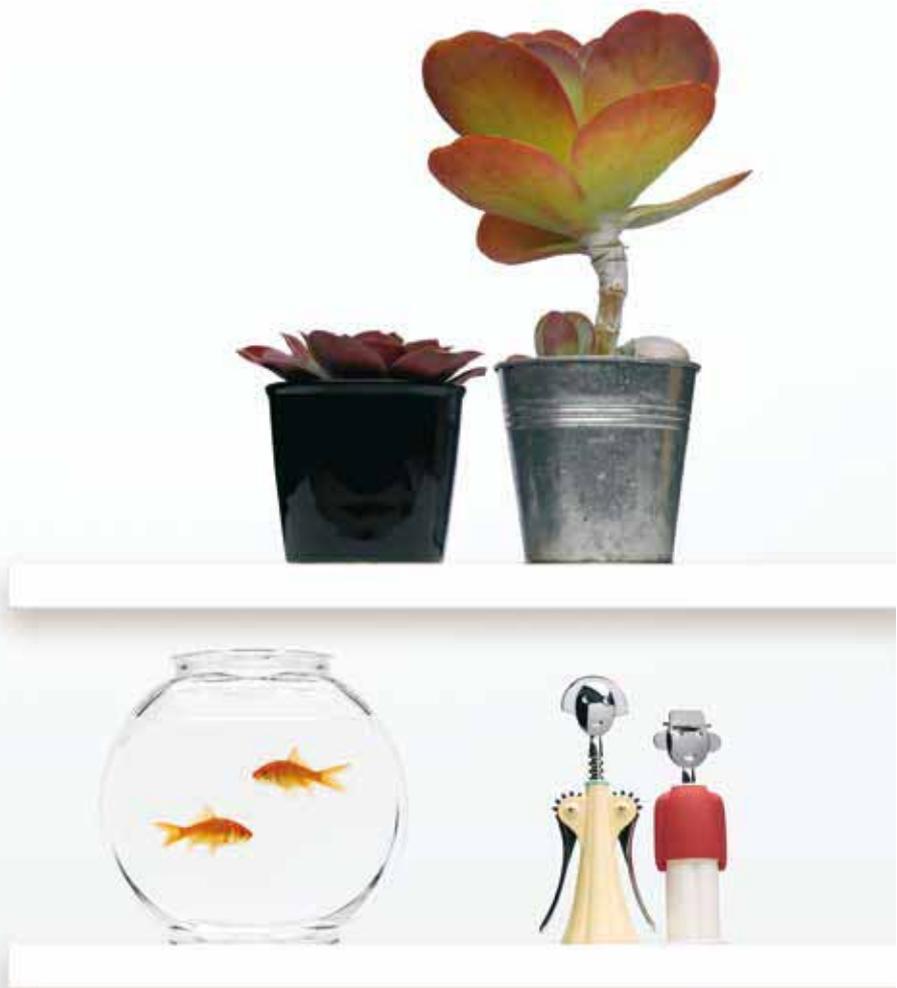


Imi housing outlook

New Zealand Housing Outlook
Prepared by Infometrics Ltd
August 2009



“Housing has become more affordable, and investors and first-home buyers have looked to take advantage of the improved purchasing conditions.”



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contents

1. Executive Summary	4	7. Hawke's Bay	28
		State of play	28
2. Economic Outlook	8	Forecast	29
Slow recovery for the economy	8		
Export volume growth difficult to achieve	8	8. Taranaki/Manawatu/Wanganui	30
Government accounts stay in deficit	10	State of play	30
Soft labour market constrains household spending	10	Forecast	31
Inflation kept under control	11	9. Wellington	32
		State of play	32
3. Residential Demand	12	Forecast	33
Interest rates to rise	12	10. Nelson/Marlborough	34
World recession boosts net migration	12	State of play	34
House sales recovering	13	Forecast	35
House prices bottom out	14	11. Christchurch	36
Rental growth slows	15	State of play	36
Financing conditions constrain building activity	15	Forecast	37
4. Northland	21	12. Provincial Canterbury/Westland	38
State of play	21	State of play	38
Forecast	22	Forecast	39
5. Auckland	23	13. Otago/Southland	40
State of play	23	State of play	40
Forecast	24	Forecast	41
6. Waikato/Bay of Plenty/Gisborne	26		
State of play	26		
Forecast	27		

introduction

I am delighted to introduce to you our lmiHOUSING OUTLOOK for New Zealand. The report has been compiled exclusively for QBE LMI by leading business research and forecasters Infometrics. The forecasts in the report represent an independent and expert view of the residential housing market.

The three year outlook examines New Zealand's economic and housing market in the context of what has been a tumultuous year for the global economy.

With the economy experiencing a recession since the start of 2008, it is encouraging to see that data in recent months indicates the housing market is stabilising. House sales volumes have recovered from the very low levels seen in 2008, with the monthly sales numbers the strongest between April and June this year.

Our report confirms an optimistic outlook for house price growth which is forecast to lift to 11% pa by June 2010. This positive growth is expected to moderate over the following two years as residential construction activity regains momentum.

On average, property is now also taking a shorter length of time to sell. The median length of time for sale has improved from an average of 58 days in July 2008 to 41 days in June this year. The level of competition among buyers has increased as financing costs have fallen and the number of properties on the market has dropped away.

