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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 25 November 24

We are just that far from another year. 2025 has certainly been interesting one. Across the country the residential property rental sector has seen some dramatic changes – higher stock levels, lower rents, lower demand. But that hasn't been the case here in Christchurch. Yes there is a bit more stock in the market (not always in the demand areas) but overall interest remains high and rents remain at least static – in some cases slightly up.

There is strong demand leading, into the holidays, from the student market. This is not a sector of the market that we have chosen to focus on. We have been there and let's just say it brings its own issues. Post graduate or doctorate students are a quite different market and we can accommodate those within our current portfolio.

We are expecting demand to continue strongly over the next few months, this demand coming from immigration mainly. Nationally immigration numbers have declined but again in Christchurch we are not seeing this. Foreign immigration is lower but internal migration is staying strong. Christchurch has become the place to be.

The property market remains erratic. Slowly but surely that serious overstocking level is falling. But we wonder if this may be from houses being withdrawn from the market rather than from an increase in sales alone.

Despite falling interest rates there remains a reluctance to buy. First home buyers are active – 36% of Wellington sales, 34% in Hamilton and 28% in both Auckland and Christchurch. Investors are currently strong representing 23% of recent sales. This is the highest share since 2021. However, market conditions still hold many investors back – getting bank finance, falling yields and restrictive tax rules (though these are progressively changing in favour of investors).

What appears to be missing from the market are those buyers and sellers who are trading up or trading down. They seem to be prepared to wait until the market stabilises.

There is an interesting side effect. Talking with retirement home operators they tell us that demand remains high. Offers are being made but clients are withdrawing as either they can't sell their existing property or they can not get the price they required to make the move.

Commentators feel that activity will be influenced in 2025 by the impact of lower mortgage rates, offset in part by new debt-to-income ratios and changes to bank lending rules. The continued increase in unemployment and people concerns around job-stability will also impact the market.

All of this indicates a continuing demand for rental properties.

How the Reserve Bank Set the Official cash rate:

The Reserve Bank of New Zealand (RBNZ) employs a detailed monetary policy decision-making process to determine the Official Cash Rate (OCR). Each year, seven decisions are made, four of which are accompanied by a comprehensive Monetary Policy Statement (MPS). These decisions aim to fulfil the objectives outlined in the Policy Targets Agreement (PTA) while addressing uncertainties related to economic data, structural changes in the economy, and future projections.
The process involves four key steps: gathering and analysing information, making decisions, communicating outcomes, and conducting reviews. Collaboration is a cornerstone of this approach, engaging teams from the Economics and Financial Markets Departments as well as the Governing Committee and the Monetary Policy Committee (MPC). These groups work together to analyse data, produce forecasts, and evaluate policy options, with the Governor retaining final statutory authority.

The RBNZ utilizes tools like NZSIM, a structural forecasting model, alongside professional judgment and external input, to refine its economic projections. Iterative discussions ensure all variables and scenarios are thoroughly considered. Decisions are communicated to stakeholders and the public through the MPS, which details the economic outlook, key judgments, and potential risks. A simplified process is followed for interim OCR reviews.

Continuous review and accountability are integral to RBNZ's process. The Bank uses internal and external evaluations, as well as stakeholder feedback, to enhance its decision-making framework. Its emphasis on transparency and adaptability ensures effective responses to economic developments and challenges.

A recent article caught our eye. It tells us that 9.8% of all properties sold over the past 3 months did so at a loss. That's right – they sold for less than they had been purchased for. Excluding land agents fess and legal fees these losses are substantial.

District	Percentage of total sales	Median loss
Auckland	16.1	$69,500
Napier	10.8%	$106,750
Hastings	16,6%	$76,498
Whanganui	3.0%	$98,674
Wellington	9.9%	$93,575
Nelson	8.1%	$72,500
Christchurch	4.4%	$30,000
Queenstown Lakes	2.5%	$20,000
Dunedin	8.1%	$32,500
Total NZ	9.8%	$55,000

Of course if 9.8% of sales are at a loss that means 90.2% were sold at a profit or at least recovers the purchase price. At this time commentators are predicting that the ratio will continue to fall in favour of loss-making – in 2021 99% of all sales were at a profit.

An interesting statistic. The length of ownership of those properties sold at a loss was 2.9 years. For those sold for a profit it was 8.5 years.

November 27th – the date of the last OCR adjustment for 2024. Economists are predicting a cut of 0.5% which will bring the OCR down to 4.25%. If this eventuates then they predict increased competition between the banks which could benefit the borrowers in the form of lower mortgage rates. They suggest 5.39% for a one-year fixed mortgage – the most popular choice currently. More enticingly the 3-year rate may fall below 5% presenting an attractive long-term option for borrowers. The Reserve Bank has been working to bring annual inflation back within its target of 1-3% and these efforts look to have been successful. However, the broader economy still faces challenges from a cooling job market and a tightening of household budgets. The anticipated rate cut is expected to stimulate economic activity and ease financial pressures on households and businesses.

Incidentally international economic researchers Capital Economics predict that the OCR rate will fall to 2.25% during 2025.

Looking Ahead for the Investor Market- Tony Alexander Economist

Results from monthly surveys since early this year have shown a decided shift in power towards tenants. For instance, whereas at the end of last year, a net 26% of rental accommodation providers said that it was easy to find good tenants, now a record net 22% say it is hard.

