QV.co.nz Housing Survey June 2010

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A buyers market

The results of the latest survey of the New Zealand housing market carried out by QV.co.nz shows an increase in the number of people who think that now is a good time to buy. This is in contrast to a strong sentiment that now is not a good time to sell.

As in the last survey in March there is an expectation that prices will drop over the coming 12 months, however the sentiment is not as strong. Unlike the last survey there are now a significant number of people who expect prices to rise and fewer expecting them to drop more than 6%.

Property values are still the main factor affecting people's decision to buy or sell. Job security has increased in importance as a reason, although we don't know whether that is because people feel more or less secure. In the March survey the tax changes yet to be announced in the budget were a significant factor in people's thinking. Now that the budget has been and gone, and the changes are known, that has reduced dramatically as a factor in people's thinking.

More people now believe that it is a good time to buy, and few believe that it is a good time to sell. This reflects what we are seeing in the market where in general there are plenty of properties for sale, relatively few selling, and prices sliding downwards. Buyers have the luxury of being able to take time over their decisions and they expect vendors to have their properties priced at a level that reflects the market.

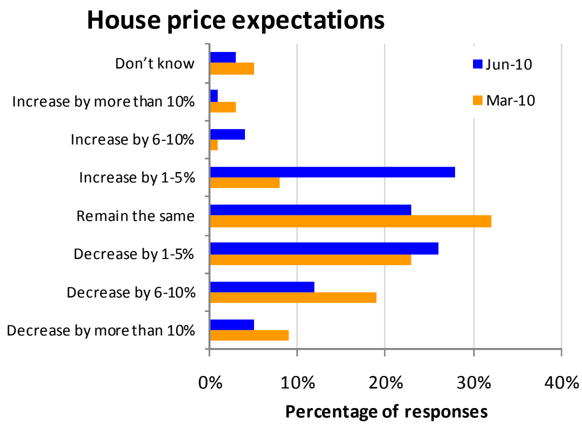
A new set of questions specifically for property investors shows that while the changes to depreciation rules announced in the May budget had the most impact on them financially, it will not lead to them selling some or all of their investment properties. On the contrary, most either intend to keep their current portfolio or buy more properties. There is a clear signal that rents are set to rise, with just over half of the respondents indicating that rents would rise, mostly between 1 and 5%.

Expectations of more stable prices

There is still an expectation that prices will fall over the next twelve months, but the extent of the fall has eased from the March survey. Fewer people now expect prices to drop, especially by more than 5%. There has also been a dramatic increase in the number of people expecting prices to rise by up to 5%.

The breakdown is:

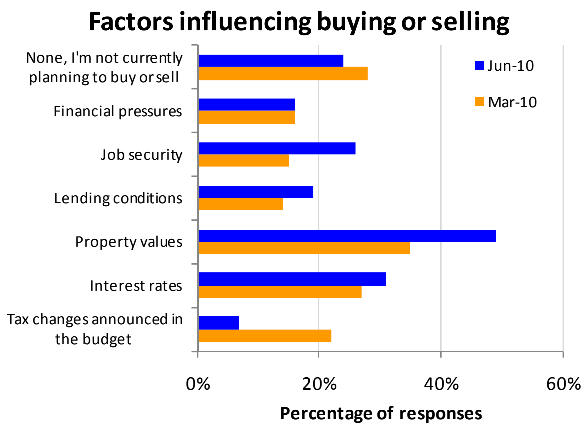
- A net 10% expect prices to fall (down from the net 39% who expected prices to fall in the March survey)



- 33% now expect house prices to rise (up from 12% in March)
- 43% expect house prices to fall (down from 51% in March)
- 23% expect values to stay the same (down from 32% in March)

Property values strongest reason to buy or sell

Property values remain the most important factor influencing whether people are going to buy or sell, and this is more of a factor than it was in the last survey. Job security has also increased in importance as a factor, although we don't know whether that means respondents are feeling more or less secure about their jobs. Now that the tax changes have been announced they are now the least important factor in people's decision making. This is quite a change from March when the uncertainty over the nature of the tax changes were clearly weighing on people's minds.

