

# PROPERTY FOCUS LETTING OFF STEAM

MARCH 2010

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## SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. In this issue we update our analysis of section and apartment listings across the regions.

## THE MONTH IN REVIEW

House prices have flatlined since the end of last year. With the labour market yet to find its feet and with households no longer benefiting from rising house values, we wonder what will continue to propel consumer spending.

## PROPERTY GAUGES

The housing market has rolled to a halt and recent RBNZ weekly housing loan approval data isn't suggesting that things are about to change. Based on historical data it's only a matter of time before emigration to Australia becomes a negative factor.

## ECONOMIC BACKDROP

Prior to pending regulatory changes, the property market has cooled, with investment a missing ingredient from the economic mix. However, we believe economic growth is close by, as favourable commodity prices and a more competitive exchange rate will kick in next year. This is a view shared by the Reserve Bank in its latest prognosis of the economy.

## MORTGAGE BORROWING STRATEGY

Floating mortgage rates remain low, and while most fixed mortgage rates have fallen in the past month, they remain very high and step up progressively for longer terms. Markets continue to factor more aggressive rate hikes than we expect and competition for term deposits remains intense. This has kept long-term fixed mortgage rates elevated, despite the fact that the OCR is at a record low of just 2.50 percent. Breakevens imply that mortgage rates need to rise rapidly in order to be better off fixing. As such we favour either the floating or the 6 month rate.

## FEATURE ARTICLE – SECTION / APARTMENT UPDATE

Sections and apartments are often talked about as the most vulnerable parts of the property market, being more "speculative". We have updated our regular analysis which records which regions have the most sections and apartments for sale, relative to total property listings.

## KEY FORECASTS

## THE MONTH IN REVIEW

House prices have flatlined since the end of last year. With the labour market yet to find its feet and with households no longer benefiting from rising house values, we wonder what will continue to propel consumer spending.

Steamed dumplings are on the “wait watchers” menu.

### REINZ HOUSING DATA – FEBRUARY

House sales rose 5.8 percent (seasonally adjusted) in February but remain 11.1 percent down from December levels. The average days to sell lengthened to its highest since June 2009 and is more indicative of the true state of the housing market. The REINZ House Price Index (HPI) dipped by 1.1 percent (seasonally adjusted). Both the seasonally adjusted REINZ median and the stratified HPI are below year end levels.

Construction activity is reminiscent of a dormant geyser.

### SNZ BUILDING CONSENTS – JANUARY

Including apartments, the seasonally adjusted number of new dwellings authorised in January fell 2.8 percent, after falling 3.5 percent in December. Excluding apartments, consent issuance rose slightly (up 0.7 percent) with the trend improvement appearing to be easing. The value of non-residential building consents was \$223 million in January, a 39 percent fall compared with January 2009. This is the lowest value since April 2006.

Non-residential construction remains in the pressure cooker.

### SNZ VALUE OF BUILDING WORK – DECEMBER

The volume of all building work rose 0.7 percent in the quarter, but fortunes differed considerably by sector. The 7.4 percent rebound in residential construction activity was the largest quarterly increase since June 2004, but activity remains a third lower than its September 2007 peak. The volume of non-residential building work declined further, to be 13 percent down over the 2009 year.

Bubbling away like a geothermal mud pool.

### RBNZ MORTGAGE LENDING – JANUARY

Subdued credit growth to households continues, with housing credit growth increasing by 0.2 percent in January to be 3.3 percent up on a year ago. Housing approvals data, collected by the Reserve Bank for early March, continues to show soft activity in the housing market.

Old Faithful continues to blow, but is the eruption about to end?

### SNZ MIGRATION - FEBRUARY

On a seasonally adjusted basis, net arrivals grew by 1,060 in February, down from 1,850 in January, and lower than the average of 1,900 experienced in the preceding 12 months. On an annual basis, there was a net inflow of 18,360, which is around twice the annual average of the past twenty years. The increase was driven by fewer departures to Australia. Net outflows to Australia in the twelve months to February were less than half of that in the previous twelve months.