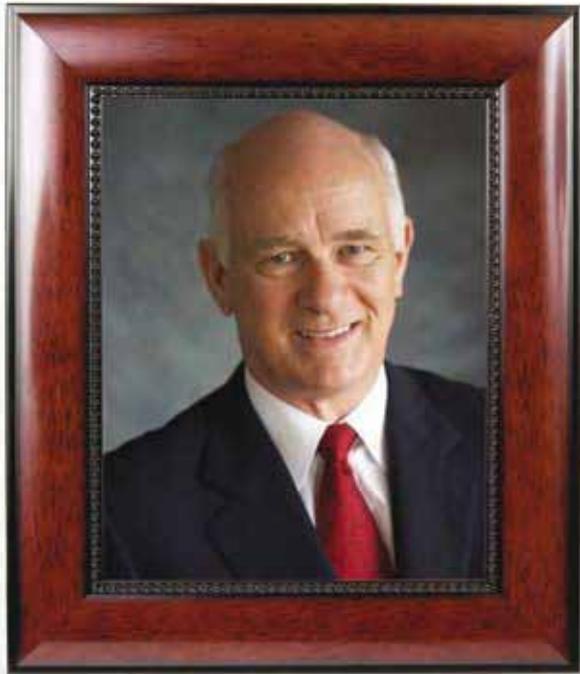
Although residential building activity has been at very low levels over recent months, residential consent numbers are forecast to climb back towards 1,500-1,600 per month by the end of this year, and hold in the 1,700-1,800 range throughout 2010. Further growth in building activity is expected in 2011/12.

The lmiHOUSING OUTLOOK also contains comprehensive data that provides an insight into property movements for each region; of particular note is the divergence in recovery prospects across these regions.

I trust you will find the lmiHOUSING OUTLOOK of interest and relevance at this time.



Ian Graham
CEO



1. executive summary

Data in recent months has provided some evidence that the housing market is stabilising after the significant downturn recorded during late 2007 and 2008. House sales volumes have recovered from the very low levels seen last year, and property is taking a shorter length of time to sell on average. Although house prices are still lower than a year ago, some upward momentum looks to have appeared since the start of 2009, and further improvement would be consistent with the trends in sales activity and the rate of turnover.

The lift in sales volumes has been driven primarily by the large drop in mortgage rates since mid-2008. Housing has become more affordable, and investors and first-home buyers have looked to take advantage of the improved purchasing conditions. But anecdotal evidence from the housing market suggests that buyer demand is patchy. Property in more desirable suburbs is selling quickly, but in less popular suburbs the stock of houses for sale remains relatively plentiful. The differing demand conditions mean that prices are performing better in some suburbs and towns than in others.

One of the key factors influencing the outlook for house prices is the supply of new dwellings being built. Building consent numbers have fallen to very low levels (just 14,000 over the year to June 2009), and activity is being constrained by the lack of available finance for developers. With underlying demand currently sitting at about 21,000 new houses per year, a significant shortage of new housing is arising. This institutional impediment to activity is putting a floor under property values and is expected to lead to a significant rebound in house prices over the coming 12 months.

By June 2010, house price growth is forecast to have lifted to 11%pa. Price growth is expected to moderate over the following two years as residential construction activity regains momentum, but by June 2012, house prices are still expected to be 24% higher than they were in June this year. After adjusting for inflation, this lift represents a 17% increase in real property values over the three-year period.

- The **Auckland** property market probably has one of the most critical housing shortages in the country, as building activity in the region has fallen to very low levels over the last five years. House sales activity in Auckland has shown definite signs of improvement over the first half of 2009, and this upward momentum is expected to feed through into higher prices over coming quarters. Over the three years to June 2012, house prices are expected to rise by 26% (a 19% increase in real terms).
- Short-term prospects for the economy in the **Waikato/Bay of Plenty/Gisborne** region have been dampened by the substantial drop in dairy payouts that has occurred over the last two years. Although population growth and other economic fundamentals remain strong, income growth will be weak in the short-term, and this will cause the region's housing market to underperform the national average. By June 2012, house prices are forecast to be 20% higher than in June 2009 (or up 13% in real terms).

“By June 2010, house price growth is forecast to have lifted to 11%pa.”



1. executive summary (cont.)

- The **Wellington** housing market is currently performing patchily, in part because of uncertainty about public sector employment levels under the National government. This uncertainty is likely to gradually dissipate over the next 18 months as government spending continues to grow. With job security in the region slowly improving, house price growth will generally keep up with the national average, and property values are expected to rise by a total of 22% over the three years to June 2012 (a 15% lift for real property values).
- People selling property in **Christchurch** appear to have been more willing to lower their asking price than in other regions. As a result, the correction in house prices in the region over the last 18 months has been greater than in New Zealand's other major urban areas. House prices are likely to rebound strongly over the coming year, and by June 2012, prices are forecast to be 25% higher than in June 2009 (an 18% rise in real terms).
- The **Otago/Southland** housing market peaked later than other regions, and consequently recorded the largest house price falls over the year to June 2009. However, the region's population growth is strong compared to historical averages, and the affordability of property in the region should help to underpin a recovery in prices over the next 12 months. Over the three years to June 2012, house prices are forecast to rise by a total of 25% (representing an 18% increase in real property values).
- Property values in **Taranaki/Manawatu/Wanganui** have eased slightly over the last two years, but given the substantial increase in prices since 2004, housing in the region still appears substantially overvalued. Some recovery in prices is expected over the next 12 months in response to low mortgage rates, but over the medium-term, investors are expected to be wary of purchasing in the region. By June 2012, house prices are expected to be 16% higher than three years earlier (or up 9.4% in real terms).
- A shortage of property, around **Nelson** in particular, is leading to an improving outlook for the housing market in Nelson/Marlborough. Nelson's importance as a business centre at the top of the South Island continues to grow, and the region's unemployment rate is the lowest in the country. House prices in the region are expected to perform strongly over the next three years, rising by 26% between June 2009 and June 2012 (a 19% increase in real terms).
- Strong population growth has been a feature of the **Provincial Canterbury/Westland** region over recent years, and this trend is set to continue over the next year with fewer people leaving New Zealand to head overseas. But with the supply of land in the region relatively plentiful, house price growth over the medium-term is likely to be muted, and the fastest increases will be recorded in those areas close to Christchurch. On average across the region, house prices are forecast to lift 17% over the next three years (up 11% in real terms).

