

Farewell 2011

And so the end of 2011 approaches in almost sudden fashion; we all knew it would but somehow not this quickly. All the diversions like the Rugby and Elections provided the smokescreen.

Actually I am not sad to say 'au revoir' to the year, it's been a hard one to get through in one piece; good to have the Cup and good to have stable Government (?) if indeed we do. These are deeply fraught times, the stability and steadiness of the Government has seldom been more critical.

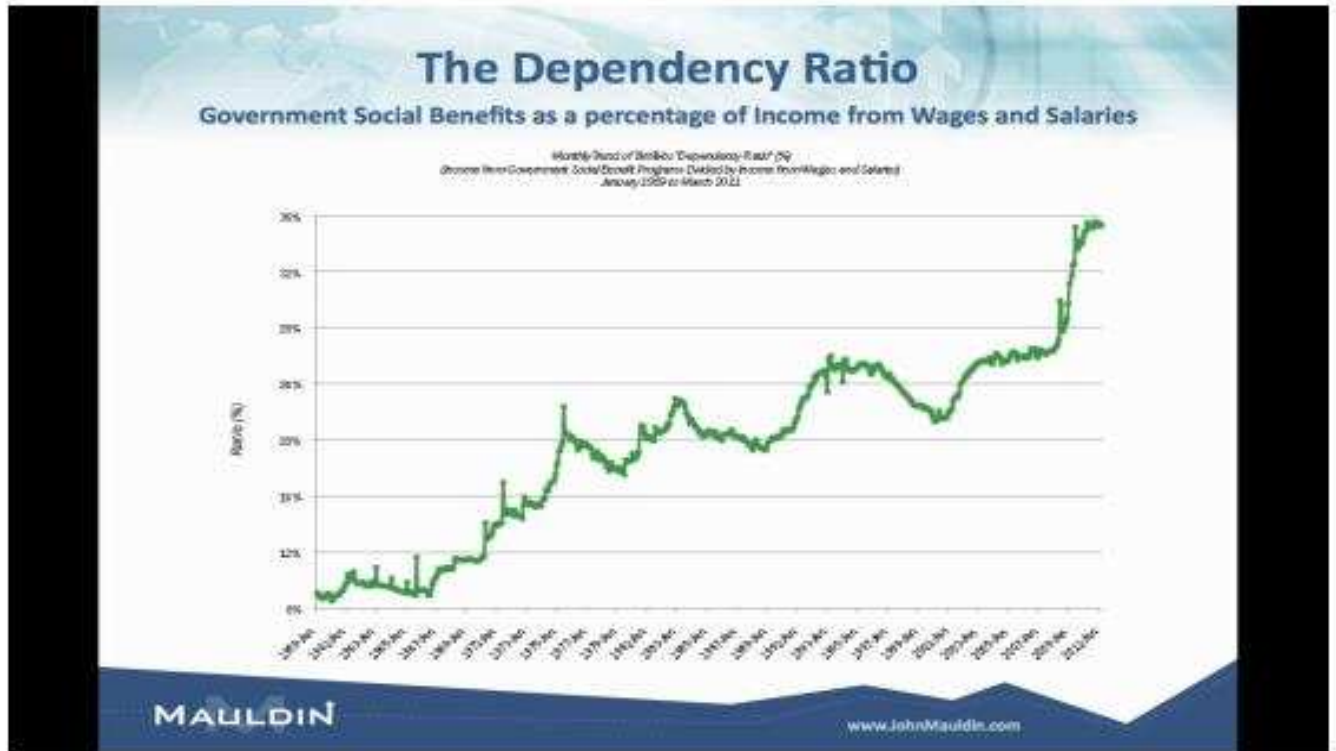
I pinched the following from a circular email, the observations seem appropriate to me:

- 1. You cannot legislate the poor into prosperity by legislating the wealthy out of prosperity.*
- 2. What one person receives without working for, another person must work for without receiving.*
- 3. The government cannot give to anybody anything that the government does not first take from somebody else.*
- 4. You cannot multiply wealth by dividing it!*
- 5. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that is the beginning of the end of any nation.*

Food for thought isn't it?

I do read and enjoy the John Maudlin newsletters and have often referred to them in these emails. His information is obviously USA based but I am confident that the same trends, and in all probability %ages apply to our economy.

