Investment Property: Time to hold, or time to sell?

by Adam Smith

Property investors are currently being kept on their toes with regular proposed legislative changes and new compliance requirements. When you add in the slowing real estate market, helped by tougher lending conditions, it's easy to see why some investors are starting to re-evaluate their rental property portfolio. Could it be time to hold, or sell, when it comes to your investment property?

Just some of the recent changes (already passed and proposed) include:

- Smoke Alarm Compliance – introduced in July 2016
- Insulation Compliance – all rentals need to be insulated by July 2019
- Health and Safety at Work Act 2015 – came into effect in April 2016
- Careless Damage RTA Amendment Bill (No 2), bringing changes to the Residential Tenancies Act which make it harder to hold tenants liable for damage – should be finalised in late 2018
- Illegal Tenancies RTA Amendment Bill (No 2) – landlords cannot rent out illegal dwellings, and landlords need to be clear about whether their property is fully compliant
- Healthy Homes Guarantees Act 2017 – insulation compliance is already in force, but heating is now also being considered
- Health and Safety at Work (Asbestos) Regulations 2016 – requires an awareness of possible asbestos risks at a property, together with plans in place to manage those risks
- Bright Line Test – an increase to 5 years (from 2 years) meaning any profit from your rental property will be taxed if sold within 5 years – effective from a purchase date of 29 March 2018
- Ring Fencing of Losses – Central Government are also looking at changing how any tax losses are offset
- Abolishment of letting fees being charged to tenants, meaning that the probable outcome will be that landlords will have to pay for this important service – likely to be in place late 2018.
- Finally, a tightening of the financial market, making it harder to raise the money to purchase investment properties.

This is a lot to take in for a landlord. Most of the above is great and will ensure better quality homes for the good people that reside in them. But there is plenty of changes happening all at once, which can seem a bit overwhelming and the exact short-term result of these changes is unknown.

Where does it leave property investors?

At Iron Bridge, of the hundreds of clients we work with, the majority are (by far) people working to secure their financial future and build a nest-egg for their retirement. (Given our company cares for almost $1 billion worth of rental property around New Zealand, we're in a good position to judge.)

While we agree with the Government intentions to slow up property speculation, we believe that those who will be hardest hit by the collective impact of this new legislation are genuine investors – not overseas investors wanting to make a quick buck.

It's also worth considering the impact of the ring-fencing of losses. With the Government short of rental property, this process will actively discourage first-time investors from entering the market.

Could tougher times for property investors work to your advantage?

There's no question that owning an investment property in New Zealand is becoming increasingly complex. However, we believe that those holding quality rental stock over the long-term could find that the changes work in their favour.

It's a classic case of 'supply versus demand'. The slowdown in the number of investors entering the market is likely to create a shortage of properties available for tenants. The shortage means that rents will continue to increase around most of the country – and quickly.

With other factors such as the Reserve Bank Governor announcing that the official cash rate may not change until late 2019, it could even be a good move to buy more rental property. (A recent Core Logic study makes for an interesting read – they picked Christchurch as the city offering one of the "best-functioning property markets" in New Zealand.)

We predict that over the medium-term the private sector rental supply will rapidly diminish. Those investors holding onto their properties will continue to benefit from marked increases in rents. Sadly, this will then flow through to more stories of New Zealand's homelessness issues, and the struggle for some families to find, or afford, a decent roof over their head.

What legislation is really needed?

We believe that the increased complexity, and cost, of owning a rental property will see many 'Mum and Dad' investors leave the market. Rather than penalising those who are genuinely trying to get ahead, there needs to be a shift in the legislative focus. The mandate for Central and Local Government should be on increasing housing supply, rather than deterring investors from buying.

While the emerging situation may prove too testing for some property investors, we believe that those who can hold onto their portfolio (and who own quality rentals) should achieve strong gains in the rents achieved – and that good buying opportunities will eventually present themselves again, especially as yields start to grow, together with an ongoing easing in the real estate market.

If you are reviewing your options for your investment property portfolio, get in touch with our team for some good honest advice.