lmi housing outlook

New Zealand
Prepared by Infometrics Ltd
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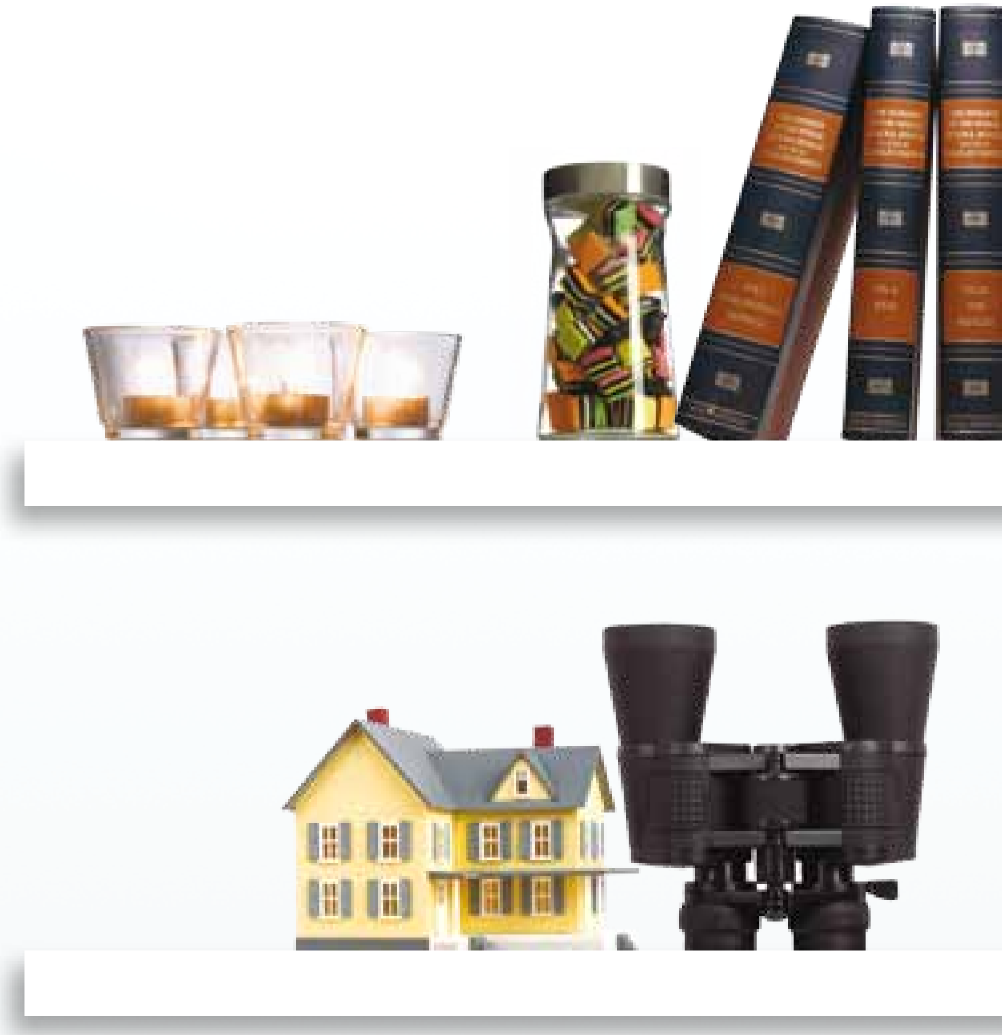

QBE

lmi housing outlook

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introduction

Welcome to the latest QBE LMI Housing Outlook for New Zealand, exclusively compiled by leading business researcher and forecaster Infometrics.

Since our previous report in 2009, the New Zealand economy has recovered from the global financial crisis and recorded modest growth, expanding by an average of 0.5% per quarter.

Most importantly the Government has introduced a number of significant tax changes which has led to a much less optimistic outlook for the housing market than what we presented one year ago. The policy changes which are outlined in this report could contribute to a 4.1% reduction in house prices by June 2011. This is far removed from the growth in property values of almost 10%pa that could have occurred in the absence of the tax changes.

Although property prices are expected to be weaker in the near term, consumer spending has recovered and real disposable incomes are forecast to rise by 5.6%pa over the two years to June 2012. The unemployment rate has also stabilised and is expected to improve to 5.3% by June 2011.

The forecast drop in house prices combined with improved unemployment and accelerated growth in household income has improved overall affordability and will continue until late 2011. These are compelling factors for buyers to still enter the housing market, particularly first home buyers. Those buyers that enter the market over the next 18 months are likely to see substantial price growth in their purchases with a moderate pick up during 2012 and a projected lift to 10%pa by mid 2013.

QBE LMI has been supporting the New Zealand mortgage market for over 22 years. We continue to be committed to mortage lenders, giving them the security and confidence to be responsive to the changing needs of New Zealand residents and offer higher Loan to Value Ratio (LVR) loans both now and in the future.

I trust you will find this report informative and its forecasts insightful into what we can expect from the Government's tax changes and the likely outlook and impact on the New Zealand housing market.

Ian Graham
CEO

"...buyers that enter the market over the next 18 months are likely to see substantial price growth in their purchases..."

1. executive summary

Since our previous New Zealand Housing Outlook was published in August 2009, the Government has revealed significant changes to the tax treatment of property, as well as announcing reductions in personal income tax rates and an increase in GST. From late 2009 up until the changes were confirmed by the Government at its budget in May this year, there was considerable uncertainty about the potential policy changes and their implications for property investors. This uncertainty took the momentum out of the housing market, and although sales volumes for the 12 months to June 2010 were up 8.1% from the previous year, growth had at times been much stronger, getting up as high as 30%pa.

It is estimated that the Government's tax changes will reduce house prices by 13% over the next 1-2 years compared with what prices would have done in the absence of any policy changes, and this shift has led to a much less upbeat outlook for the housing market than we presented a year ago. The uncertainty surrounding the housing market during the first half of this year has also left the market sensitive to other negative factors, and the prospect of considerable rises in mortgage rates over the next two years is weighing on purchasing decisions, especially in the more expensive urban areas. And with real house prices still about 20% above their long-term trend, property still appears overvalued, limiting strength in sales activity and house price growth in the near term.

The most important mitigating factor among this range of negative drivers is the lack of new residential construction that has occurred over the last two years. Although New Zealand's population growth has been relatively strong, building activity has fallen away as a result of the economic downturn, and continues to be constrained by a lack of funding for developers. As the economy continues its recovery during 2011 and 2012, the undersupply of new building is expected to put a floor under house prices, preventing more significant declines and resulting in accelerating house price growth in 2012/13.

Nationally, house prices are forecast to fall 4.1% over the year to June 2011, placing property values about 5% above their long-term trend by the middle of next year. Improving economic conditions, both domestically and internationally, and the effect of continued low levels of residential building, are expected to see price growth pick up during 2012, but even by the end of that year, property is still forecast to be only 4-5% overvalued. House price growth is forecast to lift to 10%pa by mid-2013, putting house prices 11% above their current level. After adjusting for inflation, however, real property values in June 2013 are expected to be 1.1% below their June 2010 level.

- The **Auckland** housing market has recorded one of the stronger pick-ups in the country over the last year, but given the significant stock of rental property in the region, a considerable adjustment in prices is likely over the next year, with prices falling 6.4% by June 2011. With property in the region being among the most expensive in the country, rising mortgage rates are also set to have a pronounced effect on Auckland's property market. Even with a medium-term undersupply of property, house prices in the region are likely to be relatively subdued over the three years to June 2013, rising just 8.4% (which equates to a 3.4% decline in real terms).
- Central Government plays an important role in the **Wellington** economy, and despite a restrained fiscal position over the last year, Government spending has still grown faster than private sector spending, aiding the region's economy and property market. But a tight rein on Government spending, wages, and employment is likely to limit economic growth in Wellington over the next 1-2 years, a factor that will be reflected in a 7.3% fall in house prices by June 2011. By June 2013, house prices are forecast to be 7.0% above their current level (but down 4.7% in real terms).

"Nationally, house prices are forecast to fall 4.1% over the year to June 2011, placing property values about 5% above their long-term trend by the middle of next year."

1. executive summary (cont.)

"Christchurch housing market is expected to perform similar to the nationwide trend over the next three years"

- House prices in **Waikato/ Bay of Plenty/Gisborne** have failed to rebound over the last year, meaning that property in the region is probably less overvalued than in some other parts of the country. Downward pressure on prices is likely to be reasonably limited over the next year, with a 2.8% fall in prices forecast. In 2012 and 2013, the effect on the housing market of high commodity prices and strong growth in export incomes will become apparent, pushing up property values. House prices are forecast to increase a total of 16% between June 2010 and June 2013 (a rise of 3.1% in real terms).
- The **Christchurch** housing market is expected to perform similar to the nationwide trend over the next three years, with the mix of urban and provincial drivers providing a similar outcome for the region's economy as for New Zealand overall. Rising mortgage rates and adjustment to the Government's tax changes are expected to lead to a 5% decline in house prices by June 2011. But economic growth is forecast to improve in 2011/12, and combined with some shortage of housing, this will contribute to a forecast 12% rise in house prices over the next three years (a 0.4% decline in real terms).

- The **Otago/Southland** housing market was one of the last to slow during 2008 and 2009 and has seen little rebound in house prices over the last year. However, the region's population growth has been at unusually high levels, and with the prospect of a persistently tight labour market, strong commodity prices, and good economic growth, this population growth may be set to continue over the next three years. Over the next three years, house prices in the region are forecast to be the best-performing in the country, rising 19% in total (or 6.4% in real terms).
- **Taranaki/Manawatu/ Wanganui** is another region where population growth has been stronger than normal as a result of international and domestic economic conditions. The region's population growth is likely to ease as job opportunities start to improve elsewhere, but strong export commodity prices are expected to be a dominant factor in the region's economic performance. Healthy export incomes are forecast to boost the housing market in the region, with house prices increasing 18% between June 2010 and June 2013 (up 4.9% in real terms).
- Higher export prices and stronger population growth have led to a rebound in house prices in **Provincial Canterbury/ Westland** over the last year, but this lift is not expected to be sustained as higher mortgage rates reduce buyer numbers over the next year. Following a forecast fall of 3.8% in house prices by June 2011, a recovery in house prices is expected in 2012 and 2013, but the extent of this lift is likely to be limited by good availability of land. By June 2013, house prices in the region are forecast to be up 9.4% on current levels (but down 2.6% in real terms).
- The **Nelson/Marlborough** housing market has seen some lift in house prices over the last year, although this increase has occurred primarily in the Nelson area only. Over the coming 12 months, prices in the region are forecast to decline 6.9% in response to rising mortgage rates and the Government's tax changes. However, over a three-year horizon, good economic growth prospects for the region should contribute to a substantial pick-up in house prices, particularly in 2012/13. Between June 2010 and June 2013, prices are forecast to rise a total of 12% (up 0.1% in real terms).
- The downturn in the **Hawke's Bay** housing market over the last 2-3 years has been less pronounced than in many other regions, reflecting the fact that the market experienced less rapid price growth in 2006 and 2007, and so property in the region was not so overvalued. Nevertheless, price falls of 5.3% are forecast over the next year as population growth slows. In 2012 and 2013, strong export meat prices and improving prices for horticultural commodities are expected to boost the region's economy and feed through into accelerating house price growth. House prices in June 2013 are expected to be 14% higher than in June 2010 (a 1.9% increase in real terms).
- The **Northland** housing market has been weak over the last two years as the region's economy has struggled. However, growth is forecast to improve as dairy prices hold up, the region recovers from drought, and stronger export incomes flow through into service sector expansion. Demand for holiday homes in the region is also likely to improve over the next three years. As a result of these factors, house prices are forecast to rise 18% between June 2010 and June 2013 (up 5.3% in real terms).

1. executive summary (cont.)

