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Welcome to your monthly update from Quinovic Merivale and Rolleston on property investment news *21 February 2025*

Hi everyone. I was in a lift the other day and someone mentioned that Autumn was just about to arrive. Funny but I though Autumn followed Summer and Summer hasn't been yet – though the last few days have been pretty good. Hopefully more good days to come.

It's been an 'up and down' month. Interest is there from potential tenants but they are taking longer to decide. They are asking to see more properties. And they are expecting to be able to negotiate. They have read all the hype about it being a tenant's market due to an increase in available properties and competition between owners.

It really isn't all that clear cut. As reported last month we have seen rents weaken in Rolleston and in the central city as the number of new builds coming onto the market exceeds the level of demand. But in other parts of the city rents are holding fairly stable. There is no doubt that rent levels are a factor of supply but they are also a factor of nearness to transportation, schooling, shopping and community facilities.

For landlords it is a question of balancing rent levels with the quality of tenancy and the duration of tenancy.

We are facing 2025 with extreme confidence as there are signs (maybe small) of an improving economy, falling unemployment, increasing immigration, increasing foreign student numbers happening during this year.

The big news of the week was the further reduction in the OCR – by 0-5% to 3.75%. Listening to media reports you would think this is going to make an immediate impact. It will for new entrants to the market but for thousands of new Zealanders it means nothing until they have the opportunity to re-set their mortgages. It could take over 12 months for the impact of this reduction to benefit home owners. It will however assist to stabilise or even reduce inflation which is currently sitting at around 2.0%.

It has already seat of a 'war' between lending institutions who have further lowered mortgage interest rates in an endeavour to recoup lost business from a falling market. Mortgages form a significant part of a bank's portfolio and they want to be ready for what they are hoping will be a resurgence of the property market.

The Real Estate sector enters 2025 in a somewhat difficult position.

Stock – properties for sale – is at a 10 year high (8,904 properties). With fresh stock coming onto the market daily the concern is about the 'overhang' – those properties that have been sitting on the market for several months and remain unsold. Fresh stock is always of interest to potential buyers.

Property sales are up but prices continue to fall – though that decline is slowing. Corelogic Home Value Index shows a cumulative decline of 4.1% over the 6 months March to August 24 but of only 0.4% since then.

The national median house price now stands at $803,819 which is 17.5% lower than in 2021/2022.

It is essential that property sales remain at a high level in order to reduce the 'overhang'. At that pint when supply and demand are more in sync it is predicted that we will see an increase in property sales values.

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Corelogic also comment that several factors will weigh on investor sentiment in the near term.

Tax rules have become more favourable for mortgaged investors. Lower interest rates will assist to reduce the level of 'top-up' required from other income that is typically required to sustain rental property cashflows.

Debt-to-income ratios could also impact on investors.

Corelogic anticipates increased activity from investors during 2025 but also sees growth in 'first home' buyers. The roll-on effect of first buyers is that they tend to buy existing homes that then enables those owners to move onto their next purchase.

We came across an interesting article related to investors. It focussed on the need for investors to factor in lower levels of capital gains in the future. Investors have made up 24% of buyers in January 25 and it is anticipated that this may grow even higher.

We found the warning somewhat surprising as it has been some time since capital gains played a significant role within the economics of rental investment – at least short-term capital gains. However experienced investors know and appreciate that the sector is 'cyclical' in that the rules regularly change and peaks and lows are a recurring factor.

We read about specific house sales where properties are going for very high prices. What we may not appreciate is that these properties form but a small part of the 'luxury' property sector. Within that sector (properties worth $5 million or more) sales have fallen by 50% 2024 vs 2021 and prices have come down as well.

Barfoot and Thompson advise that their average selling price in January fell by $133,000.

This is going to be interesting going forward.

New rateable values in Wellington reveal a startling 24% drop since 2021. It has hit every suburb with declines varying between 12.1% and 29.3%. It would be naïve to think this will not also be the case in other locations.

