

PMI residential property overview



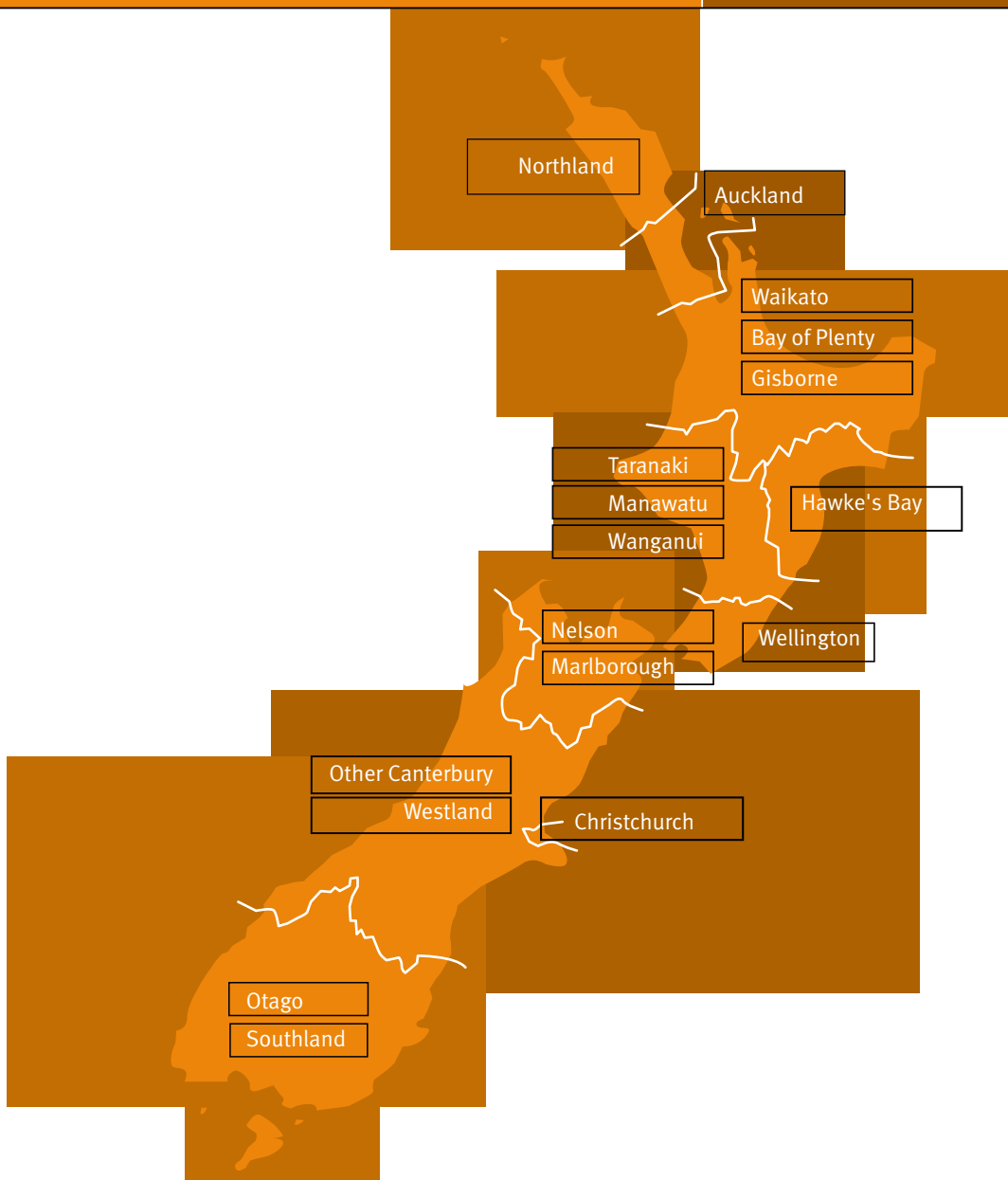
This overview is produced by PMI in conjunction with Infometrics.

New Zealand

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Introduction

Welcome to the first edition of the PMI Residential Property Overview for New Zealand. This publication will be issued twice a year and has been designed to provide you with an overview of current New Zealand property market trends.

The PMI Residential Property Overview has been produced by PMI Mortgage Insurance Ltd (PMI) in conjunction with Infometrics.

PMI Mortgage Insurance Ltd

PMI is one of the largest mortgage insurers in Australia and New Zealand with over 35 years experience in the Australian market and 15 years in the New Zealand market. PMI is a leading mortgage insurer, credit enhancer and New Zealand residential property market specialist.

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PMI have facilitated home ownership for 743,000 families in Australia and New Zealand.

PMI's financial performance and achievements over the past three decades together with the high level of commitment from the PMI team, has provided PMI with the operational capabilities and financial strength to consistently meet the needs and exceed the expectations of its customers worldwide.

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Since being founded in 1983 the company has built a reputation for rigorous and independent work, delivered on time and within budget. The company has a range of economic models and modelling expertise to apply to specific consulting projects. All regular forecasts and analysis are available on the web site.

Infometrics presentations are widely regarded as very entertaining, thought-provoking and professional and use the latest multi-media techniques.

The company is based on a team of six professional economists plus support staff.

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Current strong growth in the number of house sales reflects increased demand and is pushing up house prices. Prices have risen 15% over the year ended August, and house price growth is likely to remain strong until at least mid-2004. With more people arriving in New Zealand than leaving, demand for housing will remain strong. Prices will continue to rise by 7-13% pa over the next 12 months. However, the market will cool from early 2005 as population growth eases and the sustained period of strong building activity expands the dwelling stock.

Executive Summary

- Auckland's property market will remain strong, underpinned by new immigrants. Builders have struggled to keep up with demand, and these factors will drive house prices up 19% over the three years to March 2006 (or 11% in real terms). This will be the strongest area for housing price growth in New Zealand.
- With the exception of the last 12 months, the Christchurch market has been sluggish over the last five years. The medium-term strength of the city's real estate market is likely to be limited by people moving to surrounding provincial areas. House prices will still rise by 17% through to March 2006 (or 9% in real terms).
- Waikato/Bay of Plenty/Gisborne has maintained below average population growth. While this would normally hinder house price growth, we anticipate a moderate rate of new house construction in the region will keep the property market in balance. We forecast that house prices will rise 15% through to March 2006 (or 7% in real terms).
- Wellington's property market boomed between 1997 and 2001 while the rest of the country was lacklustre. But strong construction activity (in part, apartment building) has increased housing supply – we expect house prices to rise 11% by March 2006 (or 4% in real terms).

house price growth is likely to remain strong until at least mid-2004

Table 1.1: Median house prices by region

March Quarter ⁽¹⁾	Northland		Auckland		Waikato/Bay of Plenty/Gisborne		Hawke's Bay		Taranaki/Manawatu /Wanganui	
	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾
1997	124.3	11.1%	233.3	7.4%	142.4	7.1%	123.3	-1.3%	98.0	-3.3%
1998	141.7	13.9%	236.3	1.3%	148.3	4.1%	127.5	3.4%	99.2	1.3%
1999	142.5	0.6%	235.0	-0.5%	152.9	3.1%	129.1	1.2%	100.7	1.5%
2000	150.8	5.8%	236.7	0.7%	159.5	4.3%	124.6	-3.5%	105.9	5.2%
2001	150.5	-0.2%	245.2	3.6%	161.2	1.0%	131.3	5.4%	106.6	0.6%
2002	163.7	8.7%	255.2	4.1%	162.5	0.8%	136.8	4.2%	107.3	0.6%
2003	167.7	2.4%	277.2	8.6%	173.7	6.9%	146.0	6.7%	110.2	2.7%
Forecasts										
2004*	174.0	3.8%	310.9	12.2%	195.0	12.3%	161.3	10.5%	120.7	9.6%
2005*	178.0	2.3%	322.6	3.8%	198.5	1.8%	163.9	1.6%	120.1	-0.5%
2006*	180.0	1.2%	330.6	2.5%	199.3	0.4%	163.6	-0.2%	116.6	-3.0%
March Quarter ⁽¹⁾	Wellington		Nelson/Marlborough		Christchurch		Other Canterbury/Westland		Otago/Southland	
	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾	\$'000	APC ⁽²⁾
1997	148.3	5.2%	136.7	1.0%	143.3	NA	110.5	NA	96.1	5.2%
1998	163.7	10.3%	140.4	2.8%	155.3	8.4%	106.0	-4.1%	84.8	-11.8%
1999	170.8	4.4%	139.3	-0.8%	151.9	-2.2%	113.5	7.1%	89.2	5.1%
2000	182.7	6.9%	145.3	4.2%	157.2	3.5%	114.3	0.7%	89.3	0.1%
2001	191.4	4.8%	149.5	2.9%	157.5	0.2%	108.8	-4.9%	97.2	8.8%
2002	198.7	3.8%	154.2	3.1%	155.3	-1.4%	110.9	2.0%	95.7	-1.6%
2003	216.8	9.1%	198.3	28.6%	170.8	10.0%	118.7	7.0%	107.5	12.4%
Forecasts										
2004*	239.5	10.5%	200.6	1.2%	192.0	12.4%	131.0	10.4%	117.4	9.2%
2005*	239.0	-0.2%	196.5	-2.1%	198.1	3.2%	132.4	1.0%	115.2	-1.9%
2006*	241.2	0.9%	198.5	1.0%	199.3	0.6%	130.8	-1.2%	113.5	-1.5%

Source: Real Estate Institute of New Zealand; * Infometrics forecasts ⁽¹⁾ Average median price over three months to March; ⁽²⁾ Annual percentage change
Composite regions are weighted average of each region's median prices.

