

## Market Watch

New Zealand is a nation full of property market experts, which is not surprising given the amount of media attention it receives. Media and government predictions of property market crashes and booms dictate buyer behaviour, frightening many potential investors into waiting or sending them scrambling to buy property.

***The property market is as complex as the share market with some very clear indicators that need to be analysed and assessed.***

The secret to cutting through the hype is in understanding that a massive number of factors are involved in property market movements. The property market is as complex as the share market with some very clear indicators that need to be analysed and assessed. Someone who works for a listed company doesn't instinctively know how to read and play the share market. The same as owning and occupying a house doesn't necessarily guarantee expertise on property investment.

In any one day you'll see any combination of media stories independently claiming that increased sales volumes, decreased prices, decreased rental vacancies or decreased rental returns mean the market is going to boom or crash, depending on who's telling the story. The truth of the matter is that one swallow doesn't make a spring, and alone none of these factors allow us to accurately predict market trends.

There are only two ways to accurately predict market trends. The first involves detailed analysis of each market factor together (a degree in economics would also be useful). The second, simpler method is accessing historical evidence of the property market. And this shows that there is only one direction the Auckland property market consistently heads, and that's up.

There's no denying that there are fluctuations along the way but over time the Auckland residential property market has steadily increased in value since as far back as the data goes. Based on this, experienced investors are confident that long term trends will favour property and the returns it can generate for them.

***"Any slow down in prices is likely to be used by those experienced property investors to further expand their portfolios."***

A recent study by the NZ Property Investor's Federation demonstrated this, showing that close to 90% of property investors intend to increase their holdings in the next five years. Federation president Martin Evans explains "The price paid for a property is not so important for long term investors who are taking a 10 or 20 year view." "Any slow down in prices is likely to be used by those experienced property investors to further expand their portfolios." A second survey by Kiwi Property Investor magazine



also found that serious investors thought now was a good time to buy, with over two thirds stating intentions to buy within the next 12 months.

The rental property investment business is one that carries on in the good and not-so-good times. Property investment requires a look at the big picture, it's a long-term play and you need patience. It's not about property prices, it's about supply and demand. Consumers who are frightened away by media predictions of a market downturn only serve to enhance the bullish attitudes of experienced investors, who take advantage of this dip in consumer confidence to increase their assets. This is the value of counter-cyclical investing.

***There are only two ways of predicting market trends with any level of accuracy.***

It's time to stop thinking like a home owner and start thinking like an investor. Remember, it's time in the market, not timing the market. If you don't ever sell you won't realize a loss, but if you don't ever buy you're guaranteed to miss out.

## Government Retirement Warning

A recent study showed that New Zealanders are among the least prepared for retirement, ranking 20th out of 27 OECD countries. Switzerland is most prepared with US\$74,000 of private retirement assets per person. Comparatively New Zealand has just US\$3,800 per person. Our post WWII baby boomers are poorly prepared for retirement and this is expected to result in a huge tax burden in the next 30 years.

The top 17 countries on the list (including Australia, ranking 8th) all have a compulsory superannuation or an incentive scheme for individuals to prepare for their retirement.

The NZ Retirement Commission recommends that we need 70% of our pre-retirement income in retirement, so an individual earning \$50,000 p.a. will need \$35,000 p.a. in retirement. The single pension is just \$13,302 p.a. We're also living longer. Today a 65 year old man today is likely to live to the age of 81, that's 16 years in retirement.

The NZ Retirement Commission has identified that New Zealanders need other sources of income to supplement the pension, and suggest two options; get your own investments, or work past 65.

We work hard all our lives so we can enjoy our 'golden years'. Can you live the retirement you dream of on \$260 a week? You can calculate how much you need to save for retirement at [www.sorted.co.nz](http://www.sorted.co.nz). Then speak to an NZINVEST investment coach about how investing can help you secure your future, without compromising your lifestyle today.

## China Currency Undervalued



As the world's fastest growing economy China is attracting massive amounts of foreign investment. In 2004 foreign financial institutions like Goldman Sachs spent a

combined US\$450 million buying four commercial buildings.

