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Welcome to your monthly update from Quinovic Merivale and Rolleston on property investment news and opportunities 26 Mar 2025

The country can't decide which season it is in. One day cold, The next hot – very hot. Another very wet. We have certainly had it all over recent weeks.

The news today is that the country is out of the depression with recent months showing growth. It's a positive trend but we are not sure that all New Zealanders are feeling the uptick. Mind you, with the stupidity that's going on around the world at this time it may be a very short-lived improvement. We know of some too scared to look at their share portfolio value. One good thing about rental property is that whilst value may go up and down you still have the asset.

Bank interest rates are still falling as competition between the banks continues. Apparently more borrowers are going onto longer term agreements. Having said that the number of borrowers who have fallen behind on their payment schedule is at a record high.

The market tells us that there has been a slight upturn in house process over the lasty few weeks. The national average has gone up 2.9% to a price of $772,000. It hasn't been evenly spread though.

The key issue is the number of houses for sale. 11,000 new properties came onto the market in February – up 27.6% on January. Currently there are around 4,139 properties for sale in Canterbury – up 23.2% on 2024.

There has been an uplift on successful auction – 37% of auctioned properties sold under the hammer in February. Still a long way short of the hey-day.

The looming problem. Consented on new -build residential properties are down $5.6 billion or 15,668 units since 2022. Potentially good news for investors.

Also signs that rents are increasing. The national average is up $20 per week. However again this is not evenly spread – Auckland no change, Bay of Plenty +$50, Taranaki +$20, Wellington +$20, Nelson -$20, Tasman -$25, West Coast -$15. (Apologies but no figures available for Canterbury)

Ownership vs renting:

Whenever first-time buyers run their sums they are surprised to find that owning a home can be much more expensive than renting one. Not only do they have to shoulder the weight of an often hefty mortgage but they also have to payrates, insurance and maintenance – all of which a landlord pays if they rent.

So, which is cheaper? Owning or renting?

Owning costs less over time due to the reduction of mortgage levels. This benefit can of course be offset by fluctuations in interest rates, rates and insurance. And, of course, as a property ages the increase in maintenance. But traditionally there has been capital gains.

Example.

You are currently renting a 3-bedroom, one bathroom brick and tile property in South Auckland. You are paying $650 per week in rent.

The landlord offers to sell it to you for $965,000 (higher than the average Aucklander spends on their first home but close to the average Auckland sale price).

Firstly, you need 20% deposit ($193,000). Then it will cost you around $1,125 per week to own it – mortgage payments $1,010 / rates $63 / insurance $33 / Maintenance $19). That's $475 more per week than the rental.

But over time rentals go up and mortgage payments stay the same (if on fixed term). Sure rates, insurance go up but the costs of renting tend to rise faster than the costs of owning.

At some point renting starts to cost more. In this example after 14 years renting is more expensive than owning – in terms of actual money coming out of your bank account.

Once you eventually pay off your mortgage the costs of owning fall considerably. An obvious outcome that by putting numbers around it makes the principle clearer. This is the key reason why retirees who rent struggle more than retirees who own.

Affordable properties tend to become cheaper to own more quickly. A townhouse in Christchurch might take 8 years for owning to be cheaper than renting. An expensive mansion will take much, much longer. The reason being more expensive properties receive proportionately lower rents.

Numbers aren't bullet-proof. Interest rates fall the costs of ownership can become lower. But when they rise mortgage repayments often rise faster than rents.

You must also allow for renters who invest any surplus monies into other assets (say shares). Likewise, you must also allow for capital gains for owners (though of late they have been virtually non-existent).

And of course one must factor in the security home ownership offers.

An interesting side note: In many countries across the world over 60% of people live in rented accommodation. This is particularly so in Europe. New Zealand sits at around 60-65% private ownership. Perhaps the trend we are experiencing of a reduction in private ownership is simply following a world trend. The rules may change to favour long term rentals but this trend does offer security to investors.

Opinion- Tony Alexander Economist:

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. But the only 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.

Landlords v Tenants

What do tenants and landlords fight over? Recently released data from the Tenancy Tribunal – based on the 29,292 Tenancy Tribunal cases that were heard in 2024 – indicates as to what the common complaints are.

Surprisingly, the data shows that landlords are five times more likely to take a tenant to the tribunal than the other way around. Eighty-four percent of applications to the Tenancy Tribunal in 2024 came from landlords and property managers, with tenant applications accounting for the remaining 16%. That goes against the idea you sometimes hear in property investment circles that there are lots of activist tenants turning the screw on their landlords (some tenants will be surprised that this is the perception among some landlords).

Interestingly, Tenancy Tribunal cases initiated by tenants have been broadly flat since 2021, but cases initiated by landlords have doubled. It's worth remembering that Auckland was in an extended Covid lockdown for much of 2021, so the number of complaints back then will have been relatively low.

But what causes the (almost) 30,000 disputes a year between landlords and tenants? One word – money. Three out of four tribunal cases brought about by a landlord were over unpaid rent. Tenants are the same. They want their bonds back. In the last quarter of 2024, more than 50% of tenants who took their landlord to the tribunal were chasing bonds. This often happens because if there is damage to a property beyond fair wear and tear the landlord can deduct money from the bond. But tenants can dispute this. One way, they do that is by taking their landlord to the tribunal. This makes sense. A rental bond is a lot of money, with most landlords charging four weeks' rent for the bond. The current rent in New Zealand currently stands close to $650 a week, so a standard bond is around $2600. Most tenants often use the bond from one property to fund the bond for their next one, so if a portion of that gets deducted, it's stressful coming up with the extra money.

The next biggest issue for landlords appears to be evictions, while for tenants, lack of property maintenance is their next biggest beef. In total, about 5% of rental properties go to the tenancy tribunal each year. To put that in context, if you own a rental property, there is a 40% chance that you will go to the tribunal at least once over the next 10 years. The chance is the same for a tenant. If you rent for a long time (10 years), there is a 40% chance that you end up in the tribunal.
That means there's a good chance that most landlords and long-term tenants will end up at the Tenancy Tribunal at some stage. And that it will be about money.

For this time of the year there has actually been very little publicity about the residential rental market. However, there has been one article that we cannot hide from.

A Quinovic franchise in the North Island has been found guilty of negligence. The property owners returned to find significant damage had been done by tenants. In addition, it was found that the company had not conducted full reference and credit checking.

The tenancy tribunal found that this Quinovic office had breached its contract and ordered it to pay the owner $5,732,92 by March 13.

There is of course more background to this story which has not been reported. This all happened between 2021 and 2023. The franchise agreement has since been cancelled. The reason this has hit the news now is that to date the payment has not been made.

The joys of being part of a national franchise.

Kind Regards
Sharon