



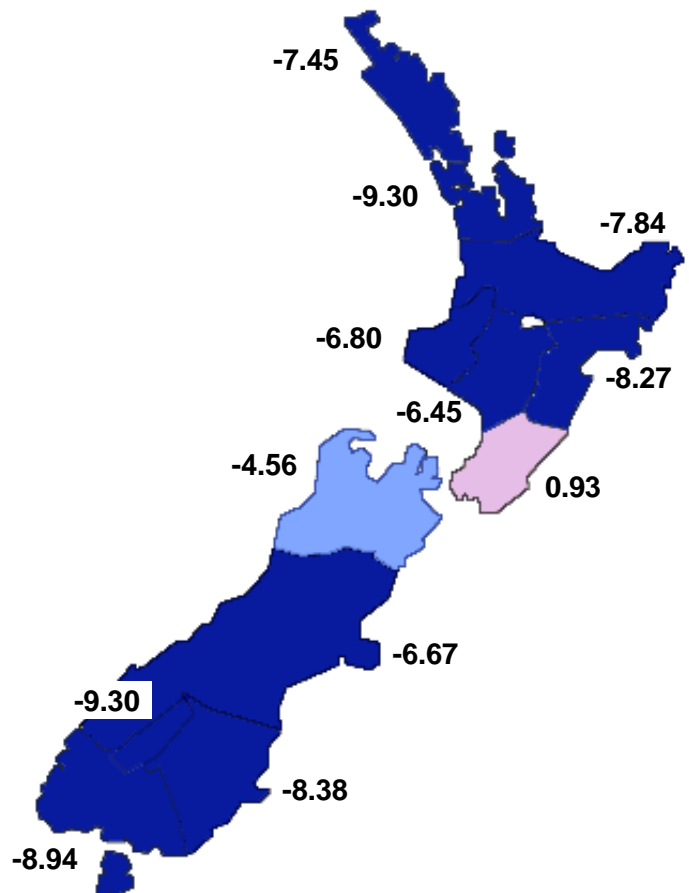
Buyers deterred by higher interest rates

- Property in the June quarter took between six and nine days longer to sell than it did a year ago.
- After easing in the first quarter of 2006, nationwide house price inflation has stabilised at 11%pa.
- Rental inflation has held at around 5%pa for the last nine months.
- Although sales volumes showed signs of improvement in May and June, the total for the quarter was still 1.9% lower than last year.
- Further rises in fixed mortgage rates are set to dampen buyer demand further throughout the rest of 2006.

On average, houses are now staying on the market for the longest time in 3-4 years – the median length of time on the market in June was 37 days. The slowing rate of turnover since has been the main factor driving The Mike Pero Mortgages - Infometrics Property Cycle Indicator down since the start of this year, with it slipping from -5.19 in the March quarter to -7.35 in June. At this stage, the slowdown in the housing market is comparable to the one observed in the second half of 2004.

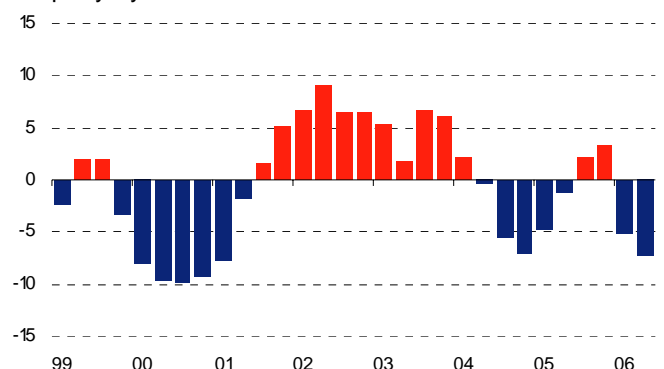
One of the features of the current slowdown is that the property market in almost every region has been affected. Wellington is the only region where our indicator still shows an upturn, while the Nelson/Marlborough market appears to have already emerged from the worst of its downturn.

With inflation at 4%pa, the Reserve Bank is not expected to cut interest rates before March next year. Fixed mortgage rates are also climbing, and this is likely to limit the number of buyers in the housing market. Rising debt-servicing costs will also make buyers wary of paying high prices and taking on too much debt.



New Zealand

Property Cycle Indicator



Northland

The Northland market continued to weaken rapidly in the June quarter, with sales volumes down 20% on a year ago. The largest fall in activity in six years was backed up by a marked slowdown in house price inflation, from 24% to 14%pa, and properties are spending 10-20 days longer on the market than a year ago.