- House prices in **Hawke's Bay** rose over the year to June 2009, and are expected to continue performing strongly over the next couple of years. The outlook for export prices for those products important to the Hawke's Bay economy looks positive, and population growth in the region will also benefit from a drop-off in international departure numbers. Property values in Hawke's Bay are forecast to increase by 26% over the years to June 2012 (a 19% increase in real property values).
- The **Northland** property market has been negatively affected by rising unemployment and the downturn in demand for coastal property. With the economic outlook starting to stabilise, bargain hunters may look to pick up cheap property in the region over the next 12 months, leading to a pick-up in house price growth. Price growth is forecast to ease in 2011 and 2012, but by mid-2012, house prices are still forecast to be 22% higher than in June 2009 (up 15% in real terms).

“...property values are expected to rise by a total of 22% over the three years to June 2012”



1. executive summary (cont.)

Table 1.1: Median house prices by region, June quarter ⁽¹⁾

Source: Real Estate Institute of New Zealand

	Northland		Auckland		Waikato/ Bay of Plenty/ Gisborne		Hawke's Bay		Taranaki/ Manawatu/ Wanganui		Wellington	
	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾
2003	162.6	1.8%	290.3	9.8%	178.0	6.9%	156.7	18.6%	113.7	5.4%	226.8	10.7%
2004	190.1	16.9%	331.3	14.1%	194.6	9.3%	208.0	32.7%	133.1	17.0%	266.8	17.6%
2005	242.1	27.4%	368.5	11.2%	246.5	26.7%	238.7	14.7%	172.0	29.3%	286.7	7.4%
2006	276.2	14.1%	397.4	7.8%	281.0	14.0%	251.8	5.5%	208.9	21.4%	326.0	13.7%
2007	321.7	16.5%	449.0	13.0%	317.5	13.0%	275.0	9.2%	246.7	18.1%	379.3	16.3%
2008	323.9	0.7%	444.2	-1.1%	313.7	-1.2%	267.0	-2.9%	240.3	-2.6%	377.0	-0.6%
2009	302.2	-6.7%	440.0	-0.9%	315.3	0.5%	269.9	1.1%	236.1	-1.8%	374.2	-0.8%
2010*	344.6	14.0%	483.2	9.8%	349.5	10.9%	303.0	12.3%	263.8	11.7%	411.1	9.9%
2011*	351.0	1.9%	506.7	4.9%	359.2	2.8%	321.3	6.0%	265.8	0.8%	422.9	2.9%
2012*	367.7	4.8%	553.1	9.2%	378.6	5.4%	340.6	6.0%	273.4	2.8%	454.9	7.6%

* Infometrics forecasts

(1) Average median price over three months to June

(2) Annual percentage change

Composite regions are weighted average of each region's median prices

	Nelson/ Marlborough		Christchurch		Provincial Canterbury/ Westland		Otago/Southland		New Zealand	
	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾	\$000	APC ⁽²⁾
2003	211.3	32.2%	174.8	13.1%	122.0	11.8%	133.3	21.1%	207.3	10.9%
2004	264.8	25.3%	229.0	31.0%	162.1	32.9%	189.2	42.0%	244.3	17.8%
2005	266.2	0.5%	263.7	15.1%	198.5	22.5%	206.8	9.3%	277.2	13.4%
2006	290.8	9.2%	291.7	10.6%	230.0	15.9%	226.3	9.5%	306.7	10.6%
2007	331.1	13.9%	331.7	13.7%	259.0	12.6%	250.6	10.7%	348.8	13.8%
2008	336.2	1.5%	316.7	-4.5%	257.9	-0.4%	267.1	6.6%	343.3	-1.6%
2009	325.4	-3.2%	312.0	-1.5%	253.1	-1.9%	245.5	-8.1%	339.2	-1.2%
2010*	361.7	11.2%	355.1	13.8%	285.3	12.7%	283.8	15.6%	376.2	10.9%
2011*	378.3	4.6%	369.3	4.0%	288.5	1.1%	292.6	3.1%	391.4	4.0%
2012*	411.2	8.7%	391.1	5.9%	296.9	2.9%	307.2	5.0%	419.4	7.2%

2. economic outlook

Slow recovery for the economy

Consensus forecasts over the last few months have shown that the world economy might be through the worst of the downturn, and international financial markets have shown signs of stabilisation. Ongoing job losses in the US are still having a dampening effect on consumer confidence, and with the American unemployment rate expected to average around 10% during 2010, the labour market is likely to constrain household spending for some time yet. A robust revival in Chinese and Japanese export growth hinges largely on US and European household spending, and with that in mind, global growth looks set to remain below-average through until the end of next year. It is expected to be 2011 before international growth returns to “normal” and the size of the global economy surpasses the previous peak in 2008.

The New Zealand economy has been in recession since the start of 2008, with quarterly economic activity contracting 3% between December 2007 and March 2009. Quarterly economic growth is expected to turn positive again in late 2009, as the effect of the massive monetary and fiscal stimulus that has been put in place over the last year mounts. A stabilisation is already becoming apparent in some domestic indicators (most notably the housing market).