The Chinese government believes much of the foreign interest is the result of speculation that the Chinese currency is up to 40% undervalued. For many years the Chinese currency was 'pegged' to the US dollar, making China's exports unfairly cheap. As a result of international pressure the currency was pegged to a basket of 20 currencies in July 2005.

As the Chinese currency continues to be revalued investors who purchased assets at an undervalued exchange rate will see their asset value increase with the currency.

For a one-on-one introduction to Investing in China, or to attend an information evening, email us at enquiries@nzinvest.co.nz or call 0800 NZINVEST.

### Tips on Investing in China

- ▶ Foreign investors may repatriate their investment funds providing taxes have been paid.
- ▶ Yields are advertised at 8%
- ▶ A dual tax treaty is in place between New Zealand and China
- ▶ NZINVEST can facilitate the whole process for you, overcoming the language and cultural barriers and making this strong investment opportunity hassle free.

# An Eye On Australia

When we think about the Australian property market it's easy to make the mistake of applying our New Zealand experience, after all don't property cycles generally move in seven year to ten year cycles?

Historically, yes, but it's important to remember that 20 million people call Australia home and it's geographically many times the size of New Zealand. When considering investing in Australia it's crucial to recognize that Australia consists of not one but a number of local property cycles.

Although each Australian city is unique there are factors which influence the property market nation-wide. Demand is increased by a strong economy, high levels of immigration, and full employment. Australia is currently enjoying all of these. Raised interest rates and petrol prices are also being felt nationwide, resulting in a slower recovery for some markets and a drag on prices for others.

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So, with a number of property markets to consider how do you determine where in Australia to invest?

According to the Australian Bureau of Statistics, property prices in Australia climbed 1% last quarter. This may appear interesting but it's not useful. More useful is the breakdown which shows that prices rose almost 9% in Perth, while Sydney prices fell by 1.2%. At almost 9% Perth's growth is significantly better than Sydney's, so Perth sounds like the better option, right? Wrong, and according to Australian Property Monitors projections that mistake could cost you 15% capital growth. Remember the concept of counter cyclical investing introduced in 'Market Watch' in this issue of *Investigate* and buy when the market is flat, not when it's booming.

Western Australia has experienced three years of phenomenal growth as a result of a global resources boom. In May this year people were literally pitching tents and queuing over night to snap up 'off the plan' apartments in Perth. It's a

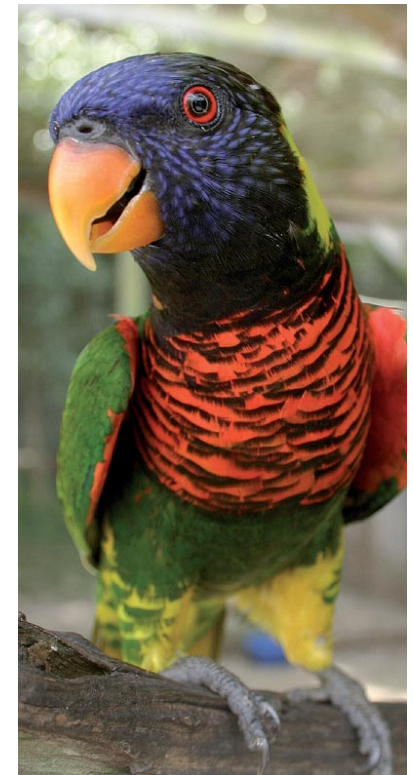
***Over the next five years Sydney properties are projected to see a median price rise of over 21%.***

seller's market and it's probably a little late to be buying in Perth. Australian Property Monitors predict the Perth housing market will flatten significantly in late 2006 to 2007. Of course, if you buy and hold you'll still make money over time.

On the other hand Sydney is more affordable than it has been for almost four years. Australian Property Monitors project that over the next five years Sydney properties will see a median price rise of over 21%, compared to just 5.9% for houses in Perth.

If we review the Sydney property market you'll see some trends. The market gathered momentum in 1986, peaked in 1989 and fell in 1990. By 1996 it showed life once more, booming from 1997 to 2001. Based on these cycles it is evident that the market rises and falls within ten years with a three to five year upswing. Futurist and KPMG demographer, Bernard Salt, believes the next boom may revert to a standard three year upswing. If cycle theory is correct, and given that the market has neatly kicked off in years ending in 'six' in each decade, it seems likely that the Sydney market is starting to turn and will see its upswing from 2008 to 2010.