### ASSESSMENT

The housing market is weakening. This trend started in around October last year, initially driven by rising fixed interest rates. But clearly prospects for higher short-term rates and uncertainty towards pending tax changes is having a say. Both are unlikely to disappear soon. Against this backdrop, low consent issuance and positive migration trends are suggestive of a looming dwelling shortage. New Zealand desperately needs a volume response, but without the typical kick-up in prices.

## PROPERTY GAUGES

The housing market has rolled to a halt. Recent RBNZ weekly housing loan approval data isn't suggesting that things are about to change. Our indicators continue to point to more, rather than less, downwards pressure on prices, despite supply-demand measures continuing to show an excess demand gap.

We use ten gauges to assess the state of the property market, and for signs that changes are emerging.

**AFFORDABILITY.** For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.

**SERVICEABILITY / INDEBTEDNESS.** For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.

**INTEREST RATES.** Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.

**MIGRATION.** A key source of demand for new housing.

**SUPPLY-DEMAND BALANCE.** We use dwelling consents issuance to proxy supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.

**CONSENTS AND HOUSE SALES.** These are both key gauges of activity in the property market.

**LIQUIDITY.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

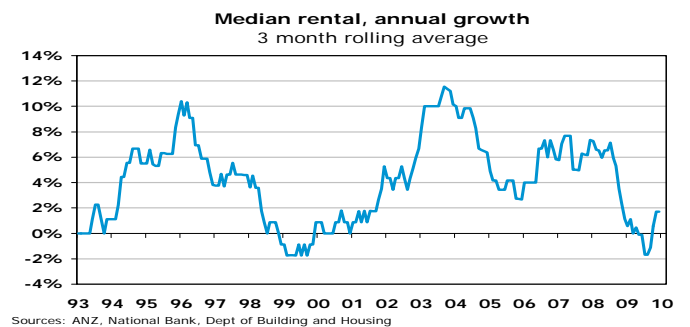
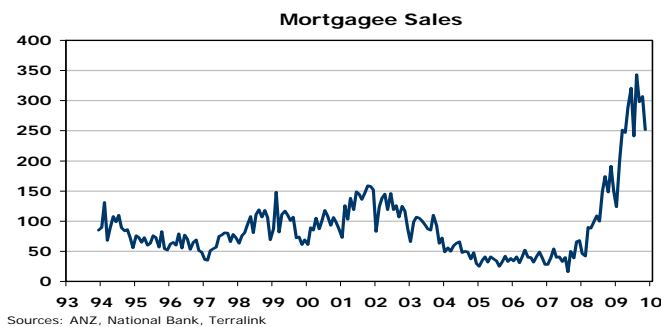
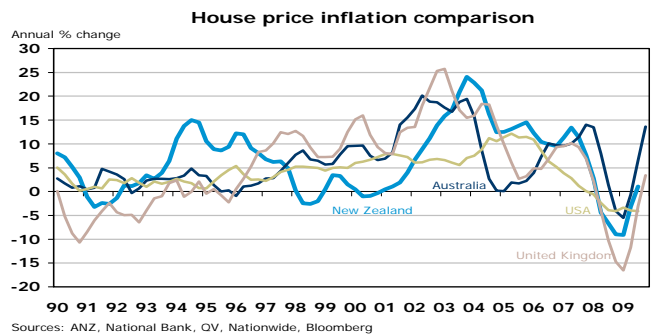
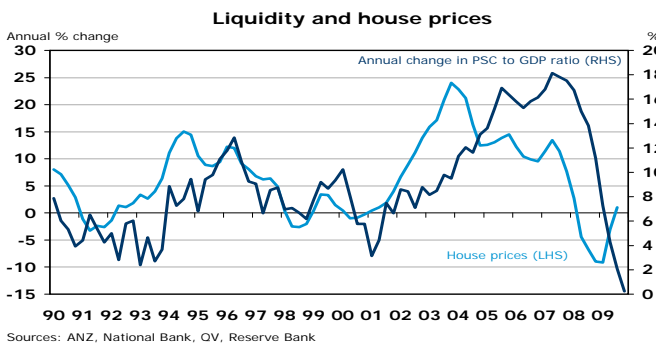
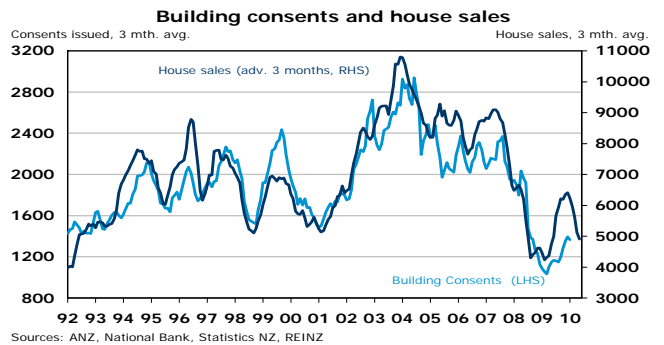
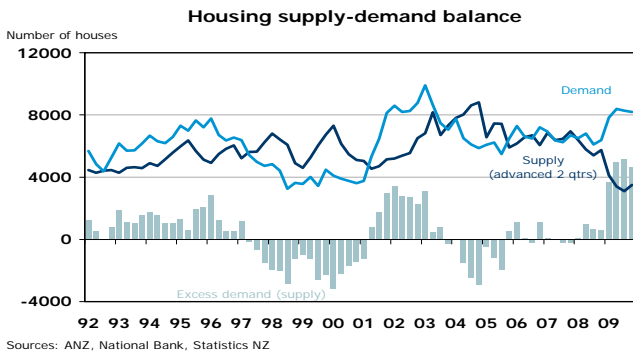
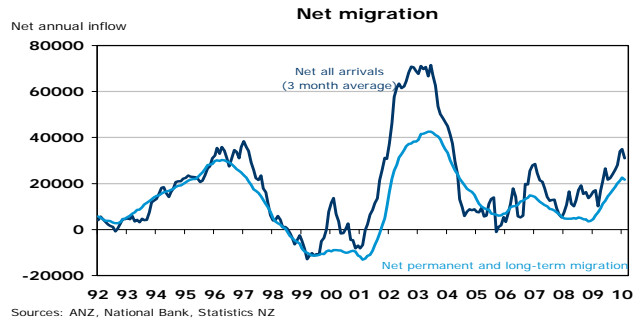
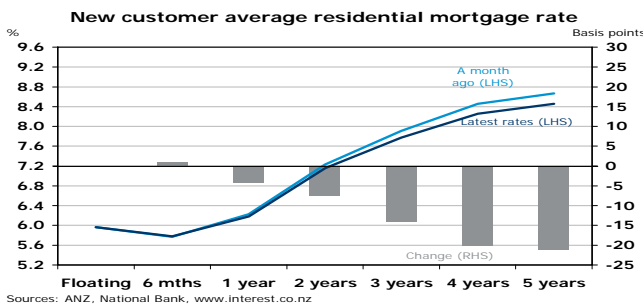
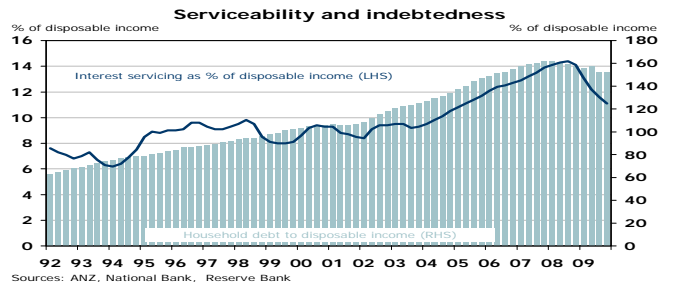
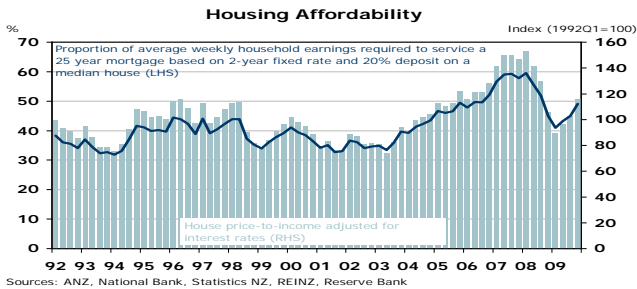
**GLOBALISATION.** We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

