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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 August 24*

Hi all. The market continues in line with the temperature. Cold. There remains interest and properties are being rented but days of long queues at open homes etc are behind us – at least for winter. This is not really as pessimistic as it may sound. It's more a return to the norm after a year or so of buoyancy during the winter months.

But the future and stability of the rental sector seems strong.

- Immigration figures may have dropped off but they remain considerably higher than over recent years. Immigrants usually go to the rental market first rather than straight into purchasing a home.
- New Reserve Bank lending regulations have put a brake on loan applications whilst people struggle to determine their impact and if fact they qualify.
- The cashflow impacts from ongoing 'recession' is being felt by many and there is a huge reluctance to commit to mortgage outgoings. Wallets have been shut!
- A stagnant housing market is in fact helping the rental sector. With house prices falling across the country home buyers are reluctant to buy and then lose equity should the property continue to fall in value.
- Yes the reserve Bank finally lowered the OCR but the reality of this is that it will be sometime before most households benefit from that drop. Most mortgages are tied to a period before they can be renewed so it could be several months before households feel the impact of the OCR drop.
- Building consents for new residential builds in June 24 are down 36% when compared to June 23. The biggest decline was for apartments (down 51.7%) followed by retirement village units (down 51%) stand alone houses (down 19.4%) and units (down 19.1%)
- The impact on building companies is massive. New dwelling construction (excluding land cost) has fallen by almost $5 billion dollars over the past 2 years – from $20 billion in June 22 to $15.26 billion in June 24. Simultaneously the value of alteration work has fallen from $2.57 billion in June 23 to $2.4 billion in June 24.

Chins up. Our sector is facing a good time.

A recent survey highlights the troubles facing our building sector. Funded by BRANZ and surveying more than 650 NZ building firms it found:

- 38% are experiencing "work being put on hold".
- 34% have experienced "work cancelled"
- On average building firms are operating at only 67% of capacity down from a peak of 83% in 2022.
- Worryingly the number of firms operation between 0% and 49% of capacity has quadrupled over the same 2-year period – from 5% in 2022 to 21% in 2024.
- Furthermore 70% of those surveyed believe the situation is going to get worse over the next 12 months. The 'pipe-line' is slowing to a trickle.

We are starting to see increased competition between banks for the falling residential mortgage market. An interesting statistic. In May this year 24% of mortgage activity was from borrowers switching loan providers.

Market snapshot June 2024.

Sales count year on year -25.6%
Sales count month on month – 32.6%
Median House price year on year – 13%
Median House price month on month 0.0%
House Price Index year on year +1.3%
Average Days to Sell 47
There has been a 28% increase in national inventory of properties for sale.
There has been an increase in listings due to pending mortgagee sales
There has been a highly reduced sense of urgency illustrated by buyers.

Residential rents are up by $30 per week year on year as at June 24. This But this represents flat growth over the last quarter.

Some private landlords have found out the hard way - through the pocket – the effects of not being fully conversant with the Residential Tenancies Act

- One has been fined heavily for increasing the rent more than once over a 12-month period
- Another has been fined for 'revenge notice" – that is giving the tenant notice after the tenant

raised several issues of concern about the property

- And yet another really hit hard (Over $12,000) for failure to act in a timely manner with regards to repairs – the failure to do so deemed to reduce the tenant's standard of living and peaceful living environment.

You could engage the services of a property manager for a long time for $12,000

Let's finish with this month's commentary from Tony Alexander, an Independent Commentator.

It is true the economy is now entering its third recession in two years as a result of high interest rates. Falling rates will therefore bring relief. But there is more to an economy than just borrowing costs and for New Zealand, there are key factors in play that are not conducive to a stellar economic outlook.

Consider net migration flows. The annual total peaked at 137,000 in October 2023 and now sits at 73,000. That is still a strong number. But the rate of decline is huge. In the three months to June, the annualised net flow was 8000, down from 129,000 a year ago. We are already in a much weaker-than-normal migration environment and I can see the impact in the monthly survey of property investors I run with Crockers Property Management.

This month a record net 21% of landlords reported that finding good tenants was difficult. Only five months ago a strong net 27% said finding good tenants was easy. The rental market has turned on a dime as the unusual migration boom rapidly fades. Soon the focus will be on the record net loss of Kiwis.

Consider also that for nearly six years to late-2023 fiscal policy actions added to growth in the economy and boosted government debt over 80% - for no sustained economic or social improvements. Now, fiscal policy is having to be tightened to get the books back in order and remove public sector flab. This will slow the pace of growth in our economy for many years.

Third, it pays to remember that in past periods of tight monetary policy the Kiwi dollar soared and then fell away when rates were quickly cut. This time around our currency has not gone up during the tightening period so there is no special boost over 2025-26 coming to our exporters, farmers, and the regions from a downwardly correcting currency. In fact, our currency has on average gained almost 1% since last week's monetary policy easing.

Expect access to some foreign markets to become more difficult, regardless of who wins the US election. That is a problem because China's economic outlook is poor and our export receipts from that country have fallen almost 11% this past year while falling 3.4% for all destinations. China now takes just over 27% of our exports, down from almost 33% three years ago. Bye-bye boom.

Consider also that tourist receipts into New Zealand seem to have flatlined, which makes sense because the same thing has also happened in Australia. Absence of a return of sufficient Chinese visitors is the main explanation.

Now take into account the increasingly parlous state of many business finances now that pandemic savings have been used up. The IRD is cracking down on delayed payments and Kiwis are probably still holding back from buying things, having already secured them during the pandemic binge. There are a lot more businesses across all sectors yet to be weeded out by this downturn.

I could mention other things but what those above add up to is this: New Zealand has stepped down a notch or two on its underlying pace of productivity growth, its underlying pace of economic and income growth, and its overall long-term prospects.

These things won't stop a good recovery in the housing market from occurring, which will eventually lead to a construction upturn from probably late next year. But there is no clear reason for believing that our economy is now set on such a stellar path because we are easing monetary policy. The 80,000 Kiwis who have left this past year certainly don't see roses just around the corner.

Spring is on its way. The days get longer and hopefully busier as we move into the season that traditionally shows growth in interest in our sector of the market.

Best wishes Sharon