INVESTOR INSIDER

April 09 Newsletter

Property Brokers LTD

Firstly apologies for the length in getting this newsletter out as we have had a particularly busy commencement to the year. I was recently interviewed by the New Zealand Property Investor magazine for an article on cash flow positive properties. Palmerston North features in the top ten suburbs in all of New Zealand for cash flow positive suburbs. Only Flaxmere in Hastings comes higher than Palmerston North for locations outside of the main centers in New Zealand This appears in this month's addition (April 09). Below is the full interview.

What's driving the cash flow positive territory in these areas?
Probably the same as every area. Low interest rates combined with falling house prices and rents which have shown a steady increase over 3 years but this has now started to slow.

What is going on in this area regarding prices and rentals?
The central area has seen rents hold and I do not believe that rents will increase in the near future. At the start of the year we had a large supply of empty rentals on our books. These have now been rented but what it does is cause a price war.

Is there a shortage of rental property available?
There is always a shortage of good quality properties that are suitable for families. However saying that we have seen a lot of people look at renting out their houses rather than selling them as they do not want to sell at a loss. This has seen a large supply of properties come on the market. With banks becoming more prudent with whom they borrow money to, less potential first time buyers are in a position to raise enough capital for a deposit so they have to resort to renting. The vast majority (over 50%) of homes rented are three bedrooms.

Are rentals going up or stable. If going up, by how much?
Rents have stabilised.

Do you expect this movement to continue and why?
I do not see rents increasing for about 12 months until we see the full effect of the global recession and what impact it has on NZ. It is a case of batten down the hatches and ride out the storm. I am advising owners not to be too greedy and if you have good tenants look after them. Rents are more in line with what people earn rather than house prices akin to what amount of debt can we borrow. With unemployment likely to increase over the next year and companies becoming more prudent people's income will not increase and this is why rents will hold.

Should investors exercise caution in light of the volatility of interest rates?
In my opinion investors should always exercise caution. Do your sums and add a couple of % points on your mortgage payments as worse case scenario. In two years time interest rates could be on the rise again. Look at the net return rather than the gross and do your homework.

Is it easier to find properties in this area that are returning a positive cash flow?
Positive cash flow properties are out there for sure. With interest rates likely to come down again this will only increase.

How do you recognise positive cash flow when you see it?
Properties such as units and student flats are your cash flow positive properties. Student properties will offer good returns but you have to know what you are doing. Get it wrong and your property could be vacant for a long time and could lead to financial hardship.

The bedrooms have to be large and students are getting fussier. Heating, insulation, parking, size of common areas, security and internet access all influence how desirable a property will be.

What's best – houses/units/apartments? New or old…why?
This depends on your long term strategy. House and units are good but I tend to stay away from apartments as there is no land value to them. New is better as heating and insulation is generally better.

Give some scenarios i.e. prices/rentals…which areas look best?
For cash flow properties, central is better as all the students and professionals like to based close to public transport, shops and restaurants. Areas Massey side of the city are more popular.

Any advice?
Do your sums on worst case scenario, (vacancy, rates, insurance, R&M) if the sums add up then it should have potential. Do your homework; look at what prices are being charged. Before buying a property ask yourself who will rent it and why.
Are those who chase positive cash flow sacrificing high rates of long-term capital growth to boost their short term cash position? Or can you have both in one property…in the long run?
You can have probably have both if you look hard enough but generally yes I think long term capital growth will be much less on a property solely purchased for cash flow.

Are many investors taking up these opportunities?
More investors are looking. It has been very quiet with investors until now. The business we have picked up is through people I define as 'reluctant landlords'. Those forced into renting out their homes as they do not want to sell at a loss.

Can you give some indication of numbers that you know about?
Nothing definite, just the increase in calls from people looking for advice. Also some of our client base have been out and bought more properties.

Who are they - are they new entrants or people returning to the market?
Mixture but in my opinion there are more experienced investors with capital are going back in.

What kind of activity is happening there? How many buyers?
Our sales team tells me that they are selling more properties than 12 months ago and statistics from REINZ back this up.

What will this return to cash flow positive territory mean for investors who are struggling?
Long term drop in interest rates is more the key to investors who are struggling. Some people may still be stuck on interest rates at +9%. Until these expire then they will still struggle.

Market Rent I have covered a lot of what the market is doing in the interview with NZPI magazine. Below is an updated graph on market rent for a three bedroom property in Palmerston North.

	Apr 08	May 08	June 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09
Northern	$250.00	$260.00	$255.00	$267.00	$260.00	$262.00	$255.00	$260.00	$260.00	$270.00	$260.00
Hokowhitu	$272.00	$280.00	$295.00	$290.00	$325.00	$255.00	$275.00	$265.00	$290.00	$270.00	$300.00
Central	$270.00	$250.00	$260.00	$275.00	$280.00	$250.00	$290.00	$250.00	$280.00	$255.00	$280.00
Southern	$260.00	$270.00	$260.00	$257.00	$260.00	$270.00	$270.00	$267.00	$270.00	$255.00	$270.00
Average	**$263.00**	**$265.00**	**$267.50**	**$272.25**	**$281.25**	**$259.25**	**$272.50**	**$260.50**	**$275.00**	**$262.50**	**$277.50**

The graph below indicates the number of bonds lodged per property type of the last year.

	Apr 08	May 08	June 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09
1 bed	**52**	**13**	**16**	**34**	**30**	**32**	**9**	**20**	**26**	**32**	**35**
2 bed	**130**	**90**	**70**	**99**	**84**	**88**	**87**	**79**	**94**	**79**	**105**
3 bed	**145**	**106**	**83**	**110**	**101**	**108**	**126**	**107**	**129**	**109**	**126**
4 bed	**53**	**35**	**29**	**56**	**35**	**31**	**55**	**37**	**68**	**39**	**51**
total	**380**	**244**	**198**	**299**	**250**	**259**	**277**	**243**	**317**	**259**	**320**

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