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OK, WE WERE WRONG!

In our last issue at the end of October 2001 we predicted that the rental market was going to turn and that it would “slowly become easier and easier in this decade’s early years”. What has in fact happened is a “dramatic” turnaround in the re-letting time of empty flats to the point where there is a shortage of supply.

So Where Have The Tenants Come From?

At the risk of repeating material from previous issues, you will remember us outlining this time last year why the rental market would improve. All of those predictions are now here. Some of these reasons have come more to the fore as time has gone by and as we update previous graphs we can see why. It is interesting to us as investors to understand and keep updating these demographic and immigration trends. Remember the FOUR MAIN REASONS are;

- 1 Local and National demographics
- 2 Travelling trends of our population
- 3 National immigration influences and
- 4 Changing trends in renting vs buying

1 Local and National Demographics

Back on 17 December 2001 it was reported in The Christchurch Press that the rental market was showing signs of improvement as **“property investors exit the market and more people opt to rent rather than buy.”**

These are the lesser reasons for the shortage. One of the more important reasons is demographics. (Cont on page 2.)

“Those we told to wait, now is the time!”



Tony Brazier
AREINZ DipBus(RE)
BEEd Principal Officer



Anna Ward BA
Investment
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Director



Riccarton Townhouses
1x4brm, 2x3brm



St Albans Special
3 brm hse & 4x2brm



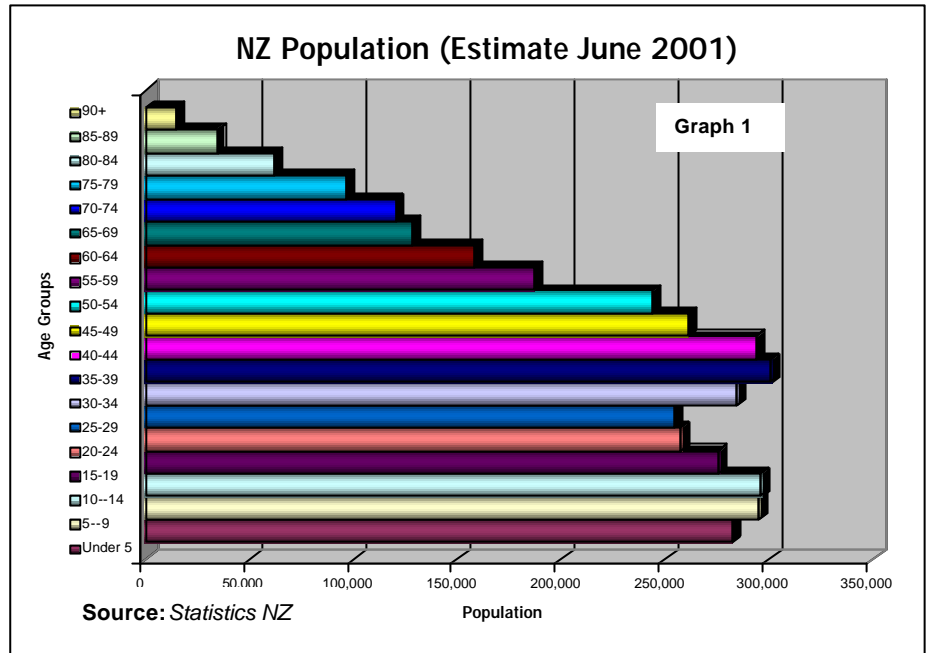
Cashmere Home 'n' Income
1x2brm, 1x3brm

At times our demographics are with us in property investment and at other times they're against us. Last decade they were against. (see Graph 1)

You'll notice the band now in their 20's (20-24, 25-29yrs) on Graph 1 included the traditional renting ages (18-24yrs) during the later part of the 1990s and as you can see their numbers dropped off by approximately 10% compared with the previous 15-20yrs. However from here on, and for the next 15 years, our numbers of tenanting age groups swell to the numbers of days gone by. These children are in secondary schools presently and their swelling numbers....

"is evident in the 247,400 (Canterbury pupils) expected secondary school enrolment, up 4900 on last year." (The Christchurch Press 29 January 2002)".

The oldest of this age band are off to University or working as they head the larger band of 15-19yr olds shown on the graph.