Waikato/Bay of Plenty/Gisborne

House price inflation in Waikato/Bay of Plenty/Gisborne climbed from 12% to 14%pa over the June quarter. However, sales growth is weak, at -13%pa, and the average length of time on the market has risen 10-16 days over the last year. The Gisborne market has rapidly cooled and is now in line with other parts of the region.

Manawatu/Wanganui

Sales growth in Manawatu/Wanganui turned negative over the June quarter, and the average length of time on the market started rising more rapidly. House price inflation was the fastest in the country, holding steady at 22%pa, but with signs of ebbing buyer demand, price growth is likely to slow over coming months.

Wellington

The Wellington region has had the country's best-performing property market for each of the last four quarters. There are early signs of a slowdown, with the average length of time on the market increasing for the first time in 15 months. However, a lift in sales growth to 10%pa was enough to keep our indicator in positive territory in the June quarter.

Canterbury/Westland

Sales growth returned to positive territory in Canterbury/Westland over the June quarter, but buyer demand remained relatively soft – on average, properties took around ten days longer to sell than a year ago. House price inflation has edged down to a three-year low of 10%pa, and is likely to continue slowing over the second half of this year.

Otago

House price inflation in Otago climbed from 9.9% to 14%pa over the June quarter. However, sales growth failed to improve and, as in most other regions, properties are spending 8-10 days longer on the market than a year ago. Higher interest rates are likely to slow house price growth again in the second half of 2006.

Auckland

Despite a small lift in the June quarter, Auckland's house price growth of 7.8%pa remains among the slowest in the country. Changes in both sales growth and the average length of time on the market are similar to national trends. A moderate lift in net migration could boost prospects for the Auckland market, but that is unlikely to occur until 2007.

Hawke's Bay

The boom times are over in the Hawke's Bay market. Properties took 48 days to sell in June, and the rate of turnover has not been slower since 2001. House price inflation has slipped from 26% to 5.5%pa since September last year – the weakest in almost four years. We expect the Hawke's Bay market to remain soft well into 2007.

Taranaki

Indicators of the Taranaki property market looked more upbeat in the June quarter. Annual sales growth turned positive for the first time in eight months, and house price inflation recovered from 16% to 21%pa. The latest figures show that the slowdown in the Taranaki market over the last few months is moderating a little.

Nelson/Marlborough

The Nelson/Marlborough market may be nearing the end of its extended downturn. June quarter sales recorded their strongest growth in almost four years (22%pa), and house price inflation accelerated to a 21-month high of 9.2%pa. Any further improvement in the region's property market may be stalled in the short term by higher interest rates.

Central Otago Lakes

The strong growth in house prices in Central Otago Lakes over late 2005 and early 2006 has disappeared as quickly as it came. House price inflation in the region fell from 19% to 6.1%pa over the June quarter, and the average length of time on the market has not been higher since early 2002. Price falls appear to be a risk within the next year.

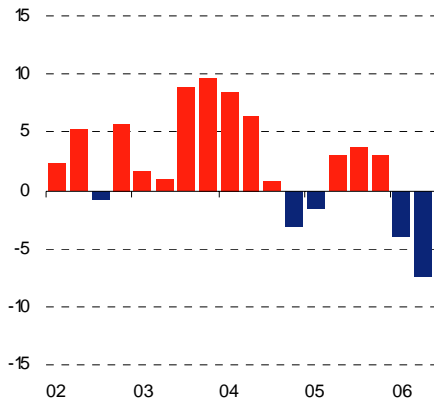
Southland

At 5.1%pa, Southland had the slowest house price growth in the country in June. Although the figure was an improvement on the previous quarter, property is taking around ten days longer to sell than in 2005. Falling rents and a shrinking population imply a negative outlook for house prices in the region over the next 18 months.

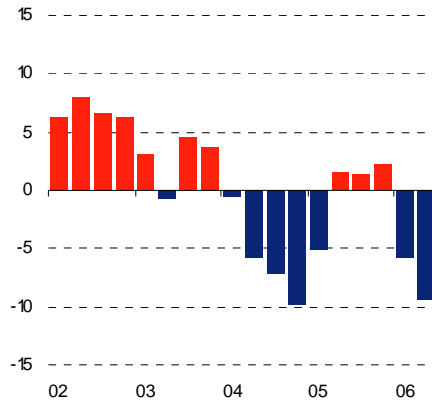
Regional Property Cycle Indicators

Each region's property market is scored between 10 and -10 dependent on where it is in the cycle: 10 is a strong upturn, while -10 is a large downturn. See the final page for more details on the methodology behind the Indicator.