However, an economic recovery for New Zealand of any substance requires a lift in export incomes. Previously, the currency was keeping New Zealand dollar returns to exporters at above-average levels, hinting at pretty good export incomes over the coming 12 months in spite of the lacklustre global economy. But the exchange rate has spiked more than 20% since its low in the March 2009 quarter, raising serious questions about the scope for an export-led recovery in the near term.

The negative effect on medium-term growth in New Zealand’s domestic economy is clear. By June 2011, household spending growth is expected to still be only 1.5%pa, significantly below the 3.7%pa average growth of the last decade. Private investment is expected to be recovering, with growth of 8.9%pa, but that follows a massive 29% contraction over the previous two years.

“...an economic recovery for New Zealand of any substance requires a lift in export incomes.”

Export volume growth difficult to achieve

Forecasts for export volumes over the next three years are poor, with growth expected to stay below 6%pa throughout the forecast period, and average just 3%pa over the three years to June 2012. This outlook is in contrast with the recovery in export volumes following the early-1990s recession, when growth reached a peak of 11%pa.

New Zealand's increasing reliance on the dairy sector means that the export base is less diversified than in the past. Dairy production rose from 14% of total goods exports in 1990 to 22% the year to June 2009. This expansion has partly been at the expense of other agriculture, but has also coincided with the demise of manufacturing. The export share of non-metal manufactured goods has fallen from 26% to 14% between 1990 and June 2009.

These trends give rise to two concerns.

- New Zealand is more reliant than ever on the fortunes of Fonterra, and the initial estimate for the new season's dairy payout (\$4.55/kg of milksolids) is around 10% below the long-term average, after adjusting for inflation. Recent protectionist moves by the US and EU have made trading conditions more difficult for New Zealand's dairy farmers.
- The increased share of exports provided by the primary sector leaves little room for export volume growth. It is relatively straightforward to increase production of manufactured products in response to improved demand conditions. It is not so easy to increase the size of dairy or beef herds given the stock cycle and land constraints.

Nevertheless, the current account deficit is forecast to improve substantially over the next year, shrinking to 4.8% of GDP by mid-2010. The improvement is expected to be driven by:

- import volumes falling as consumers change their spending habits and business investment remains weak
- reduced dividend and interest payments heading offshore due to New Zealand's weak economic performance.

During 2011/12, a pick-up in investment and consumption spending is expected to put fresh pressure on the balance of payments position. The current account deficit is forecast to expand to 6.8% of GDP by mid-2012.

2. economic outlook (cont.)

Government accounts stay in deficit

The last 12 months have seen The Treasury significantly scale back its forecasts for the fiscal position. The deterioration has put pressure on the National-led government, with the tax cuts that were promised ahead of last year's election now deferred indefinitely.

With the fiscal deficit forecast to reach 3.7% of GDP by June 2010, there will be mounting pressure on the government to find more cost savings and try to turn the trend in the fiscal position around. As a result, the government is likely to keep a tight rein on spending growth at next year's budget.

Treasury is forecasting that the government deficit will reach 5.1% of GDP in 2011. Treasury's economic growth forecasts are relatively conservative, and it is possible that the government's accounts could be in slightly better shape in two years' time (with a deficit of around 4% of GDP). If economic growth by 2011 is running faster than Treasury's current expectations, the National-led government may have an opportunity to legislate for tax cuts ahead of the next election. Any tax cut package that is introduced is likely to be similar to the one deferred at this year's budget.

The National-led government's approach has been to adopt only superficial changes to spending, leaving in place inefficient policies such as Working for Families and interest-free student loans. It could take as long as ten years for the government's accounts to move back into surplus without more drastic spending reforms.

Table 2.1: Economic indicators, Annual average percentage changes

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

June years	Average 1999-2008	2007-08	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Real expenditures						
Private consumption	3.7%	2.3%	-0.6%	1.0%	1.5%	4.3%
Government consumption	3.4%	4.3%	4.8%	4.0%	0.3%	4.6%
Residential investment	2.5%	-2.0%	-23.8%	1.0%	10.7%	10.5%
Non-residential investment	3.1%	0.6%	3.6%	-0.2%	-3.7%	1.3%
Total private investment	5.0%	3.6%	-16.7%	-14.9%	8.9%	19.4%
Total government investment	6.2%	-6.0%	-9.7%	-16.1%	20.1%	14.3%
Gross national expenditure	4.0%	2.6%	-3.3%	-2.0%	3.4%	7.2%
Exports of goods and services	4.0%	2.6%	-3.8%	2.9%	4.6%	1.6%
Imports of goods and services	6.4%	10.1%	-7.7%	-2.6%	5.2%	8.9%
Gross domestic product	3.2%	0.5%	-1.9%	-0.4%	3.1%	4.7%
Households						
HLFS employment	2.2%	1.1%	0.1%	-1.4%	1.5%	3.0%
HLFS unemployment rate ⁽¹⁾	5.0%	3.8%	5.0%	6.4%	6.7%	6.0%
Hourly wage	3.4%	4.4%	5.3%	3.2%	2.4%	2.1%
CPI ⁽²⁾	2.6%	4.0%	1.9%	2.4%	1.4%	2.0%
NZ interest rates ⁽³⁾						
10-year government bonds	6.2%	6.4%	5.4%	6.3%	6.8%	6.5%
90-day bills	6.5%	8.7%	5.3%	3.0%	4.5%	6.0%
Floating mortgage rates	8.4%	10.6%	8.2%	6.3%	7.9%	9.4%

(1) Annual average for year ended

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

(3) Annual average rates

“By June 2010, the unemployment rate is forecast to rise to 6.9%, indicating that over 150,000 people will be unemployed.”



