

Property BULLETIN

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Hi, we took a bit of a break over the last two months from publishing a newsletter. The papers have been full of glorious stories about the property market which no doubt you are probably growing tired of. In this issue we analyse the Reserve Bank's position on the OCR, the currency, and further regulation, taking particular notice of statements made by the Governor at the OCR review on 11th of August. We also look at, amongst other things, the rates increase confronting us and are surprised by how little we have seen about this given we are close to local body elections.

Regards

Malc and the Team
Leaders
MREINZ



OCR down to 2% – Reserve Bank has the Tiger by its tail !

The Reserve Bank last Thursday 11th of August surprised no one with a further drop of the Official Cash Rate. This is the sixth drop in the current easing cycle. The 25 base point fall was to be expected with some predicting the possibility of a 50 base point fall, but being bold isn't the Reserve Bank's style. In the speech to cover off the announcement the Governor said that "they did not consider a 50 base point cut". After the announcement our currency strengthened with some in the markets expecting a larger cut on the back of relatively high interest rates by international comparison and global economic weakness. This international weakness is despite significant monetary boosting worldwide and less uncertainty in the international economy than was present earlier in the year. A lot of things drive exchange rates and my take is this adjustment may not be effective in reducing our currency strength given the international economy we operate in. The NZ economy is travelling well with China in turmoil and Europe in trouble.

Our dollar is trading in a range which is hurting the recovery of the export sector, particularly dairy, and is restricting investment in the rural sector. Tradable inflation, traditionally seen by the Reserve Bank to have little effect on our overall CPI figures, has over the last three years become a big driver. Tradable inflation has been negative for the last four years – a figure which the Reserve Bank admits it really can't control. Low inflation and falling expectations are now digging in and the Reserve Bank is worried the effect these will have on trying to get back to a CPI figure of around 2%. If firms expect lower prices they will stop increasing prices/wages with inflation expectations falling even further. Given the recent fall in fuel prices, the lowering of the ACC levies and the high dollar, I believe inflation is more than likely to fall again in the short term.

This scenario is consistent with a lot of other economies around the world with central banks struggling with their common aim of keeping inflation at or around 2%. The difference for us is the extent of the influence that tradable inflation currently has over our CPI figure which isn't so large in other

economies.

Where to from here:

The Reserve Bank has indicated there may be one more OCR cut in the coming months with reviews

scheduled for 22nd September and 10th November this year. Bollard has stated monetary policy will continue to be accommodating with this backdrop.

New Investor and LVR ratios: The Reserve Bank is continuing with its wait and see attitude as to how the new investor and LVR regime will affect the property market. The introduction has been delayed from 1st September to 1st October, although practically-speaking this new regime is already in place with all the major banks adopting these lending practices on announcement.

Pass it on: The banks were quick to spread the news that they will probably not pass on the full effects of the OCR drop. There was considerable posturing between the banks over this as they seem to be telegraphing their reluctance to drop interest rates given their cost of borrowing apparently rising. With credit growth expanding at a much quicker rate than deposit growth it will put pressure on banks to remain competitive in the deposit market.

The upside: Economic growth is healthy. We currently have population growth, a huge 2.3 % rise in Q2 retail sales - the largest increase since way back in December 2006. Tourism is on the up and we have done a great job in travelling through the Christchurch earthquake and the international trade ups and downs.

Debt to Income Ratios on the horizon: The Reserve Bank has indicated they are doing some work in the debt to income ratio area, and advised they will be talking with Treasury and Government agencies in the coming weeks. They stated that they may be moving on these new regulations "towards the end of the year or before that". Watch this space!



WCC Rates Increase

Wellington City Councillors signed off on the city's 2016-17 Annual Plan, striking an average rates increase of 5.4% for residential ratepayers. With inflation sitting at around 0.4% this seems over the top. In low inflationary times businesses continually reassess their cost structures as achieving a price rise for their goods or services is difficult at best. Why the Council hasn't followed this commonsense guidance leaves me in no doubt that they have lost the plot. I am quite surprised how little discussion there has been about this in the media. It may well be that with house prices rising, Wellington ratepayers may not be worried about rate hikes, and are instead toasting their increasing paper wealth.

Residential Monthly Sales Trends May 2015 – July 2016

Much has been made of the reduction of houses advertised for sale at any one time this year, including by myself. However, analysing the figures in the table below which shows an increase in house sales on 2015, it clearly demonstrates that a lot of this perceived lack of listings is in reality a reduction in the number of days a property is on the market. Have a look for yourself.

