

NELSON PROPERTY INVESTORS ASSOCIATION
APRIL 2018 NEWSLETTER
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Our third meeting of the year is being held at Honest Lawyer Monaco on Tuesday 10th April 7:30 pm. We have Nick Brunson speaking. He is a Research Analyst in the BRANZ economics team, and co-author of the Building to Rent study report. The aim of Building to Rent was to understand how the future rental stock can be improved, by investigating what challenges are prevalent with the current stock, and who is likely to be renting in future. In his presentation, Nick will highlight the changing characteristics of the renting population; findings from the BRANZ House Condition Survey, and discuss several market solutions to improve the situation for all parties concerned. Nick is keen to gain your feedback on these proposed solutions. Nick says “Building to rent” article did include some analysis of the House Condition Survey, so I’ll go into that in more depth for your members – it’s commonly cited in the media. ‘

He is looking forward to a good constructive chat about the proposed solutions – we’ve tried to come up with ideas that stack up financially for everyone rather than using a regulatory ‘stick’.

Also attached is a copy of the BRANZ report that you can read as back ground “home work” before the meeting. This sort of stuff about the condition of rental properties is what is winding up the media and those guys in the Bee Hive. I think us property investors need to listen and learn from the likes of BRANZ. They are of course highly respected and are very influential. I am sure this will be another great night.

The 6 pm pre meeting meal is on again. Get your bookings into me ASAP. I will send out a menu a couple of days before the meeting.

BUNNINGS NIGHT OUT

About 60 or so keen investors were hosted at Bunnings on the 21st. Bunnings were very impressed at the turnout and the interest shown in their products. Well done everyone. We all staggered away carrying the free goodies. Remember use your membership card when buying there. The manager tells me the Power Pass card / account that some of us have targets a different range of discounted products to those that are available via the NZPIF card. Remember you can download the card onto your phone via the NZPIF App.

WHAT SOME OTHER PEOPLE ARE WRITING ABOUT THE MARKET.

You might be interested in reading this article from Stuff.

Rents have been rising faster than inflation for the better part of a decade experts say- but do you know why?

If you are a renter, you might feel like your landlord has all the power, dictating where you can live and how much you can pay for it.

Recently released Government studies show between 1991 and 2013 the proportion of renters renting privately rather than in state housing rose from 60 per cent to 83 per cent. This was particularly acute for Māori and Pasifika.

Susan Edmunds asked some of the country's property investors what they think of recent movements in rent – and what makes them decide an increase is necessary.

Andrew King, of the NZ Property Investors Federation, says rents have been rising faster than inflation since 2010 as pressure goes on landlord costs.

First, what's happening?

NZ Property Investors Federation executive officer Andrew King says rents have been rising faster than inflation since 2010. Nationally, rents went up 3.3 per cent in the December quarter, compared to the same period in 2016. According to Trade Me Auckland asking rents were up 3.9 per cent year-on-year.

But where the action has really been is Wellington. Trade Me suggests a 6.9 per cent rise over the past year – official bond data says Upper Hutt's prices are up 11.7 per cent year-on-year, Hutt Valley 6.9 per cent, Porirua 7.3 per cent and Wellington 3.3 per cent.

In the month of December, the national average rental price for property manager-managed rentals was \$451 a week. Investors who manage their own properties – the bulk of the market - were charging \$455 on average and private trusts \$500.

If you've just had notice that you're going to have to pay more, you're probably wondering why.

Adam Bailey: "They're adding fuel to the fire by increasing the amount of money that people who use rental properties have, as well."

Landlords say there are a few reasons. We ran those reasons past an economist to verify the claims.

Supply and demand

This basic economic principle could be a big part of what's hitting you in the pocket. On one side, you have pressure on the supply of rental properties. It's harder for investors to access money to buy or develop new properties at the moment, the new government's proposed changes may be making some hesitant to jump in and the rate of building has lagged what's been required for some time.

On the other hand, a growing population puts pressure on through increased demand. In university towns, where students are taking advantage of the new first-year-free (fees that is, not rent) policy, this population pressure has

That means more people compete for the houses that are available, and landlords can charge more. Wellington property managers said they had seen tenants offering to pay more than the advertised rent to try to secure a property.

Auckland investor Adam Bailey expects this supply-and-demand equation to work in his favour. He owns six investment properties around Auckland's northwest and North Shore, which rent for between \$460 and \$545 a week, each.

He bought in good, upcoming areas because he hoped it would attract a better type of tenant. That's meant, so far, that what the properties generate in rental income has been low relative to their purchase price. He says it's much harder to find tenants for properties that let for more than \$500 a week.

"Because we've owned the properties for a while and we're not looking at selling we're not interested in how much they've grown but how much they generate in cash. I'm quite keen to see rents grow."

He expects to see landlords drop out of the market because of the moves to new minimum standards and to make it harder to end tenancies. That would reduce the pool of rental properties to choose from.

Bailey hasn't reviewed the rent he charges for about a year. "Like any business, supply and demand determines when we put up rents. At the moment demand is rising."

