

**NELSON PROPERTY INVESTORS ASSOCIATION**  
**FEBRUARY 2018 NEWSLETTER**  
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**Our first meeting of the year** is being held at Honest Lawyer Monaco on Tuesday 20 February 7:30 pm. We are not having a pre meeting dinner this month. This meeting is a mix and mingle night. Clearly many landlords are wondering what the future holds and are struggling to understand what the market is doing. The bar will be open for this event and supper will be provided at no cost. The meeting is open to members and non members alike.

This newsletter also announces a planned open day (night) at Bunnings. On Wednesday 21<sup>st</sup> March 6 pm gather at Bunnings in Saxton Road. Commence with drinks and nibbles then break up into small groups to tour the branch and hear from a number of product representatives. I will talk a bit more about this at our 20 February meeting.

### **THE MARKET**

It seems like a lifetime since our last meeting when Robyn Green spoke. What a great night that was. It just shows what determination and hard work can do for your success. No good luck is involved, just smart negotiations then when you get the property of your dreams you have to have to make it work.

Since that meeting (and newsletter) we have got ourselves a new Government and a new world for the next three years.

Only a fool with their head in the sand would expect things to remain the same. Some apprehension is to be expected. Labour has said they have the same misguided objective as the National Government in that they want to encourage investment in more productive enterprises than housing tenants. In my opinion it is this long held objective along with various tax and legal moves that has got the New Zealand rental market into its current sorry state. However I am encouraged that Phil Twyford has accepted an invitation to address our national conference this year in Dunedin. Last year's conference had no Government presence. This perhaps might indicate something. I will leave it to your imagination what happened behind closed doors.

Whilst it is nice to benefit from a robust economy, it is never good to prosper from other people's misfortune. The clear stress in the market will come to bite many landlords and the medicine for this will be administered by the new Labour Government. We have already seen some less than pleasant court rulings and legislative actions as attempts are made to provide "Justice" to the public in an attempt to correct the rampant market forces.

Without a doubt we all need to get our houses in order. Get those smoke alarms in place and test them on a regular cycle keep a record of the test. Install insulation and record this on your tenancy agreements. Just putting it in and saying you have it is not good enough. You need photos of it along with invoices and certificates if possible.

The media has reported that the finance minister Grant Robertson has made some comments about rent increases in Wellington. Some of the media comments have mellowed slightly since the initial headlines but the intent is

there. So just like insulation and smoke alarms landlords need to issue any planned rent increases before things change and it is no longer permissible. The media has caught up on comments by Trademe about Wellington rentals being in short supply. The situation in Wellington is nothing extraordinary compared with Nelson. Just look at these figures.

	Jan 16	Jan17	Jan18	Feb18
Wellington	1612	1167	817	1015
Nelson/ Tasman	151	102	77	113

Of course greater Wellington has a population 5 times greater than Nelson. So on a per head of population basis they have double the number of vacancies compared with our area.

I did some more simple number crunching on the Trademe adverts for Nelson City as of 1<sup>st</sup> February 2018. On this day there were 22 three bedroom properties advertised. Their average rent was \$469 and the median was \$460.

There were also 8 one bedroom properties advertised. Their average was \$306. The medium was \$307.

I checked what MBIE had to say about rents in our area. Their figures were of course out of date and well below the above ones. The way MBIE process the figures explains all. They come up with low out of date figures by adding the bonds as submitted from many months before. I must not be the only one to notice and comment on this discrepancy. They have posted their take on the reason for this. They claim Trademe rent levels are only advertised levels and that perhaps the properties are being let for less. (Just like houses for sale) Well actually recently when I let my last three properties a number of tenants offered to pay more than I was asking for. So it is likely the actual rent levels might be slightly higher than is apparent. I am not the only landlord to notice this situation!

