

## State of the Market

For some years now economists and experts have been predicting the imminent collapse, or at the very least stabilisation, of the property market, yet the market has chosen to ignore them all and do what markets do in a free-market economy - match price to demand and supply. Reserve Bank Governor, Dr Alan Bollard, has been unsuccessfully attempting to halt the boom by increasing interest rates, so maybe it's time to consider the factors that have been influencing property prices in New Zealand.

**Supply and demand.** As with any free market, this is fundamental to how the price of a commodity is determined, and, as Mark Twain famously put it "Buy land, they're not making it anymore". However the population of New Zealand is increasing, and on census night March 2001, the population of New Zealand

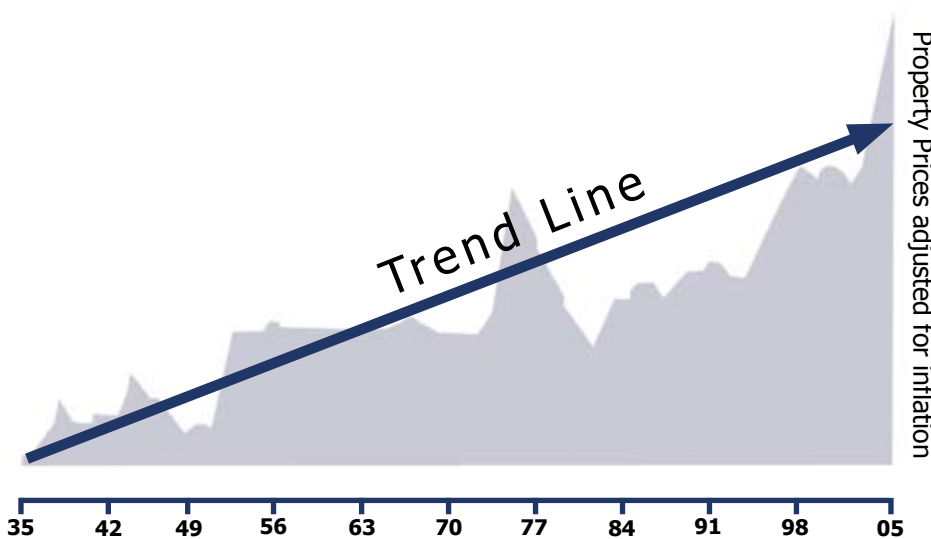
was 3,820,749. On 31 March 2007, the population was estimated by Statistics New Zealand as 4,177,000, an increase of 356,251, or roughly the population of Wellington or Christchurch. These people all need somewhere to live, and so the demand for houses is continuing to grow.

While there is net loss with immigration, the overwhelming majority of people leaving New Zealand are young people on their OE, whereas the majority of immigrants are families, professionals and business investors, and these groups all require housing, and even with the high exchange rate property in New Zealand is still cheap compared to many countries. Therefore everybody coming in has money and is a prospective property owner.

Statistics New Zealand recently reported a minor baby boom, and when children are born they need somewhere to live, so people buy first homes, bigger houses or look for somewhere to rent.

**Cost of money.** The cost of mortgage finance has increased, and the papers are filled with stories about people struggling financially. However with careful financial management, including restructuring existing mortgages, any pain can be minimised in both intensity and duration. The current interest rates are, as we anticipated, high, which may temper short term activity in the property market. However we forecast interest rates to reduce in late 2008 - early 2009.

*Continued on Pg. 2*



Property prices have always fluctuated with high and low times, but over time property will always increase. This confirms the importance of treating property as a medium - long term investment.

- Data source: Statistics New Zealand

### IN THIS ISSUE:

1. Market commentary
2. Making your house climate-friendly
3. Breeze Property Management
4. Tax changes to property owners

*Continued from Pg. 1*

**Job security and high unemployment.** We have been enjoying a period of increased job security, with unemployment figures at the lowest they have been for decades. This has had a significant influence on property prices as people are more confident to take on a bigger mortgage when they feel secure that they will be in a position to repay it. While high interest rates and the high exchange rate are putting pressure on businesses, it is our belief that employment figures are unlikely to change significantly.

**Cost of construction.** Closely linked to New Zealand's stable employment are the ever-rising costs of construction. Construction tradespeople are in short supply which increases the cost of labour, higher compliance standards and increased developer levies have all pushed the cost of building a new house upwards, which in turn influences the cost of existing properties.

**Demand from investors.** The percentage of New Zealanders renting is almost certainly going to increase, so there will be need for more long-term rental properties. Astute investors know that property is a long term investment, and are content to ride out any panic waves or periods of low yield, content

in the understanding that the value of their portfolio is growing faster than any losses they are making. As a result we are experiencing increased demand from investors, however the properties being purchased are of a generally higher standard which suggests that the investors currently active are professional and expert property investors.

**In conclusion,** the fact that some of New Zealand's most experienced and skilled economists have failed to accurately predict market trends bears testament to just how hard it is to pick the market. Property ownership for investment is, and always has been, a long term proposition, and personal property ownership is essential for financial security. If the current interest rates are concerning you, or someone you know, we suggest you contact us at your earliest convenience and we'll talk you through the options.

**All markets are cyclical, and all markets ultimately rise in value despite short term fluctuations, and in 10 years time we'll remember how cheap property was in 2007 and how we thought it was expensive.**

## Are you Concerned About Global Warming?

The impact of human lifestyle on the environment has been under significant media scrutiny, and there is an increasing interest in how individuals can have a positive impact. One area that concerned New Zealanders can have an influence is in their homes by making them more energy efficient.