Table 1.1: Median house prices by region, June quarter [1]
Source: Real Estate Institute of New Zealand

	Northland		Auckland		Waikato/ Bay of Plenty/ Gisborne		Hawke's Bay		Taranaki/ Manawatu/ Wanganui		Wellington	
	$000	APC[2]	$000	APC[2]	$000	APC[2]	$000	APC[2]	$000	APC[2]	$000	APC[2]
2004	190.1	16.9%	331.3	14.1%	194.6	9.3%	208.0	32.7%	133.2	17.1%	266.8	17.6%
2005	242.1	27.4%	368.5	11.2%	246.5	26.7%	238.7	14.7%	172.2	29.3%	286.7	7.4%
2006	276.2	14.1%	397.4	7.8%	281.0	14.0%	251.8	5.5%	209.1	21.4%	326.0	13.7%
2007	321.7	16.5%	449.0	13.0%	317.5	13.0%	275.0	9.2%	246.9	18.1%	379.3	16.3%
2008	323.9	0.7%	444.2	-1.1%	313.7	-1.2%	267.0	-2.9%	240.5	-2.6%	377.0	-0.6%
2009	302.2	-6.7%	440.0	-0.9%	315.3	0.5%	269.9	1.1%	236.3	-1.8%	374.2	-0.8%
2010	308.4	2.1%	456.7	3.8%	314.7	-0.2%	278.8	3.3%	243.2	2.9%	393.3	5.1%
2011*	305.2	-1.1%	427.3	-6.4%	305.7	-2.8%	264.0	-5.3%	243.0	-0.1%	364.7	-7.3%
2012*	329.3	7.9%	447.5	4.7%	329.6	7.8%	287.9	9.0%	260.7	7.3%	378.6	3.8%
2013*	364.4	10.7%	494.9	10.6%	364.2	10.5%	318.8	10.7%	286.2	9.8%	420.8	11.1%

* Infometrics forecasts
(1) Average median price over three months to June
(2) Annual percentage change
Composite regions are weighted average of each region's median prices

	Nelson/ Marlborough		Christchurch		Provincial Canterbury/ Westland		Otago/Southland		New Zealand	
	$000	APC(2)	$000	APC(2)	$000	APC(2)	$000	APC(2)	$000	APC(2)
2004	264.8	25.3%	229.0	31.0%	162.1	32.9%	189.5	41.9%	244.3	17.8%
2005	266.2	0.5%	263.7	15.1%	198.5	22.5%	207.0	9.3%	277.2	13.4%
2006	290.8	9.2%	291.7	10.6%	230.0	15.9%	226.5	9.4%	306.7	10.6%
2007	331.1	13.9%	331.7	13.7%	259.0	12.6%	250.9	10.8%	348.8	13.8%
2008	336.2	1.5%	316.7	-4.5%	257.9	-0.4%	267.5	6.6%	343.3	-1.6%
2009	325.4	-3.2%	312.0	-1.5%	253.1	-1.9%	245.8	-8.1%	339.2	-1.2%
2010	338.9	4.1%	331.3	6.2%	268.3	6.0%	250.6	2.0%	352.8	4.0%
2011*	315.5	-6.9%	314.8	-5.0%	258.2	-3.8%	248.5	-0.8%	338.4	-4.1%
2012*	335.7	6.4%	336.8	7.0%	276.0	6.9%	268.5	8.0%	355.6	5.1%
2013*	380.6	13.4%	370.4	10.0%	293.4	6.3%	299.3	11.5%	391.5	10.1%

2. economic outlook

Recovery from the global financial crisis

The New Zealand economy emerged from its 15-month recession in the June 2009 quarter. Since that time the economy has recorded modest growth, expanding by an average of 0.5% per quarter. The economy's recovery from this recession has been slower than following past recessions, and is a reflection of the lingering effects of the global financial crisis that are still being worked through around the world.

Internationally, a number of legacies remain from the global financial crisis.

- Europe's Government debt problems are still hanging over the stability of financial markets and have stoked concerns of a "double-dip" recession.
- Unemployment rates remain high in many countries. For example, the US unemployment rate is still close to 10%.
- There is still a great deal of spare manufacturing capacity around the world.

Although the economic performance of the US and, to a lesser extent, Europe plays an important part in determining New Zealand's economic prospects, China is becoming an increasingly significant force in the world economy. This influence is particularly apparent in the Asia-Pacific region.

A continued good growth performance by China is expected to provide the basis for New Zealand's strong export commodity prices to be maintained. The effect of this outcome is to boost New Zealand incomes on an economy-wide basis. Household consumption and business investment spending are forecast to gain momentum in 2011 and 2012. New Zealand's economic growth is expected to reach 3.6%pa in June 2011 and 4.4%pa in June 2012, before easing back to 2.7%pa by June 2013 in response to tighter monetary and fiscal policy.

Export prices underpin growth

ANZ's commodity price indices for New Zealand's exports reached record highs in the first half of this year. The world price index was 65% above the trough in 2009, and the New Zealand dollar price index was up 38% from its low. With import prices relatively muted, the 12% rise in the terms of trade between September 2009 and March 2010 was the fastest lift since 1973.

There may be a dip in the terms of trade index within the next year due to a rebound in import prices, as spare capacity globally begins to be absorbed and manufactured goods prices lift to reflect higher input costs. But agricultural and forestry prices are forecast to trend upwards over the medium term. Looking forward, the terms of trade is expected to stabilise 5-10% above its current level.

Strong export prices have positive flow-on effects for the exchange rate and economy-wide incomes. Export prices traditionally have a strong correlation with the New Zealand dollar, and this link has been maintained over the past 18 months as the exchange rate has rebounded in line with commodity prices. A buoyant outlook for export prices suggests the New Zealand dollar could hold above 62 on a TWI basis during the next three years.

The high dollar has a direct dampening effect on export incomes, but effectively passes on the income gains to consumers by way of keeping the New Zealand dollar price of imported goods down. Cheap imported products facilitate volume growth in consumption and investment. This transmission path for the gains provided by high export prices is arguably faster than waiting for farmers, who are traditionally cautious, to lift their spending levels.

Growth in export volumes is forecast to be relatively mediocre over the next three years, averaging just 3.1%pa. Fewer land conversions from sheep and beef farming to dairying, compared with recent years, is expected to constrain growth in dairy volumes. Significant declines in oil exports, as the Tui and Maari oil fields pull back from peak production, is also likely to act as a drag on total export volumes.

“Household consumption and business investment spending are forecast to gain momentum in 2011 and 2012.”

Table 2.1: Economic indicators, Annual average percentage changes
Source: Statistics New Zealand, Reserve Bank of New Zealand, Infometrics forecasts

June years	Average 1999-2009	2008-09	2009-10 Estimate	2010-11 Forecast	2011-12 Forecast	2012-13 Forecast
Real expenditures						
Private consumption	3.1%	-1.4%	1.9%	2.6%	4.0%	4.5%
Government consumption	3.6%	3.0%	2.4%	4.5%	-2.3%	1.4%
Residential investment	0.7%	-21.1%	-1.0%	7.3%	0.6%	4.5%
Non-residential investment	4.0%	2.5%	-11.6%	-3.2%	20.4%	7.4%
Total private investment	3.9%	-16.5%	-7.1%	14.0%	12.0%	3.7%
Total Government investment	6.0%	7.9%	0.9%	4.2%	11.4%	3.1%
Gross national expenditure	3.4%	-3.6%	0.4%	6.5%	4.9%	3.7%
Exports of goods and services	3.1%	-4.1%	0.8%	2.1%	4.1%	3.0%
Imports of goods and services	4.5%	-12.4%	-0.3%	10.9%	5.7%	5.9%
Gross domestic product	2.9%	-0.8%	0.7%	3.6%	4.4%	2.7%
Households						
HLFS employment	2.3%	0.5%	-1.0%	2.3%	2.1%	1.7%
HLFS unemployment rate (1)	4.7%	5.0%	6.5%	5.7%	5.3%	4.6%
Hourly wage	3.6%	5.2%	3.2%	2.4%	4.4%	3.1%
CPI (2)	2.7%	1.9%	1.8%	4.7%	2.7%	4.3%
NZ interest rates (3)						
10-year Government bonds	6.2%	5.4%	5.7%	6.2%	6.5%	6.4%
90-day bills	6.5%	5.3%	2.8%	4.2%	6.2%	6.9%
Floating mortgage rates	8.5%	8.2%	6.1%	6.7%	8.3%	9.2%

(1) Annual average for year ended
(2) June on June, CPI ex credit prior to June 99
(3) Annual average rates

2. economic outlook (cont.)

Cautious household spending

Consumer spending has begun to recover following the 2008/09 recession. However, at this stage the recovery is relatively tepid, with per-capita consumption volumes in the March 2010 quarter still 2.7% below their December 2007 peak.

Real disposable incomes are forecast to rise by 5.6%pa over the two years to June 2012. A number of factors are expected to drive this lift, including tax cuts, an increase in the terms of trade, and a strong rise in employment and hours worked across the economy.

Spending volumes are expected to remain restrained, though, and are forecast to grow by an average of 3.3%pa over the same period. Over the next two years, it is likely that households will show some caution in their spending patterns because of high debt levels. It is only in 2012/13, once debt levels have declined somewhat, that households' balance sheets are likely to be less of a constraint on consumer spending. With credit markets returning to normality and the value of housing and equity assets beginning to rise again, consumer spending is expected to recover to more historically "normal" levels, growing by 4.5% over the year to June 2013.

Labour market starting to improve

After peaking at 7.1% in the December 2009 quarter, the unemployment rate improved to 6% in the March 2010 quarter, implying that the labour market was nowhere near as weak as it had previously appeared. Other recent data showed that wage growth has slowed – growth in average hourly earnings in March was at a ten-year low of 2.1%pa.

This rapid slowdown in wage growth, combined with improving employment intentions in recent business surveys, suggests that spare capacity in the labour market could dry up relatively quickly over the next year. The unemployment rate is expected to fall to 5.3% by June 2011, easing further to 4.4% over the following two years.

Fiscal position set to improve

The brightening economic outlook over the last 12 months has positive implications for the Government's fiscal position. Better economic growth means more tax revenue, and a stronger labour market implies less social welfare spending. In other areas of spending, the National-led Government has kept a tight rein on funding, and thus the overall increases in spending have been low.

The improving outlook for economic growth means that the potential "decade of deficits" that was highlighted by finance minister Bill English at the 2009 budget now appears unlikely. Given current policy settings, the Government's fiscal deficit is expected to have peaked at 3.6% of GDP in the June 2010 year, shrinking to 1.1% of GDP by June 2013. The extent of this improvement could provide additional scope for more tax cuts and spending growth in the latter part of the forecast period and ahead of the general election in 2014.

Policy changes influence inflation

Government policy changes are set to cause a spike in inflation over the next year. The combination of tobacco excise increases, the introduction of the emissions trading scheme (ETS), and the hike in GST are expected to add around 2.6 percentage points to inflation in the year to March 2011. Further tobacco excise increases in January 2012 and another ETS-related hike in fuel and electricity prices in January 2013 will keep headline inflation slightly above the underlying rate throughout 2012 and 2013 as well.

The Reserve Bank will "look through" these price changes when setting monetary policy as they are specifically excluded from its mandate. However, with the official cash rate starting to rise in June this year, it is clear that inflation is reappearing on the

“Real disposable incomes are forecast to rise by 5.6%pa over the two years to June 2012.”

Bank’s policy-setting radar, after a two-year period when cushioning the economy’s downturn was key. And although the Bank will be happy to ignore the first-round effects of the policy-induced price rises, it will still be nervous about the potential second-round effects generated by news headlines heralding 5%pa inflation in coming quarters.

The saving grace for the Reserve Bank at the moment is the amount of spare capacity in the economy. The Bank’s own estimates have the economy currently producing at about 2.3% below potential, equivalent to almost a year’s growth. Unemployment is still comfortably above the 5% threshold where wage pressures might start to become an inflationary concern, and the NZIER’s measure of capacity utilisation remains below the average of the last decade. There may be some lift in underlying inflationary pressures over the next year, but it is likely to be late 2011 or early 2012 before the labour market and capacity constraints start to become evident in price trends.