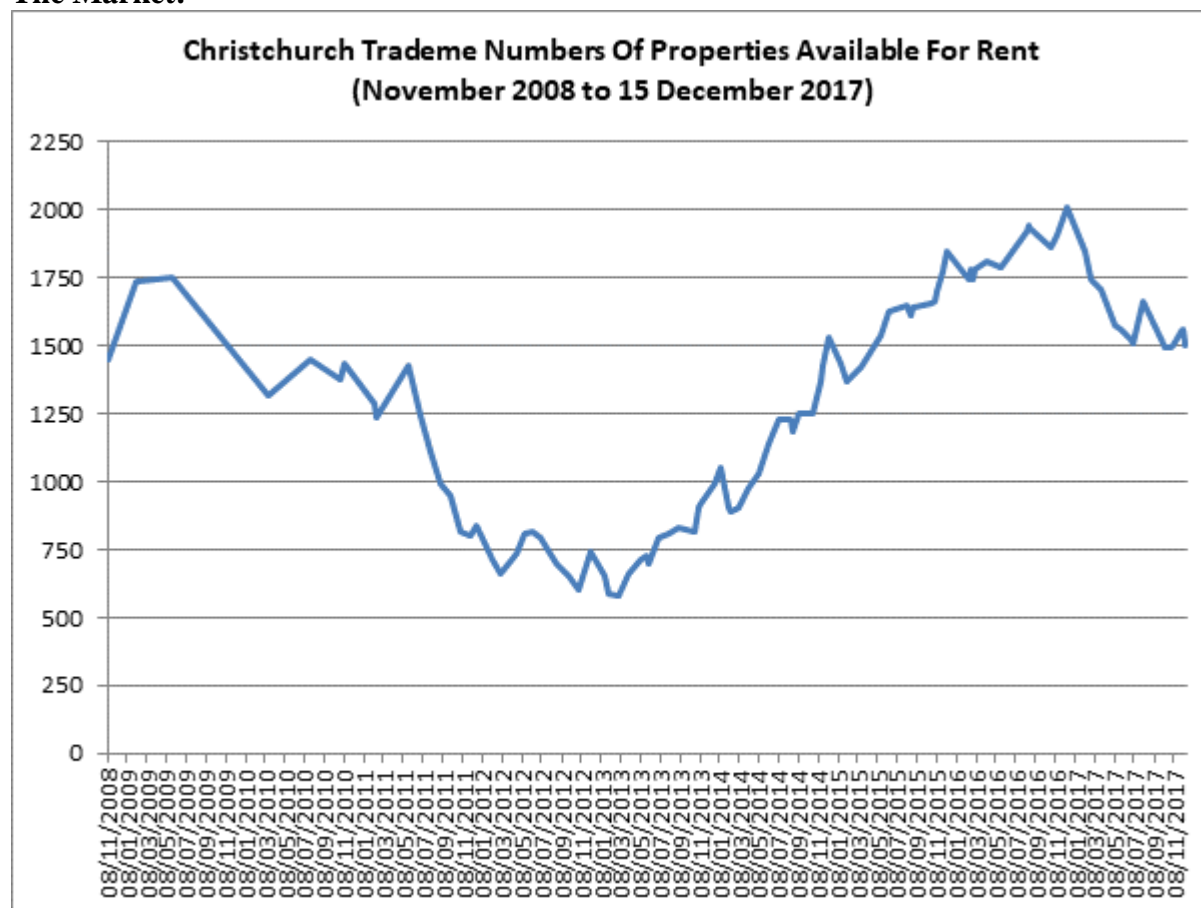
The other interesting fact I discovered when looking closely at the statistics was that 65% of the advertised properties were being offered by property managers. Without a doubt all PM's would have a web site of their own where they would be advertising their vacancies for free before paying for a Trademe advertisement. Many also operate public offices where people can walk in to collect lists. So it is probable that perhaps as many as 75% of all rental properties are being managed. I have searched the web high and low for figures like this. Who knows why MBIE do not publish how many bonds are lodged by property managers. Who has Phil Tywford taken advice from when issuing notice that he will be banning letting fees?

So much for Nelson and where we fit in the world!

A number of our members have investment properties in Canterbury. Tony Brazier has given me permission to share his December newsletter with you.

Since our last update, we have been observing what changes the new government will put in place. There were changes instigated prior to the election (such as insulation, meth standards etc.) by national and it is the new coalition government's turn. In addition there are our own unique market conditions prevailing in post-quake Canterbury which differ from other areas of the country.