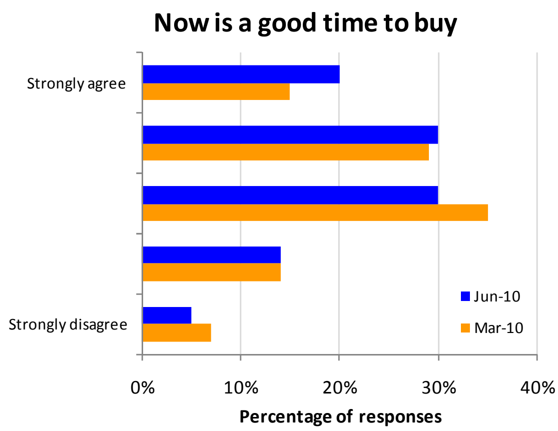


The overall breakdown is:

- Property values – 49% listed this as a factor, up from 35% in March
- Interest rates – 31%, up from 27%
- Job security – 26%, up from 15%
- Lending conditions – 19%, up from 14% in March
- Financial pressures – stable at 16%

More now believe now is a good time to buy

A net 31% of respondents believe now is a good time to buy, up from the net 23% in the March survey. Compared to the March survey roughly the same number believe it is not a good time to buy, fewer are neutral and more think it is a good time. People are probably responding to a market where there are plenty of houses for sale but few sales taking place and prices are generally dropping. The breakdown is:



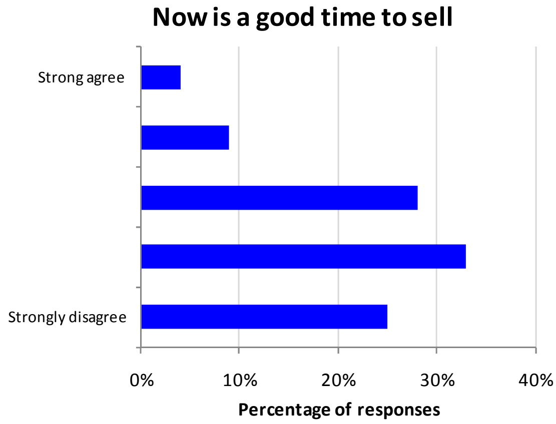
- 50% agreed or strongly agreed that now is a good time to buy (44% in March)
- 19% disagreed or strongly disagreed (21% in March)
- 30% were neutral (35% in March)
- This leads to a net 31% believing now is a good time to buy (23% in March)

Not a good time to sell

A new question asked for the first time in this survey was whether now is a good time to sell. Compared to the results for buying there is a much greater negative response. A net 45% believe it is not a good time to sell.

The breakdown is:

- 58% disagreed or strongly disagreed that now is a good time to sell
- 13% agreed or strongly agreed
- 28% were neutral
- This leads to a net 45% believing now is not a good time to sell



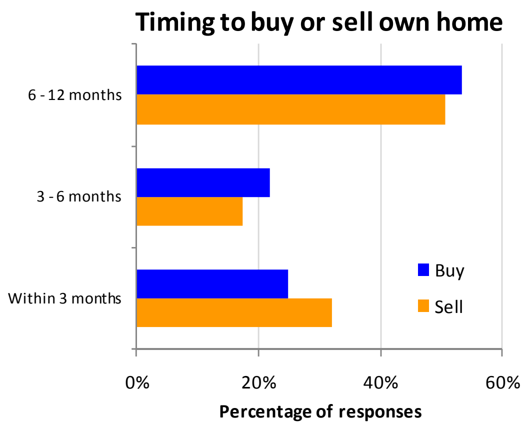
Intention to buy or sell more than six months away

In previous surveys we have asked people when they next intend to buy or sell property. However we made no distinction between whether this was their own home or an investment property. In response to feedback and the increased focus on investment property in recent months we have split the questions. This means that we cannot directly compare to our previous survey results, but we will have a more useful measure from now on.

Of those intending to buy or sell their own home in the next 12 months, the highest proportion intended to do so in at least 6 months time. Of the remainder there were slightly more intending to buy or sell within 3 months than in 3 to 6 months.

The breakdown is:

- 25% are intending to buy within 3 months, 32% intend to sell
- 22% intend to buy within 3 to 6 months, 17% intend to sell
- 53% intend to buy in 6 to 12 months, 51% intend to sell



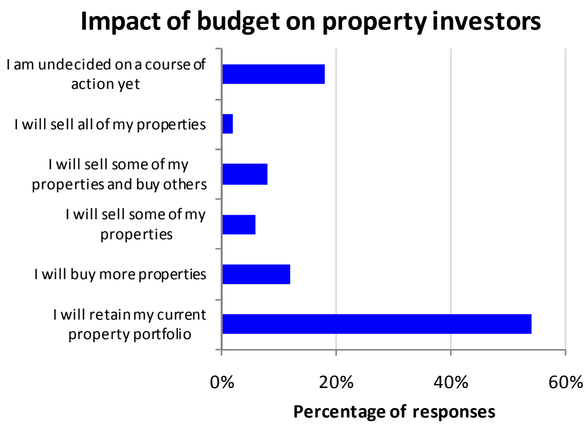
Few property investors sell as a result of the Budget

In this survey we introduced a new set of questions specifically for property investors. This was not only to gauge reaction to the budget, but also so we can now separately monitor investors' intentions which could be quite different to home owners'.