2. economic outlook (cont.)

Soft labour market constrains household spending

The unemployment rate was just 5% in March, but the labour market is expected to weaken markedly by June next year. By June 2010, the unemployment rate is forecast to rise to 6.9%, indicating that over 150,000 people will be unemployed. Both hours worked and employment are expected to decline markedly. Employment is forecast to be 1.3% lower than a year earlier, while hours worked are expected to be down 2.3% from their peak.

By late 2010, the New Zealand economy will have developed a significant amount of spare capacity. Recovering economic growth is likely to lead to a marked increase in employment, up 1.6% over the year to June 2011 and a further 3.0% during the June 2012 year.

The larger pool of unemployed workers is likely to reduce upward pressure on wage growth. Nominal wage increases are forecast to ease to 2.1%pa by June 2012, the weakest growth since 2000, and well below the decade-long average of 3.4%pa.

In the March 2009 quarter, real private consumption slumped to its lowest level since December 2006 (seasonally adjusted). Private consumption in March was down 2.3% from its December 2007 peak, the largest peak-to-trough decline since the late 1980s and early 1990s.

Private consumption is expected to remain soft over the rest of 2009. With households pushed into paying down debt, unemployment rising, and wage growth moderating, per capita household consumption is not expected to return to December 2007 levels until the end of 2011. Growth in household consumption is forecast to accelerate heading into 2012 as another lift in house prices, strength in the labour market, and easier access to credit combine to boost spending growth and lead to a renewed deterioration in household savings measures.

Inflation kept under control

Inflation in New Zealand reduced from 5.1%pa in September last year to 1.9%pa in June 2009. Some rebound in the annual inflation rate is possible over late 2009 and early 2010 as low quarterly numbers (due to falling petrol prices) from a year earlier drop out. However, underlying price pressures will remain weak as economic activity remains well short of potential.

Non-tradable inflation is indicative of the spare capacity and lack of pricing power in the domestic economy. Non-tradable inflation was sitting at 3.3%pa in the June 2009 quarter, and is expected to ease to a ten-year low of 1.5%pa by early 2011. With persistent downward pressure on import prices and a stable exchange rate keeping tradable prices in check, headline inflation may test the bottom of the Reserve Bank's 1-3%pa target band within the next two years.

Inflation is likely to climb over 2011/12, but it seems unlikely that it will get out of control. The non-tradable component of inflation will start to rise as economic growth accelerates, but much of the GDP growth simply represents the New Zealand economy expanding back to potential following the contraction in 2008 and 2009. Price pressures from offshore are expected to remain muted, particularly for manufactured goods, and headline inflation is forecast to be at just 2%pa by June 2012.

3. residential demand

Interest rates to rise

The setting of monetary policy by the Reserve Bank over the next six months will continue to be mostly influenced by the immediate partial economic indicators and near-term outlook for economic growth. The Bank will be most focused on the exchange rate and indicators from the housing market and labour market. Recent comments by Alan Bollard suggest the Bank may consider cutting interest rates if the dollar remains at above-average levels. However, it is likely that the less-negative signals emanating from the housing market, in particular, will be enough to dissuade the Reserve Bank from cutting interest rates further.

The Reserve Bank is expected to leave the official cash rate (OCR) at 2.5% until the second quarter of 2010, by which stage the world economy is likely to be clearly in recovery mode and the New Zealand economy should have emerged from recession. Against a backdrop of subdued inflation, the Reserve Bank is likely to be able to take its time pushing interest rates back towards neutral. The Official Cash Rate (OCR) is forecast to be back at 4.5% by December 2010, lifting to 6% by early 2012 as economic growth gains momentum.

The urgency of any required action by the Reserve Bank is also likely to be reduced by trends in longer-term interest rates. With government debt on the increase internationally and the global economic environment gradually improving over the next 18 months, world bond rates are expected to trend upwards. Bond rates in New Zealand will be dragged up as well.

The effect on retail interest rates is clear. Two-year (and longer) fixed mortgage rates are forecast to remain higher than the floating rate through until early 2011, by which stage they are expected to be close to 8%. One-year fixed mortgage rates are likely to remain below the floating rate during that time, and with households opting for shorter-term debt, the effectiveness of changes to monetary settings by the Reserve Bank is set to be much timelier than between 2003 and 2008. The effective mortgage rate is expected to reach its low point early next year, and climb throughout the rest of the forecast period.

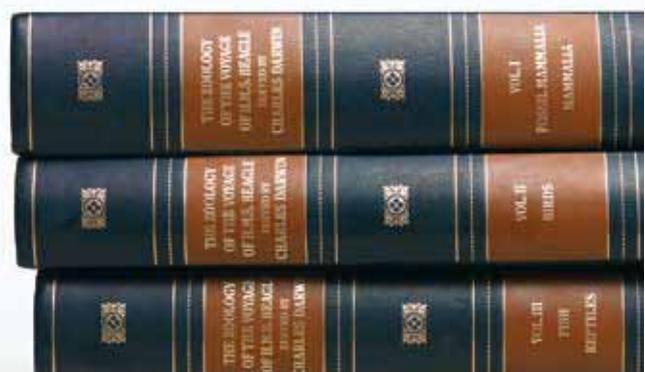
World recession boosts net migration

Net migration has surged since December 2008, and it has been suggested that this lift will be a positive influence on the housing sector and the residential building industry. Net migration is forecast to climb above 20,000pa by early 2010 and peak at 22,600 in the September 2010 quarter.