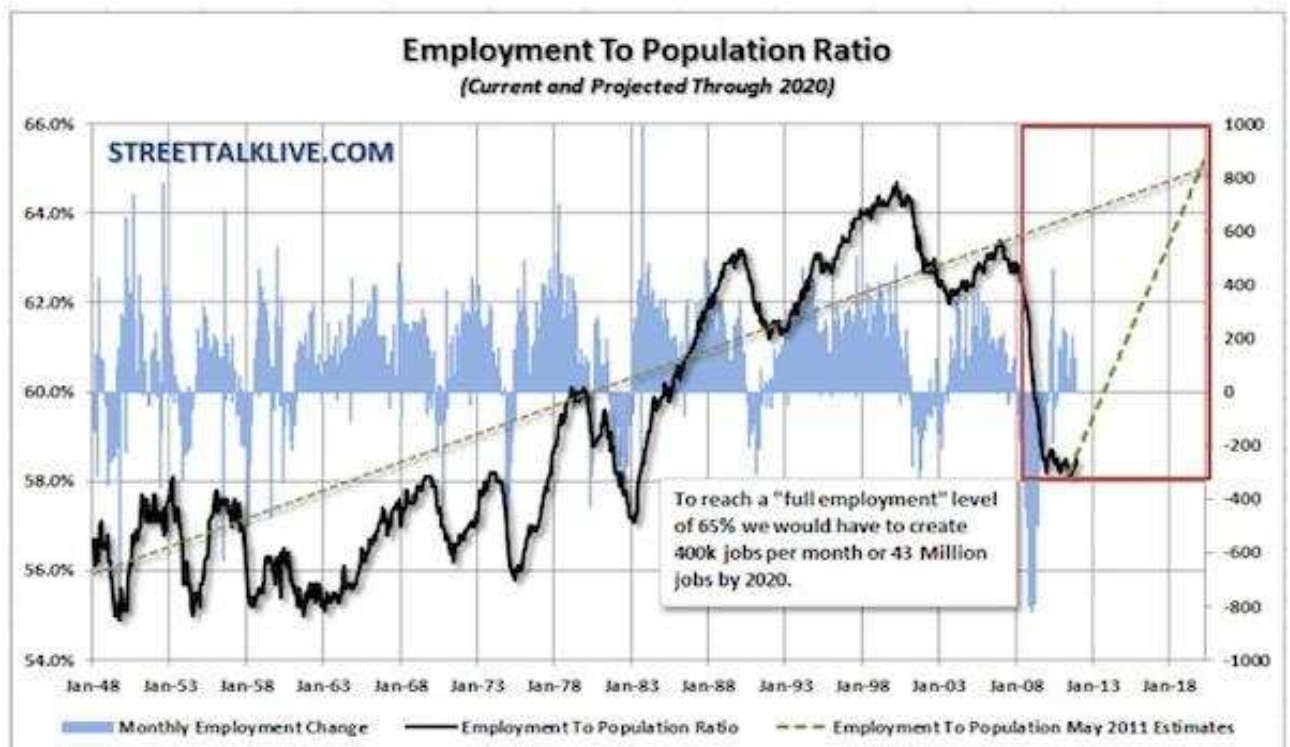
To gauge the performance of our Real Estate market we first need to identify where our country is heading, in light of the above consider the graph below depicting the increasing real cost of welfare dependency to the US (and to us); and further the degree to which that dependency is a handbrake to progress.



(John Maudlin, Frontline thoughts.)

Interesting, benefits as a %age of income from wages and salaries has risen from approx. 8.5% to almost 36%, huge!

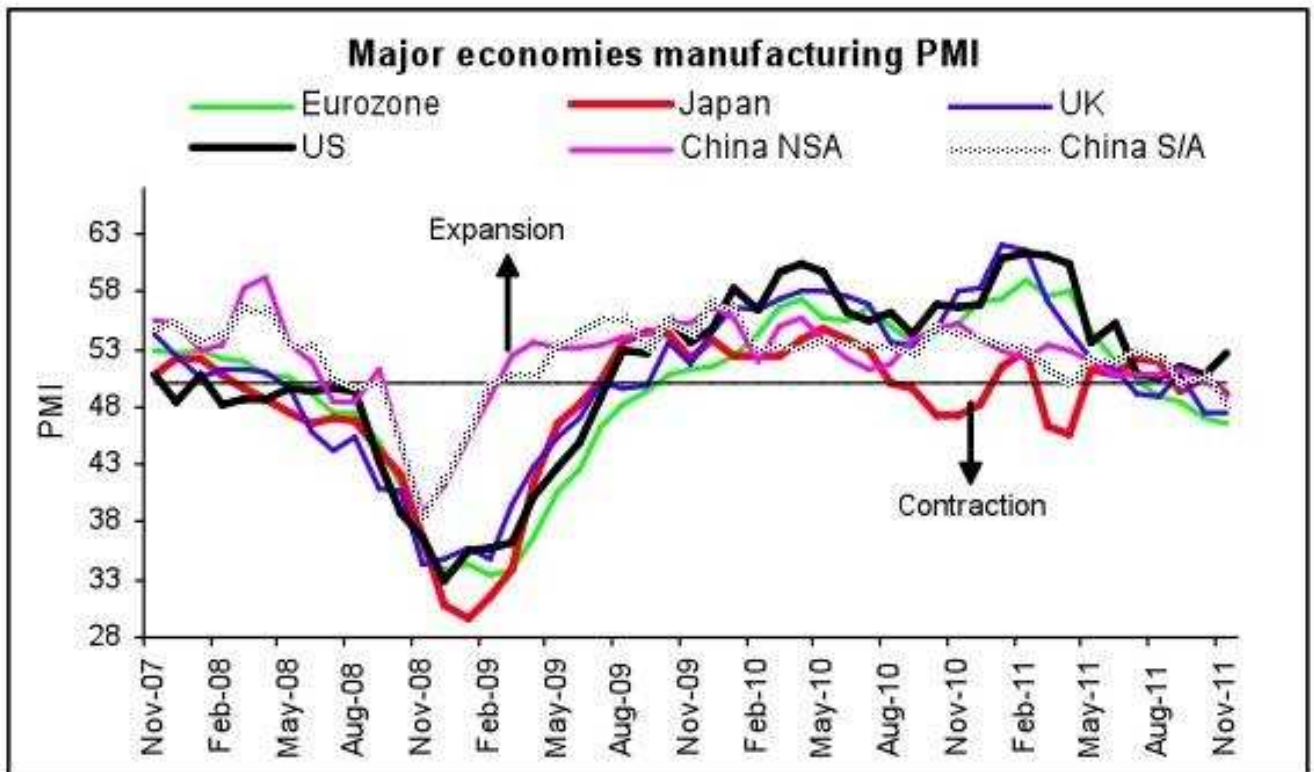
The next graph depicts the degree to which a diminishing portion of the population is actually employed, as well as depicting just how many jobs a month need to be created to put the US back on track with full employment by 2020 – a massive 400,000 a month, particularly given that the US is running at about 120,000 a month at present and further that a lot of those jobs are ‘low quality’. (Sounds familiar, applies to us here too.)