The budget does not appear to have led to a large number of property investors intending to sell up or exit the market. Over half intend to retain their current portfolio, with only 8% intending to sell some or all of their investment properties. In contrast 20% intend to buy investment properties. While 18% remain undecided the overall results appear to show that the budget changes have not forced many investors out of the market.

The breakdown is:

- 54% intend to retain their current portfolio
- 6% intend to sell some of their investment properties and 2% intend to sell all of them
- 12% intend to buy more properties, and 8% intend to sell then re-buy
- 18% are undecided

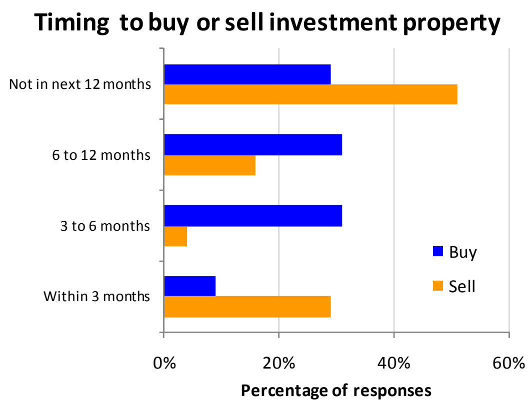


Those looking to sell will do so quickly

While the number of investors intending to buy or sell property is quite low, those that intend to sell are either going to do so quickly or not for at least 6 months. For those intending to buy, few intend to do so within three months, but seem to be waiting longer, perhaps for prices to fall further.

The breakdown is:

- Of those intending to buy or sell, 9% intend to buy within 3 months, 29% intend to sell
- 31% intend to buy in 3 to 6 months, 4% intend to sell
- 31% intend to buy in 6 to 12 months, 16% to sell
- 29% intend to wait at least 6 months before buying, 51% before selling

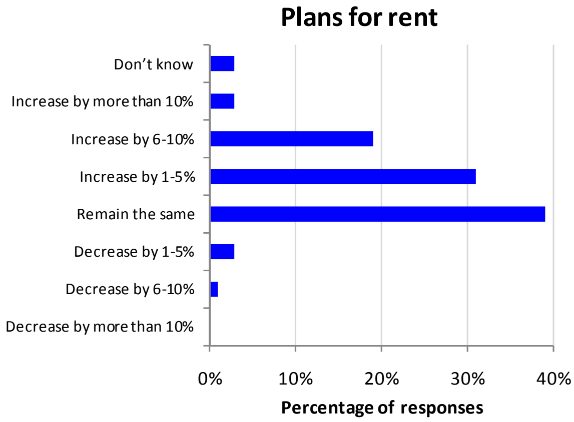


Rents seem set to rise

There has been significant speculation in the media and amongst various commentators that rents will rise in response to the changes in tax treatment on investment property. So we asked property investors what they intended to do with the rent on their properties over the next 6 months. 39% intend to leave rent unchanged, while 53% intend to increase rent, mostly by 1% to 5%.

The breakdown is:

- 39% intend to leave rent the same
- 31% intend on increasing rent by 1-5%
- 19% intend on increasing rent by 6-10%
- 3% intend increasing rent by more than 10%
- 3% intend decreasing rent by 1-5% and 1% intend decreasing rent by 6-10%
- 3% don't know



Depreciation had the biggest impact on investors

We asked investors which of the main tax changes in the budget has the largest impact on them financially. The changes to the depreciation rules affected the most, closely followed by the increase in GST and a lowering of the personal income tax rate. Only 10% saw the biggest impact from changes to treatment of LAQCs and depreciation, perhaps as the change to depreciation is seen as more significant.

The breakdown is:

- 35% considered the biggest financial impact to be from changes to depreciation rules
- 27% - the GST increase
- 24% - the lower personal income tax
- 10% - changes to LAQCs and the use of trusts
- 4% - the lower corporate tax rate