This measure changed very quickly in the middle of this year and one factor at work is likely to be the rapid decline in net migration flows. The high proportion of property sales going to first-home buyers may also be playing a role in this reduction in landlord bargaining power.

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That power change can be seen with rents. At the end of last year, 82% of landlords said they planned to raise their rents in the following 12 months. Now only 64% say that. This measure has been running at record low levels since July and this will be good news eventually for inflation and therefore interest rates.

The average rent rise landlords think they can achieve now is 4.4%, compared with 5.8% in December 2023 and a peak of 6.3% in July of last year.

Another interesting finding from the survey is that landlords increasingly are finding their bank willing to lend. When asked how they are finding their bank's attitude, a net 22% said it was positive in regards to the provision of finance. At the end of last year, the result was a net 7% saying the banks were instead becoming more difficult to deal with. Banks can see the cyclical turning of the residential real estate market which is underway, the increasing interest in property purchases coming from new investors, the continuing strong demand from first-home buyers which has been evident since early 2023, and of course falling interest rates.

As yet this increased willingness of banks to advance finance is not manifesting itself in much discounting of mortgage rates by lenders – not above the board at least. Having seen their lending margins fall to unusually low levels from 2021-23 the banks are probably trying to avoid a price war in order to keep margins at levels more reflecting the situation from 2013-20.

One final result from my monthly survey of landlords which is worth noting is that whereas late last year only 2% of landlords said that one of their concerns is easing net immigration flows, now 7% say this concerns them.

This is still relatively low so we cannot say that the falling annual net migration gain is causing widespread concern. But it is something that accommodation providers are keeping an eye on as they continue their deep worries about rising council rates, insurance premiums and maintenance costs.

If interest rates were not falling and providing some cash flow relief, it is likely that the coming year would have seen quite a number of landlords offloading their properties.

Regulatory- Rental Law Reform

In line with pre-election promises and its coalition agreements, the Government has announced substantial changes to New Zealand's residential tenancy laws in the form of the Residential Tenancies Amendment Bill 2024.

Introduced in May 2024, this proposed legislation aims to streamline the rental landscape for landlords while boosting the availability of rental properties in the private market. These changes mark a departure from current tenancy laws, which have prioritised tenant security.

Key proposed changes

The Bill introduces several notable changes, affecting both landlords and tenants. Here's what you need to know if the Bill is passed:

- No-cause terminations: Landlords would be allowed to terminate a periodic tenancy, at any time, without providing a specific reason, as long as they give 90 days' notice. Fixed-term tenancies would automatically end at the term's expiry unless both parties agree to continue
- Adjusted notice periods: Landlords would only need to give 42 days' notice to end a periodic tenancy if the landlord requires the property to live in as their main residence, the property is required for the landlord's employee, or the property is being sold with vacant possession. The notice period for tenants who wish to terminate a periodic tenancy would be reduced from 28 days to

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21 days

- Pet policies and bonds: Tenants would be allowed to keep pets with landlord consent or if stated in the tenancy agreement. Landlords could charge an additional 'pet bond' of up to two weeks' rent, specifically for pet-related damage
- Clarified smoking restrictions: Outdoor smoking would remain permitted, but it would be restricted to balconies and similar areas
- Family violence protections: Tenants affected by family violence (including dependents) would have the option to end their tenancy under new protective provisions
- Tribunal processes: Certain Tenancy Tribunal cases would be allowed to be resolved in summary, based on submitted documents, rather than in-person hearings.

Public submissions on the Bill are currently being reviewed, with a Select Committee report pending. It remains to be seen whether any changes to the Bill will be made as a result of the public submissions.

If the Bill is passed, most changes are expected to take effect in early 2025, and they will apply to all tenancies, regardless of when they began. For both tenants and landlords, it will be important to stay informed, and to review existing tenancy agreements in light of the proposed changes.

Just when you thought you had heard it all!!
1)

- A landlord turned up at his property to do an exit inspection. What did he find?
- The tenant had done a 'runner'
- The house was a mess – it took over 40 hours to clean
- The tenants had taken the keys, the curtains, the carpet was filthy and stained, the walls had been punched in.

(At this point one would have to ask if regular inspections had been completed prior)

But it gets worse.

- The tenant had taken the garden shed, parts of the fence and the carport. The legs of the carport had been cut off to enable removal.

It went to the Tribunal who awarded the landlord over $25,000 for the damage.

We are holding a sweepstake as to whether or not her will ever see a penny of this.
2)
An Auckland based landlord flew to Dunedin to inspect his property as he had been advised it was vacant. It too was left in an absolute mess and neighbours informed him that it had also been used as a drug house during the tenancy.
(We don't know all the details but at this point on would have to query how he managed a property in Dunedin from Auckland. How many inspections had ever been carried out? Was the property compliant?)
For both landlords a very expensive and time-consuming outcome. Says a lot for having rental properties professionally managed as then landlords would have someone to fall back on.

Finally, there may be something positive to come out of the American election.

There has been a surge in property searches from the USA which may indicate that there is a growing trend by Americans viewing New Zealand as a potential new home. There has been a 123% increase in searches since the November 7th election. The searches weren't limited to just any US state – it was particularly driven by Democratic strongholds such as California and Virginia. (year on year increase in searches of 96.9% in California and 30.9% in Virginia)

The surge in interest from the US is not entirely new. Historically significant political events in America have led to spikes in searches about property in New Zealand. Americans believe that we offer political stability, high quality of life and stunning natural landscapes.

Have a great month; Regards Sharon