



Rental Property Focus

In property we trust

As a major New Zealand newspaper's recent survey found people have little faith in our money handlers, which is undoubtedly one of the reasons property investment is so popular here.

As the Sunday Star-Times found when it asked its readers to rate the level of trust they had in financial advisors, sharebrokers, fund managers, mortgage brokers and insurance advisers none of them scored well.

As the paper recently reported, out of 1200 people who completed the survey less than 1% gave them top marks on the scale of one to five (with one being no trust at all and five being a high level of trust), and only banks achieved a 'pass' - scoring 2.9 out of 5.

These are appalling statistics which should be of great concern to the financial services sector. They also help explain why property is a preferred investment option in New Zealand, where many Kiwis have been disappointed at best, burned at worst, by other investment choices.

I must admit to the odd giggle or groan when bankers and academics scold us for "over-investing" in property. After all, what do they want us to do instead? Invest in the sharemarket which is still tainted by images of crashes and dodgy directors and requires a fair bit of skill? Or put our nest egg in the hands of money managers for whom we have little trust or hand it over to finance companies despite their track record for lending to high-risk property developers who fall over whenever the economy takes a dip?

The reality is people will invest in things they trust – and in New Zealand currently do-it-yourself rental property investment and bank deposits top the list, as the latest ASB Bank investor confidence survey confirmed recently.

It found rental property is back in the top spot, with some 18% of those polled saying rental property offered the best return, up from 15% three months earlier and ahead of bank savings which had slipped to second place, falling from 21% to 17%.

In my view this is the way it will remain until something meaningful is done to reverse the lack of trust in other options.

By Frank Newman, an investment writer and property investor. He can be contacted at frank@newman.co.nz

New Zealand real estate sales figures

According to the latest statistics released by the Real Estate Institute of New Zealand the residential property market is showing signs of levelling out.

As the table below shows, the median sale price of houses in June was \$340,000, which was equal with June 08 and slightly up on May 09. Plus the seasonal downturn in activity has not been as marked as expected, with 6040 sales being recorded in June – a 40% increase on the same month last year.

Month	Median price	No. of sales	Median days to sell
June 09	\$340,000	6040	41
May 09	\$337,500	6291	42
April 09	\$340,000	6210	42
March 09	\$335,000	6694	44
February 09	\$330,000	5228	62
January 09	\$325,000	3706	59
December 08	\$328,500	4302	45
November 08	\$337,500	4279	44
October 08	\$335,000	4469	47
September 08	\$330,000	4499	52
August 08	\$330,000	4220	55
July 08	\$340,000	4489	58
June 08	\$340,000	4305	53

Source: Real Estate Institute of New Zealand

Rental Prices (New Zealand totals)

As is shown in the table below, there has been very little movement in rents when you compare the June 09 and June 08 figures, however the figures show notably fewer properties were let in June than the same month the previous year.

Number of rooms	Median Rental		Range		Number let	
	June 09	June 08	June 09	June 08	June 09	June 08
One	\$220	\$220	\$170 - \$280	\$165 - \$285	1444	1582
Two	\$280	\$280	\$230 - \$340	\$230 - \$340	3158	3586
Three	\$330	\$330	\$285 - \$390	\$290 - \$390	3988	4235
Four	\$410	\$400	\$340 - \$500	\$340 - \$500	1043	1112

Source: Department of Housing and Building

Significant lift in sales continuing

Harcourts latest statistics show the New Zealand property market is continuing to experience significantly higher levels of sales activity than 12 months ago.

Harcourts New Zealand CEO Bryan Thomson says the group wrote an average of 30.8% more sales in June 2009 than in the same month last year, continuing a trend Harcourts has been reporting for some months.

The comparative increase in buyer activity is particularly noticeable in those areas hardest hit by the slowdown that started in late 2007, Mr Thomson says, with the volume of written sales in June 2009 in Harcourts' Northern region for example being 51% up the same month last year.

"In our view attractive lending rates, positive immigration statistics and some positive rumblings internationally have all contributed to the increased activity, plus most sellers and buyers are now fully conversant with the realities of the current market and are entering negotiations with realistic expectations."

While the traditional winter slowdown in sales has not occurred, limited numbers of properties are being listed for sale currently, Mr Thomson says. "When coupled with the increase in sales it means buyers are experiencing considerable competition when looking

to secure a new property and in an effort to capitalise on this increasing numbers of sellers are choosing auction campaigns, which according to feedback from Harcourts offices around the country is proving to be the most successful method of sale."

Mr Thomson says he can only assume that potential sellers are concerned about the price they may receive for their property and are therefore reluctant to list it. "However with the abundance of buyers in the market and the relative lack of stock there are actually some excellent prices being achieved around New Zealand."

Residential property prices appear to have "stabilised", Mr Thomson says, and given the fundamentals that are in play and driving the market right now, today's "solid" real estate market should continue.

"My advice is - If selling, market well and have realistic price expectations and you will succeed; if buying, do your homework and make sure you are able to make decisions rapidly and intelligently or you will miss the best opportunities."

No additional regulation for property managers

A review has found that additional regulation of property managers is not justified but more awareness of what to expect from property managers and what to do when things go wrong is needed.

The Ministry of Justice review arose out of comments made to the Select Committee that considered the Real Estate Agents Bill (since passed into law), about the exclusion of residential letting services and property management services generally from the legislation.

In announcing no additional regulation would be put in place Associate Justice Minister Nathan Guy said property managers are already subject to a wide range of obligations under the general law, including contract law and the Fair Trading Act, which can be enforced through Disputes Tribunals and the courts.

He also said regulation would likely have meant additional compliance costs which could have led to job losses and seen costs passed on to owners and tenants through rent increases too.

Did you know?

- Reportedly the vast majority of applications to resolve tenancy disputes are made by landlords, and in the majority of cases the dispute relates to rent arrears.
- According to a recent Sunday Star-Times article, 51% of respondents think property prices will fall and 49% think prices have stabilised or will rise.

- The interest rate debate has become more political with Labour, the Greens, and the Progressives, announcing they will be setting up their own inquiry into bank profits. The Reserve Bank has already made it clear that it thinks there is room for banks to reduce their floating rates.
- In June the median time taken to sell a home was 41 days according to the Real Estate Institute of New Zealand with the range being from 33 days in Auckland to 72 days in Northland.

- Terralink has reported that there have been approximately 1000 mortgagee sales in the first five months of this year, the majority arising from over-extended investors. The previous worst was in 2002 when there were 642 mortgagee sales in the first five months of the year.
- In the year ended June 2009, net permanent long-term migration was 12,515, the highest June year increase since 2004 at 22,008. In June itself there was a net gain of 700 people.