

NELSON PROPERTY INVESTORS ASSOCIATION
AUGUST 2022 NEWSLETTER
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Our fourth meeting of the year at the Honest Lawyer Point Road, Monaco is on Tuesday 2 August 7:30 pm. As is our practice before local body elections we have two candidates speaking. These being Councillor Mel Courtney and Harry Pearson. Mel spoke three years ago and is a high-profile local councillor. Harry is a member of Nelson PIA and is a regular attendee at our meetings. Yes, we still have the before meeting optional meal at 6 pm.

Note: No bookings are required and no charge for attending. Non-members are welcome, but we do encourage all attendees to subscribe to our free newsletters.

EXIT STRATEGIES

Our friends over the hill in Marlborough have asked me to speak at their meeting on this subject. Of course, I told them I am not an expert on such matters. Elizabeth my wife made the same comment to me so yes there is no doubt I really know nothing on such matters. But this does not stop me from commenting on the subject based on my personal experience. I did a tiny bit of research on the net and my idea of exit strategies is completely different from mainstream advice. Normally it refers to what I call quick flick renovations, developments, and how to extract your money out of an investment in order to move onto the next project.

Well at my age along with what I have observed many of my previous property management clients doing "exiting" is all about providing for your retirement and care in your last years. If you have worked all your life, lived prudently, put up with tenants who have high expectations of their landlord and reached a point where you cannot afford to visit the kids who live overseas, and perhaps see out your last years without a care in the world then you have done something wrong.

The idea is to do this business of being a property investor correctly. That means your investments need to be generating more income than you need.

So the question is just how much does one need in your old age. Well that depends on how long you plan on living for and how much medical attention you need in your final days. Believe it or not the Government Statistics department publishes tables on life expectancy. This just goes to prove the old saying the world is full of liars, dam liars and statisticians.

You will find heaps of advice on the net saying how much you should save before retirement. Many go so far as to suggest that you should invest in government sanctioned investments. There is a whole industry based on providing for people in their last years. That industry appears to be very profitable despite many not for profit organisations doing just that and being unprofitable and closing down. Does anyone remember and perhaps even participated in fund raising for aged housing in Songer Street, Neale Ave, and Bridge Street? No names are mentioned on purpose. Those well intentioned establishments were purchased by large highly profitable businesses. Businesses are generally profitable because they charge their customers more than it costs to provide the service. No one wins when cheap charity causes the facility to close down. Generally, one gets a better quality of service when you pay more. So, the answer is make money now in your property business in order to pay for the best service possible in your last days. A few of my friends have wives who have needed to enter full time dementia care wards. Some of my family unfortunately have been there as well. The cost of this care is close to \$2000 per week. Sure it is possible to find a bed that is cheaper but if you want the best you pay more. There are two simple ways to pay this sort of money. The best most preferable way is to earn that much which by the time you add tax plus leaving enough for the surviving partner means you need a pre tax earning of about \$200,000 per year. The second by far the overwhelming common method is to sell down. (Exit strategy?)

Right at the beginning of the well written government advise on such matters states

“You’re responsible for paying for your own care. You can apply for government help if you can’t afford all or some of the cost of your care.”

We all know that means the government will take everything you have worked for in your life time for your care and leave nothing for the family.

The government has “generously” exempted bright line tax from the family home or for estates but not for property investors selling down your rental investment properties. Also if you have a block of flats or a large commercial property you generally need to sell the whole property wiping out the bulk of your income stream.

A year or two ago hardly anyone would say property never goes down in value. But this year is different as we all know. So, if you have a portfolio of property investments you need to spread your risks in size, location, and style in order to permit you to have a choice of which property to sell first. Not all properties go up or down in value at the same time. There is no known way of predicting which property will perform best despite real estate experts crossing their heart and promising this particular property is a great investment. So yes it does make sense to sell down to wipe out your mortgage when giving up regular work but you should think ahead to the final days and save one or two “smaller” properties you can liquidate to pay for a retirement village villa whilst still leaving some income generating investments to pay for end of life luxuries like a new car, trip to visit the kids in Europe or whatever.

There is of course a whole industry of retirement investment advisers who have certificates on the walls of their offices. It is possible to set up trusts, gift money and property to the kids and buy up luxury items in order to avoid the clutches of the government in your final days. In my opinion it is better to set your sail in the right direction well in advance and sail right past the gates of hell.

OUR SPEAKERS AT THE NEXT MEETING

I gave our speakers some ideas of what I thought us fellow investors will be interested in hearing. They will of course speak on what they want to speak about but there is just so much we want for our city and area.

Without a doubt Nelson has some problems. Problems with roading, housing, availability of land for subdivision, state highways, preservation of heritage, recreation facilities, council bureaucracy, and the colour of council buildings? Tasman District is consistently building two to three times the number of dwellings compared with the city. TDC population is growing faster than Nelson and it is a great place to live in. Yet all is not a bed of roses there as anyone building a new house like I am doing at the moment, will know. But we have so much to be thankful for in our city like great schools, close to the best drinking water in the country, cycle tracks for all tastes, good swimming pools, good airport and a diverse colourful ethnic diversity. Some of our problems stem from bad central government messing with things like our health system, NMIT, poverty, drugs, and loss of empowerment in the political process.

We need local body politicians who will advocate effectively to central government. We need local body politicians who have worked for a wage and have built a business from nothing. We need local body politicians who can talk and listen to a wide cross section of society and have more than a single agenda to harp on about.

They will not change society but they might influence our environment to make Nelson a better place to live in. Come and hear what the two speakers have to say. But of more importance get out to vote and dare I say it encourage your tenants to do the same. Say you have listened to at least two of the candidates and give your opinion of them to those you speak to.

Regards
Glenn