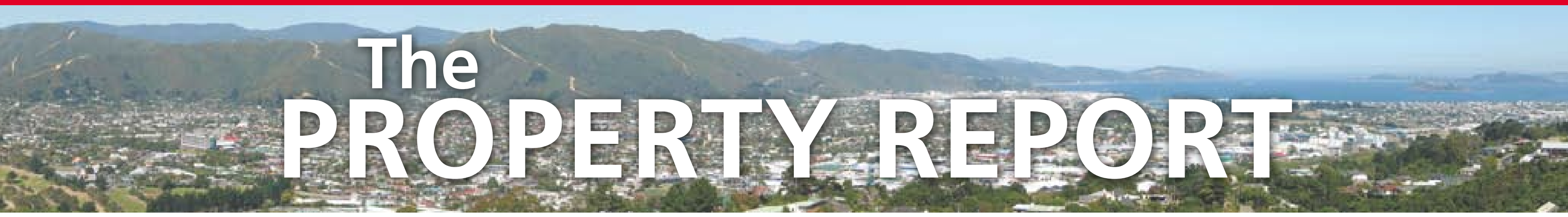


The PROPERTY REPORT

Tax and residential property – what are the implications?

To the unwise and uninformed residential rental property may seem like the ultimate quick and easy investment. But it's not. Unlike passive investments such as shares or bonds, rental property requires specialist knowledge and not just finance, but equity, time and the willingness to take a risk. Property is a business.

The common misconception is that rental property enjoys significant tax advantages. As a result it's being unfairly targeted by the government, who's driven to changing New Zealander's investing habits by removing building depreciation tax and forcing owners to ring-fence losses. The government believes that removing the current depreciation expense deduction will save up to $150m a year. What has not been reported is that any changes to the taxing of rental property will have serious flow-on affects and more than likely demand government investment in excess of $150m in other areas.

So what are some of the potential ramifications?

- Contrary to the stereotype, not all rental property owners are rich property tycoons. All investors start small and in most cases they're simply forward thinking mums and dads looking to not solely rely on the government in their retirement. If these investors are to pay further tax, they may well end up asking for greater government support down the track.
- With an increase in the tax on rental property the amount of rental accommodation is likely to reduce, rents will increase and lower income households will bear the brunt of it. Tenants unable to afford the market rent will look to social services and the government's increased spending on the accommodation supplement benefit could well be in excess of the revenue any additional tax might bring.
- Further to this, increases in tax means landlords will have less to spend on their properties. This is not something the building supplies industry want to hear – and it would do nothing to stimulate spending and economic recovery. Perhaps the government would be better off encouraging regular spending on rental property improvements.

Add to this the fact that the proposed tax changes may bring increased compliance costs and complexity, mortgagee sales and the potential for situations of negative equity and anyone can see that the implications are far and wide.

What's clear is that any changes to the tax system need to be thought out across the board. The government will have to adopt a tax approach that ensures all investments are treated equally and continue to support investment in rental property – ensuring rental property continues to be a smart investment for savvy individuals.

John Ross
Licensee Agent
john@redcoats.co.nz

Hutt Valley Rental Statistics

Rental Returns for January 2010

	BEDROOMS	MEDIAN RENT	RENT RANGE LOWEST - HIGHEST	% CHANGE FROM JAN 09	NO. LET
Northern Lower Hutt	1	$165	$150 - $182	3%	11
	2	$270	$247 - $290	-4%	25
	3	$335	$300 - $370	10%	30
	4	n/a	n/a	n/a	0
Southern Lower Hutt	1	$200	$182 - $220	10%	24
	2	$305	$268 - $342	5%	41
	3	$375	$350 - $430	-1%	34
	4	$467	$400 - $520	2%	10
Wainuiomata	1	n/a	n/a	n/a	0
	2	$235	$220 - $250	-1%	6
	3	$287	$275 - $305	3%	12
	4	n/a	n/a	n/a	0
Upper Hutt	1	$130	$127 - $130	-7%	5
	2	$220	$200 - $242	10%	32
	3	$340	$300 - $380	3%	37
	4	$390	$327 - $436	-8%	7

Median - the middle value when all of the data is placed in order of value.
Source - Sales Statistics: REINZ website and Professionals Hutt City Ltd MREINZ records. These statistics are for residential dwellings and do not include sections.
Source - Rental Statistics: Tenancy Services Bond Centre. These statistics are derived from information gathered from bonds lodged at the Department of Building and Housing.