(Street Talk Live, Houston.)

That the same, or very similar, situation applies in Europe is a given and really probably varies only by degree as you go from country to country. The dependency ratio in Greece is doubtlessly higher.

The primary income sources for nations are Tax on earnings and earnings are a factor of GDP. Manufacturing Production numbers (PMI) reflect an economy as well as any other indicator and below is a graph of PMI indicators of the major economies of the world:



(Plexus Asset Management, South Africa.)

(Seems only the US is headed northwards at the present time.)

We are lucky to be in these parts; I do believe we will escape the worst effects of any recession that appears. The potential ability to acquire relatively risk-free shares, the on-going international demand for primary product and proteins, houses maintaining and/or increasing in values should all combine to generate a sense of security in the population. Christchurch will eventually kick into gear and contribute to the GDP and an increase in jobs.

We are blessed to the max to enjoy excess water; I believe we will see the development of a huge export business in this commodity and development in the sales of minerals and ores as demand for social amenities and services increases. The fact is that the income base needs to be grown; new businesses and industries founded, worthwhile and productive jobs created because taxpayers are exhausted and tired of being flogged. American figures again but true in NZ for sure:

“The top 1% of U.S. taxpayers pays 38% of all individual federal taxes. The top 10% pay 70% of all taxes, the top 25% pay 86%, and the top 50% pay 97%.

That leaves the bottom 50% of all taxpayers paying only 3% of the total.

About half of Americans pay no federal income tax, and almost 25% pay no federal taxes at all.

The average federal income tax rate for the top 1% of Americans is 23% (and for the top half it's 14%), while the average rate for the bottom half is 3%.”

So true, after all the benefits bestowed by previous administrations half of the NZ pop. Pay no tax either. Talk about pay a fair share! Support of little business and

entrepreneurs are an essential Govt. focus; without these traditional sources of growth and employment there will be no significant recovery.

Bernard Hickey, the arch-naysayer about matters real estate, was this past weekend waxing lyric and recommending the purchase of rental investment property! Go figure, I am sure his tongue was firmly in his cheek but the point was valid; his article was reinforced by a comment on the rapidly increasing shortage of available rental property; now there's a surprise. Latest figures for new home starts are at a ten year low, expectations are for a prolonged period of low interest rates, and whilst immigration is only marginally increasing today expectations are that we will again see average levels of net growth. Pressure on housing will continue to be strong; comment that we are in a bubble similar to that experienced by the US ignore the huge oversupply that predated their bust, rather we have an existing shortfall.

All in all I expect we will stumble on through 2012 and, with all the incremental domestic growth factors combined with the benefits of alliances we enjoy with Aussie, China and India we will continue as we are and will prosper.

Mr Hickey is right in that this is as good a time as any to invest in property as a home or as an investment, few new homes are under construction and the costs of building are on a rocket. I am aware of significant increases resulting from Council charges and the ripple effect of the leaky home catastrophe; designer fees up from \$8-10,000 to over \$20,000, engineering fees a similar tale as pages of additional drawings of scores of minute construction details are demanded, over-building as Council seeks to avert any and all risk; anyway costs will only continue to rise.

I wish you all the very best that a New Zealand Christmas holiday has to offer; Sea, sun .sand, good food, good friends together with lots of love and laughter.

Be safe, be well and be here to enjoy 2012 and the privilege of Kiwidom, talk to you then.

As always, I am happy to chat about any matters real estate, the coffee is always on.

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