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QUARTERLY INVESTMENT NEWSLETTER | Winter 2007

Market Watch

Rising prices and increasing sales continue to reflect an active Auckland property market. But as house prices continue to increase, home ownership in New Zealand is in decline. What impact will decreasing home ownership levels have on the housing market and on property investment?

High house prices are leading to increased domestic demand for rental properties as young families are forced to rent for longer.

Based on decreasing home ownership levels, around 352,000 people nationwide have been thrown in to the rental market since 1991. That's about the population of Christchurch!

Migration has also picked up since 2006, adding to already high domestic demand. In the year ended January 2007 there were 14,120 migrants to New Zealand.

This high demand for rental accommodation suggests rents may keep climbing. In March the average Auckland 2-bedroom property increased from \$304 to \$314 per week and the average 3-bedroom property increased from \$398 to \$412 per week.

Investors remain confident. The ASB Bank's *Investor Confidence Report* showed an increase in confidence to a net 25% in the first quarter of January 2007, fuelled by

36% of respondents who expected their investment returns to be better in 2007 than 2006. Despite rising interest rates, residential rental property remained the highest ranked asset class for returns among the surveys 720 respondents.

A DTZ New Zealand report *The Future of Home Ownership and the Role of the Private Rental Market in the Auckland Region* looks at the fall in ownership rates combined with underlying population growth in Auckland. The report suggests that an additional 5,600 rental properties will be required every year for the next ten years in the Auckland region to meet demand. The majority of these will need to be provided by the private rental market.

If these market predictions are correct, investors are right to be confident. Rental demand is likely to remain strong and the future is bright for those investors who can leverage against their existing properties and continue to expand their portfolio of rental properties.

History shows us that growth in property prices continues irrespective of social and demographic influences.

So what impact will this have on house prices? The short answer is none, providing you're taking a long term view of property investment. History shows us that growth in property prices continues irrespective of social and demographic influences. There will be flat years and

corrections but there will be years where prices zoom ahead or catch up. While predicting future property market trends is not possible, the rule of thumb is that property values will double over a ten year period.

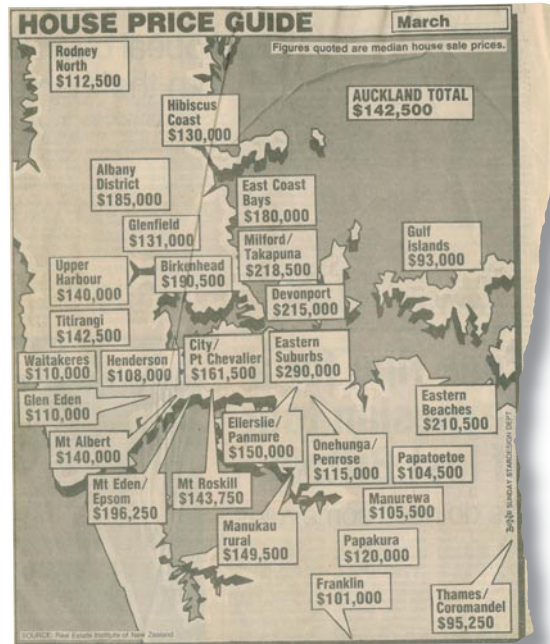
The future is bright for those investors who can leverage against their existing properties.

Some examples between March 1997 and March 2007 confirm this theory. Waitakere City house prices increased from a median sale price of \$225,000 in 1997 to \$510,000, an increase of 126%. Similarly Franklin rose 135% from \$151,500 to \$356,500 and Upper Harbour rose from \$220,000 to \$551,000, an increase of 150% (Source: REINZ).

The year is off to a busy start at NZINVEST. Our team continues to expand, bringing new skills and adding value for our clients. In this edition of *Investigate* we introduce our new maintenance service. We discuss the nature of risk and look at ways of mitigating it, we look at the contribution property investors make to the community, and we highlight the role we can all play in helping achieve New Zealand's carbon emission targets.

We hope you enjoy this edition of *Investigate* and we appreciate any comments or feedback on what you would like to see covered in future editions.

If you want to be rich, simply spend your life buying assets. If you want to be poor or middle class, spend your life buying liabilities. – Robert T. Kiyosaki



This newspaper clipping is from *The Sunday Star* on 29 April 1990. It provides a guide to Auckland house prices by suburb – look how they've changed!

Energy Efficiency – A Smart Investment

The climate is changing and as home owners and property investors we need to change too. How we respond to the issue of climate change now will determine the shape of our future – our economy, environment and communities.

