



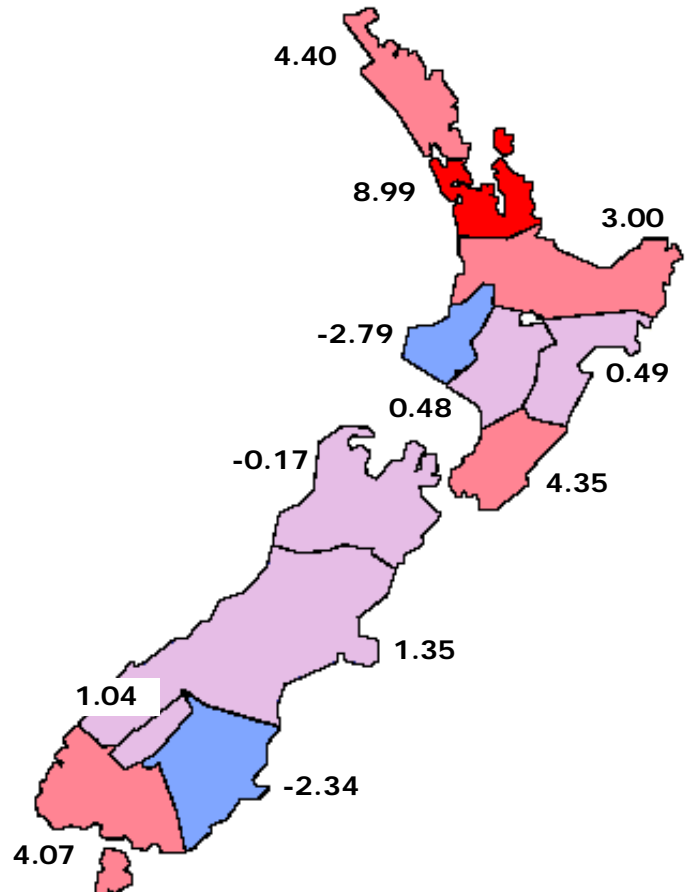
A turning point for the housing market?

- House sales growth slowed sharply over the June quarter, falling from 15% in March to -0.4%pa in June.
- However, houses took seven fewer days to sell on average than in the same quarter in 2006. This decline was the largest in more than three years.
- House price inflation was also strong, accelerating from 12%pa in March to 14%pa in June.
- Rental inflation recovered from a low of 3.3%pa in March to 6.8%pa in June, the highest rate of rent growth in 16 months.
- Fixed mortgage rates have continued to rise strongly, with only five-year rates remaining below 9%.

The Mike Pero Mortgages - Infometrics Property Cycle Indicator climbed in the June quarter from 4.15 (revised) to 5.43. The improvement was driven by a faster turnover of property and stronger house price inflation. However, growth in sales has weakened considerably and may be a portent of a softening in the housing market over the second half of 2007.

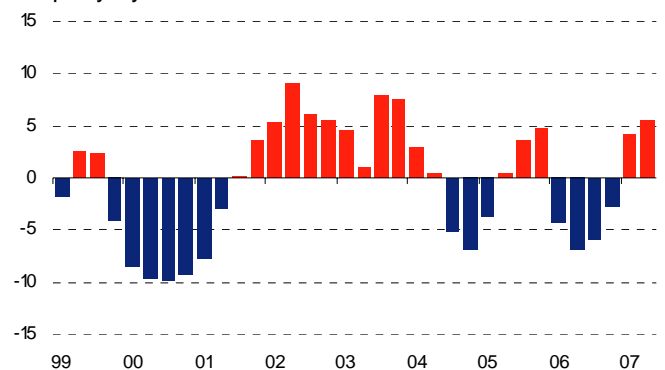
Eight out of the 12 regions recorded a higher Indicator reading in June. The Auckland market continues to show the strongest upward momentum. Taranaki, Wellington, Nelson/Marlborough, and Central Otago Lakes were the four regions with a lower reading in June.

