



# Rental Property Focus

## Is the property market in recovery?

All eyes are on the property market, with the question being will it slump further or is a recovery already underway?

Opinions range, with optimists claiming the worst is already over while pessimists are predicting property prices could drop by 30% from their peak, which means they've got a long way to fall yet.

When looking at national house prices, the peak median price was \$352,000 in December 2007. This fell to \$325,000 in January this year but has since edged back up and is now around \$340,000 (a fall in dollar terms of just 3.5% from its peak, or around 8% after inflation).

If property prices were to fall 30% in inflation adjusted terms as some are forecasting, then the property market has another \$50,000 to fall (to a median house price of \$290,000) before recovering, which is a scary scenario.

Whether such a fall eventuates will depend largely on three critical factors: interest rates, economic growth and immigration.

As far as interest rates go, there is currently considerable debate in New Zealand about them. When announcing recently the Official Cash Rate (OCR) would remain at 2.5% and was likely to stay at or below this level until late 2010, Reserve Bank Governor Alan Bollard made it clear he felt banks should be making cuts. But banks have hit back, blaming fierce competition for retail deposits and higher wholesale funding costs.

On the economic growth front, the exchange rate will be a major factor, particularly its impact on the rural sector which is a major exporter and therefore hugely affected by fluctuations in the value of the New Zealand dollar against the currencies of our key trading partners.

On a more positive front, there are signs that immigration numbers are improving, including as expatriate New Zealanders return home as job opportunities overseas slowdown. Also encouraging is that although house prices have fallen rents have remained constant, so rental yields are slightly better for investors and close to the cost of debt.

As investors know, the property market will undoubtedly recover to new highs - it's just a matter of when that will be.

**By Frank Newman, an investment writer, property investor and the creator of the NZ Investment Game.**

## New Zealand real estate sales figures

As the table below shows, in May there continued to be a good volume of activity in the New Zealand real estate market with 6291 sales in the month, which was slightly up on last month and significantly higher than the 4373 in May 2008.

According to the figures the median sale price dipped slightly in May to \$337,500 but the median number of days to sell remained at 42.

Month	Median price	No. of sales	Median days to sell
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
May 08	\$345,000	4373	49

Source: Real Estate Institute of New Zealand

## Rental Prices (New Zealand totals)

As the table below shows there is little difference between rents achieved in May 2009 and May 2008 except for with one-bedroom properties which according to these national figures continue to show increasing rental returns.

According to the figures, in all categories there were more properties let in May 2009 than in May 2008, and the numbers were also up on last month too.

Number of rooms	Median Rental		Range		Number let	
	May 09	May 08	May 09	May 08	May 09	May 08
One	\$215	\$199	\$165 - \$280	\$145 - \$260	2339	1996
Two	\$280	\$280	\$230 - \$335	\$230 - \$340	4829	4349
Three	\$330	\$330	\$283 - \$390	\$290 - \$400	6287	4234
Four	\$410	\$410	\$350 - \$500	\$350 - \$500	1648	1015

Source: Department of Housing and Building

## Worthy causes benefit from The Harcourts Foundation

Seven worthy community causes have benefited from the inaugural round of quarterly grants from The Harcourts Foundation in New Zealand.

The recipients – a scout group, an intermediate school, a fire brigade, a boxing academy, a youth-focused social services provider, a kindergarten and a kohunga reo - were recently awarded grants totalling \$15,000 having made successful applications to The Harcourts Foundation, which was established last year in New Zealand and Australia to provide financial support that helps, grows and enriches local communities.

With these recent grants together with more than A\$70,000 donated to the Red Cross Victorian Bush Fire Appeal earlier this year following a special appeal within Harcourts and A\$27,200 donated to 12 charities in Australia recently, The Harcourts Foundation has donated approximately \$140,000 to 20 charities in its first nine months of operation.

Harcourts New Zealand CEO Bryan Thomson says

he is thrilled that through the voluntary donations and fundraising efforts of Harcourts' people The Harcourts Foundation can support the efforts of a variety of groups who do valuable and necessary work in the community.

"Harcourts has a strong tradition of giving and I am delighted to see The Harcourts Foundation growing and becoming a fundamental and significant part of what the name 'Harcourts' stands for, creating a very special legacy."

As Mr Thomson explains, money raised for The Harcourts Foundation in a particular region goes back into the local area and 100% of the money raised is donated, as Harcourts International Ltd is funding all of the Foundation's running costs.

For more information visit [www.harcourtsfoundation.org](http://www.harcourtsfoundation.org).

## Insurance tips

If you own rental property you need to insure it against any damage, either through accident or otherwise.

Because policies differ it's important that when you arrange or review your insurance you check exactly what is covered. Some insurers offer special landlord insurance that covers things like vacancy periods, damage by the tenant etc.

You should also clarify what your insurers requirements are for making claims - to ensure you don't get a claim declined on a technicality. Some insurers for example require landlords to prove they have conducted a thorough tenancy selection process before honouring damage claims.

It's also recommended you insure any chattels you own and that are listed in the tenancy agreement, as any damage to them will not be covered by the tenant's contents insurance.

## Did you know?

- Landlords with tenants who hold Community Services cards can claim 60% of the total cost of insulation and a \$500 (inc GST) grant for clean heating in their rental property(s). See: <http://www.energywise.govt.nz>
- Landlords have an obligation to keep a property secure at all times, regardless of whether tenant

behaviour may have affected the security of the property.

- The Residential Tenancies Amendment Bill introduced by Housing Minister Phil Heatley is now being considered by the Social Services Committee, which is due to report back to the House of Representatives on or before 5 October 2009. Public submissions on the bill were due by Friday 3 July.
- In May permanent and long-term arrivals exceeded departures by 2,700 on a seasonally adjusted

basis, which is up from March and April and the highest figure since July 2003 (2,800) according to Statistics New Zealand.

- The renewal of fixed rate mortgages is providing a significant savings for investors. Those who took out a two-year fixed rate mortgage in January last year at 9.35%, would be renegotiating at around 6.25%. That would provide a saving of \$3,100 (\$60 per week) for every \$100,000 of principal.