Residential Monthly Sales Trends May 2015 - July 2016

	Number of Sales		Median Sale Price	
	Wellington	NZ	Wellington	NZ
May 2015	764	7,989	405,550	460,000
Jun 2015	697	7,426	390,000	450,000
Jul 2015	697	8,121	395,750	465,000
Aug 2015	672	7,766	402,550	465,000
Sep 2015	720	8,174	413,375	484,650
Oct 2015	804	7,838	427,500	460,000
Nov 2015	923	8,048	435,000	459,500
Dec 2015	907	7,313	436,000	465,000
Jan 2016	493	5,048	394,000	448,000
Feb 2016	936	7,291	451,000	450,000
Mar 2016	1,149	9,527	459,000	495,000
Apr 2016	920	8,568	455,000	490,000
May 2016	873	9,075	465,000	506,000
Jun 2016	816	7,864	455,000	500,000
Jul 2016	712	7,299	450,000	505,000

Tougher Bank Requirements For Mortgage Lending

As well as the tightened regulations the banks have to work under, they are also taking a firmer stance over the risk profile of both the borrower and the property itself. With the introduction of new valuation standards and other internal measurements, banks are becoming increasingly rigorous about the borrower's ability to repay, the income required to service the mortgage and the estimation of the risk that they are taking on. Banks are becoming very adept in pricing a risk premium in to their loans at levels not seen before as they assess how each respective loan affects their allowable limits and the risk it brings to the table. At the margin it is becoming increasingly difficult to obtain funding.

We are also noticing a much higher level of scrutiny by the banks concerning the condition of the property, and disclosures relating to the condition and compliance aspects of the home. Previously issues such as old wiring, old roofs, and the presence of asbestos were fairly easily accommodated; however the cost of remedying these situations has risen. Aside from the increases in construction costs, companies carrying out this type of remedial work have also been hit with increased safety and compliance, resulting in higher costs to complete any work. Examples of this are the new scaffolding requirements, health and safety issues around re-roofing, more detailed engineering drawings required for re-piling,

and recent costly changes to the way asbestos can be removed from houses.

Insurance, which is a necessary requirement to obtain a mortgage, is also becoming more problematic. For example, it may be difficult to get full insurance cover if unconsented work has been carried out on a property. Additionally, alterations and additions to houses completed prior to the introduction of the Building Act 1991 are now facing closer scrutiny with difficulties emerging in getting full insurance on these properties despite the Council having no issue with the work (other than of a sanitary or safety matter). In these instances I believe it is important to consult a competent specialist insurance broker (rather than the bank, dealing direct with an insurance company or filling out an online form) to get the best possible range of options over insurance as there is a wide variance between insurers on how to deal with these issues.

New Zealanders have always seemed to be far too quick to substitute professional advice for an over-the-fence chat with a neighbour. The extra cost in relation to using a professional insurance broker may only be that you cannot insure through the cheapest insurance company (as they usually don't provide a broker service), but come claim time the strength of your research and attention to detail may be severely tested.

Tenancy Tribunal takes no time in asserting the importance of complying with the new smoke alarm laws for both the Tenant and Landlord

A case brought by a property management firm against a tenant at the Tenancy Tribunal just 16 days after the introduction of the new smoke alarm rules (1 July 2016) has provided clear guidance over how breaches around the new rules are going to be handled.

Michael Ward, the adjudicator in the case, said the tenant had regularly removed batteries from the smoke alarm, despite repeated reminders and 14-day notices from the property manager. Then, after vacating the tenancy, the alarm was gone. The tribunal ordered the tenant to pay over \$3,600 in total for rent arrears and various damage or cleaning costs. \$1,850 was awarded for "exemplary damages for tampering with a smoke alarm". The decision

noted: "Based on the evidence provided, I can only conclude that the breach was deliberate, intentional, continuous and showed total disregard for the tenant's obligations." When exemplary damages are awarded, such as in this case, they are awarded to the entity that commenced proceedings.

Under the Building Act and the new Residential Tenancy Amendment Act, it is an offence to interfere or render inoperable any means of escape from a fire. Fire safety is a major issue in the property management industry and tenants could be charged up to \$3,000 in exemplary damages if they breach the Act.

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Are you interested in receiving our newsletter or house sales information on a monthly basis of your local area? We produce sales stats of Postcode 6011, 6012, 6021, 6022 and 6023 on a monthly basis and is available to clients by email. Email Kirsty@malcolmmorris.co.nz or phone (04)3900132 to receive just good content. Your privacy will be respected and I confirm your email address and details will not be passed to any third party or people trying to sell you things!

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