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Listed property stocks set to soar

Monday 28 September 2009

Listed property trust shares are set to soar if New Zealand enters a sustained period of inflation, according to NZ Funds Management.

In an inflationary environment few asset classes do better than property. NZ Funds research shows there is a very high correlation between inflation and property.

Chief investment officer Michael Lang says in the last couple of years investors have been focused on protecting their capital and guarding against the ravishes of deflation. But the future of investing will be all about guarding against inflation as the government prevents the economy from being stifled by keeping interest rates low.

"Property also performs in line with a rising sharemarket during periods of low inflation so it is a "win-win" investment. Global inflation peaked during the periods 1945 to 1948, when it was 9.60% annually, 1972 to 1982, when it was 8.90% annually and 1989 to 1990 when it was 5.60% annually.

"For almost two years now property as an investment has hit the headlines for all the wrong reasons, which is exactly why it makes sense to look at it now," Lang says.

Its attractive attributes include the certainty of its business model and that a large proportion of returns are derived from yield which is relatively stable.

But not all property will be a good investment.

"The first distinction investors need to make is between unlisted and listed property. Buying either a rental property or commercial property is not an investment proposition, it is a business proposition," he says.

"Investors who buy property directly or through a syndicate expose themselves to all the risks of property investing." This includes tenant risk, property price risk, interest rate risk, bank covenant risk and liquidity risk - in a highly concentrated manner.

"If anything goes wrong it might take six or more months to sell your property or longer if you are part of syndicate. This means the normal risks associated with property investing get put on steroids if things go wrong," says Lang.

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Reserve Bank Governor Alan Bollard held the official cash rate at 2.50% today, as expected, and reiterated his view that the rates will stay low until the end of next year.

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