Non-tradable inflation is expected to trend upwards from 2.1%pa in the March 2010 quarter to be back over 4%pa by mid-2012. Re-emerging domestic inflationary pressures could see headline inflation reach 4.3%pa by mid-2013.

3. residential demand

Tax policy to have a significant effect

At this year's budget, the Government announced two policy changes with significant implications for the housing market.

- The removal of the ability of landlords to claim depreciation on buildings with an estimated useful life of 50 years or more
- The reduction of the top personal income tax rate from 38% to 33%

The removal of the ability to use depreciation on buildings as a tax write-off means that investors effectively require more of their cash flow to come through their properties' rental incomes. In the first instance, landlords are likely to try and improve their cash flow through higher rents, but their ability to increase rents is not unlimited. The change in the tax system will mean that some landlords will find that some of their property investments are no longer viable given the rents they can charge and the costs that they face (costs will be most heavily influenced by their interest bills and degree of leverage on the property). As a result, some investors will look to reduce their property holdings, increasing the supply of properties available for purchase.

The reduction in the top income tax rate from 38% to 33% also removes some of the rationale for investing heavily in property. Throughout the last decade, many people viewed property investment losses as a useful way of reducing their overall tax liability, particularly in terms of avoiding the top tax rate that was introduced by Labour in 2000. The expectation was that capital gains would more than make up for the losses over time. But with the top income tax rate now lower, the incentive to invest in property for tax purposes has been reduced.

The policy changes outlined could reduce house prices by around 14% compared with what property values would have done in the absence of any tax changes. The increase in GST to 15% is expected to offset about one percentage point of this fall, with the increased cost of building a new house feeding through into existing property prices as the replacement cost increases. So the forecast overall effect is a 13% drop in house prices compared to what would otherwise have been the case.

"...with the top income tax rate now lower, the incentive to invest in property for tax purposes has been reduced."

3. residential demand (cont.)

Mortgage rates rise, but not as fast as the OCR

The Reserve Bank is expected to lift interest rates gradually over the next 1-2 years, pushing the official cash rate (OCR) over 5% by the end of 2011. Many forecasters are picking the OCR to peak at around 5.5%, but it is worth remembering that an OCR of between 5.5% and 6% was considered neutral prior to the global financial crisis. Although the gap between the OCR and bank funding costs has widened substantially following the financial crisis, it seems reasonable to assume that a significant chunk of this gap will disappear as the CR rises.

For example, domestic deposit rates are a long way above wholesale rates because banks have been forced to compete heavily to attract funds. Those rates will not need to rise much until the OCR gets a lot closer to 5%.

The forecasts in this publication incorporate a substantial closing of the gap between the OCR and retail lending rates over the next two years. The more muted response in retail interest rates to the Reserve Bank's programme of tightening monetary policy is expected to force the OCR higher than is currently being allowed for by most forecasters. The need for tighter-than-neutral interest rates will be reinforced by economic growth accelerating to 4.4%pa by June 2012.

Banks lifted floating and one-year fixed mortgage rates following the Reserve Bank's decision to increase the OCR in June. Although the gap between the OCR and retail rates means that upward pressure on the latter may be limited initially, the current tightening cycle is expected to be an extended one. Potential buyers will be cautious about purchasing property at low interest rates now, but then struggling to service the mortgage in 1-2 years' time when mortgage rates are higher.

Mortgage rates across the board are expected to be above 7% by mid-2011 and 8% by March 2012.

Strong migration helps population growth

In the three months to June, the number of permanent departures from New Zealand rose to its highest level since March 2009 (seasonally adjusted) – up 20% from its October 2009 low. A rising number of New Zealand citizens have been heading overseas permanently on the back of weakness in the domestic labour market and improving prospects offshore. Even so, departure levels are not out of line with recent historical norms, lying 0.8% below their five-year average, and remain 17% below their October 2008 peak.

Permanent departures are expected to continue climbing through until mid-2011 as strong growth in the Australian economy attracts New Zealand residents. With the domestic labour market tightening, permanent departures are forecast to level out over the next two years, staying at around 70,000pa.

Annual arrivals declined to 82,305 in June, the lowest number of arrivals since October 2006. People from four countries more than accounted for the entire decline in arrivals over the last year: the UK (down 15% from June 2009), Fiji (down 49%), the Philippines (down 45%), and South Africa (down 51%). During this period, arrivals from Australia increased substantially, rising 17% from their June 2009 level.

Arrival numbers into New Zealand are expected to remain relatively low over the rest of 2010. However, skill shortages and population pressures in other countries are forecast to push arrivals up gradually over the medium term, reaching 86,300pa by mid-2013.

Net migration is expected to fall below 15,000 by mid-2011 and remain around that level over the following two years. As a result, population growth is forecast to ease from a peak of 1.3%pa in mid-2010 to 1.1%pa by June 2011, and hold at around 1.1%pa between 2011 and 2013.

Rebound in house sales fades

Since the start of 2010, house sales have slipped back after the rebound in activity that occurred between April and December 2009. Sales volumes in February and March this year were at their lowest level since the worst of the financial crisis in November 2008. If the level of activity over the last three months was to persist for an entire year, the annual total of sales would be below 60,000.

The gap between sales growth in urban and provincial areas has closed over the last six months, although Auckland and Wellington are still the best-performing regions, with the smallest falls in activity at the moment. The drop in mortgage rates during 2008 and 2009 had a big positive affect on the affordability of housing in the cities, where property is typically more expensive. It is likely that the rebound in export incomes is providing some support to provincial housing markets relative to their urban counterparts.

House sales activity is likely to remain subdued over the next two years due to reduced investor demand. The need for better cash flow from properties to make up for the inability to claim depreciation on buildings has effectively reduced the number of properties that are economic for investors to purchase. Until the yields from rental property improve, investor demand is expected to remain muted.

3. residential demand (cont.)

Prices weak in the near term

The housing market has remained vulnerable because property is still fundamentally overvalued. Even with the 14% drop in real house prices that occurred between June 2007 and March 2009, real house prices were still about 17% above their long-term trend. The rebound in house prices over the remainder of 2009 saw the estimated overvaluation widen again to 20%.

High property prices are a major impediment in the way of any sustained strength in real estate turnover and further house price growth, and play a key role in the near-term outlook for the property market. House prices are expected to decline 4.1% over the year to June 2011, which would put prices 8.6% below the peak reached in 2007. In real terms, the drop would be even starker, down 19%. So even with mortgage rates predicted to rise in coming quarters, the forecast drop in house prices combined with accelerating growth in household incomes means that housing should be at least as affordable as it currently is until late 2011.

Falling property prices over the next 12 months mean that house prices could be as little as 5% above their long-term trend by mid-2011. That outcome would represent the smallest overvaluation for housing since 2003, and the overvaluation is expected to hold in the 4-5% range through until the end of 2012.

A persistently low residential build rate, and the corresponding undersupply of housing, is the primary factor holding house prices above their historical trend throughout 2011 and 2012. This undersupply is expected to limit further house price falls, even if a simple glance at history would suggest that real property prices should decline further. By 2012, the undersupply of housing is likely to become an even more significant factor in determining house price movements. As a result, house price growth is expected to climb to 10%pa in 2013.

Despite the predicted lift in house prices in 2012/13, the affordability of housing is not forecast to be as bad as it was between June 2006 and September 2008. A telling statistic is that real house prices in June 2013 are predicted to be still 13% below their 2007 peak.

Pressure for rents to rise

Residential rents have shown small signs of life over the first half of this year, with rental growth reaching a 17-month high of 4.1%pa in February before easing back to 3.1%pa by June. There had been some divergence between the trends in rents across the North and South Islands, with North Island rents generally starting to improve earlier. However, over the last few months, this gap has started to close as rents in the South Island have also started to increase as well.

Given the Government's tax changes concerning residential investment property, considerable upward movement in rental yields is expected over the next 1-2 years. It is likely that higher rental yields will partly be achieved through flat or falling house prices, but growth in rents of at least 5%pa is also forecast over the next two years. The improving economy is expected to give landlords more opportunity to increase rents than they have had over the last couple of years. The lack of new building activity may also lead to accommodation shortages, which could become evident in terms of upward pressure on rents.

At 4.6%, rental yields remain at historically low levels. However, the gap with real Government bond rates is 65 basis points above its historical average and is at its widest in seven years, indicating that the income return on rental property currently compares favourably with very low-risk investment. Nevertheless, such low real bond rates are not expected to persist indefinitely, and any increase in bond rates over the next 18-24 months would add to the upward pressure on rental yields.

"...improving economy is expected to give landlords more opportunity to increase rents than they have had over the last couple of years."

Funding constrains building activity

New residential consent numbers have risen 14% over the last year, but remain at extraordinarily low levels. If the level of activity over the last three months was to persist for an entire year, the annual total of new dwellings would be about 17,200. The softness that has appeared in the existing housing market this year is heightening the caution among developers and banks about boosting house-building activity.

This lack of confidence in near-term prospects for the housing market suggests that residential building activity will remain relatively subdued over the next couple of years. Rising interest rates and continuing difficulties for developers in securing finance are also likely to slow the rate of growth in activity. Consent numbers are expected to continue rising, but it may be 2013 before the annual total is back above 20,000. Banks are likely to continue attaching significant risk to financing residential developments as long as the underlying value of the collateral is under downward pressure.

Apartment building remains very weak. The annual apartment total reached a 14-year low in June, with just 783 apartment consents recorded in the last 12 months. This figure represents just 4.8% of all new dwellings in the last year, down from 21% at the height of the apartment boom in 2004.

If a recovery in the broader residential construction sector is reliant on improved finance conditions and a more robust housing market, the same is doubly true for any rebound in apartment construction. The swings in apartment values have been much larger than for traditional housing, making lenders and potential buyers extra cautious about becoming involved in new developments.

The annual apartment consent total may drop further still in 2010, before the start of a recovery is forecast in 2011. In the first instance, any pick-up in apartment building is likely to be concentrated around the redevelopment of existing lower-grade office buildings that are struggling to attract tenants given the economic downturn and oversupply of office space.

With the residential build rate forecast to average a little over 17,500pa over the five years to June 2013, household formation is likely to be constrained, and the occupancy rate (number of people per household) is set to remain much higher than might otherwise have been expected. In fact, the occupancy rate could still be higher in 2013 than it was in 2008. The five-year lift in the occupancy rate could be the largest since the 1920s, when building activity took some time to adequately respond to the population boom following World War I.

3. residential demand (cont.)

Table 3.1: Population growth by region, Year ended June
Source: Statistics NZ, Infometrics forecasts

	Northland	Auckland	Waikato/ Bay of Plenty /Gisborne	Hawke's Bay	Taranaki/ Manawatu /Wanganui	Wellington	Nelson/ Marlborough	Christchurch
2004	1.1%	2.2%	1.4%	0.7%	0.2%	1.2%	1.5%	1.6%
2005	1.1%	1.7%	1.1%	0.5%	-0.1%	0.8%	0.8%	1.1%
2006	1.1%	1.8%	1.1%	0.6%	0.3%	1.0%	0.9%	1.3%
2007	0.7%	1.7%	0.8%	0.3%	-0.1%	0.9%	0.6%	1.1%
2008	0.6%	1.5%	0.8%	0.2%	0.1%	0.7%	0.9%	0.9%
2009	0.7%	1.5%	1.0%	0.4%	0.5%	1.0%	0.8%	1.0%
2010*	1.2%	1.4%	1.4%	1.0%	0.9%	0.9%	1.4%	1.2%
2011*	1.0%	1.3%	1.1%	0.6%	0.7%	0.8%	1.1%	1.0%
2012*	0.9%	1.3%	1.1%	0.6%	0.5%	0.7%	1.1%	1.0%
2013*	1.0%	1.4%	1.1%	0.6%	0.6%	0.8%	1.1%	1.0%

* Infometrics forecasts
(1) Average median price over three months to June
(2) Annual percentage change
Composite regions are weighted average of each region's median prices

	Provincial Canterbury/ Westland	Otago/ Southland	New Zealand
2004	1.9%	0.8%	1.5%
2005	1.7%	0.5%	1.1%
2006	1.9%	0.5%	1.2%
2007	1.5%	0.6%	1.0%
2008	1.3%	0.6%	1.0%
2009	1.3%	0.8%	1.1%
2010*	2.1%	1.4%	1.3%
2011*	2.0%	1.1%	1.1%
2012*	2.0%	1.0%	1.1%
2013*	2.1%	1.0%	1.1%

3. residential demand (cont.)