An energy efficient home not only helps reduce greenhouse gases, but reduces costs and ultimately may end up being worth more when you go to sell it. Making your home more energy efficient is surprisingly easy, and the costs involved are returned in reduced energy costs, and in many cases subsidies are available.

If you are interested in doing your bit to fight global warming and increasing home comfort, the best place for information is on the internet. Some useful sites to get you started are:

**<http://www.energywise.org.nz/>** is the link to the Energy Efficiency and Conservation Authority, and their easy to navigate site has advice on a wide range of ways to reduce your energy consumption. There is a section on the website covering the Energywise Home Grants scheme which subsidises insulation and heating options for lower income earners. If you are a landlord renting to lower income tenants you may be eligible for a subsidy on insulating or heating your property.

**<http://www.consumerbuild.org.nz/publish/materials/materials-green.php#greenhome>** is on the Consumer Build website which is a partnership between the Department of Building and Housing and The Consumer's Institute. The site also has a lot of good information for anyone who plans to buy, renovate or build.

**<http://www.branz.co.nz>** is the website of BRANZ, and has a lot of very valuable information, including free downloadable articles on the "Free Information" section of the site.

In addition, local councils generally have information available for free, so we suggest you visit your local council website for more information.

*"I couldn't wait for success, so I went ahead without it."  
- Jonathon Winters -*

# Make Owning Rental Property a Breeze!

One of the biggest problems landlords face is tenant management. Whether finding the right tenants, making sure they pay their rent, keeping an eye on how they treat your asset or dealing with problems before they become insurmountable, managing tenants can be a problem. Most landlords opt to use a management company to turn owning rental property from a hassle to a breeze, and Mortgage Solutions are proud to incorporate Breeze Property Management in our portfolio of services.

What do Breeze do?

**Pre-purchase advice.** Breeze will help people identify a good investment property - specifically one that will be easy to rent and will require minimal maintenance.

**Selecting the best tenant.** The lovely young couple who you rent your property out to may have left debts all over town, and have caused previous landlords a ton of headaches. We include credit and character checks for every applicant, require references from past landlords and/or employers, and have the experience to see past a facade, so we can help you find a tenant that pays their rent and looks

after your investment. We complete all documentation on your behalf including the Tenancy Agreement and manage the bond lodgement process.

**Inspections.** Breeze carry out a detailed inspection with the tenant at the beginning and end of the tenancy, and the tenant signs the report acknowledging the state of the property before they move in, so there are no arguments. Once a tenant has moved in, Breeze conduct 3 monthly inspections and provide landlords with a written report on completion.

**Maintenance and repairs.** Breeze have a list of preferred tradespeople, so when maintenance is required someone who does a good job for a fair rate is available if required, or the landlord can organise their own repairs. If a tenant has a problem in the middle of the night or on a weekend, it's Breeze that they call, not you.

**Collection of rents.** All rents are paid by automatic payment, and monitored daily through a specialised software package. If a tenant misses a payment they are contacted immediately and any action that needs to be taken is done so promptly.

**Insurance and Rates.** Breeze can look after paying the rates and arrange and pay insurance on your behalf if required.



**Tenants getting you down? Breeze Property Management can take care of everything for you**



*we take care of everything*

If you are a landlord and want to find out what Breeze can do for you, talk to your Mortgage Solutions financial adviser and let Breeze take care of everything for you.

**And if you place your properties with Breeze, or refer someone who places their properties with Breeze, we will thank you with a \$100.00 gift voucher to your choice of one of several great retailers. Call your Mortgage Solutions adviser now.**

*"Which will you choose - the ceiling you know, or the blue sky you don't?"  
- David Anthony -*

## Capital Gains Tax

- On the horizon or just a mirage?

The Reserve bank have been talking about introducing capital gains tax, and if it is introduced, what effect will it have on homeowners and investors?

**Homeowners.** For the average homeowner, there is absolutely nothing to worry about with any of the options that may be introduced. If you sell your residence and make a profit, that profit will always be yours to keep.

**Investors.** The issues regarding investors are more complex, and the Reserve Bank has floated the idea of a capital gains tax that is half the current tax rate for investment property, which is what happens in Australia. However Helen Clark was quoted as saying "The Government has continually ruled out a capital gains tax. We still do,".

National finance spokesman Bill English reiterated his party's opposition to broadening the capital gains tax - which currently applies to properties bought for the purpose of trading.

It can be taken from this that a capital gains tax impacting investors is extremely unlikely to occur, so we believe that it is not an issue.

**Tax treatment of rental losses by investors.** This is potentially an area that could change, and a return to the pre-1991 rules, whereby a landlord could not offset losses against other taxable income including wages and salary is being discussed. However Bill English has dismissed changes to the tax treatment of rental losses, and Revenue Minister Peter Dunne has stated that Landlords don't receive any tax advantages over and above other investments meaning it is unlikely to proceed.

But if it does, rents that are currently on a low yield, in part due to landlords ability to offset losses against other income, will increase. Landlords will be obliged to raise rents to cover their operating costs. A tax benefit therefore transforms to an improved cashflow for landlords.

It is our belief that any changes will be minimal, and that with careful planning and appropriate ownership structures the impact of changes to the tax laws can be minimised. If you are concerned that you may be affected, contact your Mortgage Solutions financial adviser.



Phone now:

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**0800 536 346**

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[www.mortgagesolutions.co.nz](http://www.mortgagesolutions.co.nz)

*Yes please, I'd like to find out about:*

Reviewing my mortgage or refinancing

Utilising Breeze Property Management

Investing in property

Buying a first home

Reviewing my insurance

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Suburb: \_\_\_\_\_ City: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_