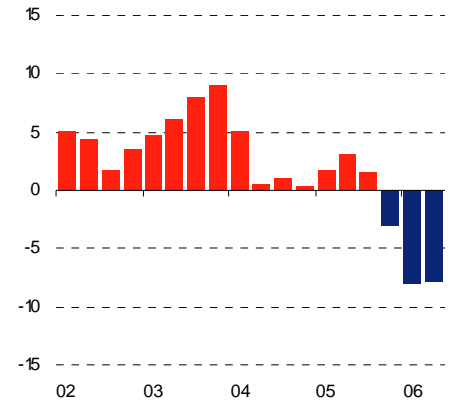
Northland



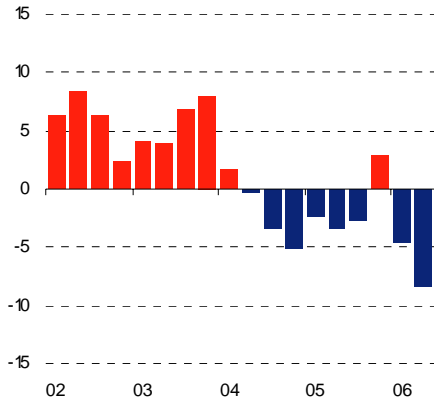
Auckland



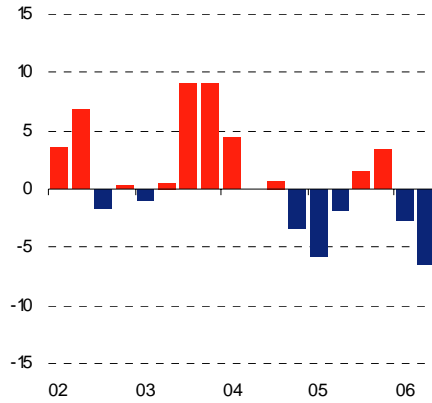
Waikato/BOP/Gisborne



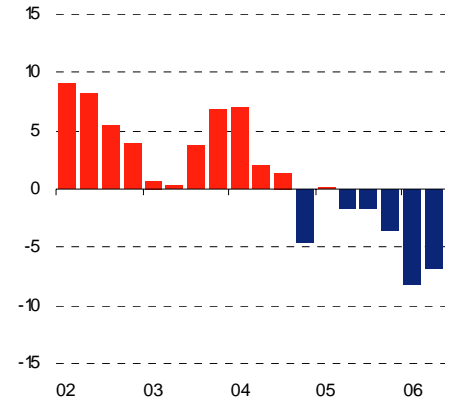
Hawke's Bay



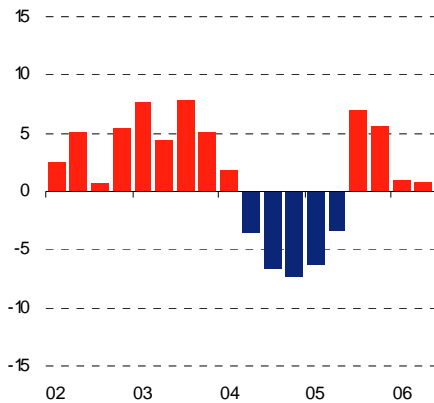
Manawatu/Wanganui



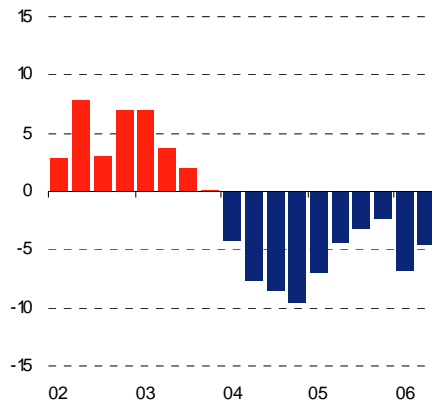
Taranaki



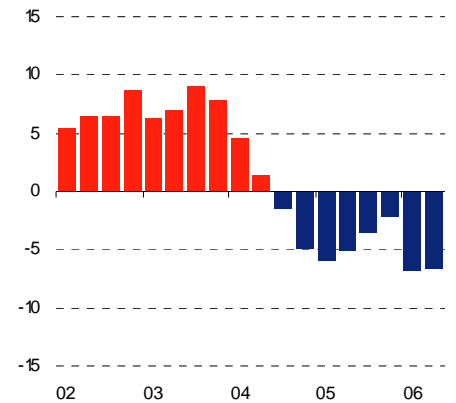
Wellington



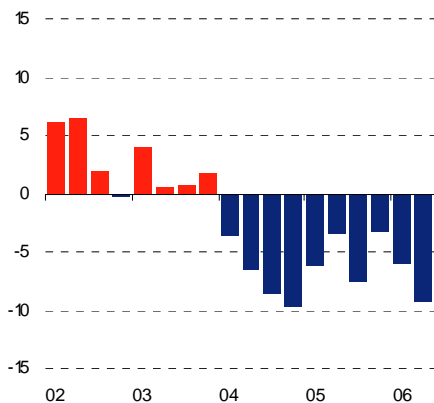
Nelson/Marlborough



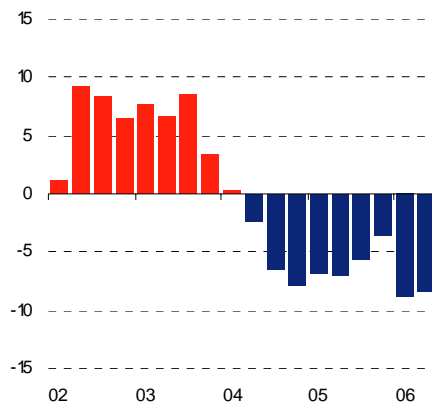
Canterbury/Westland



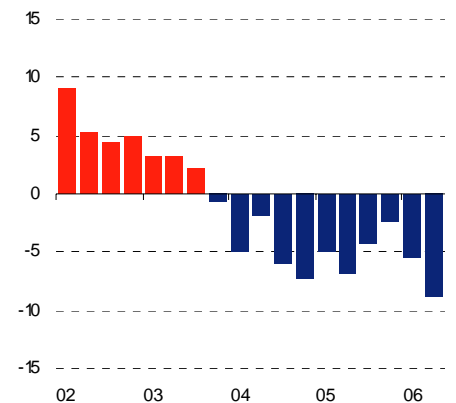
Central Otago Lakes



Otago



Southland



The Mike Pero Mortgages - Infometrics Property Cycle Indicator is prepared jointly by Infometrics and Mike Pero Mortgages.



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Understanding The Mike Pero Mortgages - Infometrics Property Cycle Indicator

The Mike Pero Mortgages - Infometrics Property Cycle Indicator is constructed using analysis of changes in house sales, price movements, and days on the market from data provided by the Real Estate Institute of NZ. Each region is assigned a number between 10 and -10 depending on the strength and direction of these three variables. Any figure above zero suggests an upturn in the region's property market, and the further above zero, the stronger the upturn. The converse is true for figures below zero.

