased supply
- Tightening lending criteria
- Decline in foreign investment
- Employment uncertainty
- Economic uncertainty
- Government housing policies
- Slowdown in population
- Negative market sentiment
- Affordability crisis
- Rising construction costs

We think these are self-explanatory.

Real Estate agents are finding things tough. Many are leaving the industry.

Data from the Real estate Authority show a year-on-year decline of active salespeople. Currently there are 15,480 active licences – down from 16,053 in April 23 and 16,780 in April 22.

In late 2020 the number of houses sold a month was over 10,000. In April 24 that number was 5,559.

Looked at another way that's one sale for every 3 licenced sales people.

Add to that the fact that the average sales price has fallen from \$925,000 in November 2021 to \$790,000 in April 24 you can see that the income potential for sales people has also fallen dramatically – down 15%.

This is unsustainable – perhaps it is past time that the industry reviews its employment model.

Economist and commentator Shamubeel Eaqub believes “the reality of renting has become a lot harder over the past decade but that the regulatory settings are improving.

“We need to ensure that there are sufficient renters’ rights Because in New Zealand renting is so insecure”.

He says “I have been a long-time fan of institutional landlords rather than accidental landlords. When you are in the business of ‘landlording’ you want as little turnover as possible whereas accidental landlords are return focussed”. (We couldn't disagree more. NO landlord seeks constant turnover – this is a myth. Stability is in the best interest of both landlord and tenant. What has been misdirected over recent years were the numerous tenant-focussed directives which made being a landlord very unattractive).

“I am encouraged to see new supply coming into the market”. (Note ED – Over the past 60 months the

number of new properties entering the market (up 6.3%) has been greater than the increase in population growth (up 9%)).

“The increase in build to rent is encouraging. Build to rent offers two types of security – tenure security and financial security”.

ASB Housing Confidence Survey:

- A slight upturning of sentiment although considerable uncertainty continues.
- More NZ'ers expecting interest rates to fall over the next 12 months.
- Belief that OCR has reached its's peak.
- Cloudy economic outlook created uncertainty over timing to buy or not.
- Purchasing confidence remains low.
- Pricing forecasts being revised as the market has been slow to lift
- Number of properties listed for sale at a 10 year high.

Comments from Tony Alexander:

- Little positive news in the sector for some time
 - Recent review of monetary policy by the RBNZ last month was more bad news.
 - They are more concerned about inflation
 - They have delayed their indicative date of OCR cuts from first half to second half of 2025.
 - House price increases are going to return but will be flat to slightly falling for the next 6 months or so.
 - Sharp increases in council rates and insurance are not helping the market (or rent levels).
 - Deterioration of the outlook for construction continues – with further liquidations forecast.
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Australia has been named as the 'least affordable' housing market in the English-speaking world.
Sydney – 13.8 x average income
Australian average – 9.7 times average income.
This is higher than in the US, Canada, UK and New Zealand.
In 2019 Australian average sat at 6.9 times the average income.

Auckland sits at 13th - one place ahead of Greater London and Brisbane.

New Zealand does not have housing problems on its own.

Not all of our readers are in fact our clients. Several remain managing their own properties.

A recent finding from the Tenancy Tribunal indicates the difficulties some private landlords face with the complex and ever-changing Residential Tenancies Act.

- An Auckland landlord found his tenant was growing cannabis within the property.
- The tenant was duly convicted and the landlord kicked him out
- The landlord changed the locks and withheld the tenant's property for several months.
- The landlord demanded payment for the storage of the tenant's goods and refused the tenant access to those goods.
- The landlord did not 'respect the tenants rights' as outlined under the Act.
- The landlord submitted claims for unfinished work, unpaid rent and a fee for unlawful subletting.

The outcome was that the adjudicator found in favour of the tenant – despite the illegal growing of cannabis and the legal conviction for his doing so – and awarded damages of \$10,335 being \$4,050 for damage to goods, \$3,000 for harassment and \$2,000 for seizing the goods.

Despite the circumstances it is crucial that the procedures as outlined in the Act with regards to eviction and the handling of tenant's goods are followed to the letter. It is essential that all private landlords keep themselves fully informed of the Acts provisions or as in this case it can result in expensive penalties.

Wishing you all a warm and safe time. For those of you who are skier's fingers crossed for a good season.

Best wishes

Sharon.

PS. Please think of Paige. As we speak she is on the Spirit of Adventure, on the Auckland Harbour in the middle of winter. Not sure she appreciated exactly what this may be like but no doubt she is having a ball. Her main ambition – to climb up to the crow's nest.