- The Canterbury/Westland market has recently benefited from stronger population growth, particularly in areas surrounding Christchurch (such as the Waimakariri District). But tougher times for exporters and a reduction in population growth mean that we expect house prices to rise 10% by March 2006 (or 3% in real terms).
- Hawke's Bay benefited from the export income boom over 2001/02, but the positive effects are waning, and the region's property market will lose some momentum. House prices will rise a total of 12% by March 2006 (or 5% in real terms).
- The Nelson/Marlborough property market is currently experiencing strong demand for property as population expands at close to 2% pa. House price growth of 46% pa reflects these pressures. However, we predict the property market is close to a peak and will soften, with prices flat for much of the next three years (falling 6% in real terms).
- Prices and sales have been patchy in the Northland market, as a result of overbuilding between 1997 and 2001. We predict that the excess supply of housing will limit total price rises to 7% over the next 2 years (prices will remain unchanged in real terms).
- Taranaki/Manawatu/Wanganui's population continues to shrink. Low interest rates have helped to boost present activity, but this will not be sustained. We predict that house prices will only rise 6% over the three years to March 2006 (fall 1% in real terms).
- Otago/Southland has enjoyed a reprieve over the last three years from its long-term trend of population loss. We predict population growth to remain positive over the next three years, but it will not be enough to keep the housing market buoyant. We forecast a 6% rise in house prices by March 2006 (a 1% fall in real terms).





Economic Outlook

A ballooning current account deficit will slow economic activity

A mild slowdown in economic growth

The economy is beyond the peak of an economic cycle that began in 1999. There are at least three reasons why growth is slowing this year. These are:

- the effects of the rising currency and tightening fiscal policy over 2002;
- weaker world commodity prices from mid-2002;
- capacity bottlenecks within firms, in the labour market, and in key infrastructure areas.

A ballooning current account deficit will also slow economic activity over 2003. But the slowdown over 2004 will be relatively mild. Continuing strong population growth combined with lower interest rates will keep the real estate market buoyant. This will underpin household wealth, sustaining consumer spending. The slump in exports because of the rising dollar and stuttering world economy is likely to prove smaller than expected.

Our forecast for 2003/04 GDP growth is around 2.5%, rising to 3% over the following year. Fiscal stimulus in 2004 will have a positive effect on growth from late 2004 and into election year 2005. The current reduction in interest rates will stimulate economic activity through to 2005.

Table 2.1: Economic indicators

Annual average percentage changes	1993-2002	2001/02	2002/03	2003/04	2004/05	2005/06
March years	Average	Average	Average	Forecast	Forecast	Forecast
Real expenditures						
Private consumption	3.1%	2.8%	3.8%	2.8%	2.8%	3.4%
Government consumption	2.5%	3.8%	5.1%	3.4%	4.2%	1.9%
Residential investment	3.2%	3.3%	23.4%	2.9%	-5.4%	-13.3%
Non-residential investment	7.2%	11.4%	0.8%	0.5%	1.0%	3.1%
Total private investment	6.1%	5.0%	9.8%	5.5%	4.5%	3.3%
Total government investment	4.6%	3.7%	2.8%	0.8%	4.3%	2.1%
Gross national expenditure	3.7%	3.7%	4.5%	3.3%	3.4%	3.0%
Exports of goods and services	4.7%	2.1%	7.2%	6.7%	5.4%	4.3%
Imports of goods and services	-5.8%	2.4%	9.4%	-1.0%	-0.4%	0.9%
Gross domestic product	3.4%	3.5%	3.9%	2.3%	3.0%	4.0%
Households						
HLFS employment	2.3%	2.8%	2.4%	1.7%	1.3%	2.0%
HLFS unemployment rate (1)	7.4%	5.3%	5.1%	5.3%	5.7%	5.3%
Hourly wage	2.3%	3.4%	2.8%	3.6%	2.5%	3.0%
CPI (2)	1.9%	2.6%	2.5%	1.9%	1.5%	3.4%
NZ interest rates (3)						
10-year government bonds	7.1%	6.6%	6.4%	5.4%	5.8%	7.0%
90-day bills	6.9%	5.4%	5.9%	5.0%	4.9%	5.2%
Floating mortgage rates	8.9%	7.3%	7.8%	7.1%	7.0%	7.3%

The current reduction in interest rates will stimulate economic activity

Source: Statistics New Zealand, Reserve Bank of New Zealand, Infometrics forecasts

(1) Annual average for year ended

(2) March on March, CPI ex credit prior to June 99

(3) Annual average rates

We expect some revival in the world economy by 2004 to provide a sound basis for faster growth in the New Zealand economy over 2005/06. We forecast growth of about 4% in that year. Other factors that will contribute to faster growth include:

- a weakening currency – the TWI will peak at around 64 in the September quarter next year;
- strong public and private investment, particularly on infrastructure projects – roads, rail, electricity generation, and development of new gas supplies;
- still relatively fast population growth (1.2% pa) over 2005.

World recovery to be modest

The US economy will grow by between 2% and 3% pa over the next two years. The monetary and fiscal stimuli unleashed over the last two years will not be as effective as was first hoped. Furthermore, US households may view President Bush's fiscal pump-priming as a signal to save more rather than to spend more.

The Japanese and European economies will under-perform for at least another two years.

Australia continues to be one of the standout economies. We see nothing over the next 2-3 years that will disturb that status.

World inflation will be low for the next 2-3 years, which will keep interest rates at historically low levels in the main economies.

Current account expanding

The current account deficit will deteriorate over the next two years before improving to around 2% of GDP by 2006. There will not be a boom in traditional export goods – the fastest they will grow over the forecast period is 6.2% pa over 2005/06, as world economic growth picks up and the currency weakens. Manufacturing and forestry are likely to be the main areas of export growth. Exports of services, particularly education, will help push the goods and services surplus to over \$4bn by 2006.

World inflation will be low for the next 2-3 years





The rate of population growth will slow

Investment catch-up

Australia has grown faster than New Zealand over the past 12 years, partly because of Australia's greater commitment to capital investment. Australia has invested more capital in its economy, and has been able to generate faster per capita income growth than New Zealand.

The emerging infrastructure bottlenecks in New Zealand show that under-investment in key areas of the economy over the past decade or so is now translating into major constraints to growth.

Since 1990, government capital spending has increased at just 2.2% pa. Given the government's ownership interests in key areas of infrastructure (roads, electricity, health, and education), it is not surprising that such a slow rate of capital investment would eventually create problems.

The government will increase capital spending in coming years to relieve some of the more obvious constraints to growth, such as roads, the rail system, and electricity.

Private investment spending will grow slightly faster over the forecast period than it has done since 1998. Low interest rates, attractive capital equipment prices (due to the exchange rate), and major one-off projects will expand investment spending at or above the rate of economic growth over coming years.

The net migration boost

The rate of population growth will slow, which is not surprising given the very fast rate of growth over the last two years (1.6% and 1.7% respectively). But New Zealand will still enjoy population growth of 1% pa or more over the next five years. The major source of population growth over the last two years has come from a reduction (29,000) in the net outflow of New Zealanders and Australians. We expect the net outflow will expand by 2005 as the world economy picks up and there are attractive job opportunities in Europe and the US again. Net migration will hold up, but not at the levels experienced over the last two years.

Strong population growth is an important contributor to economic growth and is particularly relevant to residential real estate prices and activity. If our population forecasts prove correct, the five year period from 2001 to 2006 (the next census) will be the fastest rate of population growth in 30 years.

Good times for households

The unemployment rate will reach no higher than 6% over the forecast period, suggesting a continuing shortage of labour. Employment growth will range between 1% and 3% pa, with skill shortages persisting in some industries.

We forecast real disposable income growth will average a respectable 2.3% pa. Growth in real wages (0.6% pa) will be steady, reflecting the low unemployment rate, a shortage of skills, and solid labour productivity growth (1.2% pa on average). Slowing job growth and flat export incomes mean that real aggregate income growth will wilt over the next two years. However, entrepreneurial incomes will return to double-digit growth in 2005/06 and, in tandem with a tax cut for low-income earners, will boost disposable income growth.

Good population and house price growth and lower interest rates mean that real consumption spending will not dip below 2% pa. Over the next six months, flat to falling retail prices will help shore up spending growth. Retailers will see an immediate boost to turnover in early 2005/06 when low-income earners receive a tax cut. Low-income earners' marginal propensity to consume is relatively high.

Stable interest rates and a peaking currency

Price pressures will be minimal over the next couple of years, with inflation holding below 2% pa. By late 2005, the falling currency and accelerating economic growth will lead to renewed upward pressure on prices, and we forecast that the rate of inflation will climb above 3% pa. However, given the more flexible target band that the Reserve Bank now operates under, inflation above 3% pa is acceptable at the peak of the business cycle.

The last interest rate cycle was remarkably small, with just 100 basis points from bottom (4.75%) to top. An economic growth outlook devoid of any significant negative shocks provides the basis for short-term interest rates to fluctuate between 4.7% and 6% over the forecast period.

Although the factors driving the New Zealand dollar higher have begun to fade, we expect the currency will claw its way to a peak of around 64 on a TWI basis next year. The appreciation will be helped by the US government's willingness to allow the greenback to weaken. Over 2005, exporters will get a reprieve as the currency declines, but the dollar will not drop to the levels recorded in 1999 and 2000.

Real disposable income growth will average a respectable 2.3% pa





Residential demand

The annual total of house sales is close to a peak

House sales and prices rise

Home sales have been at a record high, even as the Reserve Bank has begun to ease monetary policy (with the first interest rate cut coming in late April 2003). Fourteen of the last 17 months have seen record nationwide sales totals.

House prices are currently rising at around 15% pa (three months to August 2003, Real Estate Institute of NZ data). This is the fastest rate of house price growth over the last decade, reflecting the unprecedented level of housing demand through sales turnover and, in some places, a shortage of listings. The Nelson area is the best example of a scarcity of property (houses) – sales are down 6.6% on last year, but prices are up 45% over the same period.

Drivers of the housing market are still positive:

- Mortgage rates for 2-5 year fixed terms have been at record lows. The floating rate has also dropped 75 basis points since April 2003. Low financing rates mean that buyers are able to service a larger debt (i.e., pay more for a house) than would have been the case with tighter monetary settings.
- Population growth will remain above average through until March 2005 at least, largely because of a low outflow of New Zealanders heading overseas. Population growth is a major

determinant of real estate activity, and the prospect of net migration holding up implies that the rate of house sales will do the same.

