



NZ Property Report

Quarter 1 2009

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NZ Property Report – Quarter 1 2009

2008 was an unprecedented year for property in NZ and globally. There were significant external forces: the global financial crisis, global share markets dropping by record levels, many developed nations moving into recessions, unemployment rising, and property prices dropping for the first time in decades. Not much good news – at least, that's the way it was reported.

But when you put the news under the microscope, we have, moving into the second quarter of 2009, **massive opportunity for the savvy investor**. It may be a minority of investors who view the market with this brand of balanced optimism, and they are the few who are likely to make **enormous financial gains** through careful management of their property portfolio in the next 24 months.



Note the 24 month timeframe. You see, most of those commenting on the property market at the moment are economists, whose tendency is to measure short-term in days and long-term in months. Savvy property investors think of short-term in high numbers of months and long-term in years or decades. And there are also the journalists, whose profession revolves around sensationalising our current climate to shift their publication. Thus, the image projected of the current property market is hardly the most pragmatic analysis and takes a very negative view of the potential in the current property market.

What is sure is that there are massive opportunities for two absolutely fundamental, proven reasons:

- Property prices are at their **lowest level on record** and aren't likely to depress further
- Interest rates are at their lowest level in a decade having dropped 5.75% points in the last 9 months

What this means is that there has never been a better time for investing. But first, we need to check the fundamentals of the NZ property market to ensure that property remains the most reliable asset class available.

NZ PROPERTY FUNDAMENTALS – SUPPLY AND DEMAND

Statistics New Zealand released figures last week that showed this year's gain is the strongest since February 2003.

For February 2009, the number of people moving into New Zealand was 4.80% higher than February 2008. The number of people leaving was down 5.80%. Departures were down 16.60% on January. For the past ten years, the average gain per month has been 2,215 – February was the highest since February 2003 hit 6,692. Essentially, NZ is on the verge of a migration boom. Tony Alexander, Chief Economist at the BNZ estimates an influx of between 15,000 to 30,000 over the course of this year.

“What is important is that the numbers are turning even more strongly than we have been forecasting. The net migration numbers are positive and accelerating fast.”

“The turnaround could even rival what happened in 2001, he says, when there was a hugely positive turnaround of 42,081 people.”

The key contributors are likely to be fewer people leaving due to the global recession, many ex-pats returning, and more foreigners looking for a new way of life (perhaps prompted by the enormous redundancy numbers coming from the northern hemisphere).



“These flows will boost our housing market.”

This makes it absolutely vital to take advantage of the low interest rates that are currently available. They are unlikely to fall further.

So, the fundamentals of the NZ property market, under threat from falling house prices, are going to be propped up by a positive migration equation. With the demand for housing increasing, we're already seeing a turnaround in the property market.

THE PROPERTY CYCLE – WHERE ARE WE NOW?

Property Cycles refers to the different stages of property demand and supply which will therefore affect performance and how long it will take for your property to double or reach some other multiple in price.

Historically, NZ property has doubled every 10 years but of late, with this number being even lower in the main centres, particularly Auckland. Property cycles seem to have shortened as more and more investors get into the market. Now it appears that cycles are between 7 to 10 years depending on the location.

The cycle that runs like this:

Downturn - Stability – Upturn – Boom

The boom is generally considered to be the point at which properties reach their peak selling prices. This is normally followed by a downturn, as the market corrects itself. Then, the market stabilizes for a period of time before economic forces make property investment attractive again and the upturn continues the cycle.

NZ has just come off a major boom (thankfully, the upturn and boom phases tend to last much longer in NZ than in other countries), and the downturn shows signs of already being over.

Due to the immigration factors discussed earlier, the upturn is likely just around the corner, making now the perfect time to lock on the low interest rates (which, as stated earlier, are unlikely to depress further).

The monthly NZ Property report released by www.realestate.co.nz showed that listings were down in April 2009 by around 21% from March and 34% on April 2008. What does this mean? Well, it means we're moving towards a seller's market, which means the downturn is all but over. Although some experts are saying it's too early to tell, there's certainly nothing to lose by getting into the market at the moment, locking in some low interest rates, and

watching the market build your equity for you (which is, after all, the entire point of property investment).

SO WHERE DO YOU BUY?

The main centres are the safest and easiest option for investment properties. Auckland prices have already started to rebound, according to Barfoot & Thompson, with an increase in sales prices of 2%. Although this is still around 3% lower than the same time last year, it still represents an increase. Managing Director Peter Thompson said, "Traditionally April sales volume and prices can fall away markedly compared to March. It is a seasonal factor, so to get an increase in price in April with only a modest fall in the number of homes sold compared to the previous month is heartening."

Other main centres also show similar strength and are more 'recession-proof' than in rural areas. Within the main centres, ideally, inner suburbs are again more robust. Outer suburbs and inner-city apartments are usually first hit when there's a downturn.



Good streets in large cities are proverbially your best bet. The land value appreciates at a good rate and with interest rates so low at the moment, the affordability of locking in a property that a year ago would have been unaffordable, is suddenly possible.

WHAT TO BUY? YOUR LOW RISK HIGH RETURN PLAYBOOK

There are a lot of options when it comes to what type of property you want to invest in. Commercial and industrial sites can do well, but overwhelmingly, residential property provides a more robust set of results than the other property types. It also has more predictable growth cycles

Within residential property, there are still a set of choices you have: apartments, townhouses, or a standard house. There are a lot of



considerations, but probably the most important can be summed up in one sentence:

Land appreciates, buildings depreciate.

So purchases with a higher land content as a percentage of the property value are going to appreciate more than a property with a lower land content percentage.

What this means is that a regular house will outperform a townhouse. A townhouse will outperform an apartment. And an apartment in a small block will outperform an apartment in a high rise block. (Also, with apartments and some townhouse projects, you have additional fees such as body corporate.)

So, houses are your best bet for the following reasons:

- They have a higher land content than other residential property types – often as much as 50%
- They don't contain extra fees such as body corporate or compulsory maintenance fees
- They are easier to rent out
- When you rent a house out, people tend to stay in houses longer than in apartments, which can be seasonal and transient

WHAT TO DO NEXT

With the fundamentals of the NZ supply-demand equation looking so positive, and interest rates at such low levels, the most obvious and important next step is to get finance fast. Properties that were negatively geared 12 months ago are suddenly positive or neutral, meaning you can lock in a low interest rate and enjoy watching the capital growth. There really hasn't been a better time to get into the market.

To find out your borrowing capacity, we've created a form at:

It takes about 2 minutes to fill out and you'll get the results within 24 hours. Then you'll know exactly where you stand and be able to develop an equity building property investment strategy to derive enormous, passive wealth.

Good luck and happy investing.