Fixed mortgage rates continued to increase during the June quarter, and have risen by another 50 basis points since March. Higher financing costs have fed directly into slower growth in house sales. By the end of this year, weaker sales volumes are likely to lead to properties spending longer on the market and less upward pressure on prices. Falling net migration also shapes as a negative factor for the housing market, and some price falls are possible in 2008. However, the potential for property investment by dairy farmers is likely to cushion the slowdown in some regions.



New Zealand

Property Cycle Indicator



Northland

Momentum in the Northland property market swung into positive territory in the June quarter, on the back of 17%pa house price growth. A slowdown in sales growth since February, as a result of rising interest rates, provides a cautionary note for the Northland market's prospects. However, dairy prices may provide further impetus to the region's housing market in coming months.

Waikato/Bay of Plenty/Gisborne

The Waikato/Bay of Plenty/Gisborne housing market stayed positive over the June quarter with strong house price growth (13%pa). The outlook remains relatively upbeat, with a dairy windfall likely to drive local housing demand. However, since March, house sales growth has fallen from +16% to -2.3%pa, following a significant increase in mortgage rates.

Manawatu/Wanganui

Although the Manawatu/Wanganui property market maintained a high rate of price growth in June (20%pa), a fall in sales volumes raises doubts about how much longer rapid house price inflation will be maintained. Poor prices for lamb and wool, along with high mortgage rates, will restrain activity in the Manawatu/Wanganui property market for the rest of 2007.

Wellington

Momentum in the Wellington property market slowed in June with house sales falling at 8.5%pa, the largest decline in more than a year. House price growth of 16%pa has placed renewed downward pressure on rental yields, which now appears to be limiting investor demand for property in Wellington. Softer demand will lead to slower house price growth in the region.

Canterbury/Westland

The modest upswing in the Canterbury/Westland property market continued in the June quarter, with house price growth at a 15-month high (12%pa). However, recent weakness in the number of house sales (falling 7.1%pa), the strong exchange rate, and high mortgage rates will contribute to softness in the Canterbury/Westland property market in coming months.

Otago

The slowdown in the Otago property market continued in the June quarter, with both house price inflation and sales growth on the wane. The only positive for the region was the average length of time for properties on the market, which was around seven days less than a year ago. We expect house price growth to be held down by high interest rates throughout the rest of 2007.

Auckland

The Auckland property market continued to perform strongly in the June quarter, with house price growth unchanged from March (13%pa) and a low average number of days to sell property. Although momentum in the Auckland property market is currently strong, falling net migration and high mortgage rates suggest that price growth will slow by the end of this year.

Hawke's Bay

The Hawke's Bay property market improved in June, with house price growth reaching its fastest rate in 17 months (9.2%pa). However, export incomes in the region remain under pressure from the high dollar, and high mortgage rates have dragged sales growth down from +28% in March to -6.0%pa in June. As a result, price growth is likely to ease over the second half of 2007.

Taranaki

Momentum in the Taranaki property market turned strongly negative in the June quarter, due to a significant slowdown in house sales activity (from +13% in March to -5.1%pa). However, house price growth has managed to hold up so far (16%pa). The increase in milk prices will help improve momentum in the Taranaki property market through 2007.

Nelson/Marlborough

The Nelson/Marlborough housing market began to slow in the June quarter, with sales volumes down 15% on a year ago, compared to a 19%pa rise in the March quarter. Although house price inflation is still healthy at 14%pa, growth is likely to ease over 2007 as higher interest rates undermine buyer demand. Marlborough remains the most positive part of the region.

Central Otago Lakes

The property market in Central Otago Lakes continued to experience positive momentum in the June quarter, despite a significant slowdown in house sales growth from March (down from 29% to 4.2%pa). The region's positive Indicator was driven by a pick up in property values. Prices were up 7.5%pa, a significant improvement on the 3.8%pa fall recorded in the March quarter.