**MORTGAGEE SALES.** We look at how mortgagee sales are tracking for an indication of distress in the property market.

**RENTAL GROWTH.** We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

Indicator	Level	Direction for prices	Comment
Affordability	Slipping	↔	Rising interest rates has dented affordability.
Serviceability / indebtedness	Easing	↓	Deleveraging continues.
Interest rates	Tweaked	↔/↓	Longer-term rates have been trimmed but 3 to 5 year fixed rate mortgages remain above their decade averages.
Migration	Positive	↑	Given the divergences between the two economies, a rise in departures to Australia remains a key risk going forward.
Supply-demand balance	Out of kilter	↔/↑	A wide imbalance still prevails.
Consents and house sales	Paused	↔/↑	Buyers appear to be holding back as concerns over job prospects and pending changes to the taxation of residential property investment weigh.
Liquidity	Deserted	↓	Credit has all but dried up.
Globalisation	Gob-smacked	↓	Our trans-Tasman neighbours are leading the way.
Mortgagee sales	High	↓	Off its high but remains elevated.
Median rent	Lifting	↓	Starting to build.
On balance		↓	Becalmed.

# PROPERTY GAUGES



## ECONOMIC BACKDROP

Momentum across the economy remains patchy and soft. For now, de-leveraging and uncertainty remain dominant themes for 2010. We are far more optimistic towards 2011. Nonetheless, the ingredients for a sustained recovery are progressively moving into place.

### OUR CORE ECONOMIC VIEW

**We remain cautious over the outlook for 2010.** We have repeatedly cited deleveraging and structural changes as powerful influences on the economic cycle and the recovery process, particular when read in conjunction with an uncertain global environment. **Investment indicators are still pointing to an economy that looks sluggish.** Commercial construction activity remains weak. With a long list of anecdotes pointing to an overhang, prospects of an immediate rebound do not look favourable. Vacancy rates in the main centres are rising. **The housing market is weakening.** Prices are flat to easing and days to sell rising. Volumes remain low. Part of this reflects some uncertainty surrounding tax changes but housing looks to have turned (after a respectable bounce) around October last year, so there is more to it. Section sales have fallen more than house sales and if land sales are down it's hard to paint an overly bullish near-term picture for consent issuance, despite building supply-demand imbalances. The retailing environment remains tough. **While businesses appear confident this sentiment is not spilling over into the preparedness to invest and hire –** critical ingredients if the recovery is to gain momentum.

**Challenges still remain and 2010 may well be more of a struggle.** There is the global scene for one. Domestically, we know the commercial property market is very weak and non-residential investment activity is facing a huge growth hole over H2 2010. This is a material downside risk – locally and globally. In addition, recent weakness in the housing market means the expected cyclical rebound in residential investment could well be pushed out. Rural land prices are under pressure. Prospects for business investment remain poor (a sad signal for the supply-side capacity of the economy). Much economic activity is still contingent on central bank and government support remaining in place and for the currency to continue to weaken. The recent migration fillip will unwind over 2010, as the Australian job market lures more kiwis across the ditch.

**Against this backdrop of caution we are becoming more bullish for 2011.** This reflects two dynamics (plus the Rugby World Cup effect). Weakness in H1 2010 (and 2008 and 2009) is influential, because the more this economy frontloads deleveraging and rebuilds its balance sheet, the greater the opportunity for pent-up demand to be unleashed. In short, tougher times over 2010 bring something better in 2011. But we are also becoming increasingly optimistic over what we are seeing across commodity prices and the currency (the NZD/AUD in particular). We have been at pains to emphasise that we monitor both structural and cyclical indicators in so far as our expectations for the economy are concerned. Growth in itself is not the issue: we need the conditions to drive a robust and sustainable upswing, and these conditions are gradually falling into place. We see great potential for business investment and the like to come to the fore, strongly from late 2010.

