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Experts in property care and return

Welcome to your monthly update from Quinovic Merivale and Rolleston on property investment news and opportunities *23 July 2024*

Hi to all on a dry but chilly Christchurch day. Just spent 2 lovely but cold hours watching Paige's hockey match. The things we parents do!

This past month has certainly been quiet in terms of interest in renting from prospective tenants. Quite usual for this time of year – rain and cold do not bring out people unless they are quite desperate for accommodation.

What is unusual – only in as much as it has been quite some time since we have been in this situation – is that we have a small number of vacant properties. Normally when we advertise a property it is not vacant. The tenants have given regulatory notice to leave and we are advertising during that period. To have actual vacant properties is something else but fortunately we are talking a very small number.

An administrative matter first. Just to advise that the Tenancy tribunal application fee has risen from \$20.44 to \$27.00 effective July 1st. Fortunately we do not spend a lot of time before the Tenancy Tribunal – unusual given the number of properties that we now manage – but information for those owners who may be impacted.

From Government circles:

The Green Party is yet again calling for 'rent capping' to be introduced. ACT in return have called them 'financially naïve'. (ED: not often I would agree with ACT).

This call comes on the back of newly released statistics from the Bonds Office which show that average rents have increased by \$30 year-on-year as at end of May. The average nationwide rent is now \$600. In January 21 the average rent was \$500 so over a 40-month period rents have increased by 20%. (ED: can I compare this to my latest car insurance which has increased by 19.4% and that's after they reduced the sum insured by 21%. So, in reality an increase closer to 50%).

What the simple statistic of the 20% increase doesn't show you is that nearly all of that increase happened during the last 6 months of 2023. The actual rate of increase since January 24 until May has been quite small. This may reflect on the current high listing of rental properties, the drop in net migration, greater competition amongst landlords.

No landlord puts rents up just to increase to the bottom line. The vast majority resort to increasing rents simply to offset increases in holding costs. Rapidly increasing costs such as insurance, rates and maintenance make it illogical to expect landlords to hold rental increases to a level of (say) the level of inflation.

Finally, it may seem that Kainga Ora are acting like any other landlord and evicting troublesome tenants.

Over the past three months there has been a noticeable increase in formal notice warnings being issued for disruptive behaviour – 80 notices compared to just 13 in the same period in 2023. Housing Minister Chris Bishop says "There need to be consequences for poor behaviour. For too long there hasn't been. Kainga Ora has not used the tools available to it through the Residential Tenancies Act and within its own policies". Bishop points out the growing waiting list for social housing units. "The message is now clear. If your actions are causing your neighbours to live in fear and misery then your time is up. Those on the waiting list deserve the chance to have a home and those perpetual abusers of social housing must forfeit their privilege to make room for others".

(ED: This situation brings with it the requirement for landlords elsewhere to be more vigilant with their tenant selection. You do not want people being evicted from Kainga Ora ending up in your property and creating the same problems).

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We hear every day how the residential property sales market is in decline with large numbers of properties now available for sale and prices starting to fall back.

An interesting statistic. Over 35% of homes listed for sale in Auckland are withdrawn. In Wellington around 10%. Owners are simply frustrated by the length of time a sale is taking. TradeMe data shows that properties are listed longer with some on the market for over 12 months.

There is good news on the inflation front with the latest consumer price index rising only 0.4% in the three months to June and with the annualised rate falling to 3.3%. Just short of the Governments target of inflation falling between 2-3%. The RBNZ anticipates that inflation will fall to target by the end of the year. They suggest OCR cuts will resume once they are confident that inflation will remain stable.

Given the above some economists are predicting that mortgage interest rates may fall by as much as 2% over the next year. Some major lenders have already applied slight reduction to mortgage interest rates in anticipation.

At the 'battlefront' however the situation is not so positive. Steady numbers of mortgagee sales are being seen and a recent report indicates that over 8,500 first-home buyers who purchased their homes between October 21 and March 22 (the 'Peak') now have properties worth less than what they paid for them – some by up to 20% which probably represents their equity at time of purchase.

The first situation is the more time critical one. Through no fault of their own these owners find themselves unable to continue to support mortgage repayments. There is no wriggle room. Many others are selling before mortgagee sale to avoid the stigma and the potential lower sales price that such sales bring. Hopefully a solution can be found.

The second situation is not new and will recur again over time most likely. It only becomes an issue if for any reason the owners have to sell at a time when prices are low. The real estate market has its highs and lows – hence the old adage buy low, sell high.

We were intrigued to see that the New Zealand Consumers Institute has conducted its first real estate agency survey and has ranked the best and the worst real estate companies in the country.

The survey asked questions like:-

Overall satisfaction
Professionalism
Conduct – ethical, honest, open
Timeliness of response
Knowledge of the property
Market knowledge
Explanation of the 'process'
Transparency with regards to fees and charges
Clarity and accuracy
Information provided
Quality of advice
Ease of the settlement process
Managing of expectations..