In Wellington, Nick Gentle said supply was a big issue. "I understand - and have experienced - that many development projects are either stalled or being turned down at resource consent at council, a lot due to traffic concerns. That is something the local and national government needs to look at because there is simply no supply coming on and many attempts to add accommodation are being pushed back.

"So supply is really tight. Council seems under-resourced and the rules they are following seem to be separate from the high-level rhetoric. At the same time, a lot more students are now looking for places because uni is free [for the first year].

"So I think on one level people are making a lot of noise about shortages and rents in the government, but there is no commitment to meaningful change. Maybe Wellington needs a mini version of the unitary plan or a revamp of the district plan so that people can come in and build the houses and bedrooms the city needs to grow."

Economist Gareth Kiernan was unconvinced that the supply-to-demand

equation had changed materially. "Population growth has been strong over the last few years and first-home buyers have been priced and/or regulated out of the market – both factors should have boosted demand for some time but it hasn't generally shown through in rents, especially somewhere like Auckland. As for less supply, there might be fewer investors purchasing property over the last year due to LVR restrictions, but this doesn't mean that the stock of rental property has been declining."

Tenants having more money

Bailey says the government has effectively given some landlords a pay increase by hiking student allowances, increasing Working for Families and moving to lift the accommodation supplement.

Alexandra Dalzell: "They appear to be completely out of touch with the true costs and risks of owning a rental property."

"They're trying to tip the balance in some way from property investors and improve the standard of housing, which is not a bad thing. But they're adding fuel to the fire by increasing the amount of money that people who use rental properties have, as well."

Gentle has heard suggestions that landlords are hiking their rent by \$50 a week to absorb the extra money available to students. But he said he hadn't heard of any who had done so. He said rent rises were a problem over the longer term because it became a political issue. "I've only invested in Wellington for three years. Friends who have been in the market longer say rents were virtually flat for about seven years so it will be a bit of a shock to some."

Kiernan said a lack of tenant ability to pay more might have been something that limited rental growth over recent years.

"Income growth has been pretty slow limiting rental growth, but property owners (investors or owner-occupiers) have been able to service a larger mortgage thanks to lower interest rates. As far as I can see, there hasn't really been an acceleration in rental growth in the latest numbers, but a tightening labour market with prospects of faster wage growth could feed through into more rental growth over the next year."

Andrew Bruce: "It is a bit unhealthy."

King says the cost of providing rental accommodation is "going up and up and up, and only likely to continue".

Under new rules, rental properties will have to meet set standards for insulation and heating. This will hand landlords a bill of a few thousand for properties that are not currently up to scratch.

Investors warned when the rule change was first mooted that this could end up passed on to tenants. Kiernan said it seemed unlikely to be the main

cause. " I'd see the effect of the insulation changes as being more likely to reduce landlords' margins rather than lead to higher rents in the first instance."

A lower margin could make investment a less appealing prospect, however, which exacerbates the earlier supply-and-demand problem.

Auckland investor Alexandra Dalzell owns three properties on the Hibiscus Coast. "Reasonably nice houses I've had for about 10 years."

She says investors got a hard time. "Certainly under the new government, they appear to be completely out of touch with the true costs and risks of owning a rental property."

When things went wrong with a tenancy, it could be hard to get any compensation, she said.

"In a Tenancy Tribunal case, landlords are lucky to see their bond back, and even then it's never enough to cover the true extent of damage caused by a tenant."

Kiernan said he expected the trend for more regulation of the rental property market to lead to more consolidation or corporatisation. "The only reason that this might lead to higher rents would be if the small-time investors had been undercharging for their properties – which might be the case if they were poorly informed about tenants' ability to pay, for example."

He said with annual rent growth of about 3.9 per cent, it still could not be called rapid.

Improving properties

Gentle says some of his properties have had rent increases of about 7.5 per cent, ahead of the Trade Me figure for Wellington. But that is because he buys old, rundown places and works with a builder and architect to renovate them significantly, turning them into quality homes. This is a common investor strategy to improve the yield of a property portfolio and to add value.

The rent is set for a year and then reviewed. "I let the property manager work out the rent levels and while I usually check it, I try to leave them to do their job. I think this year the asking rate is \$200 to \$230 for a good-sized double so it will be in that parameter, I'm sure."

In Whangarei, Liz Campbell said she had deliberately kept the rent low on her property because work needed to be done on it. She has now decided to sell the property after doing it up, rather than renting at a higher price.

Kiernan says housing stock more generally has increased over time. "Enough to show through in rental inflation at any specific point in time? Questionable."

Andrew Bruce, president of the Auckland Property Investors Association, said the level of "landlord-bashing" had increased in recent times, as house prices rose and pressure went on the rental market.

The association holds about 100 events a year and has to find people to speak at each of them.

Increasingly, potential presenters it approached refused because they did not want to tell anyone that they were property investors.

"We've had a lot of people cancel in the last year," Bruce said. "They don't want to be known to be landlords, to the point where some people won't even tell their own family."

People who did come forward and tell their stories often had to deal with a backlash from the public telling them they were greedy.

"To a degree it is a bit unhealthy," Bruce said. "Whether you like it or not, there's a service being provided there. Most people are doing it with the intention to provide for their retirements. I would think that's a good thing."