**It would appear that the Reserve Bank share the spirit of our view,** but have more economic growth front-loaded into 2010. In their recently released *Monetary Policy Statement*, words such as *patchy* and *sluggish* were apparent in the text in terms of describing the recovery. But the Bank is forecasting the economy will record a strong rebound starting in the second half of this year, and running at an average 1 percent per quarter increase until mid 2011. This is certainly in line with the historical experience as under-utilised capital and labour is brought into production, as confidence recovers and pent-up demand is unleashed. **We think the RBNZ is right in spirit, but are more cautious in our view over the timing.**

**Speculation is now mounting in regard to the tax package that will appear in the Budget.** The package itself was recently noted as being fiscally neutral by the Minister of Finance. But media reports that followed clearly showed everyone being better off when the negative of a GST rise was weighed against the cash benefit of a tax cut. So we have to ask the simple question – where is the shortfall coming from? The answer, of course, is housing in some shape or form (i.e. depreciation regime changes, ring-fencing of tax losses from income, etc) There is nothing new here, apart from firming up what seems to be inevitable. Given such a backdrop, we struggle to believe housing related activity will lift materially over the coming months.

# MORTGAGE BORROWING STRATEGY

Floating mortgage rates remain low, and while most fixed mortgage rates have fallen in the past month, they remain very high and step up progressively for longer terms. Markets continue to factor more aggressive rate hikes than we expect and competition for term deposits remains intense. This has kept long-term fixed mortgage rates elevated, despite the fact that the OCR is at a record low of just 2.50 percent. Breakevens imply that mortgage rates need to rise rapidly in order to be better off fixing. As such we favour either the floating or the 6 month rate.

## OUR VIEW

The cost versus certainty trade-off, that has faced borrowers for some months now, remains intense. Long-term fixed rates provide significant certainty, but come at a high cost. By contrast, floating rates are low, but will rise when the RBNZ starts raising rates. The question is not when the RBNZ will start raising rates – as this is almost certain to occur at some stage this year – but how quickly.

Generally speaking, it looks to us as though both wholesale and retail interest rates continue to price in too much monetary policy tightening. We expect the economy to recover in 2010, but it faces considerable headwinds, and it is difficult to make a case for either early or aggressive rate hikes. The RBNZ have reiterated that they do expect to start raising rates some time *"around the middle of 2010"*. Taken at face value, that comment could be construed as implying a June hike. However, we are also mindful of earlier comments the Bank have made, in particular that they will be *"looking for assurance that the domestic recovery is on a solid footing and can be self sustained as policy stimulus is withdrawn"*. At this stage it is not clear that either condition has been met. Upcoming tax changes and high retail interest rates have made people less certain, and while they will not derail the recovery, along with an overhang of debt, they will hold the recovery back. Ironically too, the very fact that term deposit and mortgage rates have already started to rise also takes pressure off the RBNZ. Indeed, it was noted at the March *Monetary Policy Statement* that *"higher bank funding costs have reduced the level of stimulus that would normally be associated with any given level of the OCR"*. Furthermore, this would be one factor *"reducing the extent of future increases in the OCR"*.

So if the market is expecting hefty rates hikes, how hefty are they? Breakeven analysis is probably the most useful way to go about answering the question, and can provide a useful guide as to whether to fix, and what period for. For example, if the mortgage "curve" (as it is known) is pricing in rates rising more quickly than you expect, you may be better off selecting a floating rate. Conversely, if the curve is pricing in slower rate hikes, it may pay to consider fixing. Let's consider the current set of mortgage rates. As the table below shows, the gap between the floating rate and the 5 year fixed rate is significant. And because rates step up progressively, this basically implies that "the market" expects steady increases in mortgage rates over the next 2 years. The trick for borrowers is to weigh these breakevens up against your own expectations. For example, if your horizon is the next 3 years, you have at least 4 choices – stay floating, fix for 1 year, 2 years or 3 years. But if you chose to fix for 1 year (at 6.20%), where would the 2 year rate need to be in 1 year's time for you to have been better off than fixing for 3 years now (at 7.75%)? The answer is 8.53%, which is 1.28% higher than the current 2 year rate of 7.75%. Fixing for 3 years now gives certainty, but it is also an endorsement of market expectations of large rate rises.

