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Property Tax and Assessment News from Around the World

# NEW ZEALAND - February 2017



## Tauranga rates set to climb 3.8pc

Tauranga residents face being hit with a 3.8 per cent rates increase to help deal with the city's rapid growth.

Yesterday's rate increase proposal came at a meeting in which councillors were told that Tauranga City Council had exceeded a key financial target.

The increase would net the council $134 million while remaining within a council strategy to limit rate increases to no more than 4 per cent each year.

In other proposals, fees paid by Tauranga dog owners to help fund animal control would increase by 5 per cent, but impounding fees would not increase.

The extra money would help pay for improved service at the animal shelter and for staff to carry out more community education programmes.

Tenants of the council's pensioner villages were expected pay 6 per cent more rent, or $7 to $10 a week depending on the village location and whether it was a single or double unit.

"Our elder housing rental rates are well below the national average," said a report presented at the meeting.

Among other costs, planning for the Te Tumu and Tauriko West urban growth areas will cost $2.6m over three years, with $1.6m to be spent this year.

The council confirmed last year's decision to spend $950,000 on Papamoa's new surf rescue base.

Also confirmed was last year's decision to contribute $765,000 to floodlights for cricket's Bay Oval.

Development impact fees would increase by "nominal" amounts of less than 5 per cent. The exceptions were increases of between 5 per cent and 6.8 per cent for a city-wide development fee needed to fund the Te Maunga sewage treatment plant.

The council signaled an intention to change parking charges in the CBD to "manage parking demand and occupancy rates and to encourage a change in travel habits".

It said it wanted to aim for a simple and coherent fee structure across on-street, off-street and parking buildings. Further proposals would go before the council next month.

The rate on Mount Maunganui businesses to fund Mount Mainstreet would increase by 10 per cent to collect a total of $163,000. Mainstreet's AGM agreed to spend an extra $15,000 on branding and additional administration and design costs.

Papamoa Unlimited's rate on businesses would double to $50,000 after its AGM agreed to spend more on marketing.

Decisions from the meeting will go into an Annual Plan's public consultation document to be approved by the council next month.

The council's debt was projected to reach $460m by June 30 next year - $33m more than projected in the 2015-25 long-term plan and $40m below the financial strategy's $500m debt limit.

*Financial summary for 2017-18 with current year's budget in brackets*

Rates: $134m ($126m)

Other operating revenue: $71m ($64m)

Total operating revenue: $205m ($189m)

Operating expenditure: $214m ($190m)

Operating deficit: $9m ($1m)

Average rates increase after growth: 3.8% (2.2%)

### Chch council defends higher rates increase

Christchurch's leaders are defending a higher-than-expected rates rise, despite plans to spend less on the city's infrastructure.

Long-term plans show rates could rise 5 percent this year, but the city's draft budget released yesterday calls for a rates increase of 5.5 percent.

In total, rates will rise 46 percent over the next eight years.

The city will also reduce capital spending on major projects, by $160 million including the Metro Sports Facility and the Sumner-Lyttelton Road.

The city's deputy mayor, Andrew Turner, said the city had to be realistic about how much it could afford to do at once.

"We've tried to keep as close to the signalled 5 percent as we possibly can.

"Yes, we would have liked the rates increase to be lower than the 5.5, but that would have involved looking at changes to levels of service and reductions in the capital programme that I think wouldn't have been palatable to the community."

Mr Turner said the council remained committed to an unprecedented amount of capital works.

### NZ property value forecast revealed

The latest forecast for New Zealand property values has been revealed, and it's grim news for mortgage holders

New Zealand mortgage holders are increasingly vulnerable to interest rate rises, while property values could drop by 12% in the next three years, according to a new forecasting report.

Economic forecasting company Infometrics said there were a number of key risks hanging over the economy, despite overall optimism in certain sectors such as construction.

This optimism is tempered by concern about international interest rates, retail rates and longer-term mortgages rates, which were all rising.

Chief forecaster Gareth Kiernan told Radio NZ that growth would not continue at the rapid rate currently enjoyed by property owners.

"You think about the scenario over the next couple of years, as interest rates start to rise, at the same time we're likely to see net migration pulling back from its peak as well, conditions for the property market are not going to be so favourable."

Higher interest rates would stretch people in Auckland who serviced big mortgages, he said.

"It could knee-cap the market, or at least slow the market down."

Affordability was not such an issue outside of Auckland, he said.

"We could be building at fairly rapid rates around some of those areas at the same time as demand is easing, so that is a recipe for some sort of oversupply to come through and prices to pull back."

