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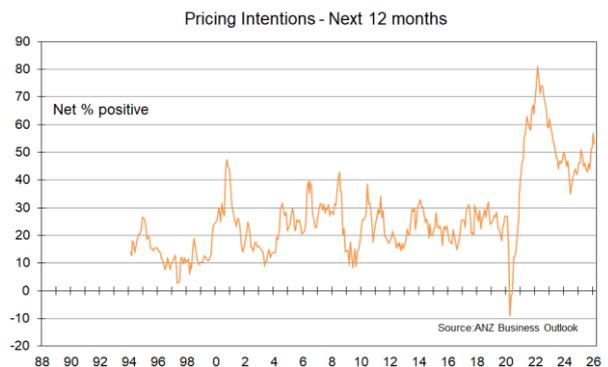
Investors in short supply

This week ANZ released their monthly Business Outlook survey, and the results don't tell us anything particularly new about where the economy is headed. But it's a good survey so here are the main points.

A net 59% of businesses expect the economy to improve in the coming year and a net 53% expect their own activity levels to improve. These are strong readings not much changed from recent months.

A net 22% expect to hire more people and a net 25% plan more capital spending. These results are well above average and tell us it is reasonable to expect labour demand to pick up this year and businesses in the likes of the engineering and construction sectors to be busier.

A big problem however remains. A very high net 79% of businesses expect their costs to rise in the coming year and a net 53% plan raising their selling prices.



This latter gauge is well above the average 26% consistent with inflation averaging 2.4% since 1992. Worse, average expectations for where inflation will be in a year's time lifted to a one and a half year high of 2.93% from 2.77% a month ago.

These numbers remind us that inflation in the NZ economy is not dead and it is reasonable to expect that as the economic upturn strengthens more businesses will look to raise their selling prices. Add in the likes of coming 7% increases in electricity prices, possible higher domestic air travel fares, and rising council rents, and we get a



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worrying outlook for inflation and eventually interest rates.

For now however there is little chance that the Reserve Bank will act against the coming cyclical rise in inflation, and in fact assisted by some falls in US rates wholesale borrowing costs have eased a tad here and banks have cut their 3-5 year fixed mortgage rates slightly.

Strong property listings continue

Back in the Reserve Bank-driven boom days of 2021 in the middle of the year the number of properties listed for sale stood at fewer than 13,500. Stock levels rose quickly over the latter part of 2021 and through 2022 as interest rates rose and a credit crunch was imposed from about October 2021.



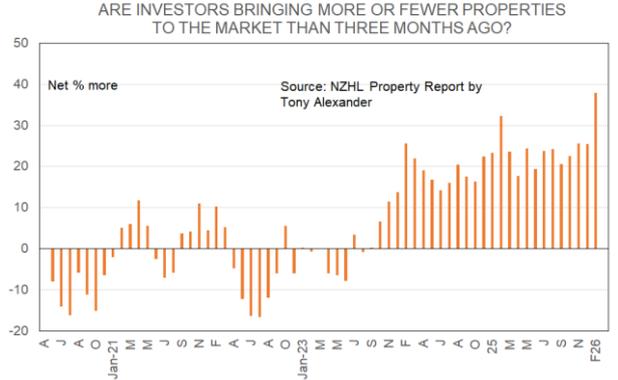
Stock levels edged lower during the first part of 2023 as first home buyers entered the market to take advantage of lower prices, credit availability, good savings, and high stock levels.

But then from mid-2023 stock levels started rising again to eventually reach around about 33,000 in

the middle of 2024 where they have sat ever since.

Where did the extra stock come from in mid-2023? Investors looking to quit their holding. This is best seen in results from my monthly survey of real estate agents undertaken with sponsorship from NZHL.

This next graph shows the net proportion of agents saying that they are seeing more investors looking to sell. That net proportion jumped up mid-2023 and has been slowly trending upward ever since.



Now, if you have actually looked at the graph above, you will have noticed that to the far right the latest observation has shot skyward. My latest survey which has been run this past week shows a net 38% of agents say they are seeing more investors looking to sell. Why this big jump?