Table 3.2: House sales by region, Year ended June
Source: Real Estate Institute of New Zealand

	Northland		Auckland		Waikato/ Bay of Plenty/ Gisborne		Hawke's Bay		"Taranaki/ Manawatu/ Wanganui"		Wellington	
	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)
2004	3,820	36%	40,431	6%	20,298	22%	4,135	7%	8,947	17%	12,255	0%
2005	3,340	-13%	34,469	-15%	18,139	-11%	3,648	-12%	8,160	-9%	10,740	-12%
2006	2,909	-13%	33,520	-3%	15,878	-12%	3,629	-1%	7,909	-3%	11,366	6%
2007	2,861	-2%	36,225	8%	16,075	1%	3,851	6%	7,847	-1%	11,407	0%
2008	1,811	-37%	22,064	-39%	9,861	-39%	2,601	-32%	5,441	-31%	7,929	-30%
2009	1,535	-15%	19,393	-12%	8,526	-14%	2,188	-16%	4,982	-8%	6,767	-15%
2010	1,540	0%	22,661	17%	8,930	5%	2,340	7%	4,916	-1%	7,357	9%
2011*	1,556	1%	19,032	-16%	8,134	-9%	2,133	-9%	5,117	4%	6,288	-15%
2012*	1,720	11%	17,274	-9%	8,072	-1%	2,090	-2%	5,127	0%	5,794	-8%
2013*	1,889	10%	17,360	0%	9,581	19%	2,076	-1%	5,759	12%	6,267	8%

* Infometrics forecasts
(1) Annual percentage change

	Nelson/ Marlborough		Christchurch		Provincial Canterbury/ Westland		Otago/ Southland		New Zealand	
	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)
2004	3,354	-19%	10,303	10%	5,431	10%	9,511	-1%	118,485	8%
2005	3,041	-9%	9,542	-7%	4,543	-16%	8,170	-14%	103,792	-12%
2006	3,165	4%	9,794	3%	4,511	-1%	7,984	-2%	100,663	-3%
2007	3,464	9%	9,958	2%	5,003	11%	8,847	11%	105,532	5%
2008	2,705	-22%	6,731	-32%	3,295	-34%	6,596	-25%	69,034	-35%
2009	2,452	-9%	6,326	-6%	2,972	-10%	5,286	-20%	60,427	-12%
2010	2,429	-1%	6,500	3%	3,124	5%	5,507	4%	65,304	8%
2011*	2,124	-13%	6,059	-7%	2,981	-5%	5,172	-6%	58,595	-10%
2012*	2,055	-3%	5,688	-6%	2,951	-1%	5,233	1%	56,005	-4%
2013*	1,953	-5%	5,447	-4%	2,856	-3%	5,341	2%	58,531	5%

3. residential demand (cont.)

Table 3.3: Rental growth by region, Year ended June

Source: Infometrics calculations from Department of Building and Housing/Real Estate Institute of New Zealand data

	Northland	Auckland	Waikato/ Bay of Plenty /Gisborne	Hawke's Bay	Taranaki/ Manawatu /Wanganui	Wellington	Nelson/ Marlborough	Christchurch
2001	2.2%	2.4%	0.3%	0.3%	1.4%	3.7%	2.1%	2.5%
2002	3.7%	7.6%	3.9%	3.1%	4.3%	2.3%	5.6%	6.9%
2003	3.4%	10.7%	8.4%	6.6%	6.1%	5.3%	12.2%	11.3%
2004	11.5%	2.7%	8.2%	8.1%	2.0%	2.4%	8.4%	9.2%
2005	6.3%	-1.6%	6.1%	8.2%	9.6%	0.4%	3.0%	3.3%
2006	8.6%	5.0%	5.9%	8.8%	4.9%	9.2%	3.1%	3.4%
2007	10.9%	4.3%	6.1%	5.9%	9.6%	16.8%	9.3%	6.6%
2008	8.6%	5.3%	5.8%	5.7%	3.9%	8.7%	6.9%	5.8%
2009	-1.9%	-0.3%	-0.5%	-0.6%	1.8%	2.5%	1.1%	-2.1%
2010	2.1%	3.8%	2.6%	2.8%	2.4%	3.7%	3.6%	2.4%

	Provincial Canterbury/ Westland	Otago/ Southland	New Zealand
2001	-1.1%	4.3%	1.7%
2002	6.4%	12.7%	5.1%
2003	8.2%	8.5%	9.1%
2004	10.1%	9.2%	6.8%
2005	9.2%	5.2%	3.8%
2006	6.6%	1.9%	-0.1%
2007	7.7%	4.8%	12.4%
2008	8.8%	5.2%	4.8%
2009	1.1%	0.6%	0.3%
2010	2.3%	3.5%	3.1%

3. residential demand (cont.)

Table 3.4: New dwelling consents by region, year ended June
Source: Statistics New Zealand

	Northland		Auckland		Waikato/ Bay of Plenty/ Gisborne		Hawke's Bay		Taranaki/ Manawatu/ Wanganui		Wellington	
	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)
2004	1,408	30%	12,937	5%	6,293	30%	734	20%	1,301	37%	2,592	1%
2005	1,313	-7%	9,435	-27%	5,313	-16%	731	0%	1,383	6%	2,058	-21%
2006	1,349	3%	7,250	-23%	5,416	2%	938	28%	1,610	16%	2,041	-1%
2007	1,373	2%	6,781	-6%	5,837	8%	902	-4%	1,725	7%	2,032	0%
2008	1,202	-12%	5,769	-15%	4,749	-19%	753	-17%	1,663	-4%	2,153	6%
2009	829	-31%	3,212	-44%	2,834	-40%	499	-34%	880	-47%	1,554	-28%
2010	829	0%	3,656	14%	3,149	11%	636	27%	1,217	38%	1,413	-9%
2011*	998	20%	4,558	25%	3,743	19%	631	-1%	1,372	13%	1,609	14%
2012*	1,005	1%	5,352	17%	3,867	3%	592	-6%	1,266	-8%	1,472	-9%
2013*	1,109	10%	6,103	14%	4,210	9%	550	-7%	1,324	5%	1,671	14%

* Infometrics forecasts
(1) Annual percentage change

	Nelson/ Marlborough		Christchurch		Provincial Canterbury/ Westland		Otago/ Southland		New Zealand	
	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)	Number	APC (1)
2004	1,318	2%	2,539	9%	2,111	36%	2,015	29%	33,251	14%
2005	1,028	-22%	2,337	-8%	2,176	3%	1,669	-17%	27,444	-17%
2006	898	-13%	2,068	-12%	2,234	3%	1,756	5%	25,563	-7%
2007	1,160	29%	2,425	17%	2,348	5%	1,953	11%	26,538	4%
2008	1,082	-7%	1,791	-26%	2,277	-3%	1,820	-7%	23,261	-12%
2009	723	-33%	1,123	-37%	1,290	-43%	1,231	-32%	14,175	-39%
2010	781	8%	1,524	36%	1,618	25%	1,343	9%	16,167	14%
2011*	816	5%	1,622	6%	1,803	11%	1,434	7%	18,585	15%
2012*	766	-6%	1,579	-3%	1,697	-6%	1,395	-3%	18,991	2%
2013*	811	6%	1,624	3%	1,625	-4%	1,389	0%	20,416	8%

4. northland

State of play

House prices

House prices in Northland fell 6.7% in the year to June 2009, and continued their poor performance relative to the national average over the last 12 months, recording a rebound of just 2.1% over the last year. The Northland economy has struggled over the last year, and there has been little demand for holiday houses from people in neighbouring Auckland. These conditions mean that the region's property market has not been able to generate much interest from buyers.

Population

Northland's population growth rose to an estimated 1.2%pa in the year to June 2010, the biggest increase since at least the mid-1990s. The improvement was largely due to a 25% reduction in the number of people leaving the region to head overseas compared with the previous year, as the global downturn reduced perceived employment opportunities in Australia and other countries. Northland has continued to attract people from other regions within New Zealand, despite having the highest unemployment rate in the country.

House sales

It has been more than two years since growth in house sales volumes in Northland outperformed the nationwide average. Indeed, the latest annual total of sales in Northland, for the year to June 2010, was down 60% from the peak in activity back in 2004, compared with a 45% decline nationally. The limited rebound in sales activity in Northland during 2010 (up just 0.3%) also lines up with the relatively modest lift in house prices that occurred.

Rents

Rents in Northland in June were up 2.1% from a year ago. This result was an improvement on results in previous months, when annual declines in rents of up to 3.6% had been recorded. Landlords have previously been under pressure to cut rents to attract new tenants, and these falling rents have encouraged greater churn of tenants in rental accommodation. Rental yields remain low by historical standards and are likely to come under upward pressure in coming quarters.

Construction

Building activity in Northland has failed to pick up over the last year, with the number of consents in the year to June 2010 unchanged from the previous 12 months. Part of this weakness is due to a higher-than-usual number of apartment consents in the year to June 2009 that has not been repeated in the most recent year. But the underlying trend of weakness in residential building activity in the region cannot be denied, with the downturn in the coastal property market and reduced demand for holiday homes key factors in the lack of new house building.

Forecast

House prices

Northland's house prices are forecast to outperform the national average over the next three years. The lack of any substantial rebound in prices over the last year, combined with reasonably strong population growth, should limit the extent of any price falls over the next 12-18 months. Northland's relatively high unemployment rate is likely to become less of a factor as strong growth in the services sectors underpins a healthy economic recovery. Demand for holiday homes is also likely to recover gradually over the medium term, contributing to a 19% lift in the region's house prices over the two years to June 2013.

Population

Northland's population growth is predicted to ease slightly over the next year from 1.2% to 1.0%pa. The forecast dip is based on an increase in the number of people heading offshore from the region, which is likely to occur as overseas labour markets improve. But with population growth over the next three years predicted to hold around 1.0%pa, the increasing number of people in the region will stimulate activity in the property market throughout the forecast period.

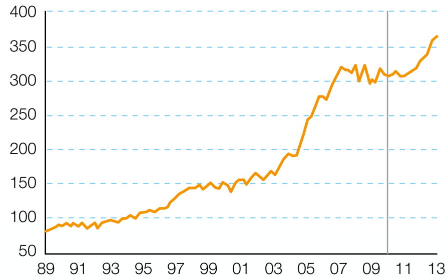
House sales

The lack of any substantial rebound in house sales in Northland during the last year suggests that the risk of substantial drop in sales over the next year is limited, and the small forecast dip in population growth also indicates that there will be steady levels of buyer demand within the region. Sales growth is likely to accelerate in 2012 and 2013 as the region's good economic performance results in a tangible pick-up in buyer demand for property.

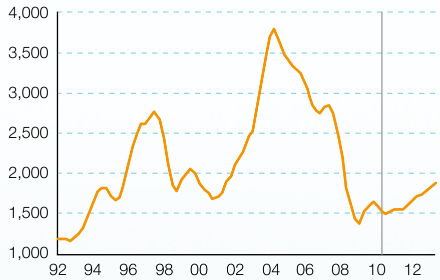
Construction

Residential consent numbers are forecast to lift 20% over the year to June 2011, with activity in the region growing faster than the national average as population growth places pressure on the dwelling stock. Building work in 2011/12 will be more in line with national trends, but renewed expansion in terms of demand for holiday houses and coastal property in Northland could see faster growth in construction work again in 2013.

