21st September 2021
Monthly Meeting: Survive or Thrive? Should you buy, sell, or hold?
By Richard Woodd

The TPIA's first serious attempt at a full-scale virtual meeting via internet Zoom on Tuesday September 21, was rated successful and will be used again in the future if circumstances such as Covid dictate, even though it can't measure up to the atmosphere of a face to face event in the Plymouth International, our regular monthly venue.
The theme was 'Survive or Thrive – buy, sell or hold?'
Registrations exceeded our expectations at 76 and actual participants were estimated at 60 when including the many who paired up to share screens. It was all over in an hour with nobody having to leave their homes.
The drawcard was our expert panel: accountant Ross Whitmore (director, Balanced Accounting Taranaki); Stephanie Murray, mortgage broker; residential real estate agent Kris Rasmussen (Professionals); and commercial real estate agent Kevin Hight (McDonalds). Our President Nicki Smith managed the event, with prepared questions for the panel, and also from audience prompts. Some of the highlights:

IS RESIDENTIAL INVESTMENT STILL WORTH A PUNT?

HIGHT: You can't go wrong by doing plenty of thorough investigation into the properties you are buying, the lease terms and also the quality of the tenants, and your agent will assist with all of this.
There is increased interest in commercial, but it has fishhooks that residential investors do not fully understand and the financial thresholds are higher than residential. Higher deposits required and banks are being pretty harsh on those which don't have a good seismic rating. In short there are still opportunities but not much under $1 million, and they often sell within days. Good properties with good tenants are being held onto.
Commercial yield expectations have reduce considerably. If they are below 6% you need to find out why because it maybe due to a strong national tenant, or particularly good lease terms, or a near-new building. I doubt we will see 5% yields again.

RASMUSSEN: It depends on your goals and the particular property because every situation is different. Whether you're a seasoned investor getting out or whether you're willing to buy more and hold regardless of the bright line test. Residential values have increased by 20-25% in the past 12 months so even with the lower interest deductibility it can still be a good investment, even more so if you don't need to borrow. The problem is opportunities because there is insufficient stock to meet demand. Urban land with good building sites has been secured by the bigger groups for house and land packages, and there are simply not enough houses being built overall.
Selling something to purchase another is very tough because you are competing with cash buyers. It's worth looking at bridging finance in those circumstances.
Initially when the new tax rules came out in March we certainly saw investors back off real quick but it did not last long. They were back after a month or two. Yields are low on all real estate on low interest rates.

In residential it's all over the show really. A little 2 bedroom low maintenance brick unit will not produce a great return but hold its value, versus 4-5 bedrooms in a less desirable area with good cashflow but lower capital again.

MURRAY: People are still getting their heads around the effect of the tax changes particularly as some things have not yet been clarified, but it's as good a time as any to invest in my view. People still want a long-term return and wonder what else can they invest in. The new tax rules did put investors off for a while, but we think it's back to normal now.
Is it worth refinancing onto a lower interest rate? It depends what your outgoings are, what your term break cost will be, and your personal circumstances will be a big factor, particularly your cashflow, but we can quickly work out if the gain is worth it on the new interest rate versus the break penalty.
We have situations where the investor started on a 30 year loan term and it's come down to 20 years and their current bank won't push out to another 10 years, and in some situations refinancing with another bank on a 30 year term and maybe buying another rental property. I'm seeing this happen more frequently.
We've also noticed the banks being very picky about seismic ratings on commercial property. They have already begun reducing interest-only loan approvals, in response to a Reserve Bank alert.

WHITMORE: Buy and hold investments are still worth it in my view. Long term gains outweigh the short term pains but ou need to ensure your rents will take care of the extra tax to pay.
For example: if your interest to pay for the 2nd 6 months of this 2021-22 tax year from Oct to March is $8000, then 25% or $2000 of the interest deduction would not be claimable, and the tax bill would be $660. You multiply your $2000 by the tax rate of 33% and that's $660, so it costs you an extra $660 if you can't increase the rent to offset it.
The new tax rules on residential investment property are a surprising departure from what has been normal practice in this country, in which businesses struggling with increased costs are able to put their charges up to compensate and maintain their return on capital. All an investor can do is increase the rent, but that looks like being government controlled as well.
I have clients who want to buy with an existing house, subdivide the balance off and put a new build on, hoping get the interest tax exemption, but there is a shortage of sites. New builds are attractive because they are exempt, but the full definition of 'new build' is yet to be clarified. It's not yet in tax law.
As for the Bright Line Test determining capital gain tax to pay when selling, I have a client who purchased two years ago and now wants to sell to her son returning from UK and she'll be up for a CGT. But for those investing for the long term there will be no such problem. The BLT was launched in 2015 to apply to properties sold within 2 years, that was increased to 5 years in 2018 and then 10 years in 2021.