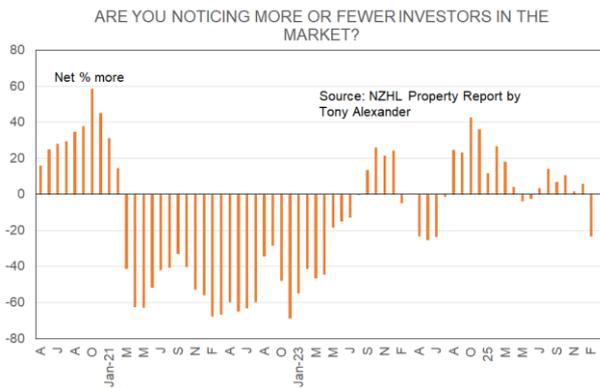
Probably because popular media have now cottoned onto the development I've been highlighting for two years now that some investors are wanting out. A few people may have read my recent OneRoof column noting 16 reasons why the role of some smaller investors in the market will now be much less than has been the case

since the middle of the 1990s. Since then at least two high profile commentators in the daily newspapers have discussed the structural decline in investor demand.

Or the result could be an outlier – which is what I initially thought when the first results came in on Friday 27 and over the weekend. So, on Monday I sent the survey link out again and invited agents to click it if they had not already done so.

Ahead of the Monday sending a net 43% of agents said more investors were looking to sell. Of the results received from immediately after I resent the link a net 31% said more investors were looking to sell.

The result does not appear to be an outlier but the initial 60% or so of responses were slightly more negative on investors selling than the latter group. The latter group however had a more negative view on what prices are currently doing. Some existing investors are looking to place their funds elsewhere. Also, a net 23% of agents say that they are seeing fewer investors looking to buy.



I also had a look at the written comments I invite agents to give about conditions on the ground in their area. From these I picked out all comments about investors. If there were far more than usual, then I might say there was a downward bias in the investor results because agents were heavily focussed on this weak area.

But that is not the case. Here are all the investor comments submitted and there are not many.

- Investors are increasingly reviewing their rental portfolios as market conditions shift. With rents softening and growing competition from government-backed social housing providers offering lower rental rates, many private landlords are finding it difficult to compete. As the rental landscape evolves and the government becomes a dominant presence in certain areas, some investors are considering to get out while they can.
- I have long time Investors selling.
- We are seeing a number of investor landlord's exit the market, some of those are coming out of their Bright line test, or at the age of retirement and cashing out.
- I manage family rental portfolios. The property owners need to reduce complexity at their time of life and are looking to liquidate their portfolios.
- Investors are looking long term and more for cash flow than capital gains.
- A flood of first home buyers but also noticing a noticeable upswing in investors competing with them. (Christchurch)
- Investors seem keen on the South too especially from up North. (Dunedin)

So, not all negative and not numerous.

For first home buyers this is all fantastic news. Less competition in the price range they typically look at from investors, and increased low-end price supply as some investors look to sell. Plus one should note that the investment properties being sold probably have been improved to meet the healthy homes requirements.

Note that I use the word “some” when writing about investors pulling back. There are still plenty of people happy to hang onto the investment properties which they already have and to buy some more. But the froth of less-informed FOMO-driven Mum and Dad investors has ebbed substantially and those enmeshed in the industry note there is now a greater focus on cash yield than potential capital gains.

If I were a borrower, what would I do?

There has been some mild upward pressure on wholesale interest rates this past week courtesy of US rates rising in response to the war in the Middle East. Fears of higher inflation from restricted oil flows are the main culprit and we will just have to wait and see how things pan out before making any strong statements regarding implications for NZ monetary policy.

My position remains the same. The Reserve Bank tightens too late then tightens too much, then they ease too late and ease too much. They eased too much taking the cash rate to 2.25% last year as data show the economy was already turning firmly upward.

Now, they are likely to be grabbing onto any excuse they can find not to tighten. The potential dampening impact of higher oil prices on growth and sentiment may be what they focus on now.

Whatever the case, for the moment it is unlikely that we will see any big changes in wholesale interest rates or the flavour of comments coming from the RB unless something truly major happens with events offshore.

If I were borrowing at the moment my personal preference would still be the three year term.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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