

Hi John,

Surveys, housing and commercial property

*Is this the real life?
Is this just fantasy?*

To see Queen's Bohemian Rhapsody [click here](#).

In the last issue of GLOBAL VIEW I promised I'd send you some of the results of the recent survey about my newsletters - and your views on the New Zealand economy.

As for the newsletters, the results are very complimentary. 67% of you say your overall opinion of them is Very Good and another 32% think they are Good. Nobody has a poor or very poor opinion of them. I'm happy with that.

Other results are:

- 70% read every issue.
- 98% find the information Very Relevant or Relevant.
- 95% think the newsletter is about the right length.
- 45% would like receive it as often as the subject matter dictates, and another 32% monthly.

So it doesn't look like there'll be much change in what I'll be sending you.

Your thoughts on the economy are very interesting, and I'll talk about a couple of them below.

But perhaps the most interesting result for me is the profile of my readers. 87% are older than 40. The 50 to 59 age group is the highest at 39%, with 26% in the ten year age group immediately above this and 22% in the ten year age group immediately below this. 72% of you have personally travelled overseas in the last 12 months and 79% intend to in the next 12 months. And you're a well-off lot too with 41% having household income of more than \$200,000.

My thanks to all those who participated – and those who said they didn't have the time, but emailed me their thoughts.

The analysis of the survey will be published on the Global Pacific website in the next few days or if you'd like a summary I'd be happy to send one to you. Just reply to this email asking for it.

Is the housing recovery real?

My view of the current state of the global economy – and quality of life - is if you were in a space station looking at the earth and deciding where you'd like to live now that your mission is completed, Australia and New Zealand would be top of the list.

In the last issue of GLOBAL VIEW I pointed to signs that New Zealand might come out of the current recession sooner than we've thought.

I said "A major driver of New Zealanders' investment sentiment is the state of the residential property market, and this is now starting to show signs of increased activity." Well all the signs are this is continuing.

Real estate firm Barfoot & Thompson sold 814 properties in Auckland last month – a figure 58% higher than May last year. And Barfoot's average sale price was up 6% to a new 12 month high of \$533,909.

Rodney Dickens, in his excellent Rodney's Ravings newsletters, has been predicting for some time a residential housing recovery. The one published the day after the Budget questions the Treasury's pessimistic forecasts for residential building consents which he calls "nonsense".

To quote "In the budget released yesterday the Treasury forecast a 22.7% fall in residential building activity in the year ended March 2010. Unless another major negative shock is about to hit the economy this prediction is bizarre given that the number of REINZ dwelling sales are the most useful leading indicator for residential building consents and point to a sharp upturn starting now. On a seasonally adjusted basis the number of consents for new dwellings has already increased 6.4% between January and March. The recovery has already started and the leading indicators that have worked faithfully for many cycles point to it continuing over the rest of this year. There is also the fact that the number of section sales reported by REINZ in April were up 13.6% on April 2008, which confirms that residential building consents will continue to rise."

And "Economic recoveries start in the housing market and filter through to retail spending with a moderate lag, so by assuming away the upturn in housing market activity that is already underway the Treasury is cutting the legs out from under the recovery in consumer spending growth." It's a great article and to read it [click here](#).

BNZ economist Tony Alexander, in his 4 June Weekly Overview, reports the number of dwelling consents issued around New Zealand in April are up 11.2% from March. He goes on to say the statistics are "enough to allow one to conclude that we have almost certainly seen the low point for monthly dwelling consent issuance".

Rodney Dickens' latest Ravings questions a bank economist's prediction that "the pick-up in the housing market is unsustainable". The economist's theory is based on rising unemployment rates and higher long-term mortgage rates.

Rodney charts the relationship between the number of REINZ house sales and the average fixed mortgage interest rates charged by the major banks. He says the fact the economist appears to have overlooked is that the average 6 – 12 month fixed mortgage rate has fallen from 5.9% in February to 5.5% currently.

He says "If borrowers had only the choice of longer-term fixed rates we would expect house sales to fall in the second half of 2009, especially if the global recovery continues and drives longer-term interest rates higher. But we expect borrowers to focus more on the lower 6 – 12 month fixed rates, especially because the NZ Reserve Bank has signalled it will ensure shorter-term interest rates remain low for some time." To see the charts and read his article [click here](#).

But in my view the most important factor that will contribute to a housing and more general economic recovery, is an earlier Ravings entitled "Massive interest rate stimulus still to come". He says "As of March 2009 the banking sector had \$55.3 billion of outstanding fixed mortgages at an average interest rate of 8.16% that will be re-priced over the next 12 months. If these people roll this large amount of borrowings into lower term fixed mortgage rates because these rates are lower than either floating rates or 4 – 5 year fixed rates, then this group of mortgage borrowers could be \$1.2 billion better off". He adds "inevitably a reasonable portion of this increase in disposable income will be spent". To read this [click here](#).

Add to all this the improving migrant inflows – a net 2,160 migrants arrived in April, the highest since January 2004 and up from 1,730 in March – and I can't see why so many people are pessimistic about the recovery here.

And it looks like you agree. In my survey mentioned above, I asked which of the following economies you expected to come out of the current recession first.

- 47% of you say Asia,
- 35% NZ and Australia,
- 15% the U.S. and
- 3% the U.K. and Europe.

I also asked a couple of questions about housing. 65% of you think house prices will decrease in the next 12 months yet 64% think it is a good time to buy a house. (The same percentage think now is a good time to invest in commercial and industrial property).

Are syndicates a good way to buy commercial property?

Talking about commercial property, we've seen a huge increase in offers to participate in the ownership of commercial property through property syndicates.

Brian Gaynor wrote a scathing article in the Herald about property syndicates saying "these schemes, which have proliferated in recent months, are illiquid, offer unrealistic returns and will probably lead to large capital losses for investors". To read the article [click here](#).

This brought a reply in last Friday's Herald from Mark Francis, managing director of Augusta Fund management - which is promoting a syndicate criticised by Brian in his column - saying the key message is that "passive property investment is a long-term game". To read Mark's reply [click here](#).

Whether you agree with Brian or Mark - and each type of investment has its advantages and disadvantages - the articles do bring up some good points about investing in commercial property.

- Low interest rates are good for borrowers but not so good for investors looking for income. Every time interest rates are low, investors are lured into investing into things they don't fully understand.
- If you invest in property you can increase the return on your equity by using borrowed money. But if you increase your return by leveraging you stand to lose badly if the value of the investment goes down. Not just the equity that has disappeared but also the risk that your bank manager will want you to "top up" the equity you now have, to make your loan fall within the guidelines you have agreed to.
- Too much debt can also seriously affect the value of your holding in a managed property investment. To see how the amount of the borrowings affects the value of listed property trusts [click here](#) or [here](#).
- But it's the quality of the tenants - and the leases they have - that are most important factors when investing in commercial property. Especially right now when the economy is in recession and tenants are hurting. Vacancies not only affect the income you receive from the investment but also it's value.
- Low interest rates alone do not make property a good investment.

But these times also open up opportunities for the savvy investor. There are bargains out there resulting from the uncertainty of tenancies due for renewal, or with vacant tenancies. Sometimes it's better to refurbish, or do whatever's necessary to get good tenants, than rely on a global economy that has forced governments to reduce interest rates to unsustainable long term levels.

And if your bank's reluctant to lend you the money because their rules have changed - and you have reasonable equity and a good business plan - there are others who will.

Cheers

JP



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