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.69%				
6 months	5.99%	6.41%	7.67%	8.93%	8.50%
1 year	6.20%	7.04%	8.30%	8.72%	8.75%
18 months	6.69%	7.67%	8.37%	8.81%	8.93%
2 years	7.25%	7.88%	8.53%	8.93%	9.13%
3 years	7.75%	8.30%	8.85%	9.17%	9.32%
4 years	8.19%	8.63%	9.06%		
5 years	8.49%				

We don't think market rates will rise this quickly, and while there's more to the decision than just breakevens (because we do need to place a value on certainty), overall we do prefer floating or 6 month rates. These are still low, and so long as rates remain low, there may be an opportunity to extend later at more attractive levels.

## FEATURE ARTICLE – SECTION / APARTMENT UPDATE

Sections and apartments are often talked about as the most vulnerable parts of the property market, being more “speculative”. We have updated our regular analysis which records which regions have the most sections and apartments for sale, relative to total property listings.

The section and apartment sectors of the property market – traditionally more speculative areas – are often touted as being the pockets that are the most vulnerable at this stage in the property cycle and for good reason. Higher interest rates or changes in the credit cycle often mean large price swings, relative to other types of property, as demand wanes.

The table overleaf shows the number of sections and apartments for sale, relative to the total number of properties on the market across the regions. It is based on data from the Trade Me website (which provides easy access to this type of data). Although it is somewhat of a crude indicator, we feel it is still reasonably effective as a proxy. As with such indicators, it is the underlying trends that matter.

The table ranks the various regions from highest to lowest proportion of section and apartment listings and also records the rankings from a few other points since 2008.

### WHAT DOES IT SHOW?

Firstly, the overall trend has now started to ease. Since we started monitoring section and apartment listings (as a share of total listings), this ratio had been progressively rising. However, this time around we’ve noted a small fall. At this stage we are loathe to read too much into this as it appears a huge wave of listings has come from the investor market. But on the face of it one could take it as a mild sign excesses in those pockets are being worked through. However, listings are a high proportion of current sales, which suggest we are not out of the woods yet.

The nationwide measure dropped from 35 percent in July 2009, to 29 percent in March 2010 (a 6 percentage drop). This is a relatively low figure, with all observations we’ve recorded since 2008 having a proportion in excess of 30 percent.

For the first time since we have compiled the figures, Queenstown doesn’t take the top ranking. This time Kaikoura claims the prime position. This means that Kaikoura has the highest proportion of property listings made by apartments or sections across the regions. At over 50 percent in the latest outturn, the proportion of apartment and section listings has risen from about a third of all listings just two years ago. Queenstown is relegated to the second ranking, with sales also over 50 percent – a common feature that we’ve measured throughout our analysis.

Another feature of the latest figures is that nearly all of the regions have recorded a lower proportion of listings in sections or apartments. To be sure, listings in apartments and sections have grown since July last year, it’s just that sales of houses has grown at a faster rate. As well as the rise in Kaikoura, increases were only measured in five other areas: Tasman, Waitaki, Gisborne, Whakatane and Waimakariri. The largest reductions were measured in Selwyn and Nelson City (-22 and -21 percentage points, respectively), followed by Upper Hutt, Waitakere and Wellington City (declines between 12-16 percent).

While Kaikoura leapt 8 positions to the top ranking, several other regions recorded an even more dramatic rise up the relative rankings. Tasman rose 20 positions, with other large rises noted in Waitaki, Whakatane, Gisborne and Waimakariri. At the other end of the spectrum, the largest slide down the relative rankings was measured in Selwyn, Nelson City, Upper Hutt, Waitakere and Wellington City.

It’s the holiday or retirement destinations that dominate the top end of the rankings, with a high exposure to sections and apartments. This isn’t a strict rule however, as Auckland City and West Coast are still high on the table. Auckland City ranks highly, with a large number of apartments listed and the West Coast with a large proportion of sections for sale. While at the bottom of the table, apart from a re-jigging in order, the five regions remain unchanged.

