



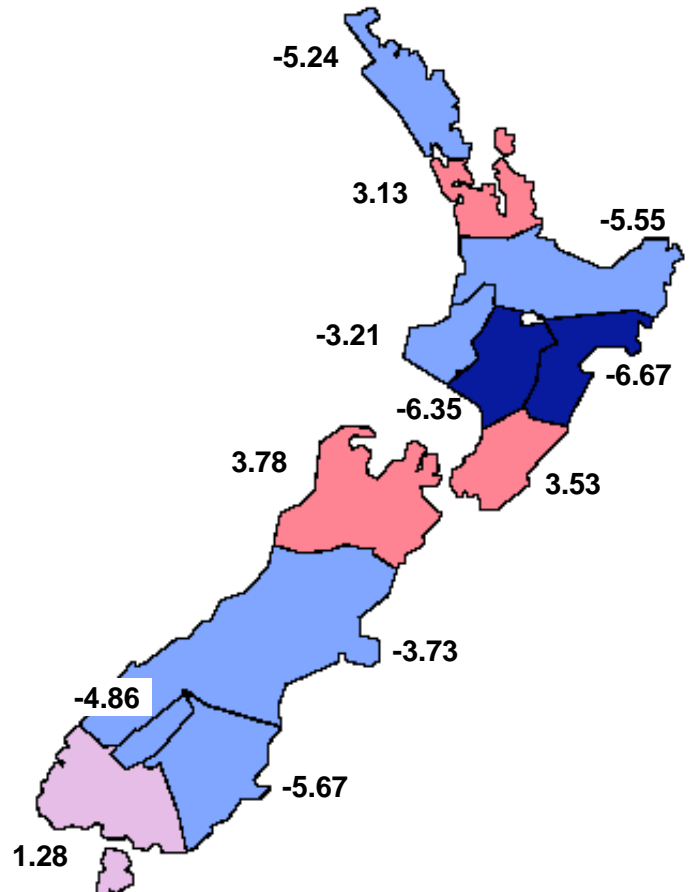
## Higher sales hint at housing market's "third wind"

- Growth in sales volumes surged to a three-year high of 9.3%pa over the December quarter.
- The upward trend in the average length of time on the market continues to slow – properties took just two days longer to sell than in December 2005.
- House price inflation bounced back above 10%pa after September's weaker result.
- Rental inflation has dipped to a 1½-year low of 3.8%pa, despite anecdotes of a tight rental market in Auckland.
- The housing market's signs of life have been a major factor behind the Reserve Bank's threats to increase interest rates.

The Mike Pero Mortgages - Infometrics Property Cycle Indicator climbed from -5.91 (revised) to -2.65 over the December quarter. Although it is still in negative territory, the Indicator gives some credence to the Reserve Bank's concerns that the housing market could be gaining a "third wind".

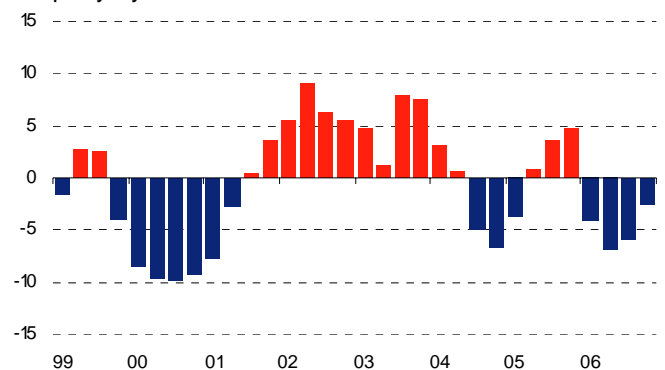
Our Indicator shows that the housing market is gaining momentum in Nelson/Marlborough, Southland, Wellington, and Auckland. The Auckland market represents around one-third of nationwide activity, and the effects of rising net migration over the last year are becoming apparent on demand for property in the region.

Recent strength in the housing market, and from other indicators of the domestic economy, mean that the Reserve Bank is likely to raise interest rates once or twice over the next 3-4 months. The direct impact on the housing market will be muted, given the prevalence of fixed mortgages. However, the effects on employment and income growth could undermine real estate activity later in 2007. The persistently high currency is also likely to stunt export growth, meaning that provincial areas will be most adversely affected.



