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Forget the stereotype of the 'typical' landlord

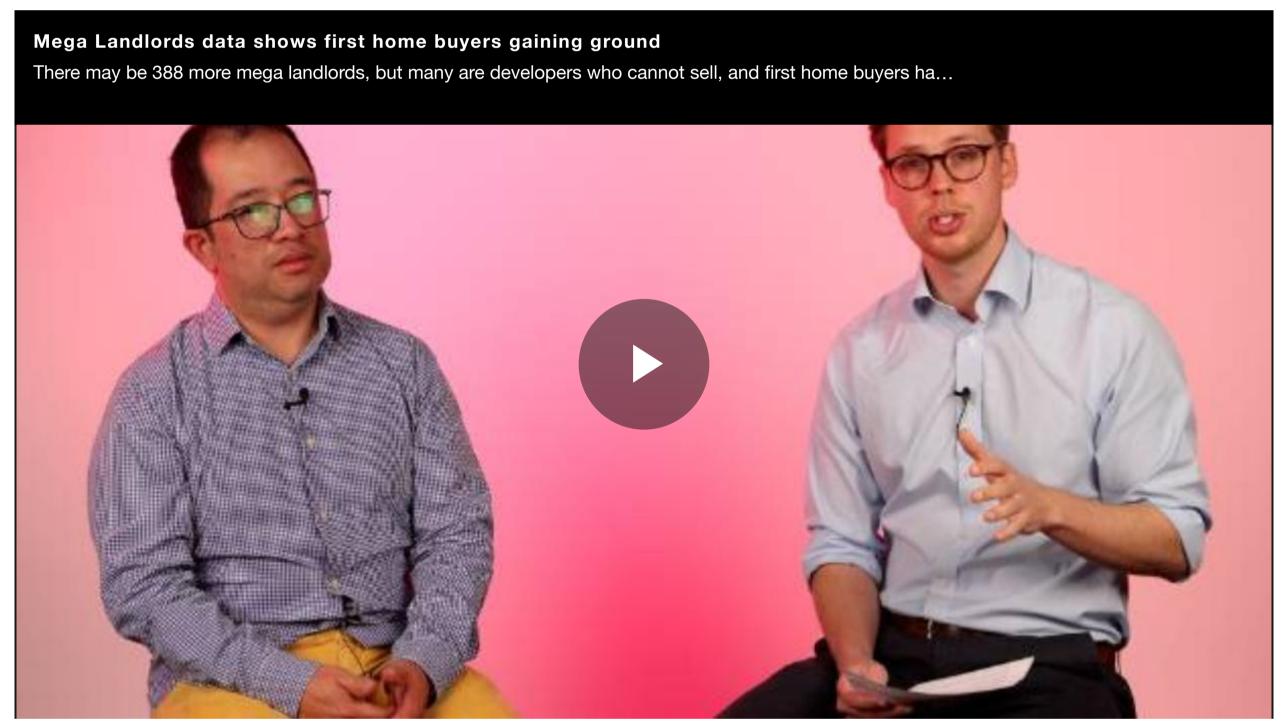
Miriam Bell | September 24, 2023



Cat Slater, who owns two rental properties, says there is a mistaken perception in New Zealand that all landlords are rich.

RICKY WILSON/STUFF / RICKY WILSON

Auckland property investor Cat Slater bought her first rental property 23 years ago, but she is not a <u>mega landlord with a multimillion-dollar</u> <u>portfolio</u>.



Mega Landlords data shows first home buyers gaining ground There may be 388 more mega landlords, but many are developers who cannot sell, and first home buyers have been the real winners. RICKY WILSON/STUFF

> Rather, she owns two rentals, both in Auckland, which she bought to help fund her retirement. She hopes to do so by selling one to buy into a retirement village, and holding one for passive income.

> One of her properties is a townhouse in Mt Wellington, bought off-theplan in 2000, and the other is an apartment in Freemans Bay, bought in 2021.

> There have been reasonable capital gains on the townhouse, but less on the apartment.

But Slater, who is in her 50s and works as a project manager, says the properties were performing well before <u>new tax rules, which remove the</u> <u>ability to deduct mortgage interest on rentals</u>, were introduced in March 2021.

"Now my tax bill is much larger, and with the rise in interest rates, my rates have doubled from around 3% to 6%. And then insurance and rates have gone up too. That all has a significant impact on costs."

Her townhouse needs a refurbishment, and she was planning to do it earlier this year.

But <u>the Auckland floods made it hard to find the tradespeople</u>, and she was made redundant in April which meant she no longer had spare funds for it.

"So I'm trying to decide what my next step with that property will be. I'm waiting to see what happens with interest rates and the election, and where it all leads for investors.

"It could be worth doing a refurbishment, selling it rather than holding it, and then buying a new build because the incentives make that appeal in my circumstances."

Being a landlord is a business, and on the whole private landlords do a good job, but they do have a responsibility to provide a secure, habitable, good home for tenants, she says.

"Landlords should be aware of that, and of the standards they need to meet, and perhaps be held accountable, but they should not be punished just for being a landlord."

There is a perception that all landlords are rich and have multiple properties, but that is not the case in New Zealand, she says.

"Most have just one or two rentals, or have one for their kids. Landlords are a community of people like me who are thinking about how best to support their future."

Slater is right about this. Data from Inland Revenue (IR) and the Ministry of Business, Innovation and Employment (MBIE) shows small-scale "mum and dad" investors, like Slater, are the "typical" landlord.