Respondents used a satisfaction ranking of up to 100% and found that NZ's real estate industry had an overall satisfaction rating of 63%

Interesting outcome. Because agents act for the vendor they had a lower satisfaction score with buyers – 72% vs 55%.

Smaller companies tended to get the higher results – perhaps not unexpected – more of a boutique approach. Some larger companies didn't do so well. Harcourts and Mike Pero 63%, Sotherbys 61%, L.J.Hooker 59%, Ray White 57%, Professionals 50%. Slightly better Barfoot and Thompson 65% and Bayley's 76%.
From the New Zealand Property investors Webpages.

The New Zealand Property Investors Federation (NZPIF) welcomes the proposed amendments to the Residential Tenancies Act 1986 (RTA) as a step towards addressing the ongoing housing crisis and creating a fairer rental market for both rental property owners and tenants.
These changes aim to provide owners with necessary flexibility while safeguarding tenants' rights, ultimately contributing to a more stable rental environment.

Tim Horsbrugh, executive member of NZPIF, welcomes the proposed changes as a means to restore balance and mitigate risks for both investors and tenants. "The reinstatement of the 90-day termination clause will enable rental property owners to consider a broader range of tenants, promoting inclusivity and making renting more accessible."

While the removal of these terminations in 2020 aimed to provide tenants with more security, it actually deterred property owners from being a part of the rental market therefore causing *worse* outcomes for tenants.

Sue Harrison, President of NZPIF, points out the challenges faced by investors amidst the current housing market dynamics. "Rent increases are failing to keep pace with inflation and escalating expenses have put investors under financial strain," she says.
Restoring the 90-day ‘no stated reason’ termination clause and reintroducing fixed term tenancies will hopefully encourage property owners to re-enter the rental market knowing they can manage their tenancies with more confidence.
Furthermore, Sue highlights the reintroducing fixed-term tenancies, particularly in tourist and student towns. She believes this change will provide relief for both tenants and investors in these areas.
The government's commitment to addressing the housing crisis is appreciated, and the New Zealand Property Investors Federation looks forward to continuing to work with them throughout the legislative process, to ensure these changes benefit both rental property owners and tenants alike.

From Tony Alexander:

“Developers have excess stock that they need to move because of financing pressures. For investors this is not bad news. Apart from positive changes to the bright-line test and some tenancy rules an opportunity to buy a property at a good price may have improved”.

Mortgage Borrowing Strategy- Tony Alexander Economist
The key focus for NZ interest rate markets was the review of monetary policy last week by the Reserve Bank. As was universally expected they left the cash rate unchanged at the 5.5% level they took it to in May 2023. At times like these when no rate change is expected the focus of analysts is very strongly on the words the Reserve Bank uses to describe the inflation situation and outlook and the way in which they describe the likely monetary policy track. In that regard there were indications that they recognise the NZ economy may be on a weaker track than they have been assuming. Specifically, they noted “A range of business and consumer surveys, and higher frequency spending and credit data, all point to declining activity. Members discussed the risk that this may indicate that tight monetary policy is feeding through to domestic demand more strongly than expected.” They also tweaked their comment about when inflation will fall within the 1-3% band. In the May Monetary Policy Statement they wrote “The Committee noted that annual headline CPI inflation was expected to return to the target band in the December quarter of this year.” But now they have in a number of places in their much shorter commentary “Headline inflation is expected to return to within the 1 to 3 percent target range in the second half of this year. They also did not repeat the comment from May of the following. “Monetary policy may need to tighten and/or remain restrictive for longer if wage and price

setters do not align with weaker productivity growth rates." Finally, in May they wrote "The Committee agreed that interest rates need to remain at a restrictive level for a sustained period to ensure annual headline CPI inflation returns to the 1 to 3 percent target range." This time they wrote the following. "The Committee agreed that monetary policy will need to remain restrictive." The comments were certainly not indicative of an intention to ease monetary policy in the very near future. But they were more dovish than expected and this has caused a rally in wholesale fixed borrowing costs. The one-year cost to banks of borrowing money to lend fixed for one year has fallen to its lowest level since October 2022 near 5.05% from 5.3% last week. The three-year borrowing cost is near 4.35% from 4.62% last week – the lowest level since the very start of this year. At these levels scope exists for fixed mortgage rates to fall up to 0.7% for the one-year term to 0.4% other terms. But I doubt this will happen immediately. Banks will be wary of a warning from the Reserve Bank that they are moving too soon and like everyone else these days there are extra costs which need to be priced into selling prices (mortgage rates). If I were borrowing at the moment, I would fix six months

Market Snapshot: June 2024

Median house price year on year = - 1.3%
Median house price month on month = 0.0%
Sales count year on year = - 25.6%
Sales count month on month = - 32.6%
Days to sell nationally = 47 days
REINZ house price index year on year = 1.3%

Just in case there remain some who believe that the Property Management sector is unmonitored.

A Dunedin property management company has been fined $6,450 for failing to ensure that smoke alarms in a rental property were operational. The Tenancy Tribunal found they intentionally violated the Residential Tenancies Act by providing non-compliant alarms and for failing to test and verify them.

Take care and keep warm.

Regards Sharon.