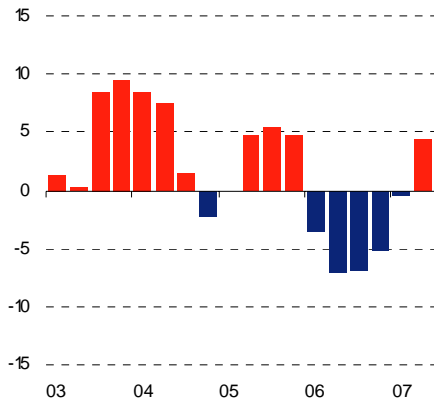
Southland

The Southland property market continued to strengthen in the June quarter, with house price inflation reaching 30%pa. Even with a slowdown in house sales compared to March, the region's Indicator rose slightly in June. The expansion of dairy farming in the region is set to provide a further boost to the region's housing market, helping maintain double-digit house price growth.

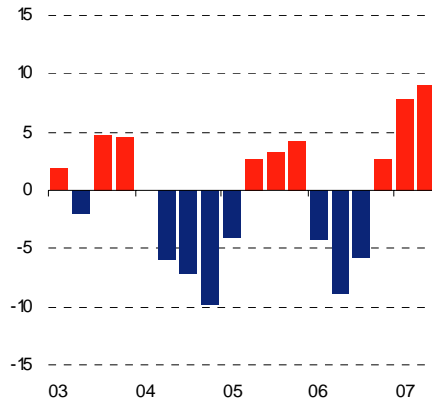
Regional Property Cycle Indicators

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.

