

## Green shoots or full on fertilised growth?

Hi Ross,

At last there are starting to appear some positive signs of an economic recovery, both within New Zealand and on an international front. A major driver of New Zealanders investment sentiment is the state of the residential property market, and this is now starting to show strong signs of increased activity.

The New Zealand Herald's article yesterday is just one of many recent comments, here and overseas, as to the market having 'bottomed out' and indeed showing growth tendencies. [Click here](#).

In our February Global View newsletter we highlighted the 'Rodney Ravings' article entitled 'Positive news for economic growth in 2009', to see this [click here](#). These articles are available free. To subscribe [click here](#).

In Rodney Dickens' latest May 'Ravings' entitled 'Monetary policy impersonates Dumb and Dumber' he likens the recent RBNZ's OCR policy to that of Jim Carrey and Jeff Daniels "In Dumb and Dumber you know that whatever they get up to they will mess it up."

However as he predicted in his earlier article as the RBNZ have now clearly got their "Go for Growth" hat back on, in his opinion there will clearly be winners and losers as the 'Growth' strengthens. The 'winners' will include share market investors and firms exposed to the housing and residential building markets.

To read the full article and indeed who will be the losers, [click here](#).

Residential and commercial real estate agents are reporting strong levels of enquiry, which has transferred through to much stronger levels of sales in both March '09 and April '09, with both months recording residential sales levels in most regions of well above any levels in 2008.

For the latest Real Estate Institute figures release today [click here](#).

The lack of residential development, both sub-divisions and house and land packages, over the past 8-12 months, and the increased demand from both investors and owner-occupiers for property, plus the jump in immigration due to the economic woes abroad, plus natural population growth, are now becoming strong drivers of the residential sales market, and the view is held by an increasing number of economists that there will be a shortage of residential property in certain regions. This has to also be coupled with the fact that funds left in the bank now earn a net 1.5%-2.0%, as compared to a residential investment return of 5.0%-7.0%.

The view is now clearly that there will be a large number of investors worldwide who will need to chase greater returns than those being offered by the mainstream banks, which will see capital flow into finance companies, property syndications, bond issues and residential property investments. "To shift from safe haven assets towards growth and risky ones" according to BNZ chief economist Tony Alexander's comments on the latest BNZ confidence survey. To read article [click here](#).

There are however still credit restrictions in place, in the form of the banks funding both the end purchasers and the developers. We expect to see this easing over time, however it appears that the majority of the banks are still experiencing a severe shortage of funds to lend out, and there is a need for the second tier lenders, i.e. building societies, trustee lenders, and larger finance companies, to become more active in the market. Most of these firms are now sitting on large sums of capital, which have flowed back into them due to the government guarantee scheme.

The reporting of stronger levels of sales and the stabilisation of prices, will hopefully encourage some of

these lenders to be more aggressive in the market. They after all, are also affected by the very low deposit rates, as the majority of them have large sums of funds which they are paying 8.0%-11.0% for, but receiving only 2.0%-3.0% on deposit. The effect of the government guarantee has now seen the finance company deposit rates plummet to a level of 2.0%-3.0% over bank deposit rates.

There is plenty of capital available for medium sized projects, the larger projects which only fit with a mainstream bank are more difficult. Global Pacific is being approached by an ever growing number of finance companies and solicitor nominee companies with funds to lend. We also have access to a number of high net worth individuals who are prepared to act as either financiers, j.v partners and underwriters to projects, and we see this area of the financing market also increasing.

To obtain such money it's back to basics. Knowing where to go, the criteria they're looking for, and a proper presentation being the key essentials to success.

In today's market if we at Global cannot source funding for a particular deal, whatever the risk profile, then nobody can.

Consequently, should you or any of your clients or colleagues require finance of any kind, please call me anytime on 021333011, contact me via email, or visit our [website](#), to see examples of the finance we have arranged.

Cheers

JP



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