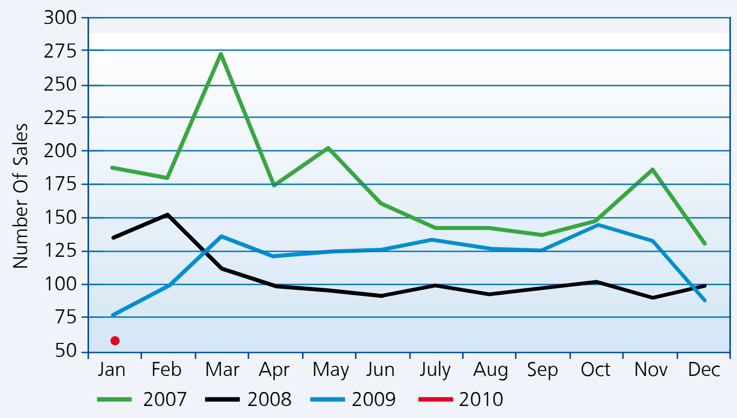
Lower Hutt Sales Statistics

November 2009 – January 2010

SUBURBS	MEDIAN SALE PRICE	NUMBER OF SALES	VS LAST YEAR	MEDIAN DAYS TO SELL	VS LAST YEAR	MEDIAN SALE PRICE % CHANGE 1 YEAR	3 YEARS
Alicetown	$461,500	8	↑	35	↓	3%	12%
Avalon	$287,000	15	↑	29	↓	-11%	-17%
Belmont	$440,000	9	↑	29	↓	-20%	14%
Boulcott	$510,000	6	↑	21	↓	*	17%
Central Hutt	$380,000	15	→	40	↓	-32%	-17%
Eastbourne & Bays	$600,000	23	↑	34	↑	-20%	2%
Fairfield	$434,000	5	↓	32	↓	10%	24%
Harbourview*	-	-	-	-	-	-	-
Kelson	$355,000	9	↓	29	↓	1%	5%
Korokoro*	-	-	-	-	-	-	-
Manor Park*	-	-	-	-	-	-	-
Maungaraki	$437,500	12	→	42	↓	20%	15%
Moera	$211,000	6	↑	45	↓	5%	-27%
Naenae	$275,000	17	↓	31	↓	21%	4%
Normandale	$420,000	5	↓	37	↓	5%	22%
Park Ave	$357,000	11	↑	19	↓	*	-8%
Petone	$420,000	21	↑	27	↓	0%	-4%
Stokes Valley	$294,000	30	↑	33	↓	11%	11%
Taita	$234,000	9	↑	49	↓	0%	0%
Tirohanga*	-	-	-	-	-	-	-
Wainuiomata	$238,750	42	↓	26	↓	2%	3%
Waiwhetu	$377,500	12	↑	25	↓	28%	5%
Waterloo	$412,000	13	↓	22	↓	-12%	0%
Woburn*	-	-	-	-	-	-	-

*For accuracy purposes, suburbs with less than 5 sales in the period have been excluded from this analysis.

Lower Hutt Residential Property Sales



Regional Round Up

November 2009 – January 2010

OUR REGION	MEDIAN SALE PRICE	NUMBER OF SALES	VS LAST YEAR	MEDIAN DAYS TO SELL	VS LAST YEAR	MEDIAN SALE PRICE % CHANGE 1 YEAR	3 YEARS
Lower Hutt	$355,000	278	↑	31	↓	-5%	8%
Upper Hutt	$315,000	133	↑	30	↓	11%	2%
Porirua	$390,500	134	↑	37	↓	-2%	7%
Wellington	$483,500	657	↑	25	↓	10%	7%
MAIN CITIES							
Auckland	$515,750	1,768	↑	29	↓	12%	14%
Hamilton	$330,000	522	↑	35	↓	5%	5%
Christchurch	$333,000	1,382	↑	28	↓	7%	6%
Dunedin	$251,500	525	↑	30	↓	7%	3%