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## Media Release

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# Property investment yields down, but optimism remains, says ANZ survey

Property investors are becoming more circumspect, although they continue to expect strong returns from housing in the medium-term, figures from the fifth annual ANZ Property Investors Survey show.

Conducted by Colmar Brunton on behalf of the New Zealand Property Investors Federation and ANZ, the survey canvassed residential property investors across the country.

One third of investors expect house prices to fall over the coming year, and another third expect house prices to be flat to 2.5% over the next year.  Collectively, 70% of property investor's expect house prices to decline or rise by less than 2.5 percent, up noticeably on last year's total of 24%.

ANZ Chief Economist Cameron Bagrie says that this still looks optimistic considering the current interest rate environment, global conditions and the marked increase in real estate listings across the country. House sales figures for March were down 52% nationally and 56% in Auckland.

Looking further ahead, over the next five years 69% of those surveyed expect price growth between 2.5% and 10%, broadly the same as last year.

"The majority of investors expect weakness in the market to be a reasonably short-lived affair, which appears at odds with the historical pattern of house prices remaining flat for four years following an upswing," says Bagrie.

Bagrie says that given the strength of the housing boom over the past six years and price of a typical house relative to the average wage, we should not be surprised to see house prices give up some gains, thus improving their affordability, and we can reasonably expect prices to flatten out for a number of years."

Landlords are expecting solid rental increases.  68% expect rents to increase by anything from 2.5% and 10% over the next year, and nearly three quarters are expecting rents to grow between 2.6% and 10% over the next five years.

"Facing more limited capital growth over the coming year, investors are naturally turning their attention towards the yield on the investment," says Bagrie.

"Unlike previous housing cycles there does not look to be an excess supply of houses so rents are likely to be biased up.  However, this is likely to be countered by flat net migration, and a slowing economy."

With gross rental yields around 5% and current fixed mortgage rates hovering around 9 - 10%, the biggest challenge for landlords is negative net yield, particularly in a flat capital growth environment. The number of investors reporting a gross yield under 5% has increased from 51% in 2007 to 65% this year.

"Clearly landlords are under increasing cash flow stress and it's hard to see this situation changing soon," says Bagrie.

Managing Director of ANZ Retail Banking, Wayne Besant, says that landlords should be thinking hard about their strategy going forward to maximise returns. "Investors will be looking at things they can do to retain tenants for longer, investing in minor dwellings or enhancing their property's appeal in order to receive a premium rent."

There are indications that some landlords are mindful of how the market has changed – those who bought properties in the last year dropped to 40% from 49% in 2007.

As expected, intentions to buy have dipped, but a hearty 39% of investors still plan to buy in the next 12 months, compared with 49% in 2007.

Besant says that as some investors seek to exit the market because of lower yields and high interest rates, this represents opportunities for others.

"If investors have the equity and cashflow to sustain losses over the short to medium term, there are returns to be made over the long term. Ultimately an investor's return is about the buy price and rental income. As the market cools investment fundamentals will slowly gain traction."

Similarly investors are nervous about what changes the Government might make, with 30% seeing regulation as a major risk. Changes to tax and loss attributing qualifying company (LAQC) rules was of particular concern, as was ring fencing of rental losses.

Martin Evans, president of the New Zealand Property Investor's Federation, says that the survey shows that property investors are realistic about the current property market conditions and don't expect yields to change much in the foreseeable future.

"They are hoping for some relief through rent increases which have lagged behind increases in outgoings. They are also concerned the impact new legislation would have on their investments and see the importance of advocacy and lobbying undertaken by the NZPIF," he said.

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