

Input to your Strategy for Adapting to Challenges

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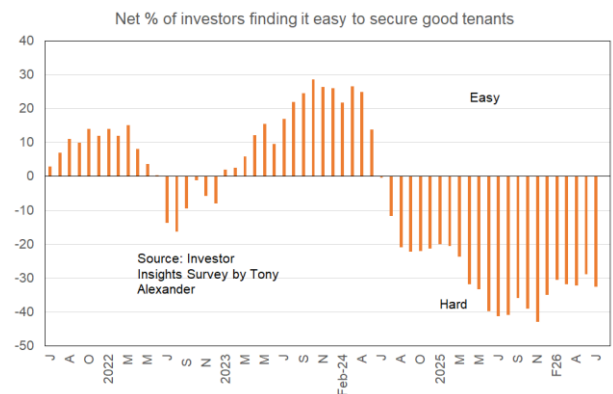
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Property investors still cautious

Because I've got nothing particularly interesting to say this week regarding where interest rates are headed (up slowly this year with the Reserve Bank likely not raising the OCR until September at the earliest), and because big data releases have been thin on the ground, here are the key results from my monthly survey of residential property investors. Enjoy.


I ask investors whether they are finding it easy or hard to secure a good tenant. Over the period from 2021 to the start of 2024 they mainly had no great problems apart from a brief period of difficulty in the middle of 2022.

But since mid-2024 landlords have solidly reported that good tenants are difficult to source. The latest result is a net 32% reporting problems compared with 29% last month and 43% at the end of 2025.




One day this situation will change. But for now with low population growth and an over-supply of townhouses often placed into the rental market for a while by developers, the situation is likely to continue.


This is why unsurprisingly the net proportion of landlords saying they plan raising their rents in the next 12 months fell away strongly in 2024 and remains subdued.




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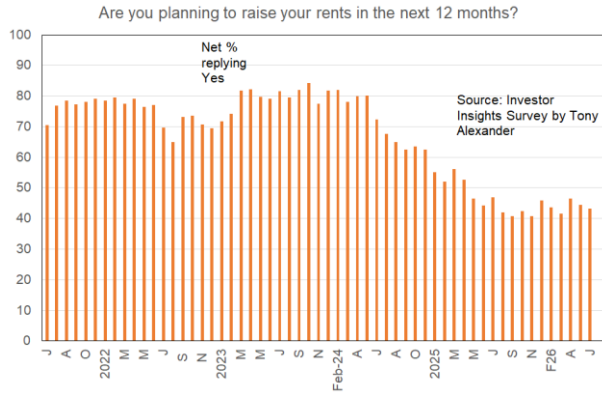
6.5% P.A.*
Projected Cash Return

MR APPLE
TENANT: OWNED BY AN NZX-LISTED COMPANY

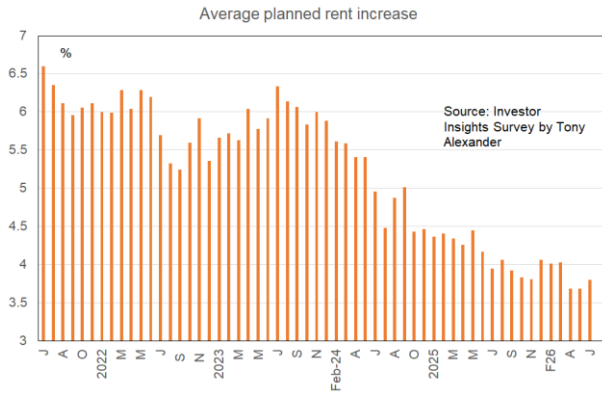
20-YEAR
TRIPLE NET LEASE (5+5+5)

Invested Here
First asset:
14 Groome Place,
Hawke's Bay

*Projected pre-tax return only is subject to change, and based on certain assumptions. Only available to "Wholesale Investors" under the Financial Markets Conduct Act 2013. Visit erskineowen.co.nz for further information.

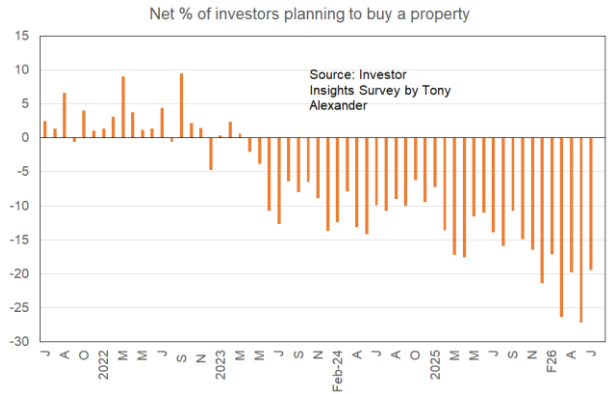


The average rent rise desired sits near 3.8%, down from 4.2% a year ago and 5.9% three years back. The latest small rise could be a statistical blip.