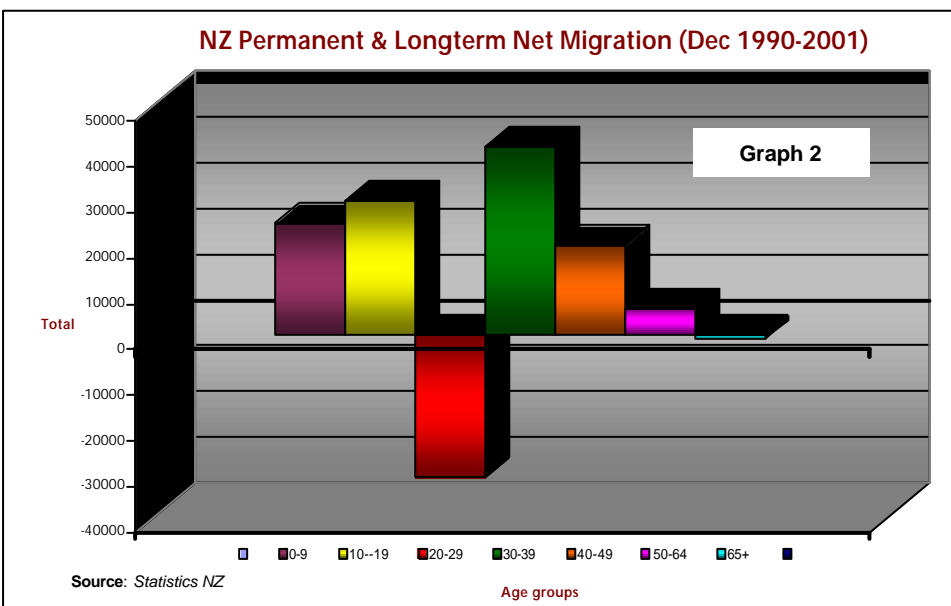
This bulge going through is by post war bulge evidenced by however one needs only to be of accommodation created by seventies (and the subsequent understand what may and will

From here on and for the next 15 years our numbers of tenanting age groups swell.

no means as large as the the 50-54yr old bracket; reminded of the shortage that group in the early building boom of flats) to happen.

2 Travelling Trends of our Population

For many years now we have heard "bleating" in Parliament about the "brain drain" of our brightest and best young minds. Never more so than during the 1990s where subsequent governments and the population at large blamed everything from lack of sunshine, high taxes, few employment opportunities,



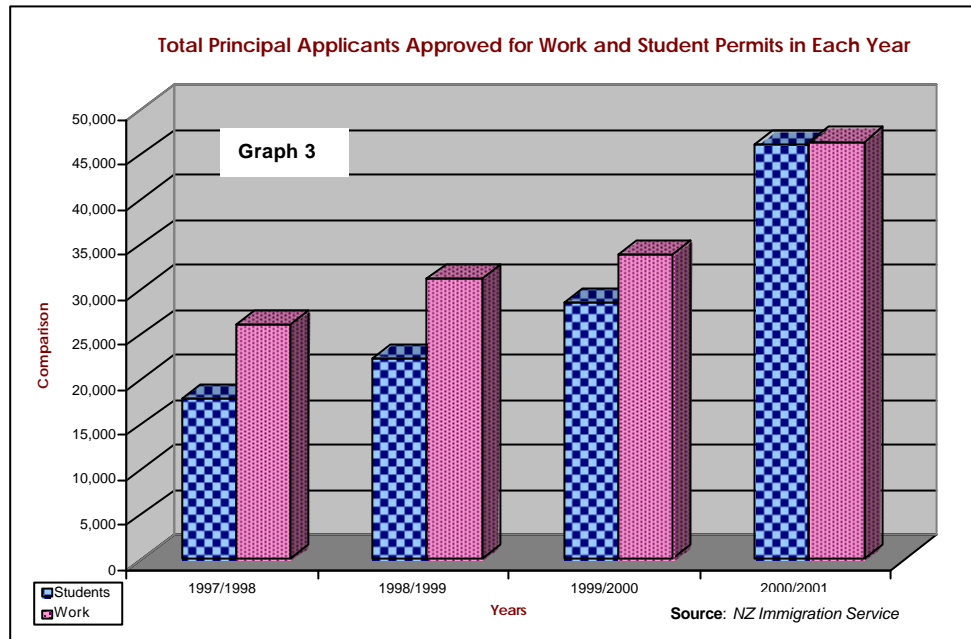
through to students escaping their student loans. It may surprise you to know that for this twenty something age group it has always been a time of travel overseas - there just happened to be many, many more of them (see Graph 2).