The Queensland and Melbourne property markets have also been suffering from 'the morning after'. After six months



of bouncing prices, they now remain fairly consistent. Property commentators suggest these markets are slightly ahead of the Sydney market and are due to commence their upswing in 2007.

Buying now for the future is a true wealth creation strategy in any market, providing you're taking a long term approach. Irrespective of where you buy, in Australia or in New Zealand, if you hold a property for ten years you'll likely be rewarded with an average growth rate of 10%. However, buying outside of

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a market peak offers the opportunity for additional or faster growth, often for a lower cost of entering the market.



## Suburbs In Auckland

Based on Median Sale Price in the last 10 years.

Position	Suburb / Area	Total gain over the last 10 yrs
1	Rodney North (Warkworth, Wellsford etc)	188.6%
2	Franklin County (Pukekohe, Waiuku etc)	152.6%
3	Manurewa	135.7%
4	Papakura	134.8%
5	Henderson Area	133.2%
6	Papatoetoe	130.1%
7	Onehunga / Penrose	120.4%
8	Hibiscus Coast (Orewa, Whangapararoa)	110.7%
9	Glen Eden	110.3%
10	Glenfield Area	106.5%

Source: Real Estate Institute



# Tax Corner

## The Future of Capital Gains Tax

Every other country in the OECD has Capital Gains Tax on investment properties. New Zealanders have been very fortunate in (in most cases) not having to pay Capital Gains Tax to date. However, Capital Gains Tax has now been introduced on offshore funds and it is possible that Capital Gains Tax on property investments may follow as early as this year.

**The good news for property investors is that Capital Gains Tax tends not to be retrospective in nature.**

For investors implementation of Capital Gains Tax would mean that on the sale of an investment property the capital gains (profit from the sale) could be treated as income and taxed at the marginal tax rate of 39 cents in the dollar. On a capital gain of \$100,000, Capital Gains Tax would be \$39,000.

If we look at the Australian Capital Gains Tax model, no Capital Gains Tax applies on the sale of investment properties purchased prior to the introduction of Capital Gains Tax in September 1985, however properties purchased after that date are subject to the Capital Gains Tax regime.

So, the good news for property investors is that Capital Gains Tax tends not to be retrospective in nature. Any existing property you hold before implementation of the tax is unlikely to be affected by Capital Gains Tax should you choose to sell them in the future. If you're in a position to increase your investment portfolio, now's a good time to speak to an NZINVEST investment coach.

## Legislative Change on Depreciation Tax

NZINVEST's accountancy department has been actively monitoring potential changes to specific areas of New Zealand's tax law. Existing depreciation tax legislation has not in the past differentiated between commercial and residential property investments. The Inland Revenue Department has reviewed this legislation and whether residential rental property owners can break up their properties into smaller components in order to get higher depreciation rates for tax purposes.

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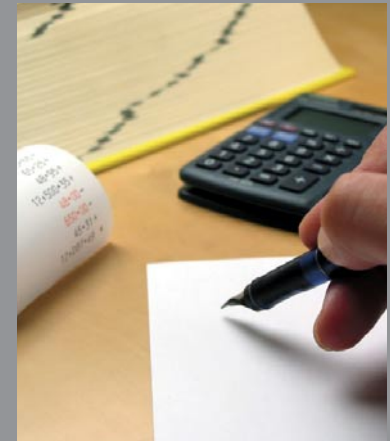
The specific items under review are internal walls, doors, electrical wiring and plumbing, as well as furniture and fittings that are permanently attached and are regarded as being part of the building. These include items such as kitchen cupboards, bathroom vanities and built-in wardrobes.

Property owners are still able to depreciate chattels such as carpets,

**In the interest of being conservative NZINVEST has adjusted reporting systems to reduce depreciation in these areas to building depreciation rates of 3%.**

drapes, light fittings and whiteware as separate assets. There is also provision to depreciate separately items such as water heaters, clothes lines and other fittings that are not part of the building.

