NELSON PROPERTY INVESTORS ASSOCIATION
MAY 2022 NEWSLETTER
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Our second meeting of the year at the Honest Lawyer Monaco is on Tuesday 3rd May 7:30 pm. Alun Carter from Blenheim is speaking. Alun operates Creating Homes and will speak on the cost implications of not carrying out regular maintenance which is particularly pertinent to the property investor. His modelling in the latter (based on Marlborough property figures) certainly was an eye opener to our Marlborough audience when he spoke there recently.
Note no bookings are required. No charge for attending applies. Non members are welcome, but we do encourage all attendees to subscribe to our free newsletters.
Note the Covid world is changing. No Vax certificates are required at long last.

CHANGE IS THE ONLY CONSTANT IN LIFE

Back in January I regretfully had to advise our committee that I needed to pull back on some of my Nelson Property Investors association activities. I am able to continue managing the membership and finances but can not longer organise speakers and meetings. This upcoming meeting has been organised by our President Ruth Fegan with assistance from our National organisation NZPIF. Ruth has offered to carry out these functions from now on.
I put the above paragraph into my March newsletter. Ruth and I are managing along with some joint learning! However we still need some help. The NPIA committee welcomes suggestions for speakers and even better someone might like to step forward to carry out the task of organising speakers and co ordination of accommodation, venue and transport.

TAX TAX and more TAX

I found this article recently and thought it worth repeating. Readers might be interested to hear that the IRD wrote to all property investor groups offering to speak at our meetings re the new tax laws explaining Brightline and Interest deductibility. When the invitation was accepted by more than one association, they reversed their offer on the basis of covid risks. To bad I can not use the same excuse when it comes to paying tax.

Accountants provide simple answer to brightline test

Members of Parliament’s Finance and Expenditure Committee have been taken on a deep dive into the complexities of the new residential property tax rules.
Chartered Accountants Australia and New Zealand (CAANZ) told the committee to keep tax rules simple, otherwise there will be “unintended outcomes and inadvertent non-compliance.”
By unpacking a range of potential property issues in the Taxation and Remedial Matters Bill, CAANZ highlighted the need for simplification.
The main thrust of the bill is to make residential property a less attractive investment option by phasing out over four years property investors’ ability to claim mortgage interest against rental income for tax purposes (interest limitation rules) and extending the Brightline test from five to 10 years.
Excluded from the interest limitation rules are social, emergency and transitional housing, new builds and the main home, which comes with fishhooks.

CAANZ New Zealand tax leader John Cuthbertson offered a simple solution for several issues relating to the Brightline test; let homeowners select their main home which will be excluded from the test.
He says there are a range of situations where a main home may inadvertently be captured by the bright-line test, if the owner/s live elsewhere for 12 months - for example, going on a secondment, vacating due to flooding, fire or earthquake, undertaking a substantive renovation, transitioning to end of life care, or if it takes longer than 12 months to build a main home.
“We think a solution is to have a homeowner/s decide themselves which is their main home, rather than having it determined through a complex set of inflexible rules.
“We want to see policy that benefits our wider society rather than any one group,” says Cuthbertson.
The issue of transfers of property between the bank of mum and dad and children was also raised by CAANZ, as such transfers will trigger the Brightline test, despite the intention by parents to pass the property on at cost.
“Parents have long helped their children on to the property ladder by purchasing a property, often against their own equity, and then selling it to their child later on at the cost they bought it for,” says Cuthbertson.
“The main home exemption is not available in this situation and any increase in value will be caught under the Brightline, which will be disastrous for parents simply trying to help their children into a first home.”
CAANZ also called out the potential for confusion, given the Brightline and proposed interest limitation rules, while related, are operating quite separately.
“Changes to interest deductibility and the Brightline test are often mentioned in the same breath, but in terms of who and what is caught and when the changes are happening, there are some important differences,” says Cuthbertson.
“The Brightline test captures all residential land, bought both in New Zealand and off-shore, while the interest limitation rules only apply to borrowings for residential land in New Zealand.”
Residential property acquired on or after 27 March, 2021 attracts a 10-year bright line period, reduced to five years if a new build. However, the bright line period does not start until the property transfer has been registered with the land transfer office.
The interest limitation rules are more involved, says Cuthbertson. Where residential property is acquired on or after 27 March, interest deductions are denied from 1 October, 2021. Interest deductions for existing properties are however phased out over four income years also starting from 1 October 2021. Interest deductions for new builds have been signalled to broadly continue for a fixed period up to 20 years from the time the code of compliance certificate is issued.
“What may be considered a new build is intended to be concessionary and is not intuitive,” says Cuthbertson. “For example moving an old house onto a new property, building a dwelling on top of another or converting a commercial building to residential all potentially qualify. People need to have their eyes wide open to understand the opportunities.”
Alongside allowing homeowners to nominate their main home, CAANZ wants an education campaign and clear guidance to support the majority of taxpayers who will be “trying to navigate these rules without expert help”.

SOCIAL HOUSING CRISES?

