

The Pressure is Building!

The New Zealand economy is showing signs of a strong rebound, driven in the main by immigration and as a result, the up swing in the residential property market. This in turn is starting to drive increased enquiry in the residential property development arena, both the development of residential sites and completed house product.

BNZ economist Tony Alexander reports in his Housing Market Update *“Average house prices have now recovered 8% exactly since January and are only 4.5% down from their peak in late-2007.”*

He goes on to say *“There is a clear shortage of housing in NZ – as investigated by the Commerce Select Committee over 2008-08. Construction of new houses is at its worst level in four decades. Financing costs are at four decade lows. And net migration inflows have moved to above average levels with further gains likely”*. To see Tony's article [click here](#)

Consumer confidence reached a four year high in the September quarter – see Herald article [here](#) and just recently an article saying *“New Zealand's service industry recorded its strongest month in 20 in September, led by increased sales and new orders, providing more evidence that the economy is picking up pace after emerging from recession”*. See article [here](#). The demand for residential property has been building steadily over the past 2-3 months, but the development/construction industries are not yet in a position to meet this building demand. This is a result of a number of factors –

- The demise of a large number of developers and entrepreneurs, who have driven new projects.
- The time delay between converting an undeveloped block of land to a completed sub-division, which is still not helped by the Resource Management Act and council requirements.
- The fact that credit markets are tight, banks are currently going through a re-weighting of their lending portfolios – so still restricting credit.
- A large number of development financiers have left the market.

The cure to these issues is time, as the new entrepreneurs and developers emerge and new financiers come in to fill the gap.

Though vilified in the media, the finance companies filled an important role in this countries lending markets, in that they got a lot of projects underway which couldn't have got started without their funding. We must also bear in mind that there were a large number of successful projects financed by finance companies over the past few years.

So who do we see filling the gap left by the demise of Hanover, Bridgecorp, Dorchester's etc. We are now seeing the emergence of a new group of finance companies, who are financed via investment from high net worth individuals and bank credit lines. These companies will steadily expand their funding books, which will enable them to look at larger transactions.

There is also the re-emergence of the contributory mortgage structure as a financing mechanism, with 3 or 4 new entities having been formed in the last few months. The solicitor nominee and trustee lenders also appear flush with money, as investors choose deposit returns over and above those offered by the banks and government guaranteed finance companies. However, the large mezzanine development deals, which were financed by the likes of Bridgecorp and Hanover are a thing of the past, and the only opportunity available to get these underway in the medium term is entering an effective joint venture agreement with one or more high net-worth individuals or companies.

The positive vibe that has returned to the property market has meant that a number of these types of

investors are prepared to look quite aggressively at these projects.

Certainly the vibe in the market place is a lot better in October '09, as opposed to October '08.

Regards

Global Pacific Corporation Limited