

LOOKING TO SELL YOUR COMMERCIAL PROPERTY?

CALL / TXT

Bill: 021 743 464

EMAIL

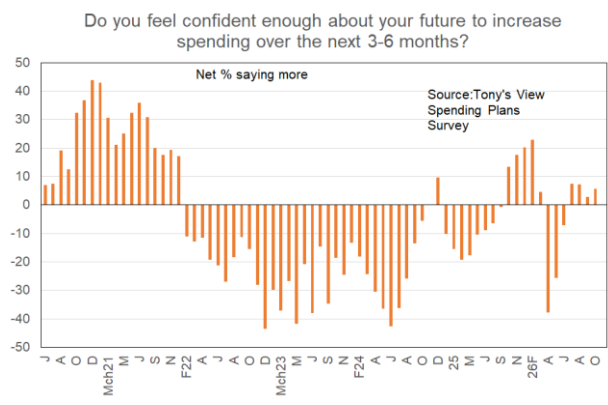
bill@jaxx.co.nz

**CONTACT
FORM**

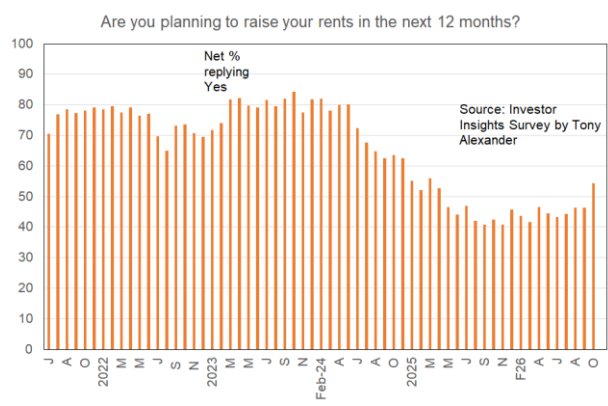
FAST DECISIONS

EXPERIENCED BUYERS

CONFIDENTIAL DISCUSSIONS



From my property investor survey (results out early next week) we can see increasing plans by landlords to raise their rents. But tenants remain in relatively short supply, and concerns continue about things like council rates, interest rates, insurance costs, and the risk of legislation changes favouring tenants at the cost of landlords.



There is an interesting increase in the proportion of the few investors looking to buy again who say they would favour a new-build over an existing property. But that could be a statistical blip, and I will await next month's results before saying anything firm regarding the growth in house construction currently underway.

Finally, from my business survey we can see that expectations remain strong for improved revenue flows next year. But deep concerns continue around the state of politics in the country and the underlying strength of the economy. Worries are growing about the low level of the Kiwi dollar, but plans are strong for investing in technology.



Taken together the surveys paint a picture of an improving economy but housing turnover activity and prices potentially remaining on the soft side for the entirety of the current economic growth period.

Note that the monthly survey of mortgage brokers which I have been running since June 2020 has ended. Response numbers have always been on the low side and have slipped below 50 which I set as a cutoff for continuation.

This development likely reflects the easing back of the residential real estate sector from the forefront of people's minds now that the various factors which propelled prices upward so strongly from the 1990s have now reversed or ended their structural change. That is, less business for brokers, especially as some banks are cutting them out of the process again.

In its various aspects the real estate transaction, advisory, and financing sector is reverting to pre-1990s settings.

With regard to the upcoming election, is there capacity for the rate of growth in our economy to be much affected by the outcome? Probably not if the centre-right win but if the centre-left grouping proves victorious then worries about increased taxes, government spending, and regulations may negatively impact on some sentiment and spending decisions.

But the underlying forces propelling our economy upward are unlikely to be affected – the likes of higher farm incomes, more tourists, more foreign students, more infrastructure spending, higher house building, and a cyclical lift in business investment and consumer spending.

Can one reasonably position one's activities and portfolio ahead of the likely outcome one envisages to occur? Maybe. But while one might take a view on which direction the vote goes – left or right – that does not give 100% insight into what the policy changes will be over the next three years.

It depends on the relative strength of the parties which form the coalition. The small parties and the two majors have learnt that if you want 99% certainty of policies being enacted over the term of the parliament you need to get them included in the coalition agreement. That means hard negotiations after election night, stretching them out for weeks if necessary in order to get a reasonable degree of what one wants. And the more parties in the coalition the longer and more volatile the process is likely to be.

The democratic voting process is still delivering us the ability to elect a parliament of our choosing. But formation of the government and the policies to be implemented by that government are no longer in our hands unfortunately.

If I were a borrower, what would I do?

This morning the September quarter inflation number was released, and it came in very close to market expectations at 3.7% for the year. That means minimal change in wholesale interest rates for the moment or expectations for how monetary policy will track over the coming year.

That also means I retain my concern regarding the following.

1. The Reserve Bank eased policy too much last year by cutting the cash rate to a low 2.25% while the economy was already growing at an annualised pace of 2.9% over the second half of the year.
2. Businesses have had their margins crunched and are likely to take advantage of the eventual return of customers in greater numbers over 2027-28 to raise their selling prices.
3. Extra inflation is set to run-through the system because of the new upward pressure on global fuel prices.
4. Extra inflation is also set to come from El Nino raising food prices and the AI boom pushing computer chip and electricity prices higher globally and feeding into the consumer goods pricing mechanisms.

5. The NZ dollar is tracking at lower than expected levels and that also means a bit of extra inflation.
6. There is a strong tendency at the start of an economic upturn for Kiwi forecasters to underestimate how strong inflationary pressures will be and how high interest rates will eventually get pushed.
7. Related to this our central bank has a firmly established record of easing too late then easing too much, then tightening too late and tightening too much.

Putting everything together I reckon the official cash rate this cycle ends up at 4.5% rather than the 3.25% - 3.5% commonly expected amongst analysts, in the markets, and by the Reserve Bank.

Or to sum it all up a different way – our central bank is predicting that as a result of the pace of growth in our economy accelerating to near 3%, productivity growth sitting low, and spare resources being used up, inflation will fall from over 4% and sit comfortably near 2%. Econ 101 says something different. Good luck borrowers.

If I were borrowing at the moment, I'd probably fix two years as the three year rate commonly on offer now looks a tad expensive.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. We strongly recommend readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. No person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation, or omission, whether negligent or otherwise, contained in this publication. No material in this publication was produced by AI.