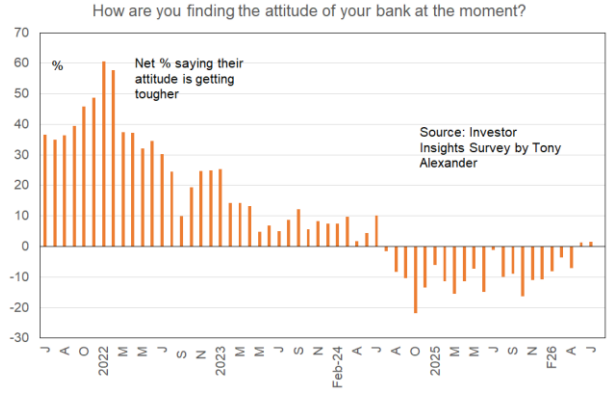
With regard to management of their portfolio a gross 34% of investors say they are thinking about selling in the coming year while a gross 14% say they are thinking about buying. I plot the difference in the following graph, and we get a rough guide as to net investor demand for property.

Net buying intentions turned negative early in 2023 and remain so.



From this monthly survey I get one of my gauges as to the availability of bank credit. I ask landlords whether their bank seems to have an accommodating credit attitude at the moment. A small net 1% in each of the past two months have said that they are getting a tad tougher.

As the graph shows this is a turnaround from the earlier period when overall investors were not facing major difficulties. It may be that banks are undergoing a process of focussing more on first time buyers.



I also ask investors about the things causing them concerns. As usual, the two top concerns are

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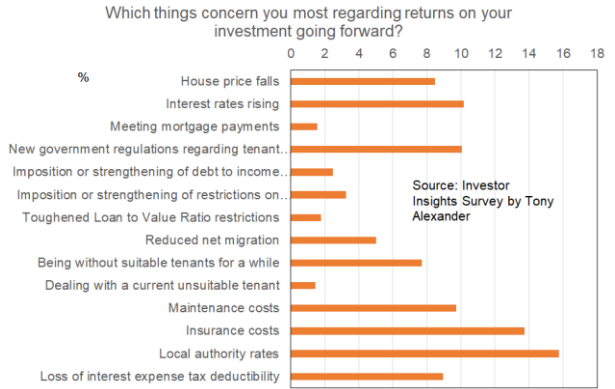
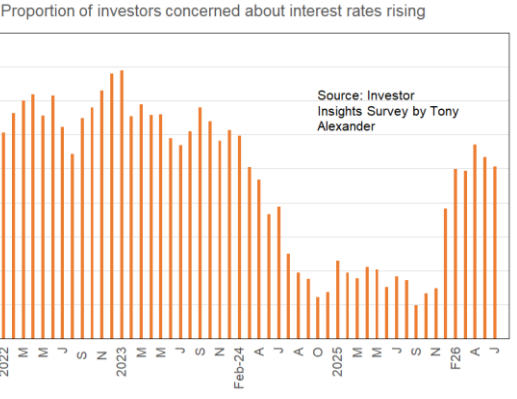


Ka Puta Ka Ora
Emerge Aotearoa

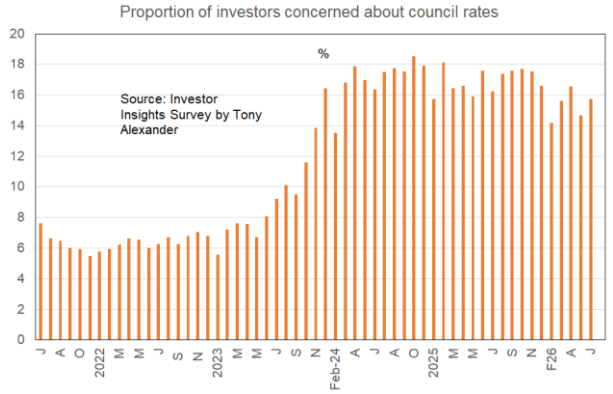


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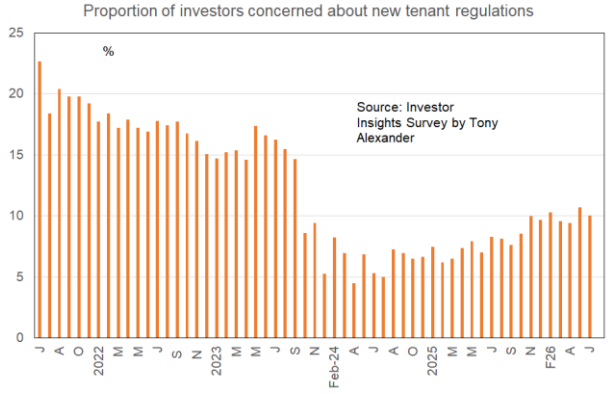
council rates and insurance. But it is near level pegging for number three concern between rising interest rates, tenant regulations (amidst worries about a change in government come November), loss of interest expense deductibility (again) and maintenance.