This decade they return as 'thirty-somethings' as evidenced by Graph 2. If we relate this trend, that is to leave and return, with the equivalent numbers of 30 somethings (30-34, 35-39yr old age group) in Graph 1 it is easy to see

that for this decade at least we should enjoy their return ie "brain gain". Hopefully they will have lots of English pounds with them. The only unfortunate part about their return is that we may have to put up with Jim Anderton taking the credit for it, (because he asked them all to "come home"). The more affluent of this group are creating their own influences in particular parts of the housing and development market at the moment. This is deemed to be only the beginning.

3 National Immigration Influences

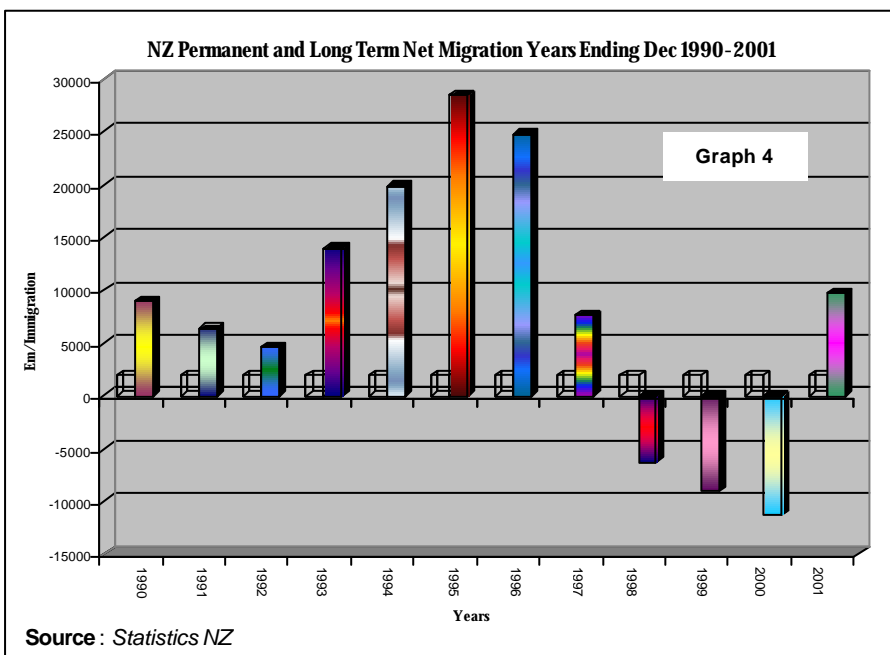
The third and possibly the most commonly unpredicted influence on our rental market is the foreign immigrant. Since 1997/98 there has been a dramatic increase in the numbers approved for student or work permits. (See Graph3). It is easy to see how the Language Schools have made a difference to the number of rental age students. For over a year now we have been quietly telling our clients that servicing the need that these ex-home stay students create has the ability to not only keep one's flat full but also allows the opportunity of achieving more rental by furnishing said flats. Our Property Manager has thrilled our clientele by achieving massive rental increases of up to 50% (eg from \$120 to \$180pw) by doing this. Also our long term clients have been able to do the same under our guidance however it has become more common knowledge now so we have to find a new "edge" in the market. It is hard to believe that through this time some other managers refused to believe people wanted furnished flats.



In addition to the short term influence the foreign students have on our rental market and economy in general they have now an increasing influence as permanent stayers. In the conclusions of a New Zealand Immigration Service report called "Immigration Research Programme released in August 2001 it says....

"In total, 53% of all principal applicants approved for residence in 2000/2001 had previously held a student, work or visitor permit at some stage since July 1997."

