Residential Investment

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Vance Winiata & Co Ltd is a Property Valuation and Advisory company servicing the rural, residential and commercial markets.

How safe is your residential investments in uncertain economic conditions?

We have just experienced one of the steepest falls in a typical 7 year economic cycle.

The slowdown in the New Zealand property market and declining house prices can be attributed to the steep rise in interest rates and that a high proportion of gross earnings going towards debt servicing.

New Zealand's property market demise is therefore not only the result of sub-prime lending as is the case in the US which has had a flow on affect to risk margins for our lenders, but rather the consequence of over-borrowing.

The problem is a result of undisciplined borrowing and lending.

A large proportion of the consumer income goes towards debt servicing and this is often exacerbated by job losses.

What to do?

If the residential market prognosis is short-term and you can afford to subsidise ownership shortfall in revenue, then the advice would be to avoid selling and to hang in there, tighten those purse strings and cut expenses wherever possible. Hopefully this period will only last for a year or two – i.e. through to the end of 2009.

However, the problem is still manifesting, so it is uncertain how long it will take for confidence to come back into the residential property market. This would be indicated by a rise in demand and better returns on rental properties. But this also assumes that there will be no further interest rate hikes and that the employment market starts improving, offering job security.

The big question.

The pressing question is when you come to renegotiate your debt, should you float or fix. If you adopt a fixed rate – on what term? The key is to make sure that everyone concerned understands your affordability plan and that it is self sustainable.

Remedies for the investor

The real problem remains that it is not possible to predict exactly what will happen during the next two years. Investors who are feeling the pressure have the following options to consider:

1. An investor can elect to hang in there and find ways to consolidate his/her debt and reschedule payments over a 2 - 3 year term.
2. Generate additional income by holding a second job.
3. Rent out your property and move back 'home' or find cheaper accommodation, thereby supplementing the difference between rental income received and expenses.
4. As a last resort, find someone who will share the cost or bring in a partner.

Always seek good advice

If you are in this kind of trouble it pays to get good advice and have your property correctly valued by a professional registered valuer.

Mauri ora kia tatou

Vance Winiata
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