The annual total of house sales is close to a peak – because everyone that wants to shift house will have done so. We anticipate that the current shortage of listings (anecdotal evidence) will intensify as the number of people looking to sell property declines. The shortage of listings will drive up existing house prices further over the next year, by 7-13% pa.

Eventually strong house price growth in the face of slowing employment and income growth, increased housing construction, and reduced net mitigation will result in reduced demand.

By 2005, we predict that nominal house price growth will slow to below 2% pa (implying falling real house prices), because:

- we are forecasting a consistent (albeit modest) slowdown in the rate of population growth;
- house prices are well above their long-term growth trend;

- the rising ratio of house prices to income is making houses less affordable;
- the building industry will eventually supply enough new houses to meet the higher level of demand.

There is some upside risk to our price forecasts over 2005/06 given the expected solid economic performance. But the current boom times will not extend over the entire forecast horizon.

Rents follow the upward trend in prices

Rents have responded to the stronger overall demand for accommodation. Our residential rent index for New Zealand (estimated from Tenancy Services Bond Centre data) rose 8% over the year to August.

Rental growth in Hawke’s Bay, Wellington, Nelson/Marlborough, and Christchurch has failed to keep pace with house price growth.

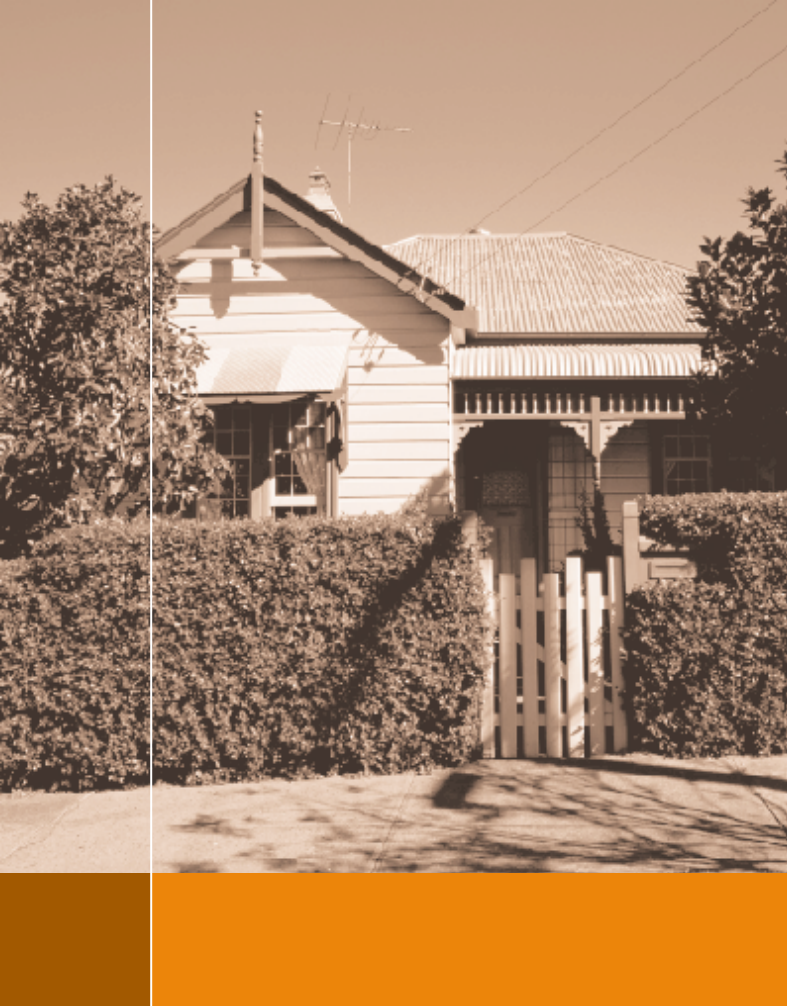
Table 3.1: House sales by region

Year ended March	Northland		Auckland		Waikato/Bay of Plenty/Gisborne		Hawke’s Bay		Taranaki/Manawatu /Wanganui	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
1997	2756	12%	28,639	-17%	14,261	3%	2612	2%	5670	-5%
1998	2544	-8%	26,069	-9%	13,728	-4%	2789	7%	5590	-1%
1999	2049	-19%	24,251	-7%	11,148	-19%	2565	-8%	5630	1%
2000	1965	-4%	24,738	2%	11,170	0%	2825	10%	5839	4%
2001	1727	-12%	20,816	-16%	9104	-18%	2468	-13%	4863	-17%
2002	2124	23%	28,837	39%	11,674	28%	2890	17%	6218	28%
2003	2533	19%	36,855	28%	15,812	35%	3720	29%	7157	15%
Forecasts										
2004*	3086	22%	41,304	12%	17,594	11%	4330	16%	8452	18%
2005*	2692	-13%	33,969	-18%	14,764	-16%	3389	-22%	6708	-21%
2006*	2429	-10%	31,559	-7%	13,422	-9%	2945	-13%	5844	-13%
Year ended March	Wellington		Nelson/Marlborough		Christchurch		Other Canterbury/Westland		Otago/Southland	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
1997	10,223	14%	2734	-7%	9521	-1%	3482	5%	5731	-15%
1998	11,250	10%	2609	-5%	8589	-10%	3057	-12%	5026	-12%
1999	10,639	-5%	2537	-3%	7117	-17%	2695	-12%	5167	3%
2000	11,252	6%	2680	6%	6749	-5%	2963	10%	5184	0%
2001	9608	-15%	2495	-7%	5862	-13%	2445	-17%	5307	2%
2002	10,962	14%	3503	40%	7021	20%	3232	32%	7281	37%
2003	12,195	11%	4100	17%	8970	28%	4436	37%	9343	28%
Forecasts										
2004*	10,718	-12%	4608	12%	10337	15%	4732	7%	10174	9%
2005*	11,409	6%	3532	-23%	8541	-17%	3685	-22%	7283	-28%
2006*	10,306	-10%	3140	-11%	7369	-14%	3281	-11%	6413	-12%

Source: Real Estate Institute of New Zealand; * Infometrics forecasts

(1) Annual percentage change





Average weekly rents are currently equivalent to 31% of the average weekly wage (Statistics NZ quarterly employment survey data). By this measure, rent costs have risen rapidly over the last six months and are now at their highest in 4 years. Rental accommodation is likely to become even less affordable over the next year, with higher house prices and a rebound in long-term interest rates putting pressure on landlords to increase rents to maintain gross yields. From late 2004, a slowdown in the broader housing market will create some relief for tenants, with rental growth easing towards zero, while growth in household incomes remains positive.

Residential building at a 26-year high

Although the number of new dwelling consents is at a 26-year high, it is not out of line with demand. Continued strong population growth, falling mortgage rates, brisk house price growth, and a backlog of demand will all combine to keep residential building activity vibrant over 2004.

Existing house price growth will continue to outpace increases in building costs until the end of 2003 at least.

In Nelson/Marlborough, house price growth has been very strong – symptomatic of a bubble. Rents have been increasing rapidly (11% over the year to August 2003), but a correction in the market is likely to occur through some decline in house prices once the shortage of housing is rectified through further construction activity.

Building activity to hold at around 26,000 consents per annum over the year to March 2005. We then expect residential construction activity to fall away to a (relatively mild) trough of 22,600 consents by the end of the 2005 calendar year. This slide is a function of a slowdown in housing demand, leading to weaker house price growth,

Table 3.2: Rental growth by region

March quarter, annual % changes	Northland	Auckland	Waikato/Bay of Plenty/Gisborne	Hawke's Bay	Taranaki/Manawatu /Wanganui
1999	2.7%	-3.0%	-1.6%	3.0%	-1.6%
2000	-1.8%	0.0%	-0.1%	0.5%	1.2%
2001	-0.1%	2.0%	-0.3%	-0.1%	0.5%
2002	0.3%	7.2%	1.7%	1.2%	2.2%
2003	3.5%	9.4%	5.2%	5.6%	7.6%
March quarter, annual % changes	Wellington	Nelson/ Marlborough	Christchurch	Other Canterbury Westland	Otago/Southland
1999	6.1%	-1.4%	-0.9%	1.2%	-2.6%
2000	1.1%	1.0%	-0.1%	-1.0%	3.7%
2001	0.2%	1.8%	0.0%	-1.6%	2.1%
2002	6.1%	4.4%	4.5%	4.2%	3.9%
2003	2.3%	11.5%	8.9%	7.3%	8.8%

Source: Infometrics calculations from Tenancy Services Bond Centre/Real Estate Institute of New Zealand data.

Table 3.3: New dwelling consents by region

Year ended March	Northland		Auckland		Waikato/Bay of Plenty/Gisborne		Hawke's Bay		Taranaki/Manawatu /Wanganui	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
1997	1030	28%	8547	8%	5021	19%	507	-1%	690	-19%
1998	1267	23%	9801	15%	5915	18%	417	-18%	662	-4%
1999	1063	-16%	8001	-18%	4414	-25%	353	-15%	593	-10%
2000	1142	7%	10,950	37%	4994	13%	456	29%	859	45%
2001	945	-17%	7428	-32%	3651	-27%	406	-11%	722	-16%
2002	883	-7%	8588	16%	3746	3%	480	18%	799	11%
2003	1002	13%	12,511	46%	4594	23%	590	23%	943	18%
Forecasts										
2004*	1061	6%	10,998	-12%	4526	-1%	668	13%	849	-10%
2005*	1110	5%	10,998	0%	4777	6%	520	-22%	732	-14%
2006*	980	-12%	10,659	-3%	4321	-10%	455	-12%	612	-16%
Year ended March	Wellington		Nelson/Marlborough		Christchurch		Other Canterbury/Westland		Otago/Southland	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
1997	1477	11%	906	-8%	1975	-10%	1336	7%	924	-24%
1998	2218	50%	922	2%	2220	12%	1370	3%	773	-16%
1999	2127	-4%	713	-23%	1790	-19%	1244	-9%	466	-40%
2000	2456	15%	836	17%	1990	11%	1389	12%	785	68%
2001	2156	-12%	765	-8%	1341	-33%	1123	-19%	831	6%
2002	1987	-8%	891	16%	1397	4%	1250	11%	1240	49%
2003	2351	18%	1185	33%	2137	53%	1475	18%	1532	24%
Forecasts										
2004*	2519	7%	1276	8%	1772	-17%	1389	-6%	1396	-9%
2005*	2577	2%	1022	-20%	1754	-1%	1350	-3%	1145	-18%
2006*	2370	-8%	893	-13%	1571	-10%	1176	-13%	1045	-9%

Source: Statistics New Zealand; * Infometrics forecasts (1) Annual percentage change

and making building a relatively more expensive option. Rapid rises in land prices will also stunt demand for new houses.