So in effect we are not being 'used' like we were back in 1993 – 1996 to just educate these immigrants for the betterment of the outside world but many now stay on as kiwis. The effect of the Government's change in immigration policy is evidenced by the return to positive net migration last year (see Graph 4). The 1993–1996 era of



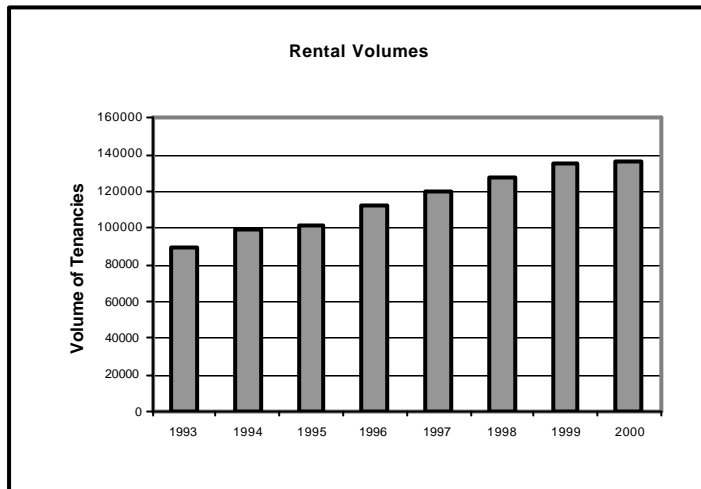
open door policy caused major problems for City Council planners (among others) but did bring with it a building boom of "in-fill" housing (remember) - that is now underway yet again in different ways. Whether these numbers can be simply attributed to student/work permits or includes a significant number of ex-pat kiwis coming home matters not. The main thing is that we are growing. With growth comes change and opportunity. According to The Christchurch Press 2 February 2002....

"The last time Canterbury enjoyed a net gain in migration was in 1996, when 1390 more people settled than left."

If our analysis serves us correctly the only things that will affect this current trend is a change in immigration policy (remember Winston Peters) or another Asian crisis. By analysing Graph 4 we can see the affect that each had respectively in the middle and the end of the 1990's.

4 Changing Trends in Renting vs Buying

Having included this study by Professor Hargreaves a couple of issues ago precludes the need to spend too much



time on it now. It will suffice to say however, that the trend of 5.2% pa more people choosing to rent as opposed to buying has not changed as we drift toward a more international view of where our personal wealth should lie - in the investment market or in our own home ownership.

This trend is significant when added to the other three main influences outlined above but has minimal impact on the rental market on its own.

As these four influences that we predicted would arise take time to evolve in our market, it is time for us to look at how best to take advantage of them.

TRENDS AND PREDICTIONS

- Trend 1** After a period of "correction" as has happened across all residential markets since 1997, there is a bounce back to the long term (10%pa) growth line. BIS Shrapnel's (NZ) report for 2001-2005 expects strong growth from now on with a building boom in 2004-2005 (*The Christchurch Press 14 December 2001.*)
- Prediction 1** Housing generally should reach double figures growth this year as evidenced by a similar pattern in 1993-1994. Our pick 10-14% generally. Maybe more for flats due to rental increases pending.
- Trend 2** As people get older and the kids are off their hands they sell the "big" house in the suburbs and move in closer to the centre into modern 3-4 bedroom 'lock-up and leave' apartments big enough to house the family at Christmas. These are also popular with returning professionals.
- Prediction 2** There will be continued high demand, for Merivale/St Albans/Riccarton land close in, by developers to feed this onslaught of the baby boomers and returning kiwis paying up to \$400,000 for a town house. (*NB Developers – we have land available.*)
- Trend 3** As this decade proceeds more and more rental age youngsters will come into our market creating even greater demand on residential investment.
- Prediction 3** Rentals could rise by 10%-15% or more this year alone across the board. Demand for (and feasibility of building) new rental blocks will happen. (*NB We've just done the feasibility study on this to satisfy affluent buyers.*)
- Trend 4** As rentals become tight feasibility of major renovations to existing rental stock becomes positive.
- Prediction 4** Older 1960s and 1970s blocks with good bones will be totally refurbished (*new kitchen etc*) as the expenditure and funding is far outweighed by the increased rental available. (*Rentals now at \$120pw could potentially be worth \$190pw.*)
- Trend 5** Foreign students initially stay at "home stays" however for various reasons, move on to other forms of accommodation preferably with some form of caregiver.
- Prediction 5** Old run down hostels, empty commercial buildings and certain block configurations will continue to be refurbished to meet this need.
- Trend 6** As a bulge of age group goes through creating building demand it generally only stops when that particular market is saturated.
- Prediction 6** Eventually due to massive development in most subdivisions of three bedroom houses specifically for rental, the need will be satisfied whereupon owners of three bedroom houses for

rent in older subdivisions may suffer (as did older single units when the new townhouses for rental were built in the nineties).