But the current pick-up in migration does not have the same traits as the one that occurred between 2001 and 2003. Between March 2001 and June 2003, net migration climbed from -12,600 to +42,517 due to a 31% drop in departure numbers and a 46% lift in arrival numbers. Looking forward, a 25% decline in departure numbers is expected between December 2008 and September 2010, but that is forecast to be accompanied by a 2.8% drop in arrivals to New Zealand. In other words, the lift in population growth towards 1.3%pa is likely to be entirely the result of fewer people heading overseas.

Stronger net migration is unusual for New Zealand during a recession. The deterioration in the Australian labour market is one driver. The Australian unemployment rate rose from 4.5% in December 2008 to 5.8% by June 2009. In addition, the rest of the world is undergoing a significant economic contraction with substantial rises in unemployment, encouraging people to stay in New Zealand despite the recession.

The dynamic effects of fewer people leaving on aggregate demand for housing are less straightforward than the effects of more immigrants arriving. With around 45% of departure numbers in the 15-29 year age bracket, many people that previously might have headed overseas will have been living at home or flatting anyway. In the current economic environment, their spending habits will be relatively subdued, and they will try to save money where they can, including accommodation costs. With people choosing to stay at home or live in more crowded rental accommodation, the drop in departure numbers will be partly manifested in some upward pressure on the occupancy rate (number of people per dwelling).



“The median length of time that houses are taking to sell has dipped back from an average of 58 days in July 2008 to 41 days by June 2009.”



3. residential demand (cont.)

House sales recovering

The monthly number of house sales between April and June this year was the strongest at any time since activity fell sharply in March 2008. Sales volumes over the June quarter were up 41% on a year earlier.

The median length of time that houses are taking to sell has dipped back from an average of 58 days in July 2008 to 41 days by June 2009. The level of competition among buyers has increased as financing costs have fallen and the number of properties on the market has dropped away. Listings with Barfoot & Thompson, Auckland's largest real estate company, are now at their lowest level since December 2007.

But the recovery in turnover has been patchy. There are two broad types of property that have underpinned the pick-up.

- Very low mortgage rates have significantly improved the affordability of property for investors and first-home buyers. Although tougher deposit requirements will have prevented some first-home buyers from entering the market, anecdotal evidence suggests that some buyers are taking the plunge given the significant drop in financing costs compared to a year ago. The cash flow position of investors has also improved due to lower interest rates. Both types of buyers, however, are being relatively choosy about properties and paying particular attention to price, location, and presentation.
- Turnover in well-presented mid-priced properties in popular suburbs is strong as existing homeowners take advantage of low interest rates to trade up. This segment of buyer demand is a flow-on effect, in part, from the lift in demand for low-end properties as outlined above.

As a result of these trends, there now seems to be a relative shortage of property fitting the price, location, and presentation requirements of buyers. In contrast, vendors in less desirable suburbs, with excessive price expectations, or with poorly presented houses are struggling to attract buyers and their properties are remaining unsold. There is likely to be a ripple effect on activity in less desirable locations as the shortage of suitable properties encourages some buyers to look further afield, but having realistic price expectations will remain crucial for sellers in the near term. Given that buyers have little or no expectations of capital gains in the near future, potential purchasers are in no rush to buy and are only likely to be interested in reasonably priced property.

3. residential demand (cont.)

The current surge in sales most likely reflects pent-up demand of the last 12-18 months, and turnover levels are expected to ebb over the second half of 2009. The supply of property on the market is likely to continue easing as property owners generally choose to maintain their holdings rather than sell at the low point of the cycle. A more sustained rebound in housing turnover is forecast in 2011/12 as strong economic growth and a turnaround in unemployment increase people's willingness to take on debt again. By this time, credit conditions are likely to have eased significantly and banks may be less stringent in their deposit requirements. Increasing capital gains could also fuel another round of "bubble behaviour" as people try to get their share of rising property prices.

House prices bottom out

The quarterly average of the median house price peaked at \$349,000 in the final quarter of 2007, and had dropped to \$330,000 by the March 2009 quarter (a fall of 5.4% since December 2007). However, house prices have started to drift higher over the last few months, and by the June 2009 quarter, were down just 1.2% from June 2008.

The effect of the housing downturn is also being clearly seen in section prices. Infometrics' section price index estimates that land prices fell 7.6% over the December 2008 quarter to be 12% lower than in the December 2007 quarter.

Despite a relatively soft outlook for house sales in the near term, the outlook for house prices is more positive. The lack of new residential building activity has put a definite floor under property values, and strengthening population growth will maintain buyer competition across what is expected to be a constrained supply of housing available for purchase. Inflation-adjusted house prices are currently an estimated 15% above their long-term trend line (down from 36% in mid-2007), but could climb back towards 30% above the long-term trend line by the end of the forecast period. Nationwide house price growth is forecast to average 8%pa over the next three years.

The continuation of expensive housing is one of the New Zealand economy's imbalances that does not appear to have been adequately rectified by the current financial crisis. Along with the large current account deficit, high debt levels, and poor national savings rate, the imbalance in the housing market is one of the factors that threaten to lead to a downgrade in New Zealand's creditworthiness by the middle of next decade.



3. residential demand (cont.)