By March 2006, economic growth will be back up at around 4% pa. As section prices give up some of the strong gains recorded between 2002 and early 2005, the rate of building activity will again climb. While population growth will be easing throughout this period, we believe there will still be some backlog of demand that will not have been satisfied during the previous building boom. Activity, though, is unlikely to reach the heights of the last peak.

Apartment demand to continue

Recent anecdotal evidence points to fewer foreign students coming to New Zealand, with suggestions that the drop in incoming student numbers could be as large as 50% by the end of this year. Possible reasons for this include:

- the SARS virus – although this has now been contained, and any effect on enrolment numbers is likely to be short-term;
- the higher New Zealand dollar, making education in New Zealand relatively more expensive for foreigners.

The number of new dwelling consents is at a 26-year high



The foreign education sector is vulnerable to regional “crises”. About 40% of students come from China (which has been the major growth market over the last 3-4 years), 20% from South Korea, and 17% from Japan. Any event such as SARS that disrupts economic activity in this part of Asia has significant potential to choke growth in education exports.

We continue to expect a growth trend in the foreign education sector, but recognise that some potential projects envisaged as student accommodation will be put on hold until the outlook for student numbers becomes clearer.

Over the forecast period, we expect the annual total of new apartment consents to average around 4,000.

Migration to ease slowly

The net outflow of New Zealanders and Australians will continue to decline until March 2004, as the currency rises and the global job market remains slack. This balance will then deteriorate from -10,800 in March 2004 to -33,500 by 2006/07 as the world economy revives and offers good job opportunities.

Net residence approvals will decline over the forecast period. Over the next six months, a large backlog of applicants will ensure that approvals total near 48,000 pa. Over 2004/05 the recent changes to migration policy will reduce approval numbers by 13%.

Table 3.4: Population growth by region

Year Ended March	Northland	Auckland	Waikato/Bay of Plenty/Gisborne	Hawke's Bay	Taranaki/Manawatu /Wanganui
1997	1.1%	2.9%	1.4%	0.6%	-0.2%
1998	0.9%	2.0%	1.2%	0.2%	-0.5%
1999	0.5%	1.4%	0.6%	-0.2%	-0.6%
2000	0.4%	1.4%	0.6%	0.0%	-0.6%
2001	-0.1%	1.3%	0.2%	-0.1%	-1.0%
2002	0.5%	2.7%	0.8%	0.3%	-0.3%
2003	1.0%	3.1%	1.1%	0.9%	0.0%
Forecasts					
2004*	0.9%	2.9%	1.0%	0.8%	-0.1%
2005*	0.6%	2.6%	0.7%	0.5%	-0.3%
2006*	0.4%	2.3%	0.5%	0.3%	-0.5%
Year Ended March	Wellington	Nelson/ Marlborough	Christchurch	Other Canterbury Westland	Otago/Southland
1997	1.1%	1.4%	1.2%	0.7%	-0.5%
1998	0.7%	1.3%	0.7%	0.6%	-0.7%
1999	0.5%	1.0%	0.4%	0.3%	-0.9%
2000	0.4%	1.1%	0.3%	0.4%	-0.3%
2001	0.6%	1.0%	0.4%	0.6%	0.2%
2002	1.0%	1.5%	1.4%	0.7%	0.7%
2003	1.4%	1.8%	1.5%	1.3%	1.1%
Forecasts					
2004*	1.3%	1.6%	1.4%	1.2%	0.9%
2005*	1.1%	1.4%	1.1%	0.9%	0.7%
2006*	0.9%	1.2%	0.9%	0.7%	0.5%

Source: Infometrics estimates and forecasts

We expect a drop in international student and work visa arrivals over the March 2004 year. Net migration from this category will recover over 2004/05.

The overall annual net migration balance will not fall below 15,000 over the next three years. Reflecting net migration flows, population growth will hold up at 1.6% pa over the next 12 months before slowing to 1.4% pa in March 2005, with a further gradual easing in the growth rate after that.

Auckland will continue to be the primary recipient of most new migrants, despite the government's efforts to spread people around the country more evenly.

Flows within New Zealand

There is no data available on population movement between New Zealand regions. However, we have estimated these movements using Statistics NZ sub-national population estimates, data on births and deaths, and figures on external migration.

Over the last five years, Hawke's Bay, Taranaki/Manawatu/Wanganui, and Otago/Southland have been the regions experiencing a net loss within New Zealand. More recently, people have also been leaving Auckland and Christchurch in net terms.

By the end of the forecast period, we expect the largest interprovincial population gains to be made by Nelson/Marlborough and Auckland (the latter returning to its traditional interprovincial population gain). Taranaki/Manawatu/Wanganui will continue to experience relatively large outflows of people, while there is also likely to be a net outflow from Waikato/Bay of Plenty/Gisborne.



Auckland will continue to be the primary recipient of most new migrants



State of play

With only weak price signals from the housing market, building activity in Northland has been rising more slowly than the rest of the country, and is no higher than the level recorded in 2000. There may have been some overbuilding in the region between 1997 and 2001, which is still proving a drag on the overall property market in Northland.

Although population growth in Northland reached a six-year high in the year to March 2003, it has consistently been below the national average over the last seven years. This has largely been due to a net migration outflow, which only recently switched to a net inflow.

The volume of house sales in Northland has risen 72% since March 2001, slightly lower than the national average of 76%.

Forecast

We expect the property cycle in Northland to converge towards the national average over the next couple of years. The region is likely to maintain a net migration inflow until early 2005, but the gap between regional and national population growth is likely to remain relatively large (it was 0.7 percentage points over the year to March 2003).

The Northland property market is influenced by trends in the Auckland market. Strong migrant inflows into Auckland, combined with reduced housing affordability in the city, can encourage people to move to areas such as Northland and the Bay of Plenty – particularly if they are not tied to a job in Auckland. This was part of the reason for the strength of the Northland market in the mid-1990s.

Northland



The annual sales total has now surpassed the peak reached in 1997 – a period when sales growth in the region ran well ahead of the rest of the country.

Northland has had patches of healthy price growth over the last year, and by August the median house price was up 14% on a year earlier. Prices in Northland have risen faster than the national average during four of the last six years.

In Whangarei, average rents have increased by just 5.8% over the year to August. With variable house price growth, capacity for landlords to increase rents to maintain yields is weaker than in other parts of the country.

Northland is set to outperform New Zealand in terms of sales growth over the 2004 and 2005 years. Sales will set a new record of more than 3,000 over the year to March 2004, but the relatively high level of building that took place between 1997 and 2001 will continue to limit house price growth. The annual dwelling consent total will climb through until early 2005, before falling in line with the nationwide downturn in building activity.

By March 2006, population growth will ease to its slowest rate in five years, as the traditional migrant outflow resumes. House price growth, around 4% pa over the March 2004 year, will drop to 1-2% pa, a little above the national average. Property in Northland will continue to be sought after, reflecting the favourable climate and lifestyle opportunities available in the region.

Population growth in Northland reached a six-year high

Chart 4.1: Northland Median house prices (\$'000)

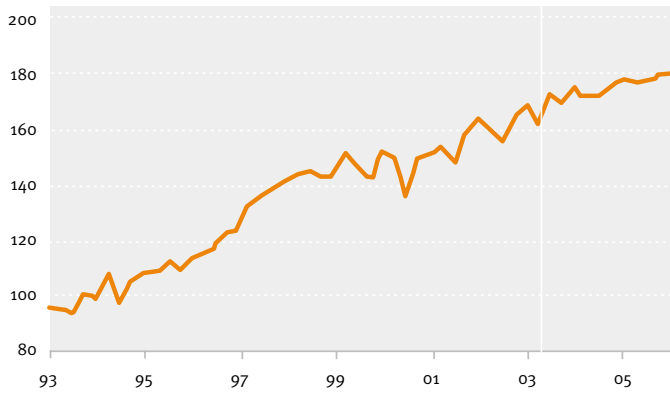
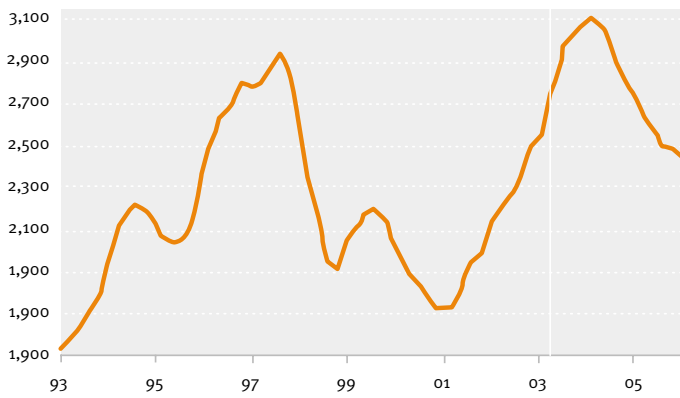


Chart 4.2: Northland Annual house sales total



Property in Northland will continue to be sought after



State of play

Residential building activity in Auckland appears to have peaked, with the annual consent total reaching 12,511 in the March quarter. The annual totals of both apartment and non-apartment consents have declined over the last few months. However, there is still a large backlog of building activity to be completed in Auckland.

Population growth in Auckland reached 3.1% earlier this year, with net migration adding almost 28,500 people over the year to March 2003. The pressures on infrastructure caused by this migrant influx appear to have encouraged some people to leave the region – we estimate there was an interprovincial outflow of more than 2,500 people over the same period. Auckland has traditionally enjoyed population inflows from both overseas and other parts of New Zealand.