Property owners who have been splitting these components out from the cost of the building will have



overstated their depreciation claim in the past but will not be asked to adjust previous year's incomes. However, they will be required to add the value of the various 'components' they have been depreciating individually into the cost of the building, and combine the depreciation claimed for those individual assets.

The legislation is not yet finalised and is subject to public consultation, however, in the interest of being conservative in a time of legislative change, NZINVEST has already adjusted the reporting systems to reduce depreciation in these areas to building depreciation rates of 3%.

We will continue to closely monitor the legislative changes as they pass through various review committees. NZINVEST offers a tax and reporting service to property investors, on new or existing properties. If you have any questions about your tax or depreciation call Kim Yeoh on 0800 NZINVEST.

FREE!

# Financial Health Check



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New Zealanders traditionally have a high level of personal borrowings, but most of us aren't very good at managing it. For many people this results in increased debt and a decreased ability to get ahead of it. Keeping financially fit is about:

- ▶ knowing your financial goals and establishing a firm strategy to achieve them
- ▶ making your debt work for you, not against you (good debt vs bad debt)
- ▶ actively working towards reducing your loans and loan repayments
- ▶ keeping your risk and exposure to an absolute minimum.

When was the last time you reviewed your mortgage or other loans? Once a mortgage has been established most of us prefer to forget about it, only revisiting it when the fixed interest rate term comes up for renewal, or when we need to top up our bank account.

But, as with any competitive consumer focused industry, products in the financial services sector change regularly. To ensure you are utilising the best product, the best rates and the best structure you need to

actively manage your debt. Remember, it's not in the bank's best interests to assist you in paying off your debt faster!

Over the term of a loan, an incorrect structure or the wrong products will undoubtedly cost you tens of thousands of dollars. That's why regular review of your loans, savings plans and payment structure in line with your financial goals, is so important.

## Top Five Financial Management Mistakes:

1. Not having clear financial goals for your future
2. Not increasing your mortgage payments in line with an increased income
3. Saving money in a savings account when you have a mortgage charging a higher interest rate than you can earn
4. Incorrect mortgage structure – leading to higher costs and/or insufficient flexibility
5. Having numerous loans for hire purchases, in addition to a mortgage loan.

## Your Free Financial Health Check

NZINVEST would like to offer you a free financial health check. This means we gather information to enable us to assess your current financial position, then we make recommendations on how we can save you money and help you to realise your goals and aspirations for the future.

Most importantly our Financial Health Check is free of charge, free of jargon, free to understand and completely confidential. Register for your free financial health check, email [enquiries@nzinvest.co.nz](mailto:enquiries@nzinvest.co.nz) or call us on 0800 NZINVEST.

## Keep Up To Date With NZINVEST

If you're interested in following the property market more often than quarterly, visit the news section of [www.nzinvest.co.nz](http://www.nzinvest.co.nz). We review property news daily and update our website with news on the New Zealand, Australian and Chinese property markets at least once a week.

## Landscaping Package Offer

We like to help our clients grow their wealth so we're pleased to present to you an excellent offer direct from the business of some of our investors. Lesley and Terry McVeigh of Bays Landscape Gardening provide affordable and attractive landscaping packages, perfect for your investment property or your home.

**Installation One:** Two trees, 25 small shrubs planted into new soil with starter fertiliser and organic mulch. Planting area to be determined from property plans. \$1,000.00 + GST

**Installation Two:** Five trees or three palms, 10 medium sized shrubs and 45 small shrubs planted into new soil with starter fertiliser and organic mulch. Some feature plants to be included if budget allows to add some interest to the garden. Garden to be designed and themed on-site with you. \$2,500.000 + GST

**Installation Three:** Seven trees or four palms, 20 medium sized shrubs and 55 small shrubs planted into new soil with starter fertiliser and organic mulch. Some feature plants to be included if budget allows to add some interest to the garden. Garden to be designed and themed on-site with you. \$3,600.00 + GST

Variations on these packages are available. Call Bays Landscape Gardening for more information on **09 483 9025** or **027 289 2748**.

## Quote

"Obstacles are those frightful things you see when you take your eyes off the goal." – Henry Ford (1863 – 1947)