Dear John.....

An open letter to John Key

When I sat down to write this to you I didn't know whether this was to be good bye.

I was there at the celebration of your victory at Sky City in Auckland when you won the vote of the New Zealand people. But I missed you. I was there in your sister's home in Christchurch for the friend and family celebration. But I missed you there too. I was there at the races and nearly got to talk to you....but yet again, I missed you!

Then two months ago you made an announcement that could have rocked my world. I felt betrayed, let down, bereft! How could you leave me and the rest of this country in limbo – how could you have toyed with us? For two months we didn't know what you were going to do to depreciation on investment property. For two months we weren't sure what you were going to do to our retirement plan and all the strategies we had for our futures.

We were only taking care of our families, John! It wasn't about greed or exploiting loopholes. It was about taking a proactive stand to ensure that we were looked after in our retirement. All we have ever wanted was to pay off our mortgages faster, ensure our children's education and ultimately take away the burden of the state to support an aging population – whatever government is in power.

I sat there on May 20th – my heart in my mouth, silently praying that you wouldn't desert me. Not knowing whether this was the last time we would share a special bond. And John....you didn't let me down!

I believe you have given us a budget that is pretty fair for me and my property investor clients. The ability to claim depreciation is slightly compromised, but being able to still off-set property losses through personal income still makes the system incredibly attractive to investors. After all I remember when I started my first investment property company in 2006 and interest rates were at 9.5% – my clients still saw the advantages to investment!

I know you had to do something John. So taking away the depreciation on residential investment buildings (unless the building is deemed to have a useful life of under 50 years which is unlikely) is, I suppose the lesser of two evils. This is the depreciation claimed that under existing rules all needed to be paid back when you came to sell the property anyway, so its certainly not the end of the world.

You have continued to allow us depreciation on fit-out and chattels and as this is the bulk of the overall depreciation claimable now (especially on new(er) properties) it is a significant source of tax savings for investors. I have always ensured my clients get the maximum legitimate allowance anyway.

Propellor has always advocated that our property investors hold their investment properties for at least 10 years. It is the capital growth that makes this form of investment so attractive not just the tax savings.

You were smart enough to pre-warn us about the increase in GST – so the screaming didn't reach the fevered pitch it could have done (very clever by the way John). Your mate Bill English has indicated the lower tax rate and the higher GST will be cost neutral with one cancelling the other out. That remains to be seen. All I know is that the increase in GST to 15% on the 1st October will bring a significant increase in the cost of a new property. That means that any investment property bought before that date will enjoy both a compounded 2.5% increase in price, but also due to the higher costs of building materials and inflation, could see a very tidy capital gain within a short time. So hopefully my clients will see some tangible benefit.

A lot of clients have put everything "on hold" until the impact of the budget was fully understood. Thankfully we can all get on with our lives and continue to look to the future. We have some fantastic properties that we are ready to share with them – including some with government guaranteed rentals or significant cash back on settlement (and this will help with any future reduced tax savings).

So John, this is not goodbye, merely adieu. I can still claim depreciation, I can still enjoy a solid capital gain and I can still invest in the 'bank of property'. Finally, thank you for not causing my printing bills to increase if I had to change my companies strap line. Yesterday, today and in the future I believe.... The future is still property... we'll take you there right now!

Nikki Connors

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