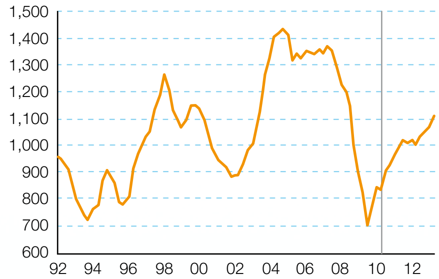
Graph 4.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 4.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 4.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



5. auckland

State of play

House prices

House price in Auckland have moved closely in line with the national average over the last four years. Prices in June 2010 were up 3.8% from a year ago, but price growth had got as high as 8.3%pa earlier in the year as low financing costs led to some increase in buyer competition and forced sale prices higher. Even with this competition among buyers, tighter credit conditions and the likelihood of rising interest rates during 2010 and 2011 have limited the extent to which buyers have been willing to bid up prices.

Population

Despite the lift in nationwide population growth, Auckland's population growth is estimated to have eased to an 11-year low of 1.4%pa in the year to June 2010. The number of people leaving Auckland to head overseas was down just 7.9% in the last year, a much smaller decline than most regions experienced. With Auckland's unemployment rate well above the national average, it is also unsurprising that the region continues to lose population to other parts of New Zealand.

House sales

The Auckland housing market has experienced the strongest growth in sales over the last year, with sales for the 12 months to June 2010 up 17% from the previous 12-month period. Although the Auckland market is the largest in the country, the region's weak economy and resultant job losses over the last few years had driven the region's share of nationwide sales activity to a 15-year low. Low mortgage rates and improving economic activity have drawn more buyers back into the market and led to a pick-up in sales volumes.

Rents

Rental growth in Auckland reached a two-year high of 3.8%pa in the year to June. Rents have picked up across the region as a persistent lack of new building activity over the last three years appears to be having some affect on the supply of accommodation. Rental yields deteriorated during 2009 as house prices rebounded from their trough, but despite these weak yields, low real bond rates mean that the relative return on investment property in the Auckland region is currently above average.

Construction

Between 2005 and 2009, residential building activity consistently lagged behind trends in nationwide consent numbers. After the peak in consents in June 2004, the number of new dwelling consents in Auckland fell 75% to its low point in June 2009. For the rest of the country excluding Auckland, consent numbers fell 46% during this period. Over the last year there has been a 14% rebound in consent numbers in Auckland, but apartment building activity remains under considerable pressure. There were just 364 apartment consents in Auckland in the year to June 2010, the lowest annual total since April 1994.

Forecast

House prices

With property in Auckland being among the most expensive in the country, the price that potential buyers in the region can pay will be constrained by rising interest rates over the next 1-2 years. Auckland also has a relatively large stock of rental property (36.2%, compared to 31.9% across the rest of the country). Thus the changes to income tax rates and the rules around depreciation on buildings will lead to a realignment of property values at the bottom end of the spectrum. Prices are forecast to ease 6.4% over the year to June 2011, but upward momentum is likely to re-emerge in 2012/13 as the lack of building in the region becomes a dominant factor in driving property values.

Population

Population trends in Auckland have been relatively stable over the last six years, and this stability is expected to be maintained over the next three years. Immigration from overseas is still at a fairly high level, but this inflow is expected to be maintained as the region's labour market continues its recovery from the financial crisis of the last two years. An improvement in Auckland's economic growth performance should also lead to some reduction in the net outflow of people from the region to other parts of the country, so population growth is forecast to hold at around 1.3-1.4%pa.

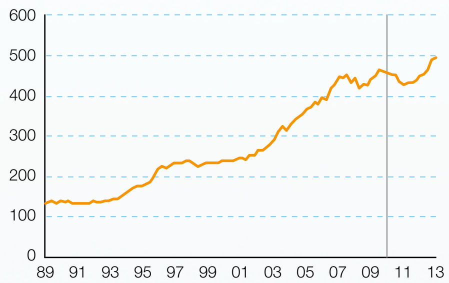
House sales

Auckland's sensitivity to rising mortgage rates is likely to be demonstrated over the next year as sales activity is forecast to decline by 16%, a larger fall than the national average. In the wake of the tax changes, demand from investors for property is likely to be subdued. Across the broader market, buyers will be conscious of rising interest rates and will be looking to keep their debt-servicing costs under control by getting property cheaply. A sustained period of improvement in the economy should see sales activity start to show the first signs of recovering in 2012/13.

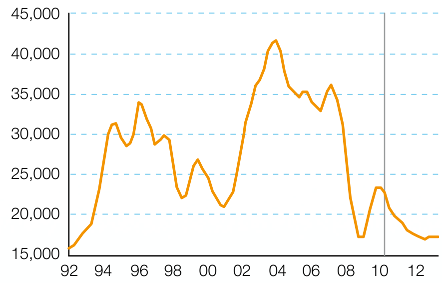
Construction

Residential building activity in Auckland remains at extraordinarily low levels, and there is room for considerable growth in consent numbers over the next three years, in spite of the relatively weak housing market and difficult funding conditions for developers. Over the three years to June 2013, consent numbers in Auckland are forecast to rise 67%, compared with a 14% rise across the rest of the country excluding Auckland. This forecast rebound in activity in Auckland reflects some catch-up following the significant under-building that has occurred in the region over the last few years.

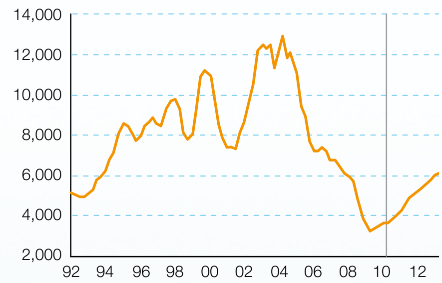
Graph 5.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 5.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 5.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



6. waikato/bay of plenty/gisborne

State of play

House prices

House prices in Waikato/Bay of Plenty/Gisborne (WBG) slipped 0.2% over the last year, and the region was the only one in the country to record an annual price fall. Price movements in WBG can be attributed to a greater degree of caution about the economic prospects for provincial regions given the volatility in commodity prices over the last three years. Because house prices in the region are also lower than in Auckland or Wellington, the very low mortgage rates have had a smaller affect on the affordability of housing.

Population

Population growth is estimated to have reached a six-year high of 1.4%pa in WBG over the last year. The region has continued to attract about the same number of migrants from overseas as in previous years, but the number of people permanently heading offshore from WBG dropped 16% in the year to June 2010. Weakness in the global economy and a lack of job opportunities overseas have encouraged people to stay in the region.

House sales

Movements in house sales activity in WBG were weaker than the nationwide trend over the last year, the fifth consecutive year that the region has underperformed in terms of real estate activity. Sales growth peaked at 32%pa earlier in 2010, before easing to 4.7%pa by June as uncertainty about the economy's outlook and the prospect of rising interest rates saw the pick-up in activity start to stall.

Rents

Rents in WBG were up 2.6% from a year ago in June 2010, which was an improvement on the fall in rents that was recorded during 2008/09. The biggest pick-up in rents has occurred in Bay of Plenty, where rents have risen 3.5% over the last year. With little change taking place in the region's house prices over the last year, there has been a modest improvement in rental yields. This lift in yields has been most pronounced in Waikato, where house prices have struggled during the last 12 months.

Construction

Residential building activity in WBG fell 51% between June 2007 and June 2009, which was slightly greater than the 47% drop in consent numbers recorded nationally. Over the last year, there has been an 11% rebound in consent numbers in WBG, but activity is still 46% below its 2007 peak. Construction in the Bay of Plenty area, in particular, remains weak, partly as a result of the absence of any new apartment projects during the last year.

Forecast

House prices

With house prices in WBG having failed to rebound over the last year, property in the region is perhaps less overvalued than in some other parts of the country. As a result, the downward pressure on house prices over the next year in the region is expected to be relatively limited, with prices forecast to fall just 2.8% over the year to June 2011. It is likely to be mid-2012 before house prices surpass their 2007 peak, but price growth will pick up during 2012 and 2013 as sustained strength in dairy and forestry export prices boost the region's economic fortunes.

Population

With offshore labour markets gradually improving, WBG's population growth is expected to be slower over the next three years than it has been over the last 12 months. In particular, the perceptions of good job opportunities in Australia could lead to a lift of almost 10% in permanent international departures over the next year. Nevertheless, population growth in WBG is expected to average 1.1%pa over the next three years. Growth is forecast to be strongest in Waikato, but is likely to be positive across the entire region.

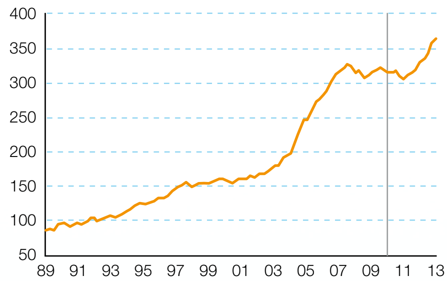
House sales

Buyer demand for property in WBG is likely to remain subdued over the next year as the market adjusts to the tax changes announced by the Government earlier this year. Although rising interest rates will also have a negative affect on demand, the forecast 8.9% drop in sales volumes over the year to June 2011 is slightly smaller than the forecast decline nationally (10%). By 2012/13, the effect of healthy export prices should start to become evident as sales growth runs well ahead of the national average.

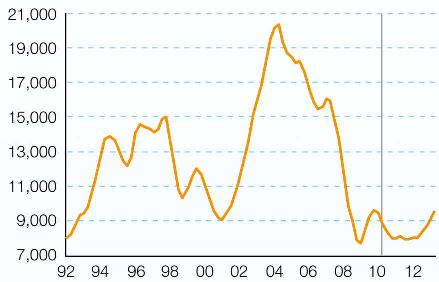
Construction

A good availability of land around Hamilton and Tauranga and healthy population growth should enable residential building activity in WBG to maintain reasonable growth over the next year. Consent numbers are forecast to lift 19% over the 12 months to June 2011, but subsequent growth is likely to be more subdued as turnover in the housing market remains subdued over the next couple of years.

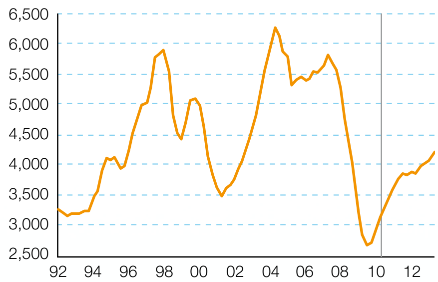
Graph 6.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 6.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 6.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



7. hawke's bay

State of play

House prices

House prices in Hawke's Bay have been variable over the last two years, with average sales prices showing quite a high level of changeability between quarters. The underlying trend shows that house prices ran ahead of the national average between 2007 and 2009, recording only relatively small declines. Prices did not keep pace with the national increase over the last year, lifting 3.3%, but Hawke's Bay has still been one of the best-performed provincial housing markets in terms of avoiding house price falls over the last 2-3 years.

Population

Hawke's Bay's population growth surged from 0.4% to an estimated 1.0%pa between June 2009 and June 2010, and has not been higher in at least 14 years. As in some other provincial regions, the weaker global economy has reduced the number of people heading offshore. In Hawke's Bay's case, the number of permanent international departures was down 29% from the previous year to a seven-year low. Relatively good export meat prices may also have helped the region's economy and been a factor holding population growth up.

House sales

House sales volumes rebounded 6.9% in Hawke's Bay during the 12 months to June 2010, slightly below the nationwide increase of 8.1%. In recent months, buyer demand in the region appears to have been undermined by questions about the robustness of the global economic recovery and the outlook for export prices. Uncertainty ahead of the Government's budget and tax change announcement will also have added to buyer caution, as has the prospect of rising interest rates.