Forecast

Making up around 35% of the national market, trends in Auckland real estate are unlikely to deviate a long way from nationwide trends. But given our forecast that the net migration flow into Auckland will remain strong through until early 2006, we expect the Auckland market to be one of the most vibrant in the country. We predict that population growth will slow to around 2.3% pa by the end of the forecast period. The interprovincial population inflow will resume by 2005, partly offsetting a slowdown in foreign migrant arrivals.

Annual sales growth has been slowing since October last year, but will still be positive heading into 2004. This prolonged upswing in activity, combined with lower interest rates, will maintain double digit house price growth, but price increases will not be as rapid as during the mid 1990s.

Auckland



The annual volume of house sales is now 13% higher than the previous record in 1996. The pickup in activity has been rapid – sales are up 90% from the low point experienced in March 2001. The turnaround in net migration, which began in early 2001, has played a significant role in reviving the Auckland real estate market.

House price growth steadily gained momentum over the last 2 years, reaching 15% pa by August 2003. This is the strongest rate of house price growth since the last immigration boom began to wane in 1996, but is well short of the 28% pa reached during the mid-1990s property cycle.

We estimate that average rents in Auckland have climbed 8% over the year to August 2003, and have been running ahead of general inflation for almost two years. The Auckland region was one of the first areas to show evidence of a strong pickup in rental growth in the current property cycle.

A larger spike in prices over the next year would increase the risk of nominal price falls heading into 2005/06.

As building activity continues apace in the region, demand will gradually be satisfied and lead to a levelling off in house prices. Over the 2005 and 2006 March years, we expect house prices to rise at between 2% and 4% pa. This will still be ahead of the national average, reflecting ongoing population growth more than one percentage point faster than the rest of the country.

House sales are now 13% higher than the previous record

Chart 5.1: Auckland Median house prices (\$'000)

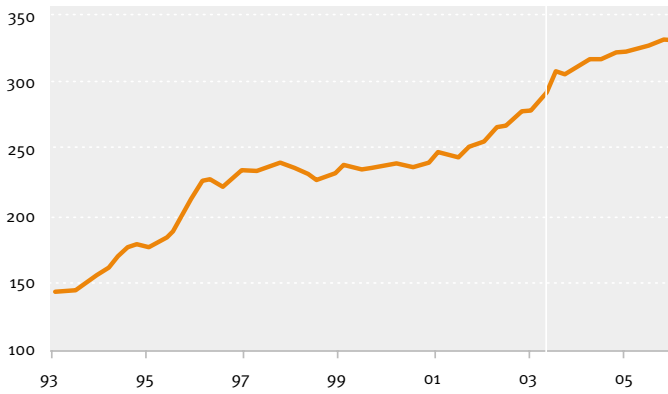
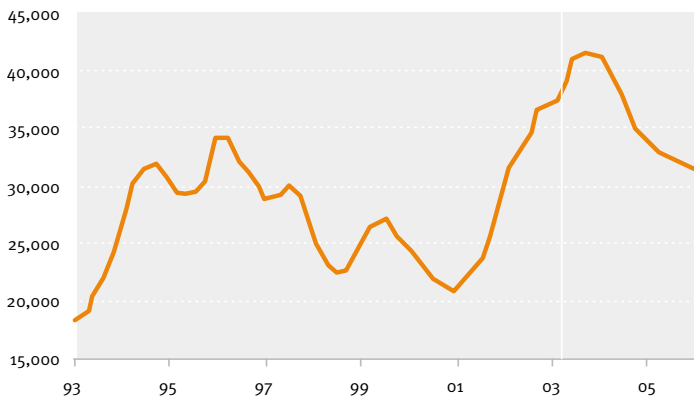


Chart 5.2: Auckland Annual house sales total



House prices are expected to rise at between 2% and 4% pa



State of play

There was strong building activity in the Waikato/Bay of Plenty/Gisborne (WBG) region between 1996 and 1998, particularly in Bay of Plenty. This may have resulted in some oversupply of housing as population growth slowed. While nationwide residential building activity is at record levels, the annual consent total in WBG is still below the peaks of early 1998 and late 1999.

At 1.1% over the year to March 2003, population growth has improved markedly from the 0.2% recorded two years ago. The largest contribution to the pickup has come in the Waikato – this is likely to be a lagged effect of the strong export sector performance over 2001/02. The strong interprovincial population inflows of the mid-1990s into Bay of Plenty have waned – increased property prices and the expanding

Forecast

The strength of sales growth in the region over the last nine months suggests that house prices could outperform the national average over the next year. Building activity is not at the record levels seen in many other regions, and the more subdued increase in supply is likely to contribute to a slightly belated pickup in house price growth in the region. Heading into 2004, we expect sales activity to converge towards the nationwide trend.

The major negative is the sluggish nature of population growth – we expect it to track below the national average over the next three years. As we noted above, Bay of Plenty seems to have lost some popularity for people heading into retirement, with other areas (parts of Northland, for example) picking up the slack. Waikato is also likely to struggle to attract people under more difficult export conditions.

Waikato/Bay of Plenty/Gisborne

population may have reduced its attractiveness as a retirement destination.

As is the case in Auckland, the number of house sales in WBG is at a record high. The annual sales total has climbed 95% since the March 2001 trough. The lift has been most pronounced in the Bay of Plenty area, where sales volumes have more than doubled.

House price growth in the region over the last three years has averaged 2.9% pa, compared to 4.5% pa for all New Zealand. Population growth in the region kept pace with the rest of the country between 1997 and 2000, but fell short by half a percentage point per annum over the last three years.

We estimate that average rents in WBG have risen 7.4% over the year to August. However, as with house prices, rental growth has consistently been below the national average since late 1999 and average rents are only 12% higher than they were five years ago.

Weak population growth would normally spell an underperforming real estate market. However, we expect the region's property market to be kept in balance by a moderate level of building activity. Healthy growth in house prices over the year to March 2004 is likely to result in consent numbers holding around their current level through to early 2005 (at 4,828 in the year to June 2003). Our view is that any stronger building activity could result in a new oversupply of housing, placing downward pressure on prices over 2005 and heading into 2006.

Annual sales total has climbed 95%

Chart 6.1: Waikato/Bay of Plenty/Gisborne Median house prices (\$'000)

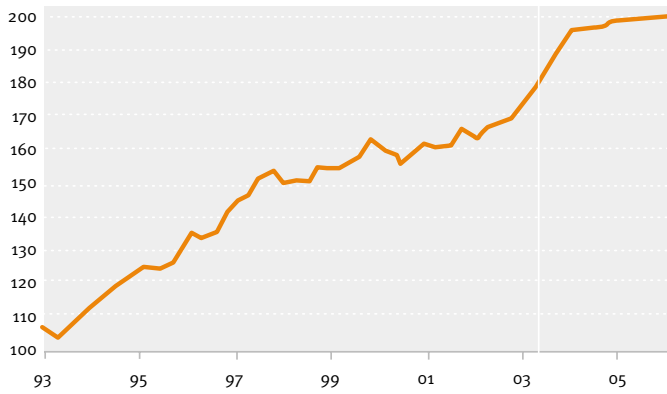
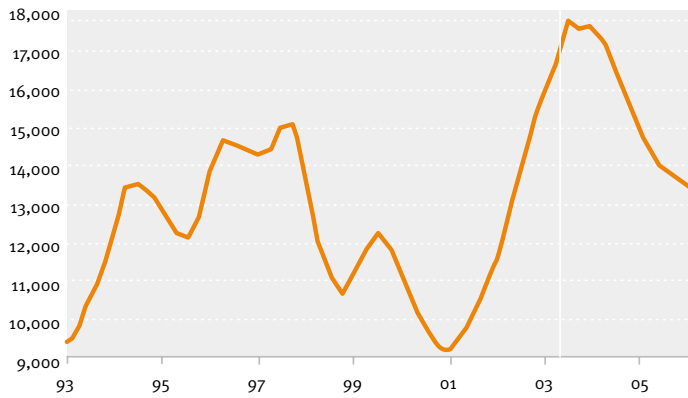


Chart 6.2: Waikato/Bay of Plenty/Gisborne house sales total



Stronger building activity could result in a new oversupply of housing



State of play

There was strong building activity in Hawke's Bay between 1993 and mid-1995, a response to the region's strongest population growth in more than 20 years. Population growth slowed significantly after 1995 (back towards its longer-term average), leading to weaker demand for new houses. Over the year to August 2003, the number of new dwelling consents (638) was still 10% below the peak reached in 1994.

We estimate that population growth was around 0.9% pa over the year to March 2003, well up on the 0.1% average of the previous five years. The improvement was caused by a combination of an interprovincial population inflow and a sizeable reduction in the region's net migration outflow.

Forecast

We do not expect Hawke's Bay's population growth to be sustained beyond the middle of next year. The region's good fortunes are largely a function of the export income boom of 2001 and early 2002, and the effects of the higher dollar since 2002 will send the interprovincial population movement back to its more traditional outflow. The difference between national and regional population growth will hold around the current gap of 0.8 percentage points.

The real estate market in Hawke's Bay is unlikely to perform as well as the New Zealand market on average over the medium-term. Over 2005 and 2006, sales activity will fall by around 32% in total (compared to 25% for New Zealand overall). Building activity in the region is close to a peak – we expect the rate of construction to drift downwards from early next year.

Hawke's Bay



During the current boom, the volume of sales in Hawke's Bay has risen more slowly than the national average. However, at August 2003, the annual sales total was 27% above the previous peak achieved in 1994.

House price growth in Hawke's Bay has been on average 1.1 percentage points slower per annum than the nationwide average over the last decade. While the small size of the region can make trends difficult to interpret, the current increase in sales activity has led to a lift in prices not seen since 1994.

Average rents in Hawke's Bay have risen 7.3% over the year to August 2003. Rental growth has not kept pace with house prices over the last five years, with average gross yields dropping from around 7% at the end of 1997 to 6% by the middle of this year.

With slack population growth, underlying demand for new houses will be relatively weak. Whereas we expect the annual New Zealand consent total to drop 9% between March 2004 and March 2006, the rate of house construction in Hawke's Bay is likely to decline by more than 30%.