Through taking some simple and inexpensive measures property investors can make a significant contribution to reducing climate changing emissions from fossil fuels, while saving money and improving the health and comfort of our properties for tenants. These include replacing lighting, improving insulation and replacing old appliances.

Replacement appliances or new energy saving devices, such as solar heating, can be depreciated. Maintenance, servicing and repairs are eligible to be claimed as tax deductions so improving the energy efficiency of your investment property need not leave you completely out of pocket.

We have recently added a new page to our website containing some useful energy efficiency tips for landlords and tenants. Additionally, NZINVEST is currently researching energy efficient upgrades for our clients as well as improving the energy efficiency of our own offices. If you have any ideas or would like to find out more about our work on these projects then please call us on 0800 NZINVEST or email enquiries@nzinvest.co.nz.

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Contributing to Your Community



NZINVEST clients know that a key benefit of investing in property is financial independence. But have you considered the other ways in which your purchase contributes to the community?

Here are some of the ways a property investor contributes:

- ▶ Homes for those people who can not afford to, or do not wish to purchase their own homes. This in turn eases the pressure on government housing and directly helps to address the waiting list
- ▶ Work for many professions including lawyers, real estate agents, accountants, valuers, mortgage brokers, newspapers/ advertising channels, insurance brokers, plumbers/painters/electricians and their respective suppliers, handymen, cleaners, property managers, landscapers, curtain suppliers, appliance

- and furniture suppliers and many more
- ▶ In turn these people and businesses pay GST and employ others; who in turn pay PAYE, business taxes, and spend in the community
- ▶ Funding of city services through rates payments
- ▶ Contributions to central government services through PAYE, unrecoverable GST, tariffs and levies
- ▶ Security for their own retirement. By taking control of your retirement you are helping to ease the financial burden on future generations of New Zealanders. The fact that you will most likely not rely on government hand-outs to fund your golden years means that there is more money in the budget for economic development in other areas.

Protecting Your Investment

We hate hearing sad stories but in reality bad luck occasionally rears its ugly head. And when it does you need to be prepared. One of our clients recently had an unfortunate incident where their investment property was burnt beyond repair. We take this opportunity to remind all our clients of the importance of having an up to date risk management strategy.

As an investor you expect your investment to be profitable. Your house



insurance should protect your investment in case of a fire, but how can you safeguard your profits from unexpected tenancy costs?

While our Property Management team apply strict criteria when selecting tenants, one type of insurance well worth considering is Landlord's Protection Insurance*. This insurance offers financial protection against the wrongful actions of tenants and can cover you for:

- ▶ Vandalism or intentional damage to your property
- ▶ Rent while the property is repaired if it is unlivable as a result of damage
- ▶ The amount of rent owing if you legally evict a tenant
- ▶ Loss of rental income from default or abandonment
- ▶ Any loss of rent you incur between tenancies, whether or not the first tenancy was troublesome.

Landlord's Protection Insurance can cost as little as a week's rent per year. Remember insure today, secure tomorrow.

* *Limits and conditions apply please contact our Risk Management team for more information.*

Managing Risk

NZINVEST Senior Tax Accountant Kim Yeoh explains.

Most New Zealanders see debt as risk and can't wait to get out of it. This article challenges this traditional view, discussing the role of debt in wealth creation, the associated risk and how it can be mitigated or managed.

Some potential investors worry that the higher the debt, the higher the risk. I suggest that debt is only risky if you can't get more of it. We should not look at debt in isolation when making a decision on our level of risk. An investor should look at their debt and determine whether that debt's associated risk can be mitigated or managed. Certainly a debt is a negative, but what is the positive associated with the debt? If the debt is matched by an equivalent growth asset,

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the risk offsets the debt. In the case of property investment the investor has an associated growth asset.

There is no doubt that there are elements of risk in property investment.

Meeting each month's loan repayments is a risk. So the risk is the value of one month's loan repayment. Let's look closer at that risk, bearing in mind the contribution of your tenant, the

tax department and yourself.

The risk of vacancy or unforeseen costs can be managed by:

- ▶ Getting professional assistance from an NZINVEST Property Manager. They know the Residential Tenancies Act inside out, have experience at sourcing and screening applicants and can mitigate risk by focusing on managing your property so you can enjoy a passive investment
- ▶ Getting Landlord's Protection

Insurance. For the cost of approximately one week's rent this insurance can cover you for up to six weeks tenancy vacancy or more under certain circumstances

- ▶ Setting up a 'buffer' bank account provides a facility to draw down in case of an emergency. This could cover a short term tenant vacancy or the replacement of any damaged appliances. If set up correctly this buffer loan won't cost you anything until you use it.