Rents

Rents in Hawke's Bay rose 2.8% during the year to June 2010, rebounding from the small declines recorded during the previous year. The pick-up in population growth over the last year may be starting to show up in terms of stronger demand for accommodation. However, with the region's unemployment rate one of the highest in the country, it would be unsurprising if landlords are maintaining a cautious approach when setting rents at this stage.

Construction

The number of new dwelling consents in Hawke's Bay rebounded 27% over the year to June 2010 and is now down 16% from the level of activity two years ago. This drop in construction activity since the global financial crisis is one of the smallest in the country, and compares with a 30% decline nationally. Demand for housing in Hawke's Bay appears to have held up better than in most other regions around New Zealand.

Forecast

House prices

Hawke's Bay is not expected to be immune to house price falls over the next year, with property values forecast to decline 5.3% by June 2011. But with horticultural commodity prices likely to improve over the next two years and meat prices expected to hold up, the region's economy is set to perform strongly between 2011 and 2013, and this could show up in higher house prices. House prices in Hawke's Bay are forecast to lift 21% between June 2011 and mid-2013.

Population

Population growth in Hawke's Bay is not forecast to remain at its current very high level. Growth is expected to ease from 1%pa to an average of 0.6%pa over the three-year period from 2010 to 2013. The biggest change is likely to be an increase in the number of people heading overseas, almost back to the levels that prevailed between 2005 and 2007. The region's climate and lifestyle will continue to attract people from other parts of New Zealand, although this inflow will be limited in the first instance by employment opportunities.

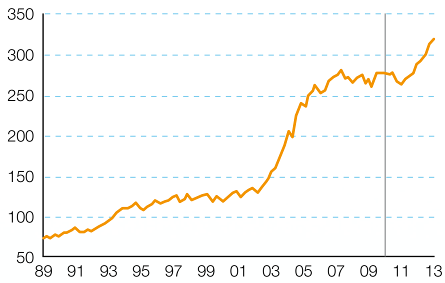
House sales

House sales are likely to move closely in line with nationwide trends over the next three years. Uncertainty about the global economic outlook and its effect on the export sector means that buyers are expected to take a cautious approach when purchasing over the next year, and demand for holiday houses may also remain more subdued than in some other regions such as Northland. Buyer demand is forecast to be relatively stable in 2012 and 2013.

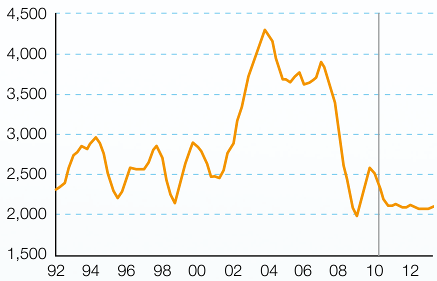
Construction

With construction activity in Hawke's Bay less than 6% below the average of the last decade, the scope for further increases in building work appears to be limited. Consent numbers are forecast to ease 0.8% over the year to June 2011, and building activity may be weaker in 2011/12 in response to the dip in house prices over the previous year. By the latter part of the forecast period, growth in building activity is likely to be concentrated more in New Zealand's largest urban regions, with activity in Hawke's Bay forecast to still be declining by 2013.

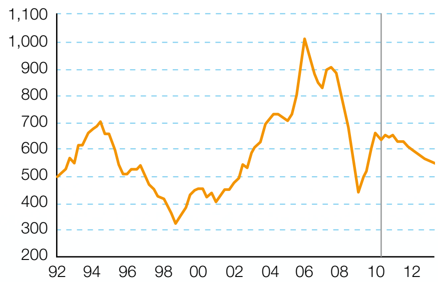
Graph 7.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 7.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 7.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



8. taranaki/manawatu/wanganui

State of play

House prices

House prices in Taranaki/Manawatu/Wanganui (TMW) lifted 2.9% over the year to June 2010, reversing a 1.8% fall that was recorded during the previous 12 months. Although house price growth in Taranaki had eased to 4.7%pa by mid-2010, the market had performed strongly in late 2009 and early 2010, with price growth reaching 10%pa. The Manawatu market has been significantly weaker and, unlike Taranaki and Wanganui, prices remain well below their 2007 peak.

Population

Population growth in TMW has improved steadily over the last three years, lifting from -0.1%pa in 2007 to an estimated 0.9%pa by June 2010. This rate of population growth has not been bettered in the last 14 years. Over the last year, some of the biggest improvements have come in Manawatu, as a 23% fall in the number of people leaving the area to head overseas has combined with a small reduction in immigrant numbers to boost population growth. Nevertheless, population growth rates in Taranaki and Wanganui are also at their fastest since at least the mid-1990s, with Wanganui recording its first increase in population in a long time.

House sales

TMW recorded the worst regional performance in house sales activity over the last year, with sales volumes down 1.3% from June 2009. Wanganui was the only part of the region to record a lift in sales, but activity in Wanganui was already at very low levels. Apart from a brief rally in sales activity in the second half of 2009, TMW has endured six years of continued declines in house sales activity. However, the 45% drop in sales volumes between mid-2004 and June 2010 is identical to the nationwide decline in sales.

Rents

Unlike most regions, TMW has managed to avoid falls in residential rents over the last two years. By June 2010, rents were up 2.4% from a year ago, with growth accelerating from late 2009. In 2009, rental growth was underpinned by strength in Taranaki, but by mid-2010, rents in Taranaki were 0.2% lower than a year earlier. In contrast, Wanganui recorded lower rents in 2009, which started to rebound during 2010.

Construction

Residential building activity has increased strongly in TWM over the last year, with the 38% increase in consent numbers between June 2009 and June 2010, the biggest in the country. However, the fall in consent numbers during the previous year was also the largest of any region. Taranaki has maintained its strong performance compared with other parts of the region, with the effects of growth in the oil and dairy sectors flowing through into other parts of the economy.

Forecast

House prices

The rebound in export commodity prices since early last year will continue to positively influence the TMW region over the next 1-2 years. There may be some downward pressure on house prices over the next year as some investors exit the market following the tax changes announced by the Government, but prices are forecast to be just 0.1% below current levels by mid-2011. Despite the relatively plentiful supply of land in the region and modest population growth, house prices are expected to rise slightly faster than the national average between 2011 and 2013, reflecting strong economic growth in the region.

Population

The recovering global economy is likely to see TMW's population growth ease over the next year, as the flow of people heading overseas increases in line with improving job opportunities offshore, particularly in Australia. There is also likely to be pick-up in the number of people leaving the region for other parts of New Zealand. However, both the domestic and international outflows will be limited by strong export income growth within TMW, and so population growth is forecast to average 0.6%pa over the next three years.

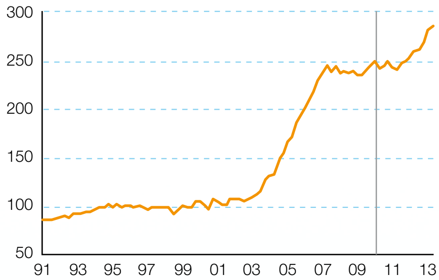
House sales

Parts of TMW have traditionally been attractive for property investors due to their relatively high yields, but the Government's tax changes are likely to limit demand from investors over the next two years. Rising interest rates would also normally be expected to put some pressure on sales volumes, but both these negative factors are likely to be dominated by strong income growth within the region. With population growth also expected to hold at above-average levels, the number of potential property buyers within TMW will remain relatively high and hold house sales activity up over the next 2-3 years.

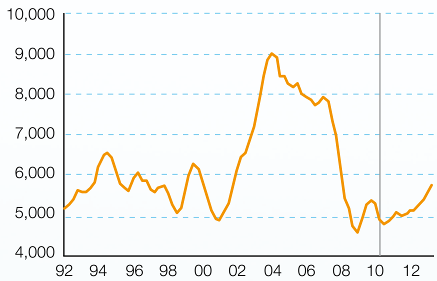
Construction

Given the substantial rebound in building activity in TMW over the last year, the scope for further increases in activity over the next two years is limited. Consent numbers across the region are forecast to lift another 13% by June 2011, but the fragile housing market and slowing population growth are expected to drive a 7.7% decline in activity over the year to June 2012. Although population growth is forecast to be above average throughout the forecast period, it will not be sufficient to justify any significant growth in building activity in 2012/13.

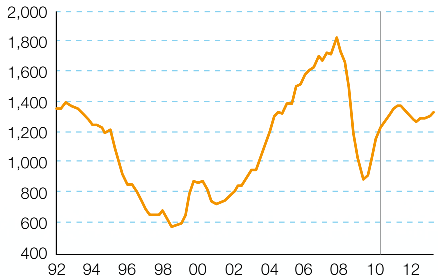
Graph 8.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 8.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 8.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



9. wellington

State of play

House prices

House prices in Wellington have outperformed the national average over each of the last five years. Between mid-2005 and mid-2010, the median house price in Wellington rose 37%, compared with a 27% increase nationally. This gap is largely attributable to the role of central Government in Wellington, with strong employment growth up until 2008, and the countercyclical role of Government spending over the last two years during the recession. Wellington's house prices in June were up 5.1% from a year earlier.

Population

Wellington was one of only two regions, along with Auckland, to record a slowdown in estimated population growth in 2009/10. Wellington's population growth dipped from 1.0% to 0.9%pa in 2010, as the drop in the number of people heading overseas from the region was trumped by an even bigger decline in immigrant numbers. With the freeze on Government employment limiting opportunities in the region, there was also an increase in the number of people leaving Wellington for other parts of the country.

House sales

House sales volumes in Wellington lifted 8.7% over the year to June 2010, a similar result to the nationwide increase of 8.1%. As was the case with Auckland, very low mortgage rates dramatically improved the affordability of property in Wellington during 2009. But sales growth has ebbed since the start of 2010 as a lack of job security in the region, uncertainty about the Government's tax changes, and the prospect of rising mortgage rates have undermined buyer demand.

Rents

Rents in Wellington rose 3.7% over the year to June 2010, and apart from very brief periods in 2005 and 2009, the region has consistently experienced increasing rents throughout the last 12 years. The stabilising role of the Government sector on the region's economy is likely to have been a factor in this outcome. The lift in house prices over the second half of 2009 saw rental yields slip, but they have improved since the start of 2010 as house price growth has moderated.

Construction

A drop in apartment consent numbers over the last year has had a profound affect on overall residential building activity in Wellington. The annual apartment total fell by 499 consents (or 85%) between June 2009 and June 2010, dragging overall consent numbers 9.1% lower, in contrast with a 15% increase nationally. When apartments are excluded, consent numbers in Wellington rose 37%, indicating that construction of standalone dwellings and townhouses in Wellington is matching the recovery in other parts of New Zealand.

Forecast

House prices

House prices in Wellington are unlikely to keep pace with the national average over the next three years, as tight wage and hiring conditions in the Government sector have a negative affect on the region's economic growth. By June 2012, prices are forecast to be 3.7% lower than in June 2010, the worst performance by any region. A rebound in house prices is possible in 2012/13 as the Government's fiscal position continues to improve and there may be an increase in Government spending and employment.

Population

Wellington's population growth is forecast to remain relatively stable over the next three years, averaging 0.8%pa. This growth rate is down on the peak rates of over 1%pa recorded at times during the last decade as Government sector employment rapidly expanded. Nevertheless, the region will remain reasonably attractive for tertiary graduates seeking employment, with more opportunities reappearing over the medium term as the Government's fiscal position improves.

