



The nationwide housing slump

- House sales volumes are 25% lower than levels a year earlier.
- December quarter house prices rose 6.4% on December 2006.
- Fixed mortgage rates have picked up in recent months, as it has become more difficult for banks to source funding.
- The average length of time of the market has increased by seven days compared to a year earlier, and is now at 36 days.
- Annual rental inflation rose to 6.4% in December.

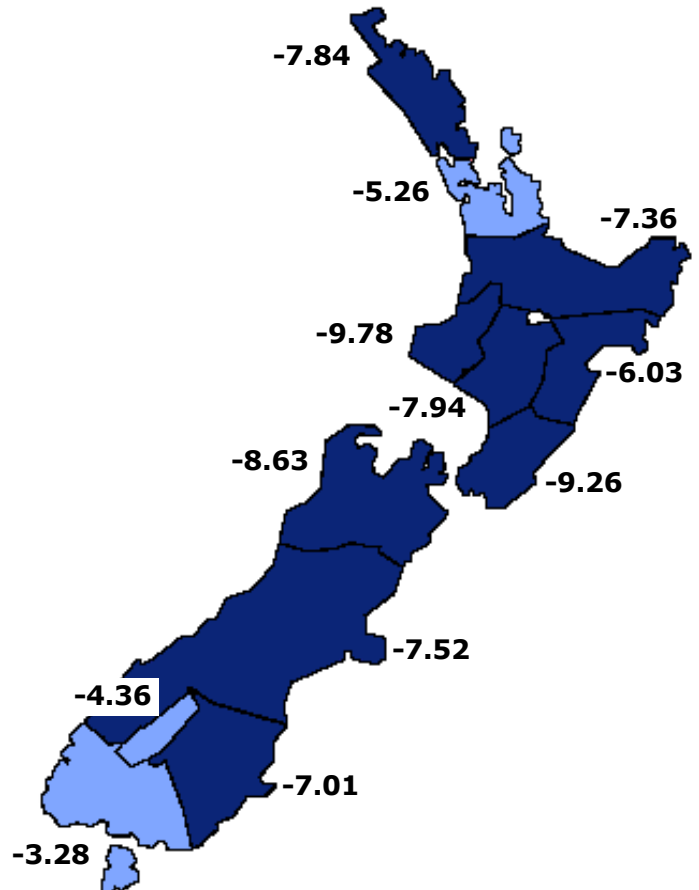
In December, the Mike Pero Mortgages - Infometrics Property Cycle Indicator fell sharply from September, moving from positive territory (0.47 revised) into deeply negative territory (-7.94).

The property cycle indicator deteriorated in all 12 regions over the quarter, as the housing market slowed across the whole country.

The weakening in house sales volumes experienced during 2007 has begun to translate in lower house price growth, with average house price inflation of 6.4%pa over the December quarter. With housing market activity continuing to soften, we expect house price growth to ease further in the March quarter.

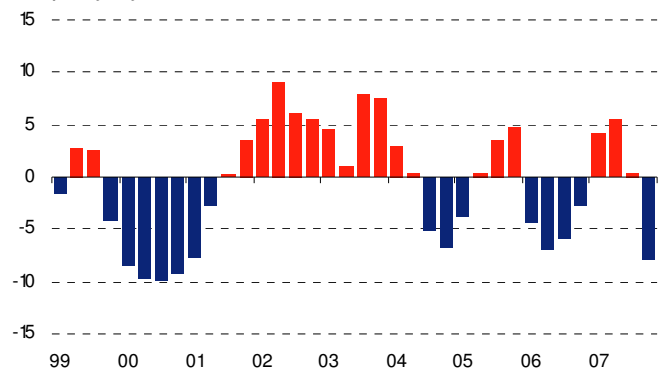
The outlook for interest rates is clouded by the uncertainty surrounding global credit markets. Over the December quarter, fixed interest rates rose, as it became more difficult for banks to secure credit.