Worries about council rates jumped in 2024 and remain high.

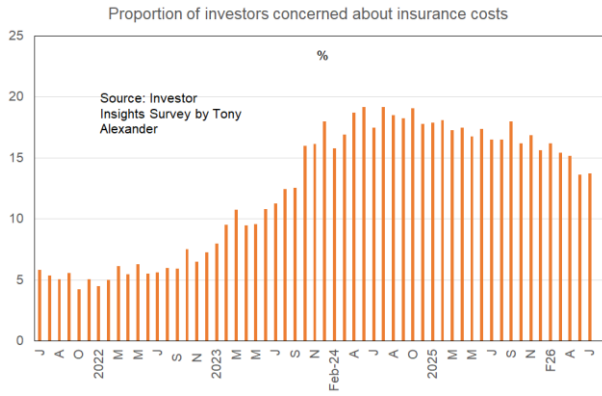


Concerns about tenant rules are trending up.

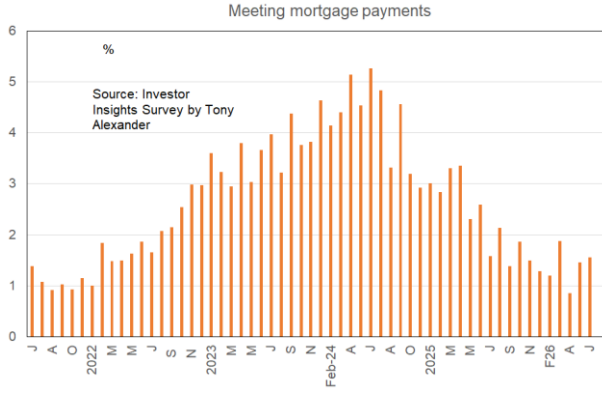


Concerns about insurance costs have been slowly trending down since late-2024.

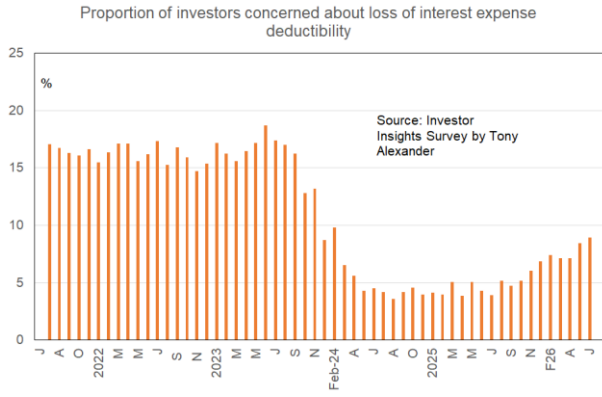
Interest rate worries have soared since December last year – initially associated with the expected impact of economic recovery, and then because of the US attacks against Iran.



Note over the past two months how there has been a lift in the proportion of landlords saying they have concerns about meeting their mortgage payments. This likely reflects the combined impacts of interest rate worries and difficulties securing good tenants.



A distinct change has been occurring over recent months in the worries which investors have about interest expense deductibility once again being removed should there be a change in government.



There were 204 responses in this month's survey.

Our economy is growing

In New Zealand many people embrace pessimism and believe that a great number of things are in crisis. They believe that the country and our society are fundamentally stuffed. I can't speak for society but with regard to the economy the pessimistic view is wrong.

The NZ economy has grown on average 0.7% a quarter over the September – March period. That equates to annualised growth of 2.8%.

The number of hours worked have grown on average 1% a quarter over the same period and that is important. Once businesses are confident about growth continuing, they will boost staff numbers which so far have improved only 0.6% over this recent three quarter period.

But that may not happen until the November general election is out of the way. That is why true strength in the residential real estate market is more a story for 2027 than this year. Job confidence matters a lot and for now people don't really have it.

If I were a borrower, what would I do?

The banks over the past week or two have cut their medium to long-term fixed interest rates in response to some falls in wholesale rates following declines in oil prices. While some might hope that this means the interest rates outlook is now relatively benign it would pay to remember that the underlying track for rates is upward.

Although the economy probably shrank slightly during the June quarter growth averaged 0.7% a quarter for the previous three quarters. That equates to about 2.8% annualised which is over 1% faster than our economy can easily handle without producing accelerating inflation according to the Reserve Bank.

Does this mean the Reserve Bank will definitely raise the official cash rate come the review next week? Not necessarily. The ANZ's monthly Business Outlook survey has just produced a fall

in the net proportion of businesses planning to raise their selling prices in the coming year to 51% from 57% a month ago.

The Reserve Bank has a bias towards tightening too late each cycle then eventually tightening too much. That bias means there is a strong chance they seize on the likes of the ANZ outcome to favour delaying things a bit longer in order to get a better feel for where inflation and capacity pressures are going.

It's a coin toss but I'll opt for no change next week.

If I were borrowing at the moment, I would still favour fixing three years.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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