House sales

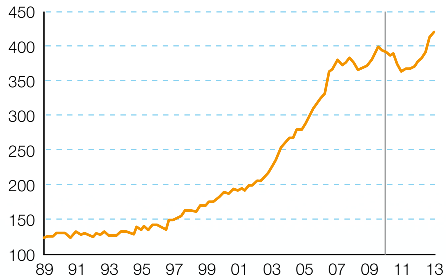
House sales activity in Wellington is set to underperform nationwide trends over the next two years. A cautious approach by investors is likely to be a factor in driving sales volumes 15% lower over the next year, with weak employment growth driving a further reduction in activity during 2011/12. Sales activity is forecast to pick up in 2012/13 in response to improving income growth and greater job security in the region.

Construction

Residential consent numbers in Wellington are currently 31% below the average level of the last decade, which is worse than any other region except Auckland. The current low build rate leaves room for a substantial rebound in activity over the next year, and a 14% increase is forecast. However, with definite signs of oversupply in the apartment market, any growth in building activity will be concentrated in more traditional housing. Consent numbers are likely to weaken in 2012 before further growth is recorded in 2013 as the region's housing market continues to recover.

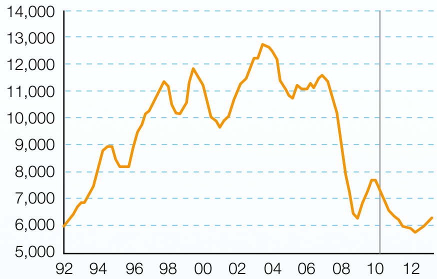
Graph 9.1
Median house prices ($000)

Source: Real Estate Institute of New Zealand; Infometrics forecasts



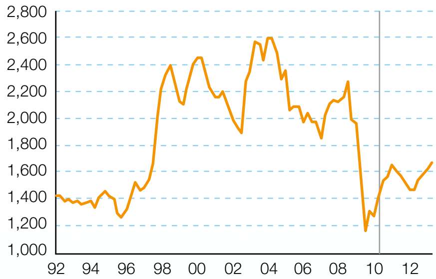
Graph 9.2
Annual house sales total

Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 9.3
Annual dwelling consent total

Source: Statistics New Zealand; Infometrics forecasts



10. nelson/marlborough

State of play

House prices

Since undergoing a substantial correction in 2004/05, house price movements in the Nelson/Marlborough (NM) market have tended to lag the rest of the country by about six months. However, over the last year, the NM market has started to move more in line with the nationwide market again, with prices rising 4.1% in the 12 months to June 2010. Although price growth has picked up in the Marlborough market in recent months, prices in this part of the region have struggled compared with Nelson where there is a smaller proportion of holiday homes.

Population

Population growth in NM lifted from 0.8%pa to an estimated 1.4%pa between 2009 and 2010, which is a six-year high. Nelson's population growth, in particular, has improved significantly, with international departure numbers falling 26%. Arrival numbers into Nelson were also steady over the last year. Although the Marlborough economy has not performed quite as well, it has still enjoyed a small increase in population growth over the last year.

House sales

House sales activity in NM recorded a relatively small fall between 2007 and 2009, falling 29%, which compared favourably with the nationwide decline of 43% over the same period. But sales volumes in NM have failed to rebound over the last year, and by June 2010 were still down 0.9% from a year earlier. The weakness has been most pronounced in Marlborough, with a lack of demand for holiday homes remaining a significant drag on the market.

Rents

Rents rose 3.6% during the year to June in NM, with definite signs of a pick-up in rental growth emerging over the last few months. Nelson has virtually managed to avoid any declines in rents. In contrast, the weak property market in Marlborough has seen rents drop by as much as 7%, although the extent of those falls has moderated since early 2010. Bond lodgement numbers in Marlborough in late 2009 and early 2010 were taking advantage of an oversupply of rental property to find cheaper accommodation.

Construction

The year to June 2010 was the first time in four years that growth in residential building activity in NM was weaker than the national average. Although consent numbers lifted by only 8% over the last year, the annual total for the region was just 13% below its June 2006 level, compared with a 37% drop nationally. As with other indicators, Nelson is the core of the relatively strong position, with activity in the area actually rising 0.8% between 2006 and 2010.

Forecast

House prices

House prices in NM are forecast to fall 6.9% over the next years, but the overall regional figure is set to mask some divergence between Nelson and Marlborough. Prices in Nelson are expected to be pushed lower by the Government's tax changes and rising interest rates, but with recent price falls making property in Marlborough appear relatively cheap, prices for holiday homes in this part of the region may find a floor in coming quarters. By 2013, Nelson's relatively strong economic performance should see price growth in that part of the region move ahead of growth in both Marlborough and New Zealand as a whole.

Population

Population growth across the NM region is set to ease from 1.4% to 1.1%pa over the next year, as the number of people from Nelson heading overseas lifts in response to the improving global economy. But a combination of labour shortages in Marlborough and relatively affordable housing in attractive lifestyle locations may boost the number of international arrivals into that part of the region. There is potential for Marlborough's population growth to hold at about 1.3-1.4%pa over the next three years.

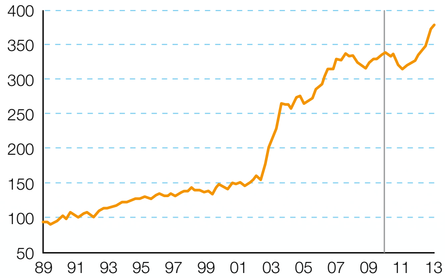
House sales

Changes in house sales activity over the next two years in NM are likely to be similar to nationwide trends, with the larger Nelson market dominating as it adjusts to rising interest rates and the rules around investment property taxation. With sales activity in Marlborough still at low levels, sales volumes are likely to remain relatively stable over the next year as the global economy recovers and there is some pick-up in buyer demand for well-valued properties in holiday locations.

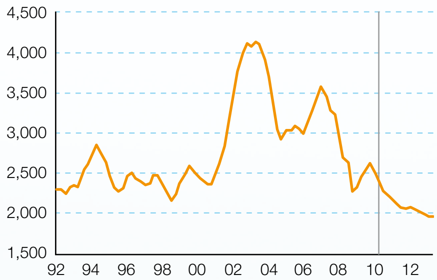
Construction

The static property market in Nelson over the next 1-2 years will be a dominant factor in construction activity in the region, with consent numbers forecast to ease 1.9% between June 2010 and June 2012. In contrast, residential building activity on a nationwide basis is forecast to increase 17% over the same period. Steady levels of buyer demand for property in Marlborough could translate into some growth in residential construction in the area during the next year.

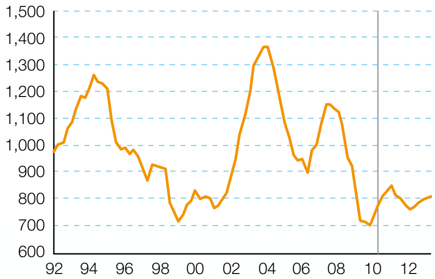
Graph 10.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 10.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 10.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



11. christchurch

State of play

House prices

House prices in Christchurch have increased 6.2% over the last year, outpacing the national growth rate and recapturing some of the greater-than-average price falls recorded during 2008 and early 2009. The city had struggled with the downturn in retail activity, export commodity prices, and manufacturing activity between 2007 and 2009, but these economic drivers have gradually improved over the last year and had a positive affect on the region's property market.

Population

Christchurch's population growth has edged up from 1.0% to an estimated rate of 1.2%pa over the last year. Although the number of people leaving the city to head overseas has dropped to a seven-year low, the improvement in population growth has been limited by a decline in immigrant numbers as the city's economic fortunes made it more difficult to attract migrants from offshore.

House sales

The cycle in the Christchurch housing market has moved ahead of nationwide movements over the last 3-4 years. In June 2009, sales growth in Christchurch was -6%pa, improving ahead of the national growth figure, which was still down at -12%. Sales growth peaked in the Christchurch market early this year and has already eased back to 2.8%pa, as the rebound in property prices and the prospect of rising interest rates have started to reduced the affordability of housing in the region.

Rents

Rents in Christchurch increased 2.4% over the year to June 2010, pushing them back up to the level that prevailed in mid-2008. Although there has been some improvement in recent months, rental yields have eased about 50 basis points since house prices bottomed out in early 2009, as rents have failed to keep pace with property prices. Rental growth had edged up over the last few months, and further upward pressure is likely during the next year as landlords adjust to the tax changes implemented by the Government.

Construction

Growth in residential building activity in Christchurch reached 36%pa in the year to June 2010, a growth rate second only to Taranaki/Manawatu/Wanganui. This increase occurred despite a reduction in apartment consent numbers, indicating that standalone and townhouse construction activity in the city has been relatively buoyant. The strong growth suggests that residential developers in the city are finding it easier to obtain finance, or are less reliant on external funding, than in other parts of the country, meaning that finance is less of a constraint on building activity than in other regions.

Forecast

House prices

Christchurch's house prices are forecast to be similar to national price movements over the next three years. Rising interest rates and a period of adjustment to the tax changes for investment property are expected to contribute to a 5.0% decline in house prices by June 2011, but prices are likely to stabilise by late 2011 and start increasing in 2012, reflecting improving economic growth and a mounting shortage of housing. Between June 2011 and June 2013, house prices in Christchurch are forecast to rise 18%.

Population

A slight easing in population growth in Christchurch is likely over the next year. The number of people heading overseas is expected to lift by 5-10%, back towards more normal levels, as offshore labour markets tighten and job opportunities improve. Population growth in Christchurch is forecast to average 1.0%pa over the next three years.

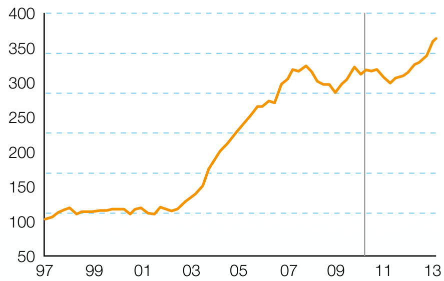
House sales

The outlook for house sales in Christchurch sees a 6.8% decline in activity over the next year, a slightly smaller drop than that predicted for the country as a whole. A lack of buyer demand will limit sales numbers, but it is unlikely that many people will be in a position where they have to sell. With prices still below their 2007 until late 2012, most property owners are likely to hold onto their property rather than sell into a weak market, keeping sales activity subdued throughout 2012 as well.

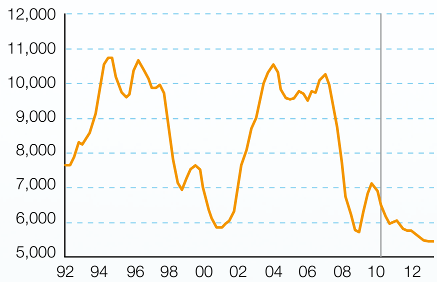
Construction

With the real estate market again weakening after the brief rally enjoyed during 2009, the strong pick-up in residential construction activity in Christchurch is not forecast to last. Consent numbers are predicted to increase just 6.4% during the year to June 2011, a much smaller increase than the 15% lift forecast nationally. Over the following two years, growth in consent numbers is expected to remain below the national average as activity in other regions is boosted by improving funding conditions for residential developers.

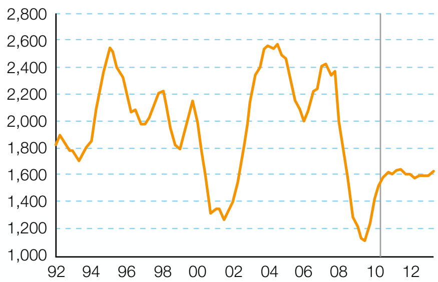
Graph 11.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 11.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 11.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



12. provincial canterbury/westland

State of play

House prices

House prices in Provincial Canterbury/Westland (PCW) had looked particularly weak in late 2008 and early 2009, falling by as much as 7.7%pa as the global recession and downturn in commodity prices had a significant affect on the region. However, lower mortgage rates and rebounding export prices have seen the region's housing market recover over the last year, with prices in June 2010 up 6.0% from a year earlier.