### New Zealand

#### Property Cycle Indicator



### **Northland**

The Northland market remained soft in the December quarter – the region was one of the few where sales volumes were down on a year ago. The average length of time on the market for houses is one of the highest in the country, at 42 days, although as is the case nationally, the upward trend in this figure is not as rapid as it was earlier in 2006.

### **Waikato/Bay of Plenty/Gisborne**

Sales growth in Waikato/Bay of Plenty/Gisborne turned positive in December, for the first time in more than a year. But houses took nine days longer to sell than in December 2005, suggesting that there may be little substance to the latest pick-up in sales. Price growth has stabilised at around 10-11%pa, but is likely to ease further in 2007.

### **Manawatu/Wanganui**

The slowing rate of house price inflation in Manawatu/Wanganui continues to keep our Indicator for the region in negative territory. At 15%pa, house price growth has not been slower since mid-2004. The median number of days for properties to sell is below the national average, but the market's momentum will continue to wane throughout 2007.

### **Wellington**

After a sluggish September quarter, the Wellington property market regained momentum late in 2006. House price inflation accelerated from 11% to 16%pa (a 2½-year high), and the average length of time on the market was lower than a year ago. Job security in the public sector currently appears to be outweighing the effects of interest rate uncertainty.

### **Canterbury/Westland**

Our Indicator for the Canterbury/Westland market is now at its least negative in a year, boosted by the strongest sales growth (15%pa) since the end of 2003. Price growth also recovered to 9%pa over the December quarter. The West Coast may suffer a correction during 2007, but the Canterbury market remains on track to achieve a soft landing.

### **Otago**

House price inflation recovered to 9.3%pa in the December quarter, following a weak result in September. But even with sales growth reaching a three-year high of 11%pa, our Indicator suggests that the pick-up in prices is only likely to be temporary. Property is still taking longer to sell than it did a year ago.

### **Auckland**

The Auckland housing market looked considerably brighter in the December quarter. Sales growth hit a three-year high of 13%pa, property was selling almost as quickly as a year ago, and house price inflation had lifted since September. Rising immigration looks set to sustain the Auckland market's momentum over the next 6-9 months.

### **Hawke's Bay**

Hawke's Bay's house price inflation remains among the slowest in the country (at 5.3%pa). The region also missed out on the pick-up in sales over the December quarter that most other regions enjoyed. We still expect price falls to be avoided over the next year, but our Indicator shows the Hawke's Bay market is now the softest in the country.

### **Taranaki**

House price inflation in Taranaki recovered from 11% to 22%pa over the December quarter, and is now at its highest since April. Properties in December also spent an average of six days fewer on the market than a year earlier. Investment in the energy sector is providing a boost for economic activity in the region.

### **Nelson/Marlborough**

The Nelson/Marlborough market remains the most vibrant in the country for the second quarter in a row. Strong demand is evident by sales growth holding at 20%pa and properties taking 12 fewer days to sell than a year ago. After stagnant house prices for 2-3 years, prices are now rising at 16%pa.

### **Central Otago Lakes**

After promising signs in September, the Central Otago Lakes property market failed to kick on in the final quarter of 2006. Sales growth eased back from 25% to 4.8%pa by December, and the median house price was lower than a year ago. A recovery in this region's housing market in the short-term looks less likely than it did three months ago.

### **Southland**

Southland's house price inflation hit a 15-month high of 17%pa in December, confirming the market has moved into an upturn following three years of slowing momentum. The rate of turnover is also the second fastest in the country. The positive news could be short-lived, however, as sales growth slipped from 30% to 6%pa over the quarter.



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



Enquiries may be addressed to:

Shelley Magic

Marketing Manager

Mike Pero Mortgages

Ph: +64 3 365 4547

Email: [shelley.magic@mikepero.co.nz](mailto:shelley.magic@mikepero.co.nz)

Website: [www.mikepero.co.nz](http://www.mikepero.co.nz)



**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 a region's property market is gaining momentum, and the further above zero, the stronger that momentum. The converse is true for figures below zero.

The Mike Pero Mortgages - Infometrics Property Cycle Indicator may show a region is losing momentum 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](http://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**

No person should rely on the contents of the report without first obtaining advice from a qualified professional person. This report is made available on the understanding that Infometrics and Mike Pero Mortgages are not responsible for the results of any actions taken on the basis of information in this report, nor for any errors or omissions in its contents.

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