## The Market:



As of today's date there are 1503 properties for rent in Christchurch on Trademe. This time last update there were 1663 properties available, representing a decrease in supply in this time of approximately 9.6%. Any decrease in supply is very welcome at this stage as it has been challenging renting conditions in recent months.

We really need the numbers to continue to lower so we can get some stability in the market. The market is cyclical and it is definitely a tenants market at this point in time.

My theory is that the difficult market is pretty much down to the 'as is where is' properties that were introduced into the market in a relatively short space of time. Traditionally the market corrects itself at some point and people stop building houses for a while, however the earthquakes created a very much different environment where so many homes previously owner occupied suddenly became rental properties. Again I would expect these properties to be absorbed by the rental market with the benefit of time. No other city in New Zealand has had to deal with this phenomenon in recent times and this would explain why Christchurch has bucked the national trend and has had decreases in the average rent, whereas everyone else has had increases.

Not to worry, this will all be sorted out by population growth. Christchurch has been growing and in my opinion has many reasons to continue to grow. You only need to walk around the city to see the great improvements going on. This bodes well for the future. It is a bit like the think big projects of the 1970s. The Convention Centre, Library etc. all create jobs in the construction phase

and then the businesses in the immediate area feed off the anchor development 'once it is completed'.

I forgive any residential property investor for wanting to pull their hair out due to the frustration of this weak rental market, but I can't see it being a permanent problem.

To help put it in perspective I have some numbers...

29 July 2010	Pre quake	1496	The old normal?
1 March 2013	Approximate peak of shortage	582	Rents rose 37%
16 December 2016	Approximate peak of oversupply	2013	Rents dropped. Definite tenant market.
15 December 2017	Firming market but still quite patchy	1503	Tenant's market still

In the meantime we need to meet the market and price our rents accordingly. A bitter pill to swallow, but necessary to ensure that the property is rented. The student market is the biggest concern. We have rented many of our student properties, but it is obvious to me that there is a glut of student properties as the sizeable number of student properties being advertised indicates the phone isn't ringing as it should in the marketplace.

When I search by key word 'students' on Trademe, I get 97 properties for rent of 4 bedrooms and above ("Houston we have a problem"). This tells the story. Analysis of one Landlord with a sizeable number of student properties, has dropped their rents by 16% in recent days. Various incentives are being offered to tenants such as free rent, free internet etc.

We have been there before in 2008 and we were offering 4 weeks free rent for a 12 month term to prop up the weekly rental level. This market is showing similar characteristics. We are best to get aggressive and offer such a deal to hopefully rent our properties first as there are only so many tenants for student properties.

### **Renting your property in the current market:**

The three P's are the key...

**Price, Presentation and Promotion.**

- Be competitive with your price. Either slash the asking rent or offer 'X' amount of weeks' free rent.

- Up the presentation. Refurbish as required. Your property is competing with many others, so make it stand out from the crowd. In more buoyant markets a refurbishment = more rent; in this market you may not achieve more rent necessarily, but you stand a much better chance of attracting a tenant if you improve the interior and exterior appeal of the property.
- Promotion is much easier these days with the internet, but photos need to be sharp and the best way to do this is to invest in professional photos; surprisingly they make your property look very inviting!

Actually there could be a 4<sup>th</sup> P, it stands for **P**ie. Sometimes it is worth eating 'humble pie' to reduce the rent below previous levels.

Sorry I'm on a role... Hopefully there won't be a 5<sup>th</sup> P and that is 'P', meaning meth. Which brings me to our next topic 'P Tests'...

### **P Tests**

About two years ago we introduced in-house P tests as we could see the writing on the wall. To ignore the potential for P in homes was akin to playing Russian Roulette (my colleague Svetlana will not take offence to this terminology I'm sure).

We elected to test at the ingoing inspection and the outgoing inspection to ensure that in the event we found a positive trace, we could then pin it on the last tenant, if the problem appeared during his / her tenancy.

The government of the time then established a national standard, as up until then the Tenancy Tribunal frowned upon any sign of P in a property as they felt the tenant was at risk and any risk is too much of a risk in their eyes. This meant that a tenant living in a house that was P infected could have a legal crack at the landlord due to Health and Safety. Not condoning the use of P but there is a difference between an ex P lab and a property where some idiot just smoked once or twice in the property.