The impact. Council rates are determined based, in part, on the RV valuation. It follows therefore that falling income from rates is going to hit local councils hard. Two options – reduce expenditure or increase rates level. History has shown councils are not too good at the former and that the public are not acceptant of the latter.

Opinion - Tony Alexander.

The state of New Zealand's housing market is mildly improving – and the Reserve Bank's decision to drop the Official Cash Rate 50 basis points to 3.75% could bring further solace to the sector. The market turnaround is best seen in the annual number of residential property sales in New Zealand, rising from a low of 59,000 in mid-2023 to close to 71,000 now. Prices have yet to show much improvement overall, with an average gain of about 2.5% since the middle of 2023. The data tell us that first-home buyers are active in the market, but owner-occupiers are still hesitant. Concerns about employment are likely to be an element in play along with general low confidence in the outlook for the economy. My monthly Spending Plans Survey, for example, shows a net 10% of people plan to cut their spending in the next three to six months compared with a few months ago when a net 10% of people were planning to spend more. A more realistic assessment of the economy's likely performance has occurred, though business surveys still show businesspeople are highly optimistic about what lies ahead. Their reality check may just be starting. While the absence of owner-occupiers from the market is probably

temporary, there is a chance that the so-far low presence of investors could be a characteristic of this cycle. My most recent survey of real estate agents undertaken with support from NZHL showed that a net 48% of agents were seeing more first-home buyers in the market. The interesting thing is that while the reading for first-home buyers is down only slightly from December, the reading for investors is a sharp fall from net 36% positivity before Christmas. Why are investors hesitant to buy? One reason is that few will feel the need to beat price rises. Prices are only just edging upward at a very slow pace. Investors will feel that time is on their side, but they will also feel that holding an investment property while waiting for the tax-free capital gain will cost a lot more than it had done in the past. Councils (which have the power of monopolies) have sharply increased their prices (rates), insurance premiums have soared, and look set for a further boost following the California fires, and maintenance costs are escalating. These cost rises are occurring at the same time that rents in many locations are falling, and landlords are finding it very difficult to secure a good tenant. Feedback from real estate agents indicates that one or two investors are starting to bump up against the new debt to-income rules, which limit total investor debt to seven times the property valuation. The numbers are so far quite small given the lack of house price gains. But there will be restraint on the ability of investors to buy to an increasing degree as this upward leg of the housing cycle progresses through 2025. One important consideration is of course the cost of borrowing money to finance one's investment. The Reserve Bank has cut the OCR from 4.25% to 3.75% and brought forward by one year to the end of 2025 its prediction of reaching the end-point for cuts this cycle. The recent revisions to economic growth data in New Zealand have encouraged the Reserve Bank to accept that there is more spare capacity and therefore less inflationary pressure in the economy than it had previously thought. Will the earlier achievement of the cyclical low for interest rates spur much extra investment? At the margin, some investors will look to purchase earlier than they had been planning. But the numbers may not be large, and it still seems reasonable to expect only mild growth in average property prices this year and next.

An interesting outcome from the Tenancy Tribunal following a recent hearing. It actually allowed for the address of a rental property to be published. It found that the owner was frequently in breach of the Healthy Homes requirements and in breach of the Residential Tenancies Act. The tribunal hopes that by allowing the address to be published future people looking at rentals will give it a wide berth.

Some good news. After literally months of looking, we have finally secured premises within Rolleston. We had not expected it to be as difficult as it has been – or as expensive.

We have taken up space within a combined office at 5b Kidman Street, Rolleston – sharing space with an accounting firm and a mortgage broker.

This is a not a long-term solution and we will continue to look at alternatives but this enables us to have a local presence. Nicky will be operating from this office supported by Fiona who will continue to operate out of Merivale as well.

We are just awaiting signage to be made and installed. We will move in once this is completed. Look for our signage on the front of the building.

Cheers Sharon.