These are enough potentially embarrassing predictions. We have other trends occurring in our markets but we must keep these for clientele to peruse first (they have had some of the above information since 1999).

When assessing the future through demographics analysis it is a case of “plan for the milk, hope for cream”.

Short of total mass genocide, statistics relating to New Zealand age groups is a steady way to plan but we hope for the “cream” through travellers returning and specialised educational providers attracting over-populated neighbours.

NEW ZEALAND HAS A THREE YEAR HIGH IN HOME AFFORDABILITY

Home affordability improvement in New Zealand has reached a record high (13.3% for December 2001 quarter) over the last three year period, according to the latest AMP Banking Home Affordability survey. The favourable outcome is the result of continued reductions in interest rates, stable house prices and rising wages.

The Real Estate Institute of New Zealand reported quarterly dwelling sales, for September – November 2001, were up to 28% (20,151) compared to the same period the previous year (15,768), while the New Zealand Median Dwelling Price rose 1.3% (\$174,000 to \$176,000) over the past year.

AMP Banking Operations Manager, Noel Kirkwood said, “Many New Zealanders have gained the benefits of interest rates falling over the past five consecutive quarters. Home owners should consider the advantages of reviewing their mortgage repayment options to gain the benefits of floating interest rates or fixed terms. Now is a great time for existing home owners, or people wanting to purchase their first property, to consider the wide range of home loan options available.”

Southland remains the most affordable region followed by Otago, which has replaced Taranaki for three of the past four quarters as the second most affordable region.

All regions except Taranaki (0.8% decline) reported a quarterly improvement in home affordability. The strongest improvement was recorded by Southland (24.3%), followed by Otago (12.9%), Nelson/Marlborough (12.7%), Waikato/Bay of Plenty/Gisborne (12.5%), Canterbury/Westland (11.4%), Auckland (11.3%), Wellington (11.2%) and Manawatu/Wanganui (9.5%). Regions recording the lowest affordability improvement were Hawkes Bay (5.8%), and Northland (7.9%). Three of the four South Island regions were leaders in affordability improvement for the December quarter.

GST AND THE “MINOR SUBDIVISION” – WHAT IS YOUR LIABILITY?

It is quite common in New Zealand for Mr and Mrs Average Kiwi to undertake a subdivision at some stage in their lives. With changes in city and district plans allowing smaller sections, owners of large sections have a prime opportunity to realise capital through subdividing. What many people may not realise is that their subdivision may make them liable for GST.

In 1995 the Court of Appeal in *Newman v CIR* ruled that a minor one-off subdivision is not a “taxable activity” in terms of the GST Act. While the *Newman* case confirmed that an exemption exists for “minor one-off subdivisions”, the courts did not give rules of when the exemption applies. Each case is to be considered on its facts.

THE TEST

A “taxable activity” in the GST Act is something that is carried on “continuously or regularly”. A minor one-off subdivision is not carried out on a continuous or regular basis and therefore falls outside the definition. But when does a subdivision become a continuous or regular activity? In deciding the courts look at:

- The number of sections created

- The level of development undertaken
- The financial investment
- The time and effort involved.

The greater of each element, the more likely the subdivision will become a taxable activity. In practical terms what does this mean? In *Newman* the taxpayer subdivided his property in two. He retained ownership of the section containing the existing house and continued to live there, but sold the bare section. The subdivision involved the minimum number of lots able to be created. As such it gives us a little guidance on the threshold before the activity becomes a “taxable activity”. What if you subdivided off three lots? What about four? Are these still minor subdivisions? Subsequent court decisions provide some clarity.