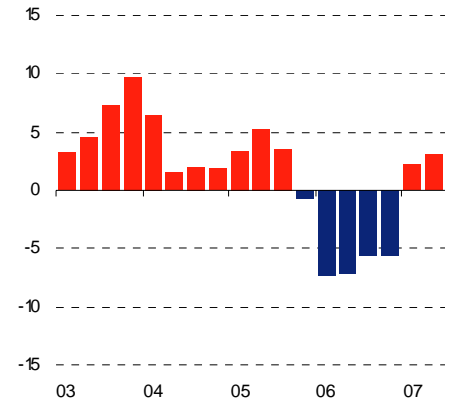
Northland



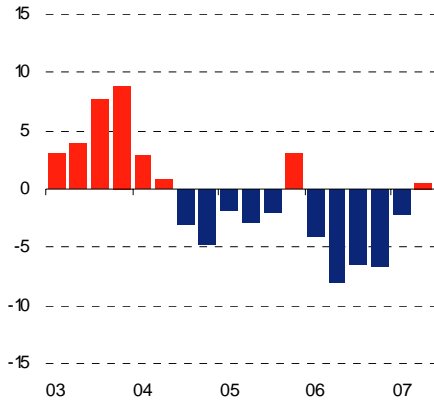
Auckland



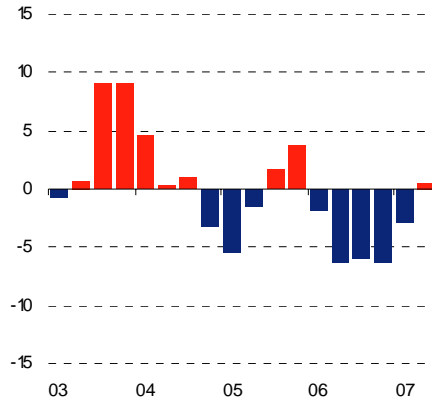
Waikato/BOP/Gisborne



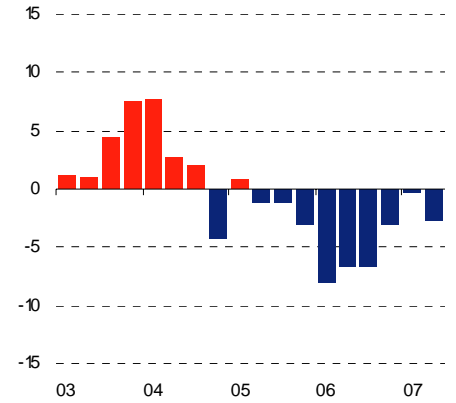
Hawke's Bay



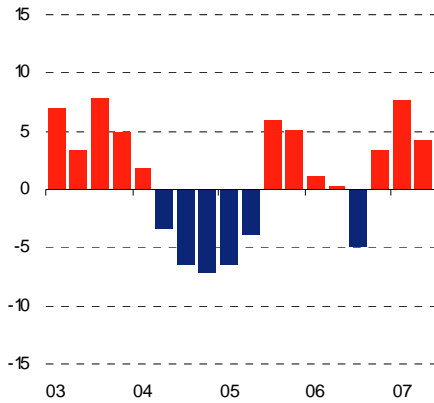
Manawatu/Wanganui



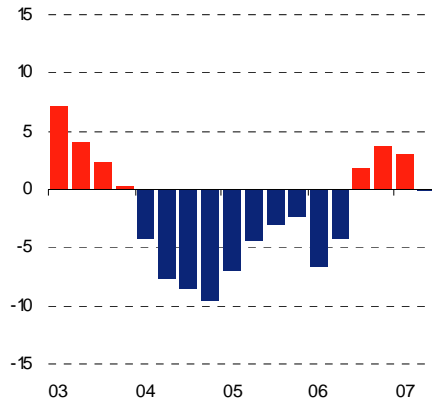
Taranaki



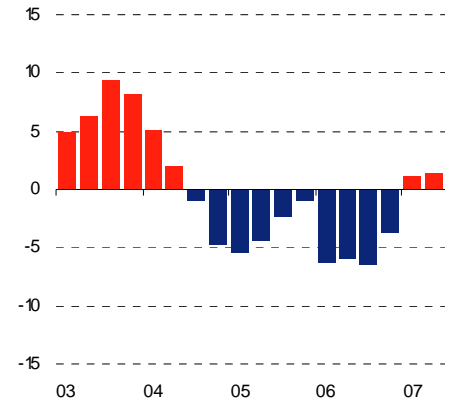
Wellington



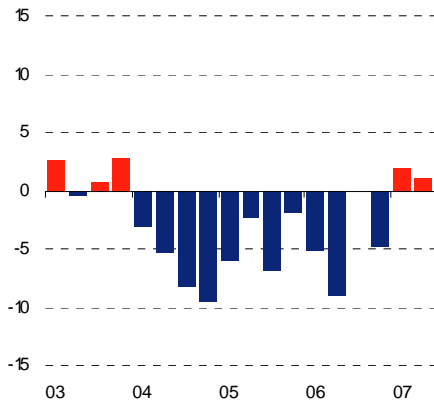
Nelson/Marlborough



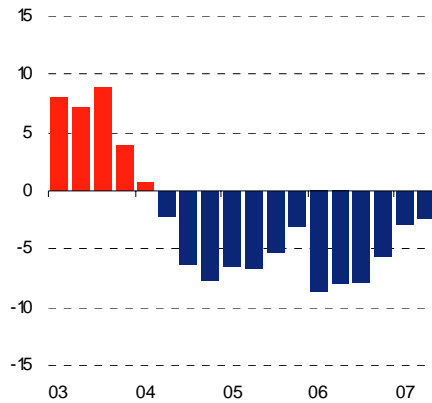
Canterbury/Westland



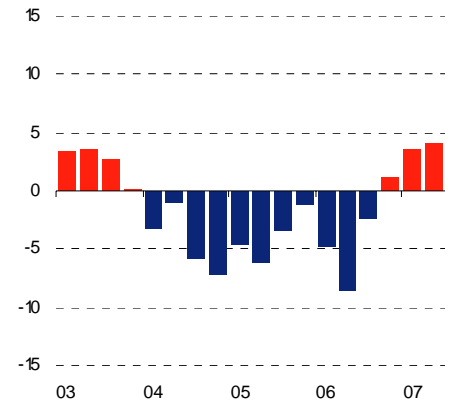
Central Otago Lakes



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 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.

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).