What about risk associated with tax changes? This risk is beyond our individual control but we can be reasonably certain that tax changes tend not to be retrospective in nature.

The property investment community consists of around 200,000 investors. They carry a reasonable clout with political decisions so successive governments have



to date only paid lip service to tax changes that would affect property investors.

What if you lose your job? This risk can be managed by taking out Income Protection Insurance to mitigate the risk associated with ill health or permanent disability. If you are able to continue to work, your buffer account can assist you in any shortfall until you find a new job.

The question that potential investors always ask is "to buy or not to buy?" The common perception is that not

proceeding with a purchase is the least risky option. However, if you buy a property today and the market goes into a correction or a downturn, what is

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the loss potential? Worst case scenario property values tumble by 10% or even 15% per annum but you'll only realise the loss if you sell during the downturn.

On the other hand, what if the property market escalates 10%, 15% or even 100%. This may sound far-fetched but history shows us this is not only possible but likely, as outlined in *Market Watch* on page one.

Today at 8% growth, a \$400,000 property will increase in value by over \$30,000 per year, or \$2,666 per month.

So where is the biggest risk? Is it in investing in property where there is potential for gain and manageable risk, or is it in the lost opportunities that come with choosing not to?

Perceptions of Wealth

It has been said that the only difference between the rich and the poor is their mindsets. Wealth doesn't have to be about how much you earn, it's about what you do with the money and how hard you work your debt. Here are some perceptions of the poor versus those of the wealthy. Which mindset do you have?

Perceptions of the poor

All debt is bad – reduce all debt

Buy then sell to make a profit

Hard work = Big income = Wealth

Save your pennies

Debt is risky

Perceptions of the wealthy

Some debt is good – increase good debt

Don't buy and sell assets – buy time

Work your capital, not your body

Gear or leverage

Debt is only risky if you can't get more of it



Introducing Maintenance Services



The NZINVEST Maintenance Services Truck

Finding a quality tradesperson who is available when you need them can be difficult and time consuming. As a result of high demand there is often a wait period of well over a month which can be frustrating for landlords and tenants alike. That's why NZINVEST has recently employed a Maintenance Supervisor as part of the Property Management division.

NZINVEST can now carry out maintenance work on your investment property, or your home. We can now take care of general handyman jobs for

you in a timely manner and at reasonable rates, so you can rest assured that a quality tradesperson is just a phone call away. Recent jobs we have carried out include replacing seals, unblocking

drains, changing or realigning locks, investigating leaks and landscaping issues, trimming trees and painting.

NZINVEST's Maintenance Supervisor can also assess the symptoms of a problem, determine the scope of the job and make a recommendation to determine the best, most cost-effective course of action for you and your tenants.

To take advantage of this new service call 0800 NZINVEST (0800 694 683) and speak to a member of our Property Management team.

Smart Strategies to Achieve the Kiwi Dream

For many young New Zealanders the kiwi dream of property ownership seems out of reach. But it doesn't have to be impossible.

As property prices escalate faster than incomes the days of saving to buy are over. Instead we need to buy to save and many young people are applying smarter strategies to get into the market.

A growing number of people are buying investment properties rather than homes to live in as a first step towards getting into the property market. Purchasing an investment property in the suburbs offers them the opportunity to get into the market and benefit from the capital gain while the tenant and the tax advantages contribute heavily to the mortgage. Meanwhile they can continue to rent where they want to live, share a house with friends or live at home.

There are many financial products now available which are tailored to assist New Zealanders to purchase their first home or their first investment property. Speak to one of our experienced Mortgage Managers today to find out how you can take advantage of these products.

What's New at NZINVEST?

WEBSITE MEMBERS' SECTION

New clients of NZINVEST can now monitor the construction progress of their investment properties from the comfort of their own homes.

A Member's Page has been added to our website www.nzinvest.co.nz and allows clients to log-in and access regular updates and photos as well as any updates we receive from the developer regarding timeframes for completion.

The site will be updated during the first week of every month or more regularly if any additional information becomes available.

We hope you enjoy this new initiative and look forward to your feedback.

Customer Care

The NZINVEST Customer Care Unit is charged with maintaining proactive, regular contact with all of our customers.

Our Customer Care Unit ensures all NZINVEST customers receive a quarterly phone call to check you are satisfied with our services and to identify areas where we can improve.

As part of our ongoing commitment to improvement a Customer Care Officer will be in contact with you over the coming months to survey your current level of satisfaction with NZINVEST. We encourage you to take this opportunity to provide feedback on areas where we can improve.

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