FURTHER CLARIFICATION

In *Wakelin v CIR* the taxpayer subdivided a property to create six residential sections. One section contained the house, which he continued to live in. Water was installed to two of the lots, an engineer’s report was obtained, easements for the discharge of storm water were created (although the physical works were not

undertaken) and local authority rating and reserve contributions were paid. In this case there were sufficiently continuous and regular actions for the court to conclude the taxpayer was carrying out the taxable activity of subdividing. In Taxation Authority cases S70 and T40, five sections were created – four bare lots and one with an existing residence. In both cases reasonably substantial physical work was required, therefore the liability for both taxpayers. While it is not only a factor that is relevant, clients often want an idea of the number of sections they can create without incurring GST liability. The cases described give the idea of the upper limits of the number of sections that may be created in combination with work undertaken, before the subdivision becomes a taxable activity.

The Inland Revenue Department has issued a policy statement in an attempt to give further guidance to potential subdividers. The policy statement really just confirms the principles in Newman – that each case must be looked at on its own facts. The examples given in the statement have fairly obvious conclusions. However, there is a useful example of a taxpayer who

creates three new lots with little development work, retaining the fourth lot on which their house is situated. It is stated that this is not a taxable activity, although the IRD statement makes it clear that if development work is undertaken the position may then change.

The End Result

So where does this leave Mr & Mrs Average Kiwi? Unfortunately in an uncertain position. While creating one or two sections with little development work seems relatively safe, anything more plunges into the unknown. The only way of being sure of whether a subdivision is a taxable activity is to obtain an IRD ruling prior to commencement. While this incurs a cost, it may be a small price to pay compared with a long, costly battle with the Inland Revenue Department. Finally, remember that the exemption only applies to “one-off” subdivisions. If a subdivision has been undertaken in the past, or will be in the future, repeating the process may make it an activity that is carried out “regularly”, which creates a GST liability. On all occasions it is best to consult us first. **Corcoran French & Co, Barristers & Solicitors.**

RENTAL DIVISION – BRAZIER PROPERTY MANAGEMENT LTD

MARKET COMMENT - *Economics : Excess demand over supply = increase in price.*

2002 has been a busy time for Brazier Property Management Ltd. The tenant trends are extremely positive.

- Increased inquiry from prospective tenants.
- Decreased downtime in securing replacement tenants.
- Increased rent levels.

There has been a recognisable increase in inquiry levels from prospective tenants. This includes phone calls (the phone has rung hot) and walk ins.

A significant level of inquiry continues to come from Asian tenants. Most of these people are aged below 25 years. The majority are involved in an educational institution such as a Language School, Polytechnic or University. Many of these people require furnished or partly furnished accommodation. With higher levels of inquiry (increased demand), vacancies are being filled more quickly.

In an improving tenant market, the equilibrium begins to move towards the Landlord. We are experiencing this now.

- Increase in rent levels.
- Increase in lease terms.
- Increase in bonds.

Rental levels are on the rise. This is most noticeable with newly let properties. An average rental increase would be around the 10% mark, however we have experienced up to 50% - definitely above the current level of inflation!

Apart from the obvious benefits of achieving higher rental levels, Landlords are able to request longer terms knowing that if one tenant is not prepared to sign up on the required basis, another will be.

The opportunity is also there to request larger bonds from tenants than in a softer tenant market, therefore reducing risk levels for the owner.

As Property Managers, we are dealing with numerous tenants on a daily basis and are well positioned to monitor trends and react/adapt in the owners' best interests. Change often occurs at a rapid rate, as has been the case this year.

In summary, the current trends are extremely favourable towards residential rental property investment. My 'crystal ball' is no better than anyone else's, but there are a number of interesting factors that can be studied – form your own conclusions...

- Increasing student debt – does this mean graduates will be renting for longer than in the past as they struggle to repay debt incurred during their study?
- Trends away from home ownership due to a more transient workforce – this year working in Christchurch, next year, Auckland or London. Would you buy if you are likely to move or be transferred?
- The Asian influence. What we are currently experiencing is a mere drop in the ocean compared to the potential influx.
- Demographics. As explained in detail in Tony's article the 18-24 tenant group is forecast to increase in size in the near future - they will need somewhere to live.

Michael McCormick BCom (VPM) AREINZ
Director

LANDLORDS, try WebRent (www.WebRent.co.nz) - it works!