This decline in building activity will mask the effects of weak population growth on the housing market over the next 12-18 months. We expect house prices in Hawke's Bay to follow a similar trend to the New Zealand average, with the rate of increase topping 10% pa over the year to March 2004 before slowing to 1-2% heading into 2005. The persistent slowdown in population growth could lead to modest falls in nominal house prices over 2005/06.

Average rents in Hawke's Bay have risen 7.3%

Chart 7.1: Hawke's Bay Median house prices (\$'000)

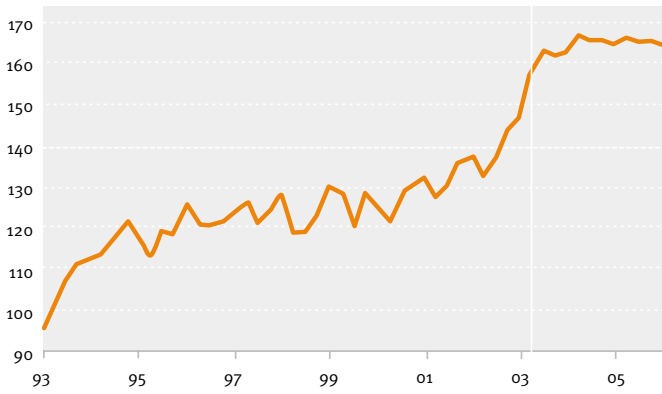
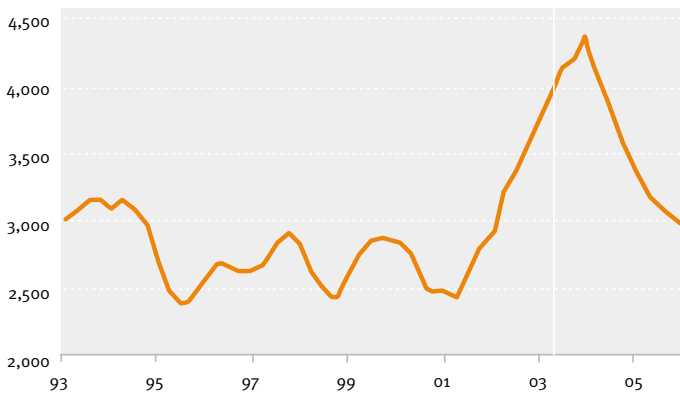


Chart 7.2: Hawke's Bay Annual house sales total



Building activity in the region is close to a peak



State of play

The annual consent total in Taranaki/Manawatu/Wanganui (TMW) reached a low point of 535 in late 1998, less than half the total recorded 3 years earlier. Building activity recovered sharply throughout 1999, most notably in Manawatu and Wanganui. The annual consent total is currently at around 1000, with the bulk of growth now coming from the Taranaki area.

Population growth was flat over the year to March 2003, the first time in seven years that the population has not shrunk. TMW suffers from a large and persistent interprovincial population loss. The recent boost to population growth has come from improved foreign migration flows into New Plymouth and Palmerston North. Wanganui has also managed to halve its interprovincial population loss over the last two years.

Forecast

The outlook is for a soft real estate market in the region. In the short-term, sales activity is likely to follow a similar trend to the New Zealand average, pushing higher as a result of lower interest rates. But over the two years to March 2006, the volume of sales will drop back by around 30% (compared to a nationwide drop of 25%).

House prices will also weaken. While the average price could rise by 9-10% over the year to March 2004, we expect this to be followed by declines in house prices throughout the rest of the forecast period.

The TMW region will lose almost 1% of its population over the three years to March 2006. The loss in Taranaki will be in line with the regional average, but the number of people in the

Taranaki/Manawatu/Wanganui

The region's property market has been one of the least vibrant in New Zealand. While growth in the volume of house sales matched the upturn that occurred nationwide between April 2001 and June 2002, it has not been sustained over the last year. Annual sales activity is up 65% on March 2001, compared to 76% for all New Zealand.

In six of the last nine years, real house prices have fallen in TMW. On average, house prices in the region have risen 3.9 percentage points per annum slower than for all New Zealand. Looking at the region in more detail shows that this is primarily due to prices in Wanganui – the (nominal) cost of housing is the same now as it was in late 1996. Prices in Taranaki have risen more quickly than those in Manawatu.

Rental growth in TMW has run ahead of house price growth in the region over the last two years, but has generally remained below the national average. In the year to August, we estimate that average rents rose 6%.

Wanganui area will shrink by around 4%. Manawatu is likely to experience a modest increase in population.

These population trends will influence where most building activity is likely to take place in the region. By 2006, 65% of new dwelling consents within the TMW region will be granted in the Manawatu area, up from 54% a decade earlier. Ten percent of consents will be granted in Wanganui (down from 17%), with the remaining 25% in Taranaki (down from 29%).

While it continues, the significant interprovincial population loss from TMW will prevent any improvement in property values in the region. By March 2006, we predict that real house prices in the region will be 7.8% lower than in March 1995.

Rental growth in the region has run ahead of house price growth

Chart 8.1: Taranaki/Manawatu/Wanganui Median house prices (\$'000)

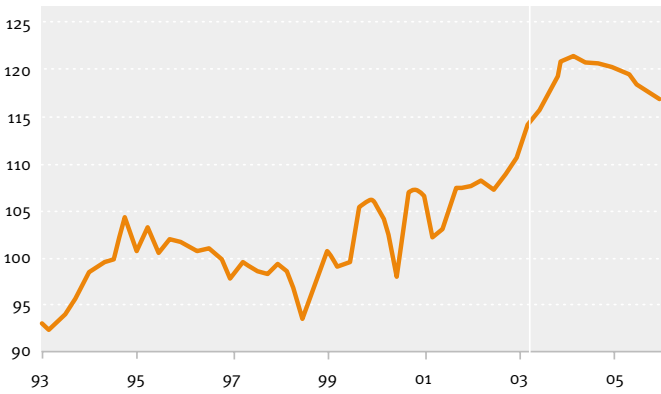
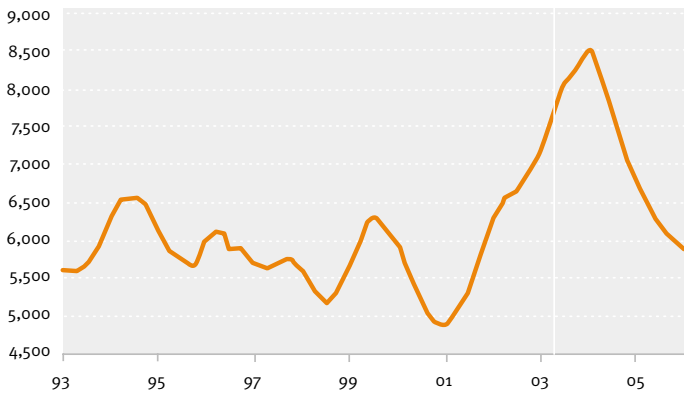


Chart 8.2: Taranaki/Manawatu/Wanganui Annual house sales total



The outlook is for a soft real estate market in the region



State of play

- The average rate of new house construction in Wellington has increased from around 1,400 consents per annum between 1993 and 1997 to around 2,200 from 1997 to 2003. This reflects the relatively strong house price growth in the region providing an incentive to add to the dwelling stock.
- We estimate that Wellington's population expanded by 1.4% over the year to March 2003, the strongest growth recorded in at least seven years. The region traditionally benefits from an interprovincial population inflow, but there has also been a surge in terms of net foreign migration into the region.
- Wellington's real estate market was out of synch with the rest of the country between mid-1997 and mid-2001. Although

Forecast

While the real estate market in Wellington has not experienced the same lift in terms of sales volumes that has occurred in other parts of the country, indications are that the region's property market is relatively tight. We expect the boost to demand that has come from migration will continue over the next couple of years, although the magnitude of the net inflow will lessen over time. By March 2006, we predict that population growth will ease back to 0.9% pa, still well above the 1997-2001 average of 0.5% pa.

With moderate population growth and an expanding government sector, sales activity in Wellington is likely to hold up well. Price rises of more than 10% over the year to March 2004 could stunt sales in the short-term, but we still expect turnover to hold between 10,000 and 12,000 houses per

Wellington



cyclical trends in sales volumes were in line with the broader New Zealand market, the level of activity had stepped up over 1996 and 1997, at the same time as momentum began to sag in the rest of the country. Consequently, with sales activity in the region already relatively high, annual volumes have risen only 30% since March 2001.

- The sustained period of healthy turnover has had a noticeable effect on house prices – between March 1997 and March 2000, Wellington house prices climbed 29%, compared to 8% nationally. However, over the ten years to March 2003, both Wellington and New Zealand house prices have climbed 72-73%. Wellington missed out on the 1994-1996 property boom, which was centred in Auckland, but caught up over the following 3-4 years. Since late 2001, price trends in Wellington have been similar to the national average.
- Rental growth in Wellington over the year to August was just 3.7%, well below the house price growth recorded of 13%. Since the second half of 1998, gross rental yields in the region have fallen from over 7% to 5.5%, in line with falling long-term interest rates. Rental growth has barely kept pace with consumer price inflation. This suggests that investors in rental property are increasingly relying on capital gains to make their investment profitable, rather than the simple returns from the rental income.

annum over the entire forecast period. This is similar to the volume of sales achieved on average over the last seven years. Building activity has recently been very strong in Wellington.

The growth in construction over the last nine months has been underpinned by a rush of apartment building – there were 968 apartment units planned over the year to August 2003, up from just 358 over the previous August year. We predict that Wellington City will experience a significant lift in apartment construction over the next three years, similar to that seen in Auckland (although not of the same magnitude). This underpins our forecast of an average of almost 2,500 new consents per annum in the region over the next three years.

The relatively swift rate of addition to the dwelling stock could undermine price rises from mid-2004. The continued strength of Wellington's property market is also at risk from the trend of corporate head offices leaving the region.