## FEATURE ARTICLE – SECTION / APARTMENT UPDATE

Number of sections and apartments for sale, relative to total properties for sale											
	% of total					% chg Mar-Jul	Ranks				
	Mar-10	Jul-09	Jan-09	Oct-08	Jun-08		Mar-10	Jul-09	Jan-09	Oct-08	Jun-08
Kaikoura	54.8	43.2	43.2	38.5	32.0	11.5	1	9	4	10	15
Queenstown Lakes	50.7	54.1	51.8	53.8	52.1	-3.4	2	1	1	1	1
Northland - Far North	45.7	47.9	45.4	46.2	42.7	-2.1	3	4	2	2	3
West Coast	44.0	46.5	43.2	42.9	36.6	-2.5	4	6	3	4	5
Tasman	41.2	32.3	30.5	39.2	36.5	8.8	5	25	21	9	6
Gisborne	40.5	36.6	27.6	24.8	27.2	3.9	6	15	28	29	19
Auckland City	40.4	46.9	41.9	44.1	43.8	-6.6	7	5	5	3	2
Thames/Coromandel	37.8	40.2	39.9	41.2	39.4	-2.5	8	12	8	7	4
Central Otago ex Qtwn	37.3	43.1	31.7	42.7	36.1	-5.9	9	10	19	5	7
Northland - Whangarei	36.9	41.2	39.7	40.6	33.1	-4.3	10	11	9	8	12
Hurunui, Hanmer	35.8	39.1	36.8	28.5	32.5	-3.3	11	13	11	26	13
Manukau City	35.2	37.4	31.3	18.1	14.0	-2.2	12	14	20	34	36
Western BoP	34.9	36.1	31.9	29.1	28.4	-1.2	13	16	18	22	17
Waitaki	34.6	30.1	26.8	28.8	33.8	4.5	14	30	29	24	9
Whakatane	34.0	30.4	30.1	28.6	26.8	3.6	15	29	22	25	20
Rodney	33.0	34.6	36.0	35.2	32.4	-1.6	16	18	12	14	14
Wellington City	32.6	44.5	38.1	38.1	28.0	-12.0	17	7	10	11	18
Upper Hutt	32.4	48.1	34.8	31.3	15.9	-15.8	18	3	13	20	32
Papakura	32.0	32.3	29.4	32.1	33.2	-0.3	19	26	24	17	11
Franklin	30.1	35.9	34.3	32.1	16.7	-5.7	20	17	14	18	31
Taupo	29.4	34.0	33.2	36.8	35.2	-4.5	21	19	15	12	8
Hauraki	29.2	33.3	32.5	31.5	28.9	-4.1	22	21	16	19	16
Nelson City	27.8	48.9	41.8	42.6	26.2	-21.2	23	2	6	6	22
Waimakariri	27.4	24.4	23.5	26.5	20.3	3.0	24	33	32	27	30
Tauranga City	26.7	31.3	29.3	30.6	25.4	-4.5	25	27	25	21	23
Southland	24.2	30.8	23.9	21.7	24.1	-6.6	26	28	31	33	24
North Shore City	23.4	33.4	29.7	28.9	23.7	-10.0	27	20	23	23	26
Kapiti Coast	23.2	32.9	28.3	23.4	20.7	-9.7	28	23	26	30	29
Hamilton City	21.6	32.3	27.8	22.0	21.5	-10.7	29	24	27	32	28
Selwyn	21.2	43.6	40.5	36.2	26.3	-22.3	30	8	7	13	21
Dunedin City	19.9	27.6	19.6	22.1	15.0	-7.7	31	32	33	31	34
Manawatu/Whanganui	19.9	22.7	19.1	18.0	15.2	-2.8	32	34	34	35	33
Waitakere	19.5	33.2	32.1	32.3	22.5	-13.7	33	22	17	16	27
Taranaki	18.8	28.9	25.4	25.0	23.8	-10.2	34	31	30	28	25
Hawke's Bay	18.4	21.1	17.8	16.9	14.9	-2.6	35	35	35	36	35
Timaru	16.4	17.6	15.6	8.6	9.4	-1.2	36	38	38	40	38
Marlborough	14.1	19.2	16.4	34.4	33.5	-5.2	37	37	37	15	10
Lower Hutt	13.8	17.6	11.5	11.3	7.8	-3.7	38	39	40	39	40
Christchurch City	12.6	20.4	16.4	16.1	10.8	-7.8	39	36	36	37	37
Rotorua	10.0	14.9	13.2	12.6	9.4	-4.8	40	40	39	38	38