With the housing market seemingly in retreat, the Indicator is likely to stay in negative territory over the March quarter.



New Zealand

Property Cycle Indicator



Northland

Momentum turned sharply south in the Northland property market in the December quarter as sales volumes fell at 36%pa and annual house price growth slid into single figures (8.0%). Weakness in forestry exports will continue to constrain Northland's economic growth in the short term, making any recovery in March unlikely.

Waikato/Bay of Plenty/Gisborne

The Waikato/Bay of Plenty/Gisborne property market continued to cool in the December quarter, as annual house price growth slipped back into single figures (7.2%) and house sales fell at 30%pa. Although the strength of dairy prices will help the region's economic growth, weakness in the Auckland housing market will have flow-on effect for the Waikato property market.

Manawatu/Wanganui

Further easing in house sales activity (down 24%pa) helped to cool the Manawatu/Wanganui property market further in December. House price growth remains in double figures (11%pa) as high dairy prices drive up the price of land in the region. With land prices now mainly taking into account the increase in commodity prices, we expect any further growth in the region's property market to be limited.

Wellington

Activity indicators turned south over the December quarter in Wellington, dragging the regional property cycle indicator down with them. Price growth fell to 3.7%pa, the lowest rate since August 2002, and sales volumes fell 23% on a year earlier. Momentum may improve in the coming months as the election year drives increased government spending.

Canterbury/Westland

The Canterbury/Westland property market slowed markedly in the December quarter, with house sales falling 26% on a year earlier and annual house price growth falling back to single figures (8.7%pa). As the exchange rate is expected to remain high, manufacturing in the region is likely to weaken, helping to cool the region's property market further.

Otago

Otago experienced a third consecutive quarter of negative property market momentum as house sales fell at 10%pa and prices rose by only 3.8%pa. Further weakness in wool and lamb prices will keep economic growth in the Otago region restrained, limiting any improvement over the March quarter.

Auckland

December's negative property market indicator for Auckland ended a year of accelerating market momentum in New Zealand's largest region. A severe slump in house sales volumes (down 30%pa) accounting for the market's slowing momentum. Continued financial market uncertainty will have a negative impact on prospects for the Auckland property market.

Hawke's Bay

Momentum in the Hawke's Bay housing market continued to weaken in the December quarter, as annual house price growth slid to a paltry 0.5%. Low world prices for wool and lamb have had a negative impact on the Hawke's Bay economy, leading to a fall in sales activity (23%pa). Further weakness in wool prices will restrain any recovery in the Hawke's Bay property market.

Taranaki

The Taranaki property market continued to cool in the December quarter, and recorded the worst indicator reading in the country for the third quarter on the trot. Driving this weakness is house price growth, which has slipped precariously close to negative territory (0.9%pa). The recent pick-up in dairy prices will help to increase activity in the region going forward.

Nelson/Marlborough

A pick-up in the average number of days to sell property in Nelson/Marlborough (to 36 days) indicates a further cooling in the region's property market. However, house sales have shown signs of improvement in recent months, and are down only 4.1% on a year earlier. With forestry and horticulture struggling with the high exchange rate, we expect momentum in the region's property market to remain negative in March.

Central Otago Lakes

Momentum in the Central Otago Lakes property market was little changed between the September and December quarters, as house sales fell 5.9% on a year earlier and annual house price growth eased to 2.2%. A slowdown in domestic economic activity, especially in neighbouring regions, will limit property market activity in Central Otago Lakes over the March quarter.