The region traditionally benefits from an interprovincial population inflow

Chart 9.1: Wellington Median house prices (\$'000)

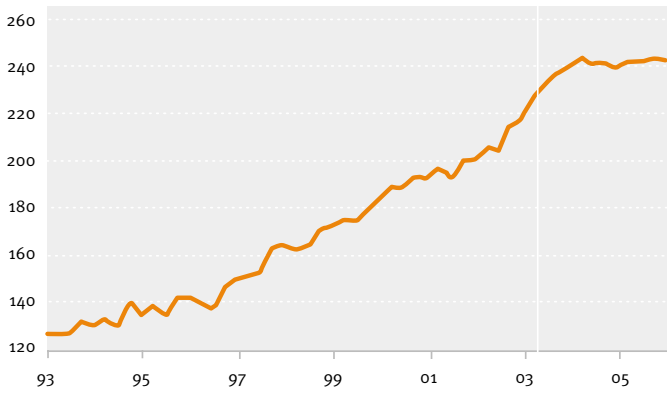
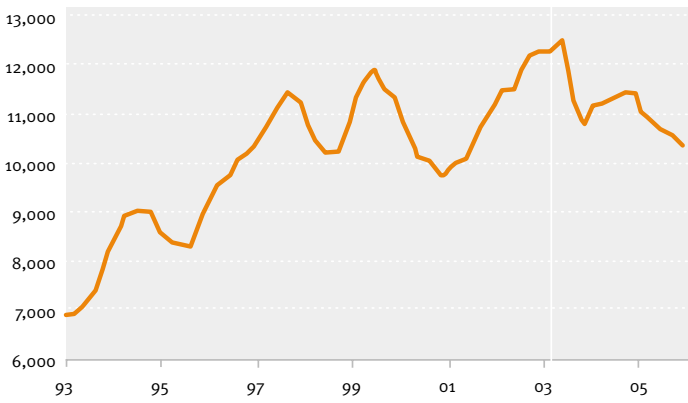


Chart 9.2: Wellington Annual house sales total



Sales activity in Wellington is likely to hold up well



State of play

Activity in Nelson/Marlborough (NM) is at a record high of almost 1,300 consents per annum. This is well above the average annual build rate of 860 dwellings between 1996 and 2002. There is currently a clear incentive to build new houses, rather than buy existing property.

Population growth is running at 1.8% pa, and is as high as 2.1% pa in the Nelson/Tasman area. The region has consistently attracted people from other parts of New Zealand, and now has a net inflow from overseas as well. For expatriates returning to New Zealand, Nelson has been one of their destinations of choice.

The Nelson property market is in short supply. Over the last five quarters, property prices in the area have climbed by 44%.

Forecast

As the global economy picks up over the next year and job prospects improve abroad, more New Zealanders will be encouraged to travel and work overseas. This will slowly erode the net migration flow into the region that has developed, reducing it to zero by early 2006. At an average of 1.4% pa over the forecast period, population growth will hold slightly above the national average.

Sales volumes in the NM region may have a little further to lift yet, but the bulk of that growth will come in the Marlborough area. We predict a 32% drop in sales between March 2004 and March 2006, as the more expensive property in the region pushes buyers out of the market.

Nelson/Marlborough



The shortage of listings is evident in sales activity data for the year to August 2003 – over the year, the annual sales total in Nelson dropped 6.6%, compared with a 22% rise for New Zealand on average. Trends in the Marlborough market are more similar to the rest of the country.

Strong population growth in the region, combined with modest levels of building activity, provided the initial catalyst for the lift in house prices. The Tasman area, in particular, has become an increasingly popular place to live due to the lifestyle on offer (including its proximity to an attractive coastline).

Rental growth in the region has been rapid, at 11% pa, but has failed to keep pace with strong house prices. Gross yields have plunged from 6.3% in September last year to just 4.9% by August 2003. This suggests that owners of rental property are unable to attract tenants at rents that would justify the prices that houses are currently being sold at. A correction appears most likely to come through a reversal in property values at some stage.

We do not anticipate a substantial fall in house prices in the region, but we still predict that by March 2006, property values will be 6% lower than they were over the June 2003 quarter (12% lower in real terms). An increased supply of new houses and slightly slower population growth will take the heat out of the property market.

We forecast an average of around 1,060 dwelling consents per annum over the three years to March 2006. As the strong house price growth evaporates, growth in building activity will also ease. Nevertheless, the fact that population growth will remain relatively good will provide a basis for construction activity to hold above the rate seen between 1999 and 2002. This period now appears to have been a time when the size of the dwelling stock was not being increased sufficiently to keep pace with demand.

Building activity in Nelson/Marlborough is at a record high

Chart 10.1: Nelson/Marlborough Median house prices (\$'000)

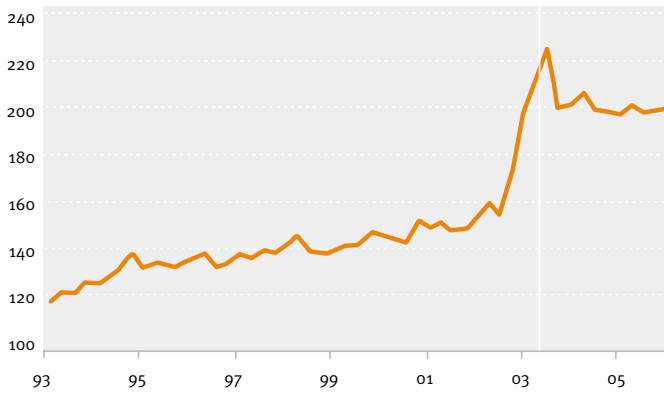
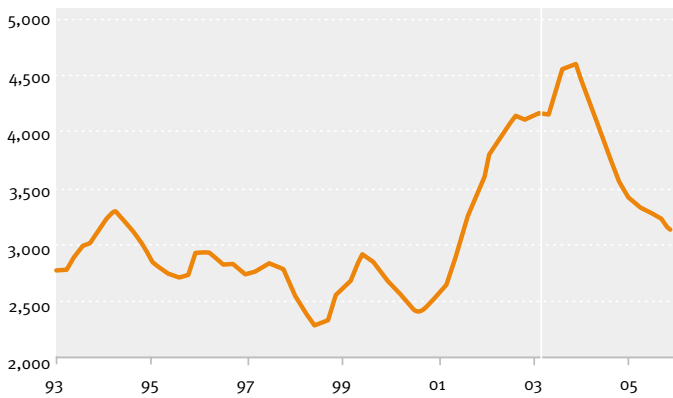


Chart 10.2: Nelson/Marlborough Annual house sales total



Sales volumes in the region may have a little further to lift yet



State of play

With flat house prices providing little incentive to build, the annual dwelling consent total in Christchurch hit a low of 1,249 in August 2001 – down 42% on the level of activity recorded during 1999. The build rate has now recovered to its highest level since 1995, with 2,362 consents granted over the year to August.

Christchurch's population has grown by a total of 2.9% over the last two years. This is slightly slower than national population growth, but well up on the 0.5% pa average recorded between 1998 and 2001. The turnaround has come as a result of a strong net migration inflow, surpassing the influx that occurred in the mid-1990s.

Forecast

Population growth in Christchurch is set to remain relatively healthy over the three years to March 2006, averaging 1.1% pa. We expect the net migration inflow to persist, although the number of people arriving will decrease as the nationwide inflow tails off. The region has recently experienced an interprovincial population loss, which appears to be partly caused by people choosing to live further out from the city (in the Waimakariri District, for example). This interprovincial outflow is likely to continue over the forecast period, to the benefit of the provincial areas surrounding Christchurch.

We expect healthy demand for housing will push the annual sales total over 10,000 by March next year. But as population growth eases back, so will sales activity, with sales volumes falling by 29% over the two years to March 2006.

Christchurch



After being particularly sluggish since mid-1997, the Christchurch real estate market has improved over the last two years. While the lift in sales has not been as rapid as in other parts of the country, it represents a welcome turnaround for a region that largely missed out on the moderate upturn that occurred throughout most of New Zealand in 1998/99. At 9,756 over the year to August, the annual sales total is at its highest since the start of 1997.

House prices in the region were unchanged between March 1998 and March 2002. However, the consistent lift in sales volumes over the past two years has now fed through to a 20% pa rise in property prices to August 2003, with house price growth consistently exceeding the national average for the first time since 1998.

Rental growth over the year to August 2003 was around 13% pa. Rents in Christchurch have climbed faster than the New Zealand average for the last two years. Gross rental yields in the region have held in the 6-6.5% range over that period.

House price growth is likely to be sustained in double digits through until the first half of 2004. Even into early 2005, we predict that house prices in Christchurch will rise by more than 3% pa (twice as fast as our forecast for all New Zealand).

The upward momentum that house prices are currently enjoying is likely to be prolonged by the delayed upturn in building activity in the region. However, further pickup in the rate of construction may be limited by rising building costs – we expect building activity to be declining again by early next year.

House prices will continue to rise in nominal terms heading into 2006, but Christchurch will fall behind the New Zealand average in terms of house price inflation.