However, other commentators are less pessimistic. Radio NZ reported that ANZ's chief economist, Cameron Bagrie, said it would take a recession and a complete halt in migration to spark a fall in property values as rapid as Infometrics predicted. Bagrie added that a 12% drop was unlikely.

"The housing market is going to moderate, it's going to slow, it's going to ease up but I think it's pretty hard to engineer at the moment a dramatic-style fall, unless we see the New Zealand economy testing with the idea of an economic recession, which I don't think is on the cards any time soon."

Bagrie said the fundamental shortage of property, particularly in Auckland, would keep house prices firm.

### Tax warning for holiday rentals

Short-term rental accommodation providers in wealthy areas such as Queenstown should do their homework

New Zealand's tourism boom means it can be lucrative to rent out property but owners need to do their homework or could get stung.

A lot of apartments and houses in areas such as Queenstown, for example, could easily be rented out on a short-term basis in excess of $1000 a night, Deloitte tax partner Phil Stevenson said.

"At this rate, it only takes 60 nights of occupancy to exceed the GST registration threshold, requiring the property owner to register for GST."

There were several implications from being GST-registered, Stevenson said.

The biggest and most obvious was GST often needed to be returned on the sale price of the property.

For residential property, that meant the vendor was likely to bear the GST cost because the property would most likely be sold on a GST-inclusive basis.

While it was possible to get a credit on the original purchase of the property, becoming GST-registered essentially gifted 15 per cent of any capital gain to Inland Revenue.

If a person decided to go back to using the property for private purposes and deregister for GST, they were deemed to have sold the property at market value and they would need to fund a GST cost without realising any cash from the sale of the property, he said.

In recent years, Inland Revenue had been focusing on taxing New Zealand's black economy which was made up in part by taxpayers providing short-term accommodation.

However, unlike a plumber's cash job or handshake agreements between friends, using an online platform to arrange short-term accommodation generated readily accessible electronic records.

### Auckland Council rates plan could push up visitor accommodation prices

A trip to Auckland could get even more expensive soon.

Auckland commercial accommodation providers are crying foul over a new targeted council rate that would push up room prices.

An Auckland Council report on the proposal suggests the accommodation sector add a 4 per cent surcharge to guest bills to cover the new rate that would apply from July 1.

Hospitality New Zealand accommodation spokesperson Rachael Shadbolt said the industry would fight council proposals to make the sector help pay for up to $30m spent annually on Auckland tourism promotion and major events.

Auckland Mayor Phil Goff proposed the idea of a visitor's levy in 2016.

"[It] takes a very blunt and narrow view of who actually benefits from tourism … Given the reach of the tourism dollar into so many sectors of the Auckland economy it is unfair that only hotels, motels, apartments, backpackers and the likes, are being targeted".

Late last year Auckland mayor Phil Goff mooted the idea of a visitor levy for the super city, but the council can't legally impose a bed tax, so it is going for a targeted rate based on capital value.

Auckland's Pullman Hotel could see it's annual rates bill double to almost $1.6m if the council adopts a new targeted rate.

It would add $800,000-plus to annual rates for a large city hotel.

Suburban motels, back packer lodges and holiday parks would see anything from $34,000 to $70,000 a year added to their existing rates bills from July 1 if the proposal in the annual plan was adopted.

"The impact is just as significant, if not more so, on the little guys.

"I don't think they understood the enormity of the situation until we put the figures in front of them [at a meeting on Monday]".

Whangaparaoa Lodge owner Troy Clarry said he was shocked when he realised his total rates bill would jump from $14,000 to $42,000.

A council report on the rating proposal said property valuations might need to be adjusted to remove areas not used for accommodation, such as bars, restaurants and conference facilities.

Clarry said that would make it complicated to administer. "They'd have to view where we live, and measure it up".

The report said that even if Auckland accommodation providers had to contend with a government bed tax on top of the targeted rate, prices would only rise 6 per cent on average and this would not have a significant impact on visitor numbers.

But Clarry said visitors were price sensitive and could decide to use Airbnb or holiday homes which would not have to pay the targeted rate.

The council report said it would be too difficult and costly to identify those properties and inspect them for rates apportionment.

General manager of the 340-room Pullman Hotel Rob MacIntyre said his targeted rates bill would be $800,000 on top of a general rate of a similar amount. "It's a significant hit".

He said hotels regularly signed contracts two or three years in advance to provide accommodation for tour groups and air crew, and they could not raise charges to cover the council's targeted rate.

"The only way the price can change is if it's a government tax - if GST went up, we could pass that on".