"On assessing the Web Rent site when it was first advertised in Newsletter No 45 I was most impressed with the clean, simple elegance of the site and also with the ease of use. I immediately listed three of my properties. This is the only Web site I have seen to date that I would even consider listing on (free or not). While the site is relatively young and unknown, I received a surprising number of calls. An advantage over Press advertising (though this does currently generate more calls and with more predictable timing), is that most callers are serious as the amount of information you can display including photos means that those who call are genuinely interested. I let one of the three properties to a Web Rent caller (the other two via the Press). I will certainly use Web Rent again and anticipate next time reducing my Press advertising to a 2-line reference to location and my Web Rent listing number/s (if not drop The Press altogether)."

A Fraser

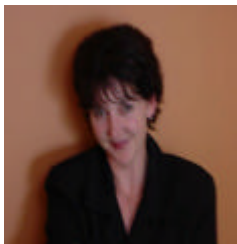
JANUARY 2002 RENTAL PRICES (January 2001 shown in shaded boxes)

Source: Tenancy Services Bond Centre

No of Rooms	Median Price	Price Range	No Let	No of Rooms	Median Price	Price Range	No Let	No of Rooms	Median Price	Price Range	No Let
CHRISTCHURCH CENTRAL				CASHMERE				FENDALTON/MERIVALE			
One	\$157	\$120-\$190	42	One	\$115	\$100-\$120	6	One	\$135	\$103-\$151	7
Two	\$185	\$160-\$220	62	Two	\$180	\$141-\$193	19	Two	\$190	\$160-\$235	45
Three	\$260	\$280-\$348	19	Three	\$220	\$188-\$250	15	Three	\$240	\$210-\$292	24
Four			0	Four	\$270	\$220-\$435	6	Four	\$277	\$250-\$410	8
One	\$152	\$125-\$190	30	One			0	One	\$120	\$120-\$125	6
Two	\$170	\$135-\$232	65	Two	\$165	\$140-\$200	14	Two	\$172	\$150-\$187	28
Three	\$230	\$200-\$250	26	Three	\$210	\$190-\$242	12	Three	\$225	\$200-\$270	26
Four			0	Four	\$287	\$260-\$300	6	Four	\$350	\$317-\$376	9
BURWOOD/AVONDALE/N BRIGHTON				ADDINGTON/HOON HAY				AVONHEAD			
One	\$100	\$ 91-\$110	7	One	\$105	\$ 92-\$112	5	One			0
Two	\$170	\$150-\$191	29	Two	\$165	\$136-\$187	23	Two	\$215	\$170-\$257	12
Three	\$200	\$180-\$217	44	Three	\$205	\$183-\$220	29	Three	\$220	\$200-\$236	45
Four	\$242	\$220-\$250	10	Four	\$220	\$200-\$235	8	Four	\$235	\$210-\$345	12
One	\$107	\$100-\$110	6	One	\$100	\$ 85-\$133	7	One			0
Two	\$160	\$140-\$170	25	Two	\$162	\$140-\$170	34	Two	\$170	\$160-\$183	15
Three	\$190	\$180-\$200	47	Three	\$190	\$171-\$210	43	Three	\$205	\$190-\$230	38
Four	\$220	\$213-\$251	5	Four	\$220	\$200-\$248	15	Four	\$245	\$225-\$270	14
LINWOOD/BROMLEY				RICCARTON				REDWOOD			
One	\$ 90	\$ 85-\$112	16	One	\$125	\$100-\$130	6	One			0
Two	\$145	\$125-\$160	49	Two	\$170	\$150-\$200	37	Two	\$180	\$162-\$192	9
Three	\$190	\$180-\$200	30	Three	\$232	\$200-\$260	22	Three	\$220	\$200-\$232	41
Four			0	Four	\$220	\$210-\$270	24	Four	\$260	\$231-\$321	7
One	\$100	\$ 90-\$128	23	One	\$112	\$ 92-\$127	12	One			0
Two	\$137	\$130-\$150	30	Two	\$155	\$140-\$168	35	Two	\$170	\$140-\$178	13
Three	\$185	\$165-\$200	30	Three	\$210	\$187-\$276	33	Three	\$210	\$190-\$220	37
Four			0	Four	\$247	\$215-\$280	24	Four	\$250	\$225-\$261	7
SYDENHAM/WOOLSTON				BROOMFIELD TO HALSWELL				ST ALBANS/RICHMOND/SHIRLEY			
One	\$100	\$ 93-\$110	13	One			0	One	\$110	\$100-\$145	13
Two	\$140	\$130-\$160	43	Two	\$167	\$135-\$175	16	Two	\$150	\$135-\$180	93
Three	\$187	\$165-\$210	26	Three	\$200	\$195-\$220	37	Three	\$220	\$200-\$230	30
Four	\$217	\$197-\$330	8	Four	\$235	\$220-\$280	12	Four	\$250	\$242-\$293	7
One	\$100	\$90-\$107	12	One			0	One	\$105	\$100-\$122	20
Two	\$140	\$125-\$160	52	Two	\$160	\$137-\$170	17	Two	\$140	\$130-\$161	81
Three	\$180	\$170-\$190	32	Three	\$190	\$180-\$200	43	Three	\$210	\$185-\$240	40
Four	\$200	\$198-\$221	5	Four	\$220	\$210-\$230	14	Four			