Rental growth over the year to August 2003 was around 13% pa

Chart 11.1: Christchurch Median house prices (\$'000)

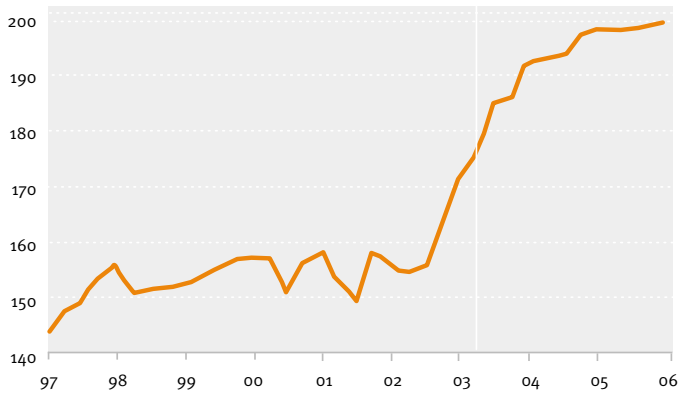
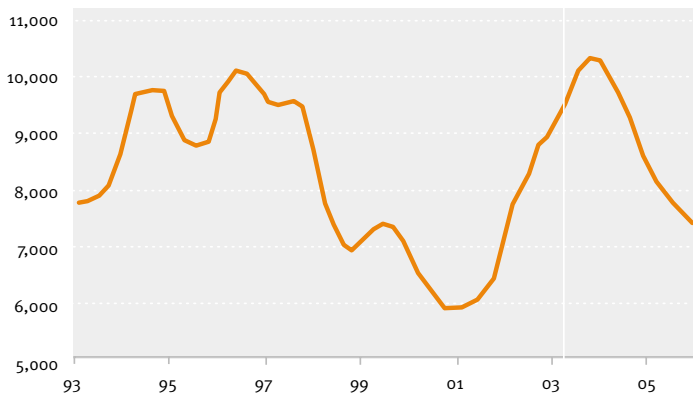


Chart 11.2: Christchurch Annual house sales total



House price growth is likely to be sustained in double digits through until the first half of 2004



State of play

Building activity in Canterbury/Westland (CW) has been relatively slow to pick up, although this is consistent with the sustained period of flat house prices. The annual total of new building consents reached 1,642 in August 2003, up 15% on the previous record.

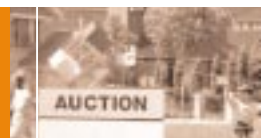
CW's population grew 1.3% over the year to March 2003, well above the average increase of 0.7% recorded over the previous six years. The population was boosted by a significant interprovincial population inflow (which appears to have largely stemmed from Christchurch). The region's population growth rate has also picked up over the last two years as expatriate New Zealanders return home.

Forecast

Population growth in the CW region will slowly ease over the next three years, with both the net migration and interprovincial population inflows waning. By March 2006, we predict that population growth will have almost halved from its current rate of 1.3% pa. As we noted earlier, a flow of people out of Christchurch will continue to boost the population in the provincial areas surrounding the city. More outlying areas such as Westland and Waimate will suffer from a shrinking population.

The property market in CW has tended to follow the Christchurch market reasonably closely over the last few years. We predict that sales activity will peak within the next few months and begin to slow heading into 2004. The impact of the higher New Zealand dollar on the export sector will stunt

Other Canterbury/Westland



In terms of sales activity, the CW region is performing strongly. The number of house sales has more than doubled since March 2001, and is over 5,200 on an annual basis. This is 51% above the previous record high for the region. In contrast, sales volumes throughout all New Zealand are 20% above the previous high.

Like Christchurch, house prices in CW have generally been flat over recent years – prices were unchanged between March 1997 and August 2002. However, over the last twelve months the average house price has climbed 9%, reflecting the buoyant level of sales being recorded.

Rental growth in the region has closely followed house prices, with average rents also having risen 9% over the last year. Gross yields in the region are currently slightly higher than those in Christchurch.

economic growth in the region, including taking some of the heat out of the housing market.

House price growth of over 10% pa is likely heading into 2004. But over the following two years, house prices in CW will be flat, as sales activity falls by more than 30% between March 2004 and March 2006. Population growth around 0.4 percentage points slower than the nationwide average suggests that the region's real estate market will be less buoyant than the overall New Zealand market.

Consequently, we predict that the rate of house building activity in CW will be similar to the rate maintained over the last decade, of around 1,300 consents per annum. Activity will tail off from the current rate of over 1,650 consents throughout the forecast period.

In terms of sales activity, the region is performing strongly

Chart 12.1: Other Canterbury/Westland Median house prices (\$'000)

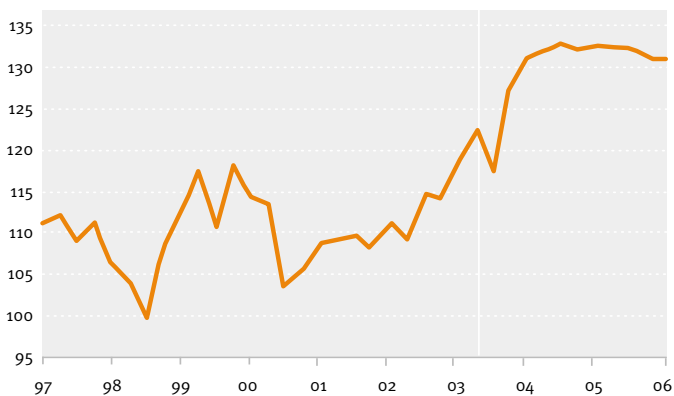
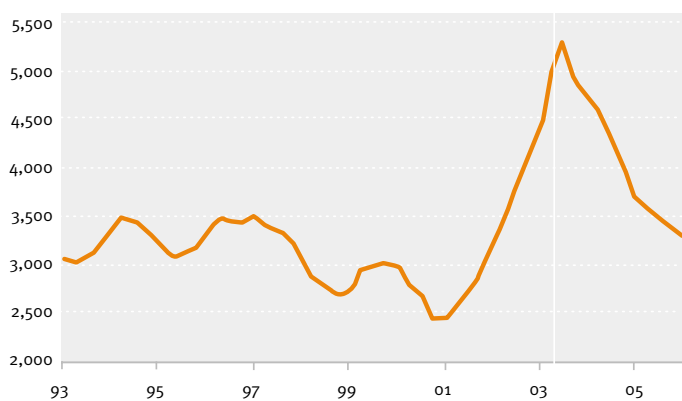


Chart 12.2: Other Canterbury/Westland Annual house sales total



House price growth of over 10% pa is likely heading into 2004



State of play

Building activity in Otago/Southland (OS) slumped in the late 1990s, with the annual consent total hitting a low of just 431. But over the last four years, with some turnaround in population growth, building activity has more than trebled. The number of consents reached 1,659 over the year to August 2003. The strongest growth has come in the Southland area, but dwelling consents in Otago still account for 80% of the regional total.

Both Otago and Southland have struggled to stop their population from shrinking over the last 25 years. Southland's population is 15% smaller than in 1976, while the number of people in Otago has increased by just 1.4% over the same period. Both areas have recently recorded positive population growth – we estimate as high as 1.1% pa over the year to

Forecast

We do not expect the OS region to maintain population growth at its current rate. We predict that Southland's population will resume its long-term declining trend by the end of 2004. The Otago area is likely to fare better, with population growth averaging 1.1% over the forecast period. We expect the number of people in the Queenstown district to continue to increase strongly.

The annual number of house sales will peak at over 10,000 in early 2004, before decreasing by 37% over the next two years. The drop off in the Southland area will be more acute than in Otago. Nevertheless, by March 2006, the level of real estate activity will still be around 40% above the trough reached in the second half of 1998. This reflects the fact that, even then, population growth will remain 1.3 percentage points higher than over the year to March 1999.

Otago/Southland



March 2003. This has been due to some revival in the Invercargill economy (partly as a result of the Southland Institute of Technology's zero fees scheme), and the growing popularity of the Queenstown district.

In contrast to a four-year period up to September 1998 when sales activity declined almost continually, the OS property market has been one of the best performers over the last 2 years. It was one of the first regions to begin a recovery in late 2000, with the annual sales total rising 101% from its low point by August 2003.

Price trends have been mixed – even in the midst of the upturn in early 2002, prices were still down on the previous year. Over the last year, however, the median house price has risen 27%, with the Southland area recording the largest rises. While the recent rise has been very strong, Southland house prices were unchanged in nominal terms between mid-1994 and September 2002.

Rental growth over the year to August in Otago/Southland was 17%, in line with the movement in house prices. Rental yields within the region have remained relatively constant over the last five years, with gross yields generally higher in Otago than in Southland.

After large price gains over the two years to March 2004, we predict that house prices will drop back by more than 3% in total over the following two years as the property market cools in the region. We expect Queenstown, Wanaka, and some other parts of Central Otago to be the only areas not to experience some pullback in house prices.

Slack property values and slowing population growth will quickly erode the incentive, or need, to build new housing in the region. Southland is likely to be hardest hit, with construction activity dropping 45% over the three years to March 2006. Building work in Otago will pull back by around 29% over the same period, a significantly greater fall than the decline in the national consent total of 15%.

Price trends have been mixed

Chart 13.1: Otago/Southland Median house prices (\$'000)

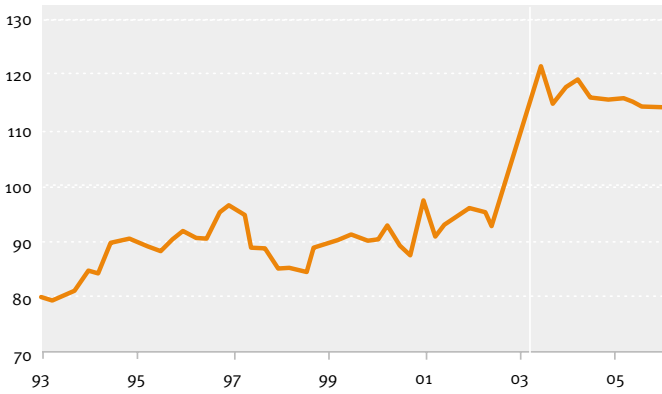
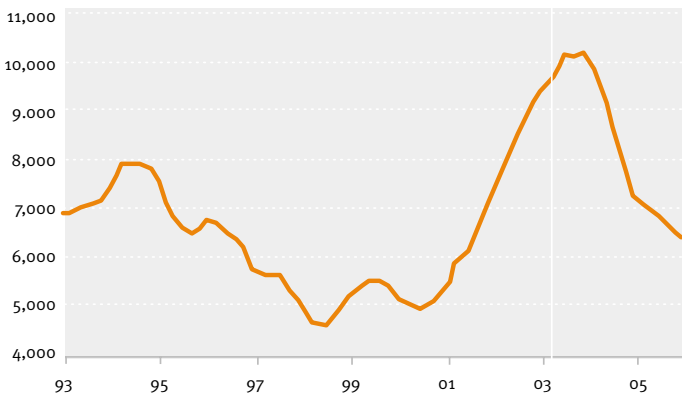


Chart 13.2: Otago/Southland Annual house sales total



We expect the number of people in the Queenstown district to continue to increase strongly



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