

NELSON PROPERTY INVESTORS ASSOCIATION
MARCH 2019 NEWSLETTER
PO Box 198 Nelson
NelsonPIA@xtra.co.nz

Our second meeting of the year is on Tuesday 26th March 7:30 pm. We return to the Honest Lawyer with the normal pre meeting dinner to enjoy with fellow investors. Sue Harrison from Christchurch is coming up to talk about holiday homes as an investment. Air BnB will of course feature strongly in her talk. To set the tone I am planning on a BBQ at my holiday home in Little Kaiteriteri on the Sunday before. The plan is to invite just the PIA committee but if you are a keen holiday home investor or just nuts on BBQ's get in touch. I should be able to find enough room for a few more.

THE MARKET

If one was to believe everything written in the media you would think the bottom was falling out of the market. Nothing could be further from the truth and certainly not in Nelson. As an example of the strength of the residential market I am currently letting a small one bedroom flat in Murphy Street. It has been empty since July last year due to a serious fire in the adjacent flat.

I set the rent at \$280 PW which is what I calculated the median rent to be. (see my February Newsletter). The departing tenant was paying \$260 and the year before \$240. So far there have been 1241 views of the advertisement and 20 email enquiries plus a few text and phone calls.

There has been a good selection of applicants to choose from. One would have to guess as to why not everyone who was interested initially failed to apply. ☺

Not being in the market for selling or buying I am not so sure what is going on there. Clearly the various reported selling, average, median, asking, and adjusted prices all indicate that the reported dropping of prices in Auckland does not apply in Nelson Tasman. Nelson and Tasman periodically take turn about as one being higher than the other from one quarter to the next. Currently the median appears to be just above \$600,000.

The low number of properties for sale and low number of days on the market tells it all.

The building consents to the end of January have just been published. The media proudly reported that Auckland building consents was hitting an all-time high. The year to the end of January in Auckland was 13272 which was a respectable 3% gain on their December figures which was also a record. Compare that with tiny Tasman which consented 414 in the year to end of January which was 5% up on the December year. I wonder how many houses will start being consented once the Richmond West subdivisions start becoming available to build on.

Meanwhile in Nelson City things do not look so good. The year to January saw just 295 consented.

WHAT IS THE GOVERNMENT UP TO?

So far we know that the brightline capital gains tax is going to take a third of the inflation gains off you when you sell in under five years. Do not think this tax only applies to nasty property flickers in Auckland. If you have been letting out your home whilst you have been overseas for a while you might be caught out. We know pretty clearly that if you are a beginner investor with only one or

two rentals you will be making a loss and will have to fund those losses out of your other income but not be able to offset the costs off your tax unlike anyone else starting up a small business. What people do not understand is money in the hand today is worth a lot more than money in the future so the accumulated losses will not be worth as much in the future. Put simply the tax will increase from say 33% to perhaps 40% (this figure is a guess because it is almost impossible to calculate.)

Capital Gains tax is spattered all over the media. I have stopped reading all that has been written. Too depressing and too many variables and what if's to fully understand it. I have been trying to find a speaker to come to our May meeting to talk about it.

RTA review and suggestions that you will have to permit dogs, cats, and perhaps other animals in your flats. Notice provisions for tenants when you need to reoccupy when returning from out of town or when the tenants start damaging the property and scaring the neighbours looks bad. The final decisions are still pending on this. When the Minister of Housing stops smiling you will note that perhaps he has softened his approach like Jacinda has when talking about CGT.

Submissions were invited on both the Healthy Homes and the RTA review at the same time. I and I suspect most other people concentrated on the RTA amendments and did not take as much notice on Andrew Little's act. Well the Minister of Housing has made some more definitive announcements on the Little's Act and on my simple calculations think this will hurt investors a lot more than all of the other acts being introduced.

The announcements indicated that extractor fans are required in bathrooms and kitchens. I decided to install two fans on the little Murphy Street flat that I mentioned previously. Naturally I did my best to make them as cheap and fool proof as possible. Sure the off the shelf cost is not great but what an effort to install them. I have read somewhere that they will cost \$1000 each to be installed. I can believe that! From the brief details about the cost to Housing NZ it looks like it will cost an average of \$4000 across their portfolio. Many of their properties will already be fitted with heat pumps and log fires so it will not cost much to bring those homes up to speed. Bearing in mind the \$4000 is an average it is clear some will cost perhaps \$8000. These costs will be counted as capital improvements so will not be tax deductible. If you sell the property you might even have to pay 33% or more of the installation cost to pay the extra CGT the improvements have created in additional value of the property. I have calculated that the new standards will cost over 2 Billion dollars to implement throughout New Zealand. I would love to think this will mean some little children will be healthy. I spent a fortune changing log fires a decade ago to improve child health. I installed insulation at the same time then increased it a few years later to help the little children. Now I have to do it all again. Yet still children are getting sick, going hungry, and are being poorly clothed. Are property investors really the cause of children getting sick? Are the children of owner occupiers not getting sick? As with most health issues the problems are complex but society needs to look at the bigger picture which is not happening today.

A few well respected commentators have started to point that many of the new laws and regulations coming in are not achieving the desired outcomes. In fact they are making things worse for the tenants. For instance when properties become so well insulated and draught proof carbon monoxide becomes a serious health risk.