Note: For the first time all areas are on the increase from last year.

MEET OUR NEW TEAM MEMBERS in Brazier Property Management Ltd



Yvonne Craig
Letting Agent

A previous career in sales holds Yvonne in good stead to relet properties for you.



Kit Buckley
Property Manager

Many landlords know Kit from her previous years in Property Management in another company



Emma Lindsay
Receptionist

Our front line person for both the Sales and Management companies.

RECENT SALES

Blocks of Flats(RR)		Houses in Flats(RC)		House(HSE)		Townhouse(TH)		Ownership Unit(RF)	
City	(RR)	4 x 2 brm	\$270,000	(10%)	Wigram	120 bed hostel	\$1,750,000	(25%)	
St Albans	(RF)	1 x 3 brm	\$139,000	(8.6%)	Avonside	(RC) 4 x 2 brm	\$200,000	(13%)	
Linwood	(RF)	1 x 2 brm	\$113,000	(11%)	Linwood	(RR) 4 x 2 brm	\$256,000	(10%)	
City	(HSE)	2 x 3 brm	\$272,500	(7.4%)	St Albans	(RF) 1 x 2 brm	\$57,000	(12%)	
City	(HSE)	1 x 4 brm	\$147,500	(7%)	Phillipstown	(RR) 4 x 2 brm	\$376,000	(10%)	
Monavale	(RR)	4 x 2 brm	\$625,000	(7.8%)	St Albans	(RF) 1 x 2 brm	\$60,000	(11.7%)	
Linwood	(RR)	4 x 2 brm	\$199,000	(13.8%)	City	(RR) 1 x 4, 10 x 1 brm	\$800,000	(9.2%)	
St Albans	(RR)	6 x 2 brm	\$425,000	(10%)	St Albans	(RR) 1 x 3, 3 x 2 brm	\$420,000	(9.4%)	
City	(RR)	1 x 4, 7 x 2 brm	\$923,000	(8.3%)	Harewood	(RF) 1 x 2 brm	\$85,000	(8.9%)	
Riccarton	(RR)	1 x 3, 3 x 2 brm	\$311,000	(7.9%)	Yaldhurst	(RR) 2 x 1, 3 x 2 brm	\$340,000	(8.9%)	

FOR SALE

"Once in a Lifetime Opportunity"

Eight new "Master Builder" two bedroom, one level units (built as two blocks of four).

Fully guaranteed lease for ten years by national tenant.

Income return up to 8%pa gross with asset growth on top.

Full management provided as part of lease terms.



Separate titles for easy financing and/or resale.

Timeless design to suit multitude of tenants.

Located by shops and other amenities.

Neg over \$998,000 (or \$499,000 for four).

For further information and FREE market appraisals on the value of your property, call us anytime on 3777 122. If you no longer own your flats or have changed your postal address, please inform me to save you further inconvenience.

Thank you
Tony Brazier
AREINZ Dip Bus(RE) BEd

While every effort has been made to ensure accuracy, no liability is accepted for errors of fact or opinion herein. Our intention is to promote thoughtful analysis of your own portfolio. Any decisions should therefore be made after consulting your professional advisors.

