

New Zealand Real Estate 2007 : Prices are Still Climbing

By Rhiannon Williamson

Consider this - *December 2005*: the world's property experts are predicting that 2006 will be a bad year for New Zealand's housing market because affordability has gone from the market, first time buyers are inactive through an inability to afford to buy and interest rates will have to rise to cool the overheated property market.

And consider this - *December 2006*: despite the fact that average house prices grew by well in excess of 9% in 2006 the market is overheated going in to 2007, interest rates will rise and next year will be a bad year for property investment in New Zealand...

Yes, it's been the same story for two years in a row, apparently New Zealand's property market has reached the point where it is over priced and where market movement is now restricted because no one can afford to move or enter the marketplace.

But what about the fact that month on month, year on year prices are still climbing? Albeit at a much slower rate than they were a few short years ago – but they are still climbing...and the reasons they are climbing include the fact that demand remains high across the country, there is annually an inward migration of professional and affluent international expatriates seeking employment and citizenship in New Zealand who bring new money and interest to the market, and tourism numbers in New Zealand are growing unabated.

All of these factors and more will mean that in 2007 the property market in New Zealand can and will bring an investor profitability in terms of rental yields and underlying price growth, and that for the longer term New Zealand's residential market place is a great place to invest.

The only potential fly in the ointment is the fact that the Reserve Bank of New Zealand are considering again pushing interest rates higher in a bid to slow the property market, reduce speculation and reduce inflation - and this risk is real and it could lead to a slowing of the market from 2007 onwards.

But a slowing of the market does not remove an investor's ability to profit! The key to making a profit in New Zealand is being clear from the outset about the investment approach an investor is taking. For example, an investor buying to let to the tourism market will be seeking a different type of property in a different area to an investor who prefers to purchase stock in an up and coming area that is currently undervalued compared to its predicted value when infrastructure or employment prospects have improved in the immediate vicinity.

Understand that there will be room for price expansion and strong demand for property stock in New Zealand in 2007, but also understand that you have to think carefully about what you buy and where you buy and the investment approach you are trying to take.

In a softer market like New Zealand's it is harder to make a profit but it is certainly not impossible. Here are two examples of how to profit: -

Buying to Resell – In Auckland average property prices are currently in the region of NZD 446,000 – but at the lower end of the market there is a new wave of first time buyer interest which is being fuelled by a number of banks which have eased mortgage lending criteria. This new consumer base provides an investor with a great opportunity. They can consider buying up auction stock or the worst properties in a particular area where there is a definite reason to reside – such as transport links or good school - and then renovate properties and resell them back to the first time buyer market.

Remember, target who your buyer will be, examine what their affordability restrictions are and what they will be seeking for their budget and then provide them with what they want.

Buying to Let - A very good alternative for an investor looking at property in New Zealand is buying for the rental market and this alternative becomes more attractive in 2007 when Building Issues Minister Clayton Cosgrove should have his comprehensive series of legislative amendments to previous tenancy acts enacted. His changes will make the entire rental market safer and fairer for both landlords and tenants from 2007 so an investor can have even greater confidence in the rental market which is already expanding rapidly due to the fact that there is an affordability issue affecting many first time buyers meaning there is greater demand for rental accommodation across the country.

Basically New Zealand has a mature real estate market where profits will continue to be made if those buyers looking to enter the marketplace in 2007 look carefully at what their target market wants and then ensures they are not buying over inflated stock in areas where demand and affordability are dwindling.

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