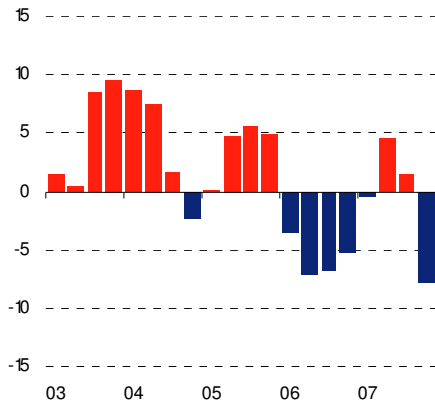
Southland

The Southland housing market momentum slipped into negative territory over the December quarter, after a year of positive momentum. Dragging momentum down was a 16%pa fall in house sales activity, but prices in the region are still 29% above their level of a year earlier. Market momentum is likely to stay negative over the March quarter, as house price growth eases.

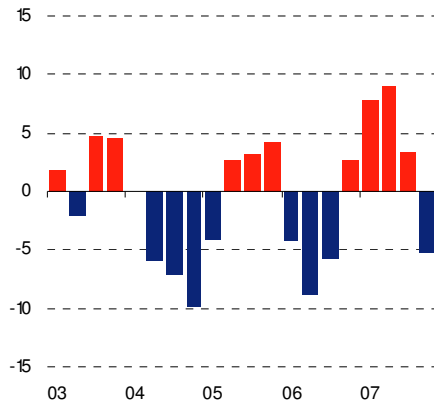
Regional Property Cycle Indicators

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 slowdown. See the final page for more details on the methodology behind the Indicator.

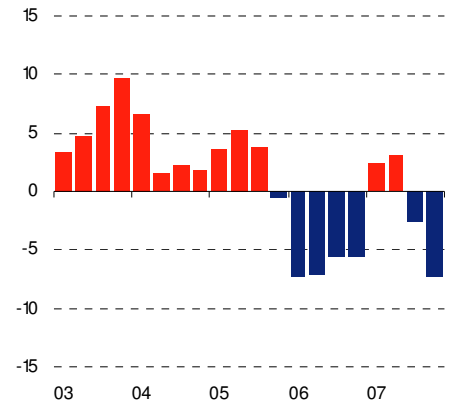
Northland



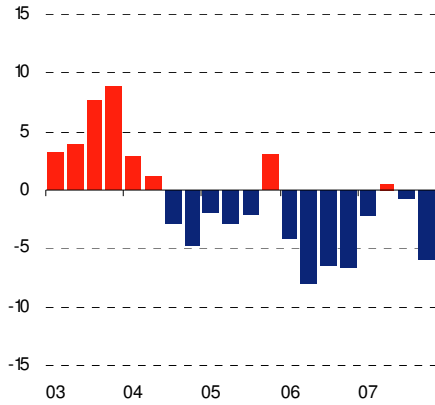
Auckland



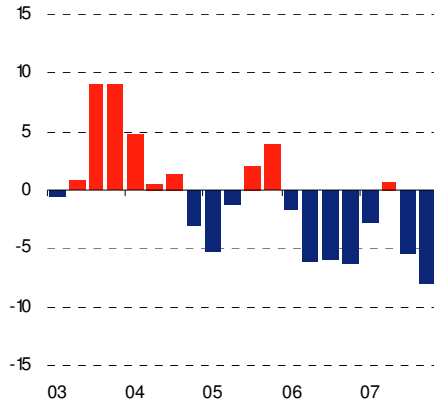
Waikato/BOP/Gisborne



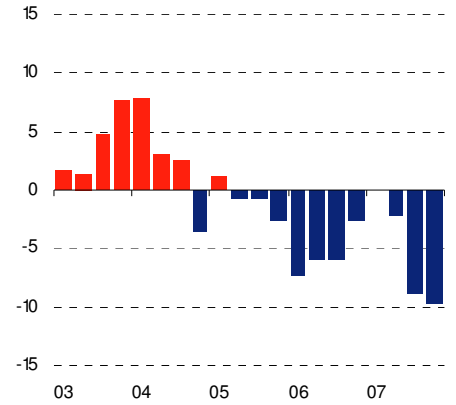
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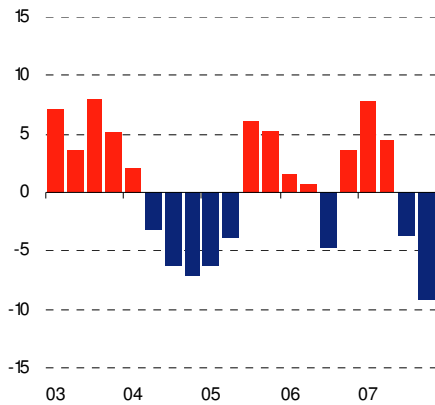
Manawatu/Wanganui