The Mike Pero Mortgages - Infometrics Property Cycle Indicator may show a downturn even when house prices are still rising. However, house prices are usually the last variable to change direction when the property cycle turns. Generally, lower sales volumes will be the first sign of a slowdown, followed by properties spending longer on the market, eventually resulting in less upward pressure on house prices. By incorporating all three variables, The Mike Pero Mortgages - Infometrics Property Cycle Indicator attempts to pick up shifts in the market earlier, and provide a signal of possible future movements in house prices.

Monthly updates on The Mike Pero Mortgages - Infometrics Property Cycle Indicator are available at www.infometricsproperty.co.nz.

Mike Pero Mortgages

Mike Pero Mortgages is New Zealand's largest, most trusted mortgage broking company (Colmar Brunton May 2006). Mike Pero Mortgages has been arranging mortgages for New Zealanders since 1991, and has helped more than 60,000 Kiwis achieve home ownership. Mike Pero Mortgages remains independent from the banks, and its brokers pride themselves on providing professional, impartial mortgage advice to their clients.

Infometrics

Infometrics offers a range of economic consulting and forecasting services, and the building and property sector is one of its areas of expertise. Over the past 25 years, Infometrics has built a reputation for rigorous and independent work. The company has economic models and modelling expertise to apply to specific consulting projects. Infometrics presentations are widely regarded as entertaining, thought-provoking, and professional.

Disclaimer

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Data on residential property sales and prices is provided by the Real Estate Institute of NZ (www.reinz.org.nz).

