What has Ray White Hamilton Property Management been up to in March?

So far this month we have:

- Tenanted 68 properties
- Listed 17 new managements
- Conducted 1008 inspections
- Arranged 900 maintenance jobs for our investors
- Arranged 236 new rent increases

We're working hard for our clients. If you want results, contact our New Business Team on 07 839 7066 or 027 808 5772
brioni.webby@raywhite.com

Click **here** to view our March market update presented by Online Rentals Director Fraser Coombes

Ray White Hamilton
Online Rentals Ltd MREINZ

rwhamilton.co.nz

Capital gain vs cash flow

There are two very different types of property investors and the introduction of a capital gains tax would affect one far more than the other, explains veteran property investor Graeme Fowler.

When it comes to property investors, there are two main types - those that invest for capital gains and those that invest for cash flow

Investing for capital gains is more like speculating. The investor buys a rental property with the hope that it will increase in value. If that does happen, they will often refinance the property and buy another one with the exact same intention.

The gross yield (the annual rent divided by the purchase price) often does not even enter their thinking when buying a property, as it is of very little - or even no importance. This is especially true when it comes to cities like Auckland (where most of the speculators like this buy) where the yields are very low, often 4 – 5%.

Having a yield this low only gives the investor enough weekly rent to cover the interest on the bank loan plus hopefully a little left over for rates and insurance. Often there's nothing left over for any maintenance.

If interest rates went up 1 - 2% from the low where they are at now, these investors would have negative cash-flow, in other words they would have to top up their mortgages with their own money each week (negative gearing).

The problem with this strategy is that because they choose to use interest only mortgages (only paying the interest on the loan, and not the principal) the debt against the property will always remain the same.

Their only hope is that prices increase so that, at least on paper, they appear to be better off. Their focus is often on looking for small parts of the city they think will go up in value more than others.

While I do have a few investor friends that have been successful long term using I/O loans (buying multi-unit type properties with good yields and some having up to 60 accommodation units per property), 95% + of the interest only investors sell earlier than necessary, and usually regret it later on.

I have many investors come to see me after they've been investing for a few years wanting help, having previously talked to their financial advisors/mentors and so called experts, surprised that they have no cash flow.

"What have I missed they ask? Should we buy more?" And I say 'Yes buy more just like you've been doing if you want to go bankrupt! The more you buy like this, the bigger mess you will be in and the more likely you will lose everything.'

For other investors like myself, we invest for cash flow and whether house prices go up or down is of no importance. In the past when I've bought rental properties, I make the assumption that the property will go down in value after I buy it, so I need to make sure I buy it well, and also that it has good cash-flow.

Good cash flow to me means an 8%+ yield in a good location in a city with at least 100,000 population. (A 7% yield with a 20 - 30% deposit is fine for most cash flow investors). With a better yield like this, there is enough cash flow to also pay the loan's principal, in other words using P & I loans rather than interest only loans.

By using P & I loans, a small amount of the loan (principal, or the original loan amount) gets paid off every month. Over time a larger portion of the mortgage payment is principal and less of it is interest. So when the property gets paid off in full in 20 years or so, the value of the property is of no importance. Whether it has gone up, down or is exactly the same value as when I bought it 20 years ago, doesn't matter. Only the cash flow is important.

But that focus on capital gains is why I'm increasingly hearing of investors wanting to sell now, especially in the likes of Auckland and Queenstown.

Why? They are afraid that prices may drop and are also afraid of the potential capital gains tax. This would mean if prices went up after 2021 when the proposed CGT came in, any increase in their property prices would be taxed when they're sold.

Capital gains investors tend to sell at very random times without any real thought or logic. These include when prices start to go down (when cash-flow investors like to buy more), interest rates go up, change of government policies, and also if prices have gone up - they like to sell and take the profit.

This is all very different to a cash flow investor who is it in it for the long term. A cash flow investor doesn't care about price fluctuations or new government policies, as these things are not that important to the overall long term purpose. CGT doesn't affect a cash flow investor; as we don't ever intend to sell.

Whether the government introduces it or not doesn't concern me, however it will concern a lot of capital gains property investors.

If these investors end up selling now or before any new law takes effect, there will be even less properties for tenants available to rent. That will mean a big increase in the 10,000 plus people on waiting lists for housing – many of whom the government is paying to put up in motels.

- The Landlord

Investors hold properties for longer

Public perception has it that investors spend their time flipping properties on a regular basis but new analysis shows they hold properties for longer than other buyers.

Prompted by recent drops in sales activity, CoreLogic has analysed property "hold periods", the years between the purchase and resale of a property, to see if property owners are simply staying put these days.

They found that after a long rise, median hold periods peaked nationwide in 2016 and have actually started to edge down again since then.

CoreLogic senior property economist Kelvin Davidson says the length of time that properties are being held onto before they're sold has fallen.

"But even at its current median of about 7.4 years (down from the peak of 8.2 in 2016) it's still quite a bit higher than in 2007 when it was a short 3.8 years."

Auckland hold periods tend to be shorter than nationally, while troughs and peaks (2005, 2014) have also come earlier than nationally (2007, 2016), he says.

"It's interesting to plot Auckland's hold periods against property values. The long rise in hold periods from the mid-2000s to the mid-2010s coincided with the rise in values. Then hold periods in Auckland flattened off and dipped, and so have values."

Overall, the analysis does imply that shorter hold periods in the past few years suggest more sales activity than otherwise would have occurred, Davidson adds.

However, the analysis also overturns the widely held popular belief that investors spend their time buying and selling properties at a high rate to speculate on the capital gains.

CoreLogic's analysis shows that both first home buyers and movers (owner-occupiers who are relocating) have shorter hold periods than multiple property owners (or investors).

Up until 2015, hold periods were similar for the buyer groups but, since then, first home buyers and movers who have resold have tended to have stayed in their properties for shorter periods.

In contrast, multiple property owners have not seen the same dip, so a gap has opened up in hold periods.

Davidson says this suggests that landlords haven't been as willing or able to trade property as they might otherwise have preferred to.

"This reflects the general cooling of price growth and capital gains, the LVR rules, and extra government measures to target speculation, like the bright line test. In other words, landlords have had to stick with a property for longer to make the desired profit."

It's worth noting that many investors would argue that their preferred strategy has always been to buy and hold, whether for cash flow or capital gain.

Nearly two thirds (61.41%) of respondents to the recent Squirrel NZ Residential Property Investment Survey 2018 picked "buy and hold" as their preferred strategy.

- The Landlord

Does your property comply?

only

62

working days until 1st July 2019!

Avoid having to pay a $4000 fine to your tenant by insulating your property today!

Ray White Hamilton
Online Rentals Ltd MREINZ

Click here to receive your free copy!

rwhamilton.co.nz