John Butt a fellow ex Telecom Engineer has given me permission to use his recent article produced below. Sorry I am unable to reproduce his graphs into this document but you can look for yourself by going to this link https://jonette.co.nz/listings/posts/kaianga-ora-stats.html?utm_source=Jonette+Property+Stats&utm_campaign=ace38d94ea-EMAIL_CAMPAIGN_1_7_2019_15_54_COPY_01&utm_medium=email&utm_term=0_403648e8a2-ace38d94ea-582652381

Social Housing Shortage

Social Housing is the forgotten market in NZ, where the “housing crisis” is a social housing crisis, but politicians and reporters alike appear committed to laying the blame on Private landlords. The data says the exact opposite is the issue, politicians need to ensure that Kainga Ora spend the money they have allocated and sharply increase their building rate, incremental increases are not enough.

There is a lot of FUD about the property market, driven by political interests and cheap shots from poorly researched reporters both written as clickbait. Here are some real stats courtesy of MBIE and Kainga Ora. I am presenting these as a service to help readers understand the market in a way which can assist profitability as investors.

I believe I am looking at the data correctly in my presentation, but please comment if you think I have presented a bias, all of us have difficulty seeing our own biases.

Kainga Ora were given access to over $3,800million in the Housing Acceleration Fund announced in June 2021. $2,000million is to be borrowed to buy and develop land. Building from land takes time, meanwhile Kainga Ora is redeveloping existing land, having completed 1,586 redeveloped dwellings to June 2021, along with a further 557 new dwellings from direct purchases. A tiny 38 dwellings were sold, mostly to tenants - thats about 2000 homes, is it enough?

To get the same growth as the private sector since 2009, Kainga Ora and Community Housing Providers would need to add 30%, ie over 25,000 social rent homes more than currently available, alternately match the population growth of 20%. At 1586/year, neither scenario (20-30%) will be achieved. At approximately $500k per dwelling, Kainga Ora will need the order of $12b or $8b just to build enough social housing to be equivalent to 2009, this is not planned. Kainga Ora currently show 483 planned homes on their site.

Market Size

The size of each market in NZ is often hidden, so this chart brings a precise timeline to actual rental properties, Private rentals grouped by region(s) and Social Rentals as a single region. Surprising isn’t it. Social housing is a fraction of the market, less than private rentals in Auckland, but more than any other region.

The following chart shows the actual number of Private rentals (rentals with a landlord or PM) in each major region with all other regions combined in grey. To show the level of growth in Social housing I have included the number of rentals combining Kainga Ora and the Community Housing Providers (CHP). Since 2008, Social housing appears to have remained constant (down 145) while Private rentals have increased by 105,467.

Social Housing Shortage

Can the difference be identified a better way? I will try.

Indexed growth in Rentals

Placing the above chart in an index, where 2008 is 1000, provides us with a clear comparison of growth in each market - there is a single outlier, but so is Wellington and Bay of Plenty. Clearly Canterbury was severely impacted by the 2011 earthquake, but is now on the same track as the rest of the country.

Social housing has stagnated, with reductions throughout the period of the John Key government, this is hardly surprising, HCC had spending cuts and were instructed to sell to homeowners and CHPs. Kainga Ora (as HNZ or some other name) sold 1,777 homes and released 3917 to CHPs in the four years 2013-2016, and the impact was a reduction in Social housing while the Private market grew to take up the slack, especially Auckland, which has a curve almost the mirror of Social, but on the slope.

Why did Wellington and Bay of Plenty not grow much over the last decade? That deserves a study, but I currently lack the resources and/or data.

The following chart shows the number of rentals as in the previous chart, but divided by the number of rentals in 2009 (and multiplied by 1000) to create an index. An index enables us to compare growth on an equal basis, better than the raw numbers that only show actual numbers. The risk with this chart is that the result "assumes" that 2009 was perfect, which is unlikely, social housing was probably very reduced at that stage, so I expect the real situation is far worse. This only shows changes since 2009.

Growth charts strongly suggest that the current "Housing crisis" is a government driven one, with two fuels:

1. Undersupply of social housing, leading to calls of over pricing while we can clearly see that prices follow Household income and there is little over pricing.
2. House prices are fuelled by interest rates with banks keen to lend money they pay little if anything for. It currently costs the same in interest payments for a $1m home in 2021 (at 4.5%) as it did in 2008 for a $500k home (at 10.7%) .

The following chart shows mortgage interest rates since 2003. I included the run-up to the GFC from 2003 to 2008 to show how quickly interest rates rose in response to that crisis. Since 2008, not only have interest rates declined but also the choice of mortgage period has moved from fixed term (2 years was common) to floating or shorter term rates, this trend may be going in the opposite direction now. Interest rates in December were close to 5%, but that is half of the interest rates at the peak of the boom, and 2/3rds of the typical rate until Covid in 2020.

Note from Kainga Ora: *"Kāinga Ora has a mandate to deliver more public housing to help meet the rising demand in many locations. Over the past four years we have accelerated the pace and scale of new builds and large scale development projects. The number of new state homes being built are the most in two decades. The demand for public housing has never been higher."*

The current plans for social housing are not enough to reduce the waiting list or address the social issues in NZ, this is not something the private sector can do, so change is needed. The plan for $3.8b is not yet showing any movement, Kainga Ora is continuing to build at the rate they were prior to the announcement, no evidence is available to show any change yet.

Have a look at what HNZ says.

https://jonette.co.nz/listings/_Media/Response%20-%20John%20Butt%20OIA.pdf