Table 3.1: House sales by region, Year ended June

Source: Real Estate Institute of New Zealand

	Northland		Auckland		Waikato/ Bay of Plenty/ Gisborne		Hawke's Bay		"Taranaki/ Manawatu/ Wanganui"		Wellington	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
2003	2,809	27%	38,164	22%	16,691	32%	3,881	23%	7,632	18%	12,238	8%
2004	3,820	36%	40,431	6%	20,298	22%	4,135	7%	8,947	17%	12,255	0%
2005	3,340	-13%	34,469	-15%	18,139	-11%	3,648	-12%	8,160	-9%	10,740	-12%
2006	2,909	-13%	33,520	-3%	15,878	-12%	3,629	-1%	7,909	-3%	11,366	6%
2007	2,861	-2%	36,225	8%	16,075	1%	3,851	6%	7,847	-1%	11,407	0%
2008	1,811	-37%	22,064	-39%	9,861	-39%	2,601	-32%	5,441	-31%	7,929	-30%
2009	1,535	-15%	19,393	-12%	8,526	-14%	2,188	-16%	4,982	-8%	6,767	-15%
2010*	1,586	3%	19,172	-1%	8,585	1%	2,121	-3%	4,520	-9%	6,537	-3%
2011*	1,705	8%	19,704	3%	8,887	4%	2,162	2%	4,588	1%	6,744	3%
2012*	2,004	18%	24,108	22%	11,103	25%	2,575	19%	5,413	18%	8,438	25%

* Infometrics forecasts

(1) Annual percentage change

	Nelson/ Marlborough		Christchurch		Provincial Canterbury/ Westland		Otago/ Southland		New Zealand	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
2003	4,145	10%	9,398	23%	4,944	42%	9,583	23%	109,485	22%
2004	3,354	-19%	10,303	10%	5,431	10%	9,511	-1%	118,485	8%
2005	3,041	-9%	9,542	-7%	4,543	-16%	8,170	-14%	103,792	-12%
2006	3,165	4%	9,794	3%	4,511	-1%	7,984	-2%	100,663	-3%
2007	3,464	9%	9,958	2%	5,003	11%	8,847	11%	105,532	5%
2008	2,705	-22%	6,731	-32%	3,295	-34%	6,596	-25%	69,034	-35%
2009	2,452	-9%	6,326	-6%	2,972	-10%	5,286	-20%	60,427	-12%
2010*	2,108	-14%	5,725	-10%	2,753	-7%	5,108	-3%	58,179	-4%
2011*	2,132	1%	5,741	0%	2,765	0%	5,157	1%	59,485	2%
2012*	2,479	16%	6,616	15%	3,152	14%	5,931	15%	71,818	21%

3. residential demand (cont.)

Table 3.2: Population growth by region, Year ended June

Source: Statistics NZ, Infometrics forecasts

	Northland	Auckland	Waikato/ Bay of Plenty /Gisborne	Hawke's Bay	Taranaki/ Manawatu /Wanganui	Wellington	Nelson/ Marlborough	Christchurch
2003	1.2%	3.3%	1.6%	0.6%	0.5%	1.5%	1.6%	2.1%
2004	1.1%	2.2%	1.4%	0.7%	0.2%	1.2%	1.5%	1.6%
2005	1.1%	1.7%	1.1%	0.5%	-0.1%	0.8%	0.8%	1.1%
2006	1.1%	1.8%	1.1%	0.6%	0.3%	1.0%	0.9%	1.3%
2007	0.7%	1.7%	0.8%	0.3%	-0.1%	0.9%	0.6%	1.1%
2008	0.6%	1.5%	0.8%	0.2%	0.1%	0.7%	0.9%	0.9%
2009*	0.7%	1.4%	1.0%	0.2%	0.5%	0.8%	1.0%	0.9%
2010*	1.3%	1.6%	1.3%	0.7%	0.5%	1.0%	1.4%	1.1%
2011*	1.3%	1.6%	1.2%	0.6%	0.4%	0.9%	1.3%	1.0%
2012*	1.1%	1.4%	1.0%	0.5%	0.3%	0.8%	1.1%	0.9%

* Infometrics forecasts

(1) Average median price over three months to June

(2) Annual percentage change

Composite regions are weighted average of each region's median prices

	Provincial Canterbury/ Westland	Otago/ Southland	New Zealand
2003	1.1%	1.1%	2.0%
2004	1.9%	0.8%	1.5%
2005	1.7%	0.5%	1.1%
2006	1.9%	0.5%	1.2%
2007	1.5%	0.6%	1.0%
2008	1.3%	0.6%	1.0%
2009*	2.1%	0.9%	1.1%
2010*	2.2%	1.0%	1.3%
2011*	2.2%	0.9%	1.2%
2012*	2.0%	0.7%	1.1%



3. residential demand (cont.)

Rental growth slows

Since peaking at 7.1%pa in March 2008, rental growth has steadily slowed, turning negative in April this year and reaching -0.2%pa by June. This trend lines up with an increased supply of rental accommodation (due to the “accidental landlord” phenomenon), as well as the broader economic environment reducing people’s ability to pay higher rents. With employment and incomes under pressure, some people are being forced to downsize their accommodation requirements or live in more crowded situations. Property managers have been encouraging landlords to set rents relatively low to ensure they attract and retain tenants, rather than run the risk of suffering vacancies.

Most of the regions with falling rents are located in the top half of the North Island, which has generally recorded much larger increases in unemployment since the recession began than the rest of the country.

With house prices starting to recover from the lows of late 2008, gross rental yields have slipped since February 2009 to their lowest level since July 2008 (from 4.81% to 4.66%). The gap between rental yields and real bond rates (a measure of the risk-free rate of return) is currently close to its long-term average.

With population growth accelerating, there is potential for some upward pressure on rents to develop over coming months. However, that pressure is likely to be tempered by further increases in unemployment over the next 12-18 months, and a renewed deterioration in rental yields is possible.

Financing conditions constrain building activity

Residential building activity has remained at very low levels over recent months. New dwelling consent numbers this year have averaged around 1,100 per month, and the number of consents in the June quarter was down 38% from the same period last year.