Hotels were becoming profitable again and needed to invest in refurbishment and improving staff pay, MacIntyre said.

"What's ironic is that the mayor is trying to introduce the living wage, but he's taking that opportunity away from hospitality workers.

"The implications of that sort of cost on our bottom line that we can't really recoup is hugely significant

### Auckland Council running out of options to avoid rates increases

Auckland mayor Phil Goff will have to find a new way to fund the city's much-needed transport projects.

Cabinet has officially ruled out introducing a regional fuel tax to cover the city's $400 million annual transport funding shortfall.

Mr Goff says the council is running out of alternatives to increasing rates by 16 percent next year.

But Finance Minister Steven Joyce said the council may need to consider private funding, because a fuel would be inefficient and unfair.

"We don't have national pricing in New Zealand.

"It's quite possible that people in Southland could end up paying for a regional fuel tax in Auckland."

Road tolls could be introduced in Auckland, but they won't raise any extra transport funds.

The Government's now officially considering electronic road tolls for motorways and arterial routes in the medium to long term.

But proceeds won't be used to help cover the funding shortfall.

Mr Joyce said it would be used to reduce the number of motorists using the city's limited transport corridors.

"You do actually have to consider what the longer-term looks like.

"Auckland is built on an isthmus, it is narrowly constrained through central Auckland, and there is a limit to how many transport corridors there are."

The Government is ruling out a regional fuel tax to help cover transport costs.

### Exodus from Donald Trump's United States fuels demand for Nelson property

The average value of properties in Nelson has hit more than $508,000 - up 16.4 per cent in a year.

Doomsday "conspiracy theorists" and expat Kiwis wanting to flee Donald Trump's United States are adding to the strong demand for property in the Nelson region.

Property values in Nelson have increased 16.4 per cent to an average of $508,343 in the year to February, according to the latest QV figures.

In the Tasman District, average values have increased 14.2 per cent to $498,111 in the same time period.

QV Nelson registered valuer Craig Russell said demand for property across the region continued to outstrip supply.

Tall Poppy Nelson salesman Owen Tasker said he has seen a huge increase in the number of inquiries from Americans since Trump was elected president in November.

He said 42 per cent of people looking at the online listing for a three-bedroom house on a semi-rural property in Richmond were from the US, compared to 46 per cent from New Zealand.

"Looking across other properties, that's pretty much been the same — very, very high from the States," Tasker said.

"There are Americans drifting here, but even more so now with Trump."

Tasker said some of the Americans looking to buy property in the region were doomsday preppers hoping to future-proof themselves.

"Quite a few of them are conspiracy theorists. By the time they get here they're that wound up they just want to get up to the hills," he said.

"They've basically got the theory it's all gonna shut down, the whole money system's going to shut down pretty soon and this is a good, safe place to be.

"New Zealand-wide, Nelson is becoming even more attractive and now, internationally-wise, New Zealand's becoming more attractive."

He said there were limitations on the types of properties foreigners could buy in New Zealand.

"But they can come here and buy residential no questions asked."

Bayleys Nelson agent Bruce Farquhar said he had also seen a "200 per cent" increase in interest from US-based Kiwis looking for property in the region.

"My greatest surge in interest from the States has been Kiwis living there," he said.

"All of a sudden they're thinking about a safe place to put their money or to live."

He said the trend coincided with Trump's presidency and the "uncertainty" that had brought.

"Money hates uncertainty and Kiwis are in the lucky position of being able to jump on a plane and just return home if things turn sour."

Farquhar said he had observed similar trends following major acts of terrorism, including the 9/11 attacks in the United States and the 2005 London bombings.

Aside from the US exodus, Russell said more people priced-out of property markets in Auckland, Wellington and Christchurch were moving to Nelson.

Agents were seeing high numbers at open homes and multiple-offer situations were common, particularly for properties in the first-home buyer or investor price-range, he said.

The market's upward trajectory was driven by low interest rates, a strong regional economy, high demand and low numbers of property listings.

However, Russell said increased interest rates in the past week could inject some uncertainty into a market that has seen strong growth for close to two years.

"Interest rates are now past their historic lows and beginning to creep upwards as the cost of offshore funding increases. Increased funding costs and uncertainty going forward may impact market confidence in the region but as yet we have not seen any sign of a slow-down in the market."

All major banks lifted their mortgage interest rates last week to at least 5.4 per cent.

Russell said higher interest rates would make it harder for first-home buyers and some investors to borrow money.

"People right on the cusp of buying a house, if interest rates go up they might not be able to afford as much of a mortgage and it can impact the property market."