There has been quite a bit of hysteria over the years about P and its health and safety issues, some of which is fair and some of which is completely over the top.

At the time we considered it was timely to try and protect our owners from the potential dramas and expense of P contamination. We are still concerned about it but see the need to adjust our strategy as more is known.

As time has progressed there is now a standard where below a certain level the P contamination is deemed safe and above it is deemed unsafe; as opposed to the original regime where any trace of P was deemed unacceptable. You can read further information about this at: <http://www.tenancy.co.nz/new-methamphetamine-testing-standard-introduced/>

The new threshold is 1.5, therefore we have changed our kits to ones that are less sensitive (previously 0.5) as there is a potential claim or argument that our original kits were unreliable with the possibility of a 10% failure rate. (I guess on the flipside that is a success rate of 90%, but I won't go there).

In a nutshell our goal at Braziers is to try and protect our owner clients (and non P smoking tenants for that matter) from P issues and we instigated P testing before many other property management companies due to our concerns.

There is the possibility that we may be told that 'Industry Best Practice' is to have a specialist P tester to test rather than us doing it in-house. As you can imagine this will cost a lot more.

Insurance companies are a bit vague on it, but they may say something like, 'as long as you follow *best practice* we will cover the insurance costs should P be discovered'.

It is likely the industry will take the best practice route every time as this reduces their risk, however they don't appreciate that specialist testing is likely to be expensive and financially prohibitive for many owners. In a perfect world many owners would love to pass increased costs onto the tenants when costs such as council rates go up etc., but that is not the reality of the market, it is not as simple as that; it is based on the supply and demand of rental accommodation and tenant's pay packets.

If insurers are going to dictate that best practice is to use the specialist tester, then we are of course obliged to recommend to you to use a specialist tester to ensure you have the best cover as we want you to be protected.

With this in mind we have contacted the insurance industry to try and determine if in the event a one-off professional test was undertaken to prove that the property was 100% clean (to establish a benchmark), would this be sufficient to protect you in the event of a future issue requiring an insurance claim.

In between we could continue to carry out our budget in-house tests to at least alert us to whether or not a current tenant is smoking P in the property.

The problem with P is that it really depends on the extent of the contamination. A low reading may require just a minor clean, whereas major contamination can cost tens of thousands to remedy, therefore we need to know that your insurance is covering you for the worst case scenario.

The problem with our in-house testing is that it could be challenged by the tenant as to the validity of test whereas a professional test won't be as easy to discredit. My personal opinion is never to take for granted that you will be successful in getting compensation from the tenant; the key thing is that your insurer will cover you should you need to lodge a claim.

When we hear back from the insurance industry we will be able to comment further.

## **Change of Government**

The reality is that the government has changed and we have to adapt to any changes that may come our way in the industry.

The majority of the properties we manage are well presented (regardless of age) and this stands us all in good stead; those that aren't up to scratch are likely to have planned improvements in place to get them to an appropriate level. Insulation is a high priority to update if you haven't already done so.

Historically property investors have done well in respect to their property values whenever new governments increase spending. At this point it looks as if there is ample government spending in the pipeline. Such expenditure historically leads to inflationary pressures which can lead to an increase in property values. Time will tell.

## **Christchurch Rebuild – the good news continues...**

Earlier this year I reported that there was quite a lot of activity in the immediate vicinity of our offices. The following photos indicate that the momentum continues. There is plenty happening within a stone's throw from our offices; this sort of development = jobs = tenants. Right next door to our offices is a 5 level hotel under construction. This is quite interesting as it has been prefabricated in modules and shipped over from Vietnam.

The central city is also looking very impressive with all the new development. Christchurch is looking good!

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So there we have it. Some news and views from Nelson and Canterbury. Often we wish the news would just go away. Sometimes we do not believe it. I subscribe to the view that it is better to try and understand what is going on and make decisions based on this. It is sometimes easier on your state of mind to ignore the wider world and its news from Wellington, Trump, or Glenn. We in Nelson PIA will do our best to educate, entertain, and motivate as many people as possible. You can help us do this by supporting the organization. Support can be as simple as reading the newsletters, attending the meetings or subscribing to our membership. We think we have something to offer everyone. Thank you for being out there.

Happy investing

Glenn