Population

PCW has continued to enjoy a significant net inflow of people from both overseas and other parts of New Zealand. Net international migration was slightly weaker for the year to June 2010 as the number of immigrants to the region from overseas eased, but interprovincial population movements were stronger and have pushed population growth up from 1.3% in 2009 to an estimated 2.1%pa. The Selwyn and Waimakariri areas, close to Christchurch, continue to enjoy the fastest population growth in the region.

House sales

As in other parts of the country, house sales activity in PCW rebounded during the second half of 2009 as low mortgage rates and some drop in house prices drew potential buyers back into the market. By June 2010, however, sales growth was starting to ease again, and sales for the year were up just 5.1% from the previous 12 months. With fewer "bargains" about and mortgage rates set to rise, the number of potential buyers has decreased.

Rents

Rental growth slowed in PCW during 2009 and early 2010, but has picked up slightly in the last couple of months to reach 2.3%pa. The rebound in house prices over the last 15 months has seen rental yields in the region deteriorate. Although yields are still considerably better than they were during 2007 at the peak of the housing market, the Government's tax changes suggest that rents will come under upward pressure over the next 1-2 years.

Construction

Residential construction activity in PCW was consistently stronger than the national average every year between 2004 and 2008. Consent numbers declined 43% during the year to June 2009, compared with a 39% drop for New Zealand as a whole, but in the 12 months to June 2010, activity lifted 25%, one of the largest increases in the country. As a result of this strong performance, consent numbers in PCW over the last were just 8.2% below the average of the last decade; the comparable figure nationally was 32%.

Forecast

House prices

With buyer numbers in the region easing and mortgage rates increasing, house prices in PCW are forecast to fall by 3.8% over the next year. The rebound in property prices in PCW in 2011/12 is expected to be slightly stronger than the nationwide lift. However, by 2013 price growth in the region is predicted to be still at 6.3%pa, slower than the national average of 10%pa. The availability of land in the region is likely to limit the acceleration in house price growth as the real estate market recovers.

Population

Population growth in PCW may retreat from its highs over the next year as more people start to head overseas again, but the region is still expected to enjoy the most rapidly expanding population in the country. In areas close to Christchurch in particular, proximity to facilities, services, and employment combined with relatively affordable house prices will act as a draw card for people to come from other parts of the country. Population growth in PCW is forecast to average 2.0%pa over the next three years.

House sales

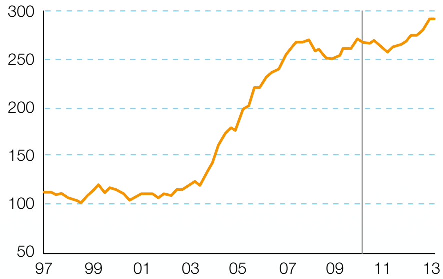
Changes in house sales activity in PCW are likely to be similar to those in Christchurch over the next three years, reflecting the links between the Christchurch and broader Canterbury economies. Sales volumes are forecast to decline 4.6% over the coming year, as vendors hold on to property in the face of falling prices. The market is predicted to stabilise in 2012 and 2013, but the relatively limited lift in property values during this period could limit the number of houses on the market and constrain sales activity.

Construction

Construction activity in PCW is still at reasonably strong levels in relation to historical averages, and the region is not suffering the same under-building as some other parts of New Zealand. As a result, further growth in residential consent numbers is likely to be limited, with an 11% rise in activity forecast over the next 12 months. Despite strong population growth, the lack of any substantial lift in house prices in 2012 and 2013 could act as a constraint on further building activity, and consent numbers are forecast to fall 9.9% between mid-2011 and mid-2013.

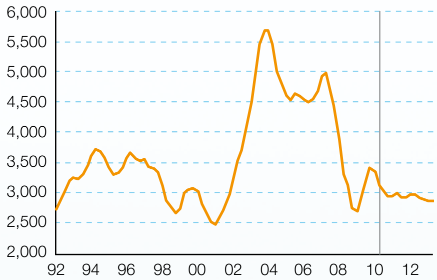
Graph 12.1
Median house prices ($000)

Source: Real Estate Institute of New Zealand; Infometrics forecasts



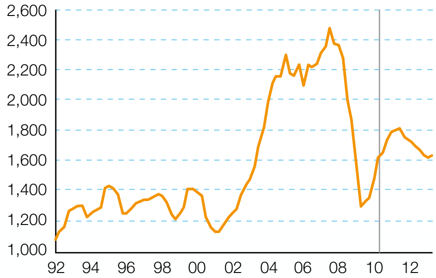
Graph 12.2
Annual house sales total

Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 12.3
Annual dwelling consent total

Source: Statistics New Zealand; Infometrics forecasts



13. otago/southland

State of play

House prices

The housing market in Otago/Southland (OS) was one of the last to start cooling in 2007/08, and subsequently recorded the biggest price falls, with an 8.1% decline in house prices between June 2008 and June 2009. Over the last year, the recovery in prices has been minimal, with property values up 2.0% in the year to June 2010. In Southland, prices are still under downward pressure and were 1.7% lower in June 2010 than they were a year earlier.

Population

Population growth in OS has not been stronger since at least the mid-1990s, with the population expanding by an estimated 1.4% in the year to June 2010. The biggest improvement occurred in Coastal Otago, which attracted the most international immigrants in seven years as well as experiencing a sizable drop in the number of people heading overseas. Southland's international migration flows were also strong, while Central Otago attracted more people from within New Zealand.

House sales

The recovery in house sales activity in OS has been modest over the last year. Sales growth peaked at 15%pa in February, well below the peak in nationwide growth of 30%pa. By June, sales growth in the region had eased to 4.2%, with the Central Otago market providing the strongest results in terms of housing turnover.

Rents

After some falls in rents were recorded in the second half of 2009, rental growth in OS has picked up momentum over the first half of 2010. By June, rents in the region were up 3.5% from a year earlier. Southland recorded the strongest performance, with rental growth of 6%pa, having avoided the declines in rents that occurred in other parts of the region. Rents fell by as much as 8% in Central Otago, and although the declines recorded in Coastal Otago were smaller, the latter has seen only a sluggish increase in rents during the last few months.

Construction

The downturn in residential consent numbers in OS during 2008/09 was smaller than the national decline, but the rebound in activity over the last year has also been more muted. Consent numbers for the year to June 2010 were up 9.1% from the previous 12 months. However, activity varies widely across the region: consent numbers are up 43% in Coastal Otago, but down 0.5% in Central Otago and down 11% in Southland.

Forecast

House prices

The persistence of strong population growth in OS suggests that prospects for house prices in the region over the next three years are among the best in the country. Prices are forecast to climb 19% over the three years to June 2013. The lack of residential building activity in Central Otago is set to push up house prices in the area as demand for property picks up over the next two years, particularly once the global economic recovery becomes more assured and some international buyers start to return to the market.

Population

Population growth in OS is likely to pull back from its current highs in 2010/11, as the number of people leaving the region to head overseas increases in response to the stronger global economy. Nevertheless, the region's population growth is still expected to average 1.0%pa over the next three years. The low unemployment rate will act as a draw card for people to come to OS, and the benefits of high dairy prices will also be evident in the region's economic performance.

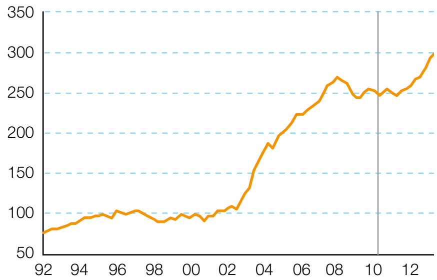
House sales

House sales activity in OS is expected to come under downward pressure over the next year as higher interest rates limit buyer demand. However, at 6.3%, the fall in sales volumes between June 2010 and June 2011 is expected to be smaller than the national decline, and activity is predicted to start edging up from late 2011 as the strong regional economy and strong population growth boost buyer demand. Some of the biggest increases in sales volumes in 2012 and 2013 are likely to occur in Southland, where property will continue to be the most affordable in the country.

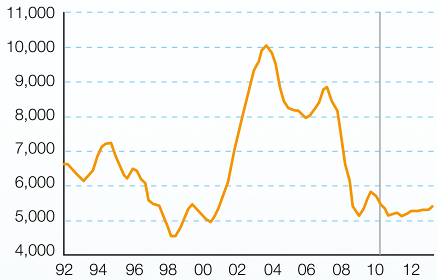
Construction

In Southland, residential building activity is only 4% below the average of the last decade, and activity in Coastal Otago is up 1.7% on the ten-year average. So even with strong population growth and a relatively buoyant housing market over the next three years, there is unlikely to be any substantial lift in residential consent numbers. By June 2013, the annual consent total is forecast to be just 3.4% above the level three years earlier, compared with a 26% increase nationally. Even in Central Otago, where activity is currently more subdued, growth in building work will be limited by ongoing difficulties in securing funding for projects in what has traditionally been a highly speculative market.

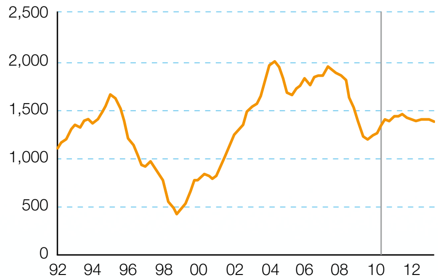
Graph 13.1
Median house prices ($000)
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 13.2
Annual house sales total
Source: Real Estate Institute of New Zealand; Infometrics forecasts



Graph 13.3
Annual dwelling consent total
Source: Statistics New Zealand; Infometrics forecasts



About QBE LMI

Operating in the New Zealand market for over 22 years, QBE LMI has combined its risk management expertise and financial strength to serve the evolving needs of our clients through all stages of the economic cycle.

Our products and services support the mortgage industry by reducing the inherent risk in mortgage lending. By protecting mortgage lenders and investors from credit losses, we ensure mortgages are available to qualified home buyers. Through QBE LMI, borrowers can be offered more flexible financing options and can enter the housing market sooner by bridging the deposit gap.

We use our leading research and analytics, our depth and breadth of market knowledge combined with our risk mitigation experience to guide our clients through the risk curve and help them securely grow their business.

QBE LMI provides lenders' mortgage insurance to the lending industry in Australia, New Zealand and Hong Kong and operates as a wholly owned subsidiary of QBE.

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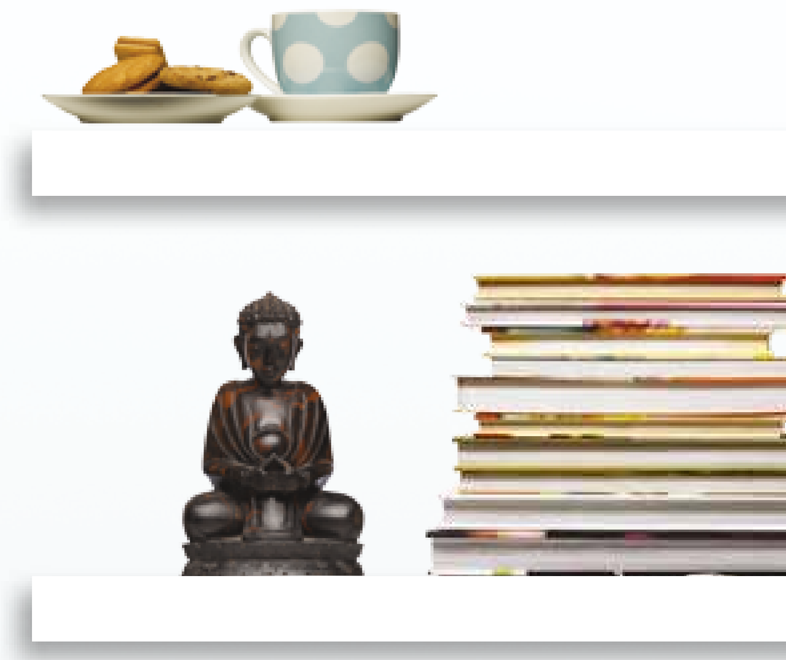

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