IR collects information on individuals' rental income in income tax returns. This provides data on the taxable income, and the age, but not the occupation of individuals – although there are gaps.

It showed that in the tax year to March 31, 2022, the highest number of people declaring residential rental income or expense were aged 50 to 62.

Over the same period, the biggest group of people with rental income also reported taxable income of between \$70,001 and \$180,000.

More people in the \$14,001 to \$48,000 income bracket reported rental income than did in the greater than \$180,000 range, and 11,180 people with rental income reported a taxable income below \$14,000.

At the same time, data from MBIE shows the total number of landlords with "active" bonds lodged, as of July 27 was 118,371.

Of those landlords, the number who lodged just one bond, which would generally but not always be for one property, is 89,658. That equates to about 76% of landlords.



About 76% of landlords have just one "active" bond lodged with MBIE. **KATHRYN GEORGE / STUFF**

There were 21,190 landlords with two to three bonds lodged, which is about 18% of landlords. That means roughly 94% of landlords have bonds lodged for one or two properties.

In contrast, only 4211 had five or more bonds lodged, and that equates to about 3.6% of landlords.

MBIE does caution the data may also include bonds for tenancies that have finished, or properties that are no longer rentals, where there has been no claim for the bond.

But the combination of data suggests the "typical" landlord is in their 50s, with an income in the \$70,001 and \$180,000 band, and the vast majority own just one or two properties.

William Aoake fits this description. He is a carpenter in his late 50s, and he owns his family home in South Auckland, and two rentals in Rotorua which he bought eight years ago.

His investing was motivated by a desire to secure houses for his children as he was concerned they might not be able to afford to buy themselves, he says.

"My wife and I have been very fortunate, and have not encountered any big challenges. We have a property manager, our tenants have been good, and our rentals have been ticking over nicely.

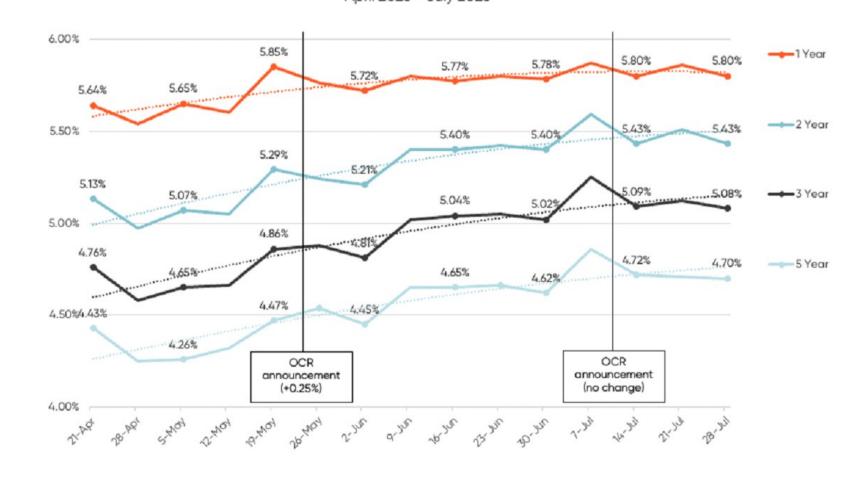
"Now, interest rate rises have hit hard. We've just refixed at around 7%, up from around 3%, and this year is the first we've really had to figure in extra costs from the changes to interest deductibility rules."

It means costs have gone up significantly, and while they are currently able to manage, it has got much harder, he says.

"We plan to hold on to the rentals as long as possible as we want them to help our kids out, so they don't need to be renters.

"But we used equity in our home to buy them, and I would love for our home to be paid off, so if it does all go pear-shaped we'd look to sell to pay off our mortgage."

Financial pressures due to the cost of living and <u>rising interest rates</u> are currently front of mind for most New Zealanders, and that includes "typical" landlords like Slater and Aoake.



Change in wholesale interest rates April 2023 – July 2023

Data source: interest.co.nz

Auckland Property Investors Association general manager Sarina Gibbon says its members are run-of-the-mill, middle-class Kiwi, and at events it was themes of family and the future generation that came through.

"It tells me that, for the most part, our members take on the risk of investing for the sake of their children, and yet the general consensus seems to be that when a landlord invests, she or he is self-serving."

Members often talked about the impact of housing on tenants and their families, she says.

"But what we are seeing now is a convergence of rising interest rates, tax bills, post-flooding insurance costs and just about all other costs associated with rental property accommodation.

"More investors are less able to absorb the cost, which, in turn, puts pressure on rents and supply. It's the proverbial straw that broke the camel's back."

A notable trend identified in <u>Stuff's recent "mega landlords"</u> <u>investigation</u> was that small investors have been harder hit by the Government's investor tax policies than medium-sized and large investors.



It found there were 13,225 fewer small investors in May compared to September 2021, suggesting a sell-off of properties by this group.

Economist Tony Alexander, who conducts monthly surveys of mortgage brokers, real estate agents and investors, <u>does not believe there has</u> <u>been a huge sell-off by investors</u> since the tax changes were announced.

In his investors survey, there has been little change in the percentages of respondents who own various numbers of properties over the last two years, he says.

"But existing investors have been holding back from buying, due to the tax policies, higher interest rates and the rising cost of insurance and maintenance."

His latest mortgage broker survey shows a net 24% of respondents reported more investors were seeking advice last month, and that was the strongest result since January 2021.

It accords with growing anecdotal evidence that investors are tentatively returning to the market, but his investors survey suggests they are likely to be new investors rather than existing investors, he says.

- Stuff



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