



Key'd up for a non-event – but a profitable future

Like most property investors in New Zealand I was glued to Parliament Television on February 9th to hear John Key's address. Much speculation has surrounded his views and the direction he would take with property investment.

Unsurprisingly, over the last few months the media has once again whipped up and fostered a frenzy of negative speculation as to the future of property investment.

Key has put an end to speculation and ruled out land tax, and capital gains tax and there would be no introduction of a recommended scheme to tax rental income at an equivalent of a risk free rate of return.

He has chosen to ignore most of the Tax Working Group's advice which would have disadvantaged landlords. And so he should. With no other institutional landlord in this country except Housing New Zealand, and deteriorating home affordability, where is the housing this country so clearly needs going to come from?

Whilst he wasn't overly specific about what he would change in May, the consensus is that he will go after depreciation on buildings only, which is much better news for investors than was perhaps expected.

Building depreciation accounts for a small part of the total depreciation on offer. What not many people are aware of is that, under the current tax rules, depreciation on buildings is in reality

simply a tax deferral mechanism anyway. The reason for this is that all the depreciation claimed on buildings during its full period of ownership is generally recovered (or "clawed back") on the sale of the property. In other words all the depreciation previously claimed becomes taxable income in the year the sale occurs under the current rules.

What this means is that if depreciation on buildings is no longer allowed, you will have to pay a little more now as you go rather than facing a big (depreciation recovery) bill when you come to sell.

To allow for uncertainty in people's circumstances (job loss, health problems etc), we at Propellor have always presented both pre-tax and post-tax cash flows. These figures look likely to change for investment property making the top-up slightly higher, however we feel that in spite of this (as long as still affordable for the client), there is no investment that will touch property for long-term capital growth and wealth creation.

The fact is that if you put any spare money into a bank today – even those banks that specialise in higher returns – you would see about 3.5% return on your investment. By the time that returned interest was taxed, the bank took out its bank charges associated with running the account and inflation is applied, you are seeing a dismal return on your money.

Propellor is very conservative in the figures we present to our clients.

Although property has doubled every seven to seven and a half years in New Zealand, we allow in our figures for doubling at 12 years. So that means that over 12 years each investment will have grown by an average of 6.5% per annum tax-free. A much better return than from a bank!

By topping up an investment property today – with or without depreciation on the building – you will still enjoy a substantial potential capital gain. On a \$300,000 property, that could be a profit of \$300,000+ over an ultra conservative 12-year period – with no capital gains tax. And you get to use leverage so that you benefit from the full increase in value even though you may actually only have utilised a portion of the equity in an existing property to start with.

So YES we believe that property is still the best option for New Zealanders to pay off their home mortgage faster, to enjoy a potential tax-free capital gain and a passive income in the future. But I advise you to start the process now as there is currently a huge demand for existing property.

Also interest rates are expected to go up later this year – so let's talk about your investment property now. I can even offer you property that is cash flow positive – but they won't last!

Nikki Connors is Principal of Propellor Property Investments and well known NZ media commentator on investment property.

Why should you invest in OUR property?

Because we don't have any! We are totally impartial investment property specialists. We are completely independent from any developer, bank or financial institution. We search New Zealand for good quality property that is solidly built, appropriately priced, has excellent rental demand and in areas with proven growth for potentially high capital gains. We provide you with full due diligence on every property we recommend and we ensure you have the right financial, legal and mortgage structures. And we do it at no charge – guaranteed.

Start the journey with Propellor Property Investments.

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