## KEY FORECASTS

Weekly mortgage repayments table (based on 25-year term)

		Mortgage Rate (%)													
		5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00
Mortgage Size (\$'000)	200	290	297	304	311	319	326	333	341	348	356	364	371	379	387
	250	363	371	380	389	398	407	417	426	435	445	455	464	474	484
	300	435	446	456	467	478	489	500	511	522	534	545	557	569	581
	350	508	520	532	545	558	570	583	596	610	623	636	650	664	677
	400	580	594	608	623	637	652	667	682	697	712	727	743	758	774
	450	653	669	684	701	717	733	750	767	784	801	818	836	853	871
	500	725	743	761	778	797	815	833	852	871	890	909	928	948	968
	550	798	817	837	856	876	896	917	937	958	979	1000	1021	1043	1064
	600	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137	1161
	650	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232	1258
	700	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327	1355
	750	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422	1451
	800	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517	1548
	850	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611	1645
900	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706	1742	
950	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801	1838	
1000	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896	1935	

Housing market indicators for February 2010 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a.)	Comment
Northland	0.0	-4.7	119	(+10%)	58	The lowest 3 month price change in NZ.
Auckland	7.8	0.3	1,604	(+2%)	35	Median sales price hits a new record high.
Waikato/BOP/Gisborne	1.2	0.1	653	(+0%)	51	House sales price down to an 11-month low
Hawke's Bay	6.8	5.5	180	(+12%)	41	Fastest 3 month rate of house price growth.
Taranaki	1.3	2.6	200	(-10%)	47	The only region to register a drop in sales.
Manawatu-Whanganui	9.7	2.9	150	(+14%)	42	The strongest annual gain in house prices.
Wellington	4.2	-1.3	534	(+1%)	33	Days to sell shortens, in contrast to nation.
Nelson-Marlborough	2.2	2.9	190	(+8%)	49	Recorded a large jump in the days to sell.
Canterbury/Westland	5.1	1.5	711	(+17%)	35	Average sale price slips to 6-month low.
Otago	-0.4	-0.9	95	(+80%)	66	Recorded the weakest annual price growth
Central Otago Lakes	2.3	-2.1	178	(+0%)	51	Days to sell hits a 12-month high.
Southland	5.5	2.4	140	(+29%)	29	The fastest place to sell a house in the nation.
NEW ZEALAND	6.1	1.6	4,788	(+6%)	39	Longer to sell is more indicative of the market.

## Key forecasts

	Actual			Forecast						
	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
Economic indicators										
GDP (Ann Avg % Chg)	-2.1	-2.2	-1.5(f)	-0.3	0.6	1.5	1.9	2.2	2.7	3.4
CPI Inflation (%)	1.9	1.7	2.0	2.3	2.5	2.1	3.1	3.0	3.2	3.1
Unemployment Rate (%)	6.0	6.5	7.3	7.5	7.4	7.2	6.8	6.5	6.2	6.0
Interest rates	Actual			Forecast (end month)						
	Jan 10	Feb 10	Latest	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11
Official Cash Rate	2.8	2.8	2.5	2.5	2.5	2.8	3.3	3.5	4.0	4.8
90-Day Bank Bill Rate	2.8	2.7	2.6	2.8	2.8	3.2	3.7	3.8	4.6	5.2
Floating Mortgage Rate	6.0	6.0	6.0	6.2	6.2	6.4	6.9	7.2	7.7	8.4
1-Yr Fixed Mortgage Rate	6.2	6.2	6.2	6.2	6.2	6.4	6.7	6.8	7.5	8.0
2-Yr Fixed Mortgage Rate	7.2	7.2	7.2	7.3	7.3	7.4	7.6	7.9	8.4	8.8
5-Yr Fixed Mortgage Rate	8.7	8.5	8.5	8.6	8.7	8.8	8.9	9.1	9.2	9.3

# IMPORTANT NOTICE

## NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

## Qualifications, experience and professional standing

### Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

### Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

### Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

### Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

### Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;

- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

### Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

### Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

### Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

## PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;



## IMPORTANT NOTICE

- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

### Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

### Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

### Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

### NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

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