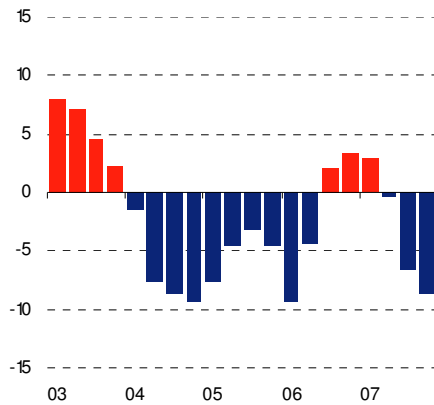
Taranaki



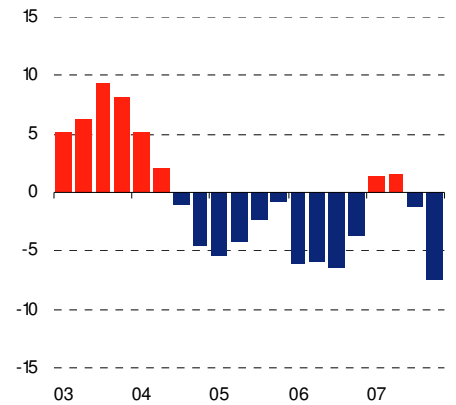
Wellington



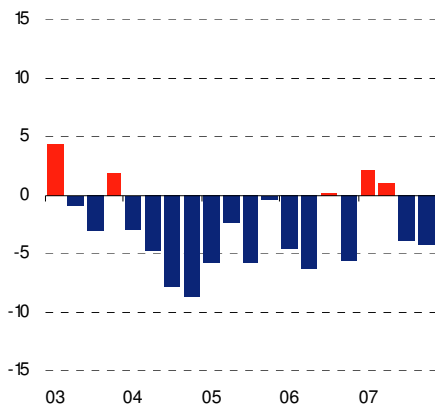
Nelson/Marlborough



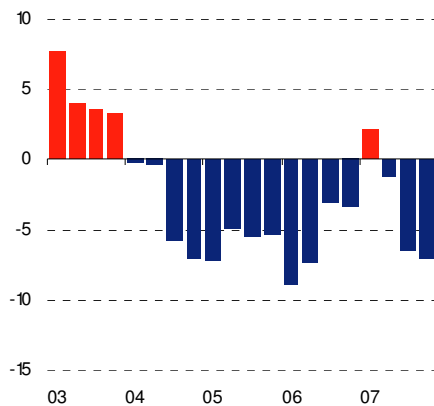
Canterbury/Westland



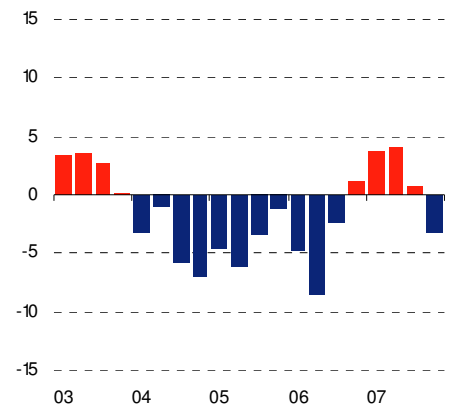
Central Otago Lakes



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 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.

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.

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