The collapses of developers, falling section prices, and the spread of mortgagee sales from houses into land as well are all signs that a shakedown is occurring in the property development sector. However, the biggest constraining factor on activity remains the availability of finance. The collapse of finance companies and consequent disappearance of funding lines has had a significant negative effect on the residential building sector. Banks have not been willing to step into the breach so far, and there is no indication of when that attitude will change. Uncertainty surrounding house prices and the difficulties with selling completed properties have been a major impediment to obtaining finance for the construction sector.

Indications that house prices may have bottomed out is an encouraging, albeit small, step towards finance becoming easier to obtain. Residential consent numbers are forecast to climb back towards 1,500-1,600 per month by the end of this year, and hold in the 1,700-1,800 range throughout 2010. Further growth in building activity is likely to be achieved in 2011/12 as the broader economic recovery (both domestically and internationally) reduces the levels of bad loans held by banks, simultaneously improving their profitability and boosting their confidence to expand lending again.

Underlying demand for new housing is forecast to recover from around 21,000 new houses per annum in 2008 to over 24,000 new houses in each of 2011 and 2012. The residential build rate is likely to remain below underlying demand over the next 2-3 years, resulting in a shortage of housing that could persist throughout the forecast period.

3. residential demand (cont.)

Table 3.3: Rental growth by region, June quarter, annual percentage changes

Source: Infometrics calculations from Department of Building and Housing/
Real Estate Institute of New Zealand data

	Northland	Auckland	Waikato/ Bay of Plenty /Gisborne	Hawke's Bay	Taranaki/ Manawatu /Wanganui	Wellington	Nelson/ Marlborough	Christchurch
2000	-4.0%	1.4%	-0.9%	0.6%	-0.6%	1.1%	1.6%	-0.2%
2001	2.2%	2.4%	0.3%	0.3%	1.4%	3.7%	2.1%	2.5%
2002	3.7%	7.6%	3.9%	3.1%	4.3%	2.3%	5.6%	6.9%
2003	3.4%	10.7%	8.4%	6.6%	6.1%	5.3%	12.2%	11.3%
2004	11.5%	2.7%	8.2%	8.1%	2.0%	2.4%	8.4%	9.2%
2005	6.3%	-1.6%	6.1%	8.2%	9.6%	0.4%	3.0%	3.3%
2006	8.6%	5.0%	5.9%	8.8%	4.9%	9.2%	3.1%	3.4%
2007	10.9%	4.3%	6.1%	5.9%	9.6%	16.8%	9.3%	6.6%
2008	9.2%	5.2%	5.7%	5.5%	4.2%	8.6%	6.7%	5.6%
2009	-2.4%	-0.4%	-0.6%	-0.4%	0.7%	2.5%	1.3%	2.1%

	Provincial Canterbury/ Westland	Otago/ Southland	New Zealand
2000	0.3%	1.0%	-0.1%
2001	-1.1%	4.3%	1.7%
2002	6.4%	12.7%	5.1%
2003	8.2%	8.5%	9.1%
2004	10.1%	9.2%	6.8%
2005	9.2%	5.2%	3.8%
2006	6.6%	1.9%	-0.1%
2007	7.7%	4.8%	12.4%
2008	8.9%	5.1%	5.2%
2009	0.8%	0.9%	-0.2%

3. residential demand (cont.)

Table 3.4: New dwelling consents by region, Year ended June

Source: Statistics New Zealand

	Northland		Auckland		Waikato/ Bay of Plenty/ Gisborne		Hawke's Bay		"Taranaki/ Manawatu/ Wanganui"		Wellington	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
2003	1,082	23%	12,277	31%	4,828	23%	611	24%	947	13%	2,574	33%
2004	1,408	30%	12,937	5%	6,293	30%	734	20%	1,301	37%	2,592	1%
2005	1,313	-7%	9,435	-27%	5,313	-16%	731	0%	1,383	6%	2,058	-21%
2006	1,349	3%	7,250	-23%	5,416	2%	938	28%	1,610	16%	2,041	-1%
2007	1,373	2%	6,781	-6%	5,837	8%	902	-4%	1,725	7%	2,032	0%
2008	1,202	-12%	5,769	-15%	4,749	-19%	753	-17%	1,663	-4%	2,153	6%
2009	829	-31%	3,212	-44%	2,834	-40%	499	-34%	880	-47%	1,554	-28%
2010*	972	17%	4,966	55%	3,963	40%	584	17%	1,208	37%	1,658	7%
2011*	989	2%	6,376	28%	4,080	3%	587	1%	1,105	-9%	1,718	4%
2012*	1,080	9%	7,921	24%	4,496	10%	606	3%	1,111	1%	2,019	18%

* Infometrics forecasts

(1) Annual percentage change

	Nelson/ Marlborough		Christchurch		Provincial Canterbury/ Westland		Otago/ Southland		New Zealand	
	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾	Number	APC ⁽¹⁾
2003	1,298	36%	2,338	53%	1,556	23%	1,562	19%	29,074	29%
2004	1,318	2%	2,539	9%	2,111	36%	2,015	29%	33,251	14%
2005	1,028	-22%	2,337	-8%	2,176	3%	1,669	-17%	27,444	-17%
2006	898	-13%	2,068	-12%	2,234	3%	1,756	5%	25,563	-7%
2007	1,160	29%	2,425	17%	2,348	5%	1,953	11%	26,538	4%
2008	1,082	-7%	1,791	-26%	2,277	-3%	1,820	-7%	23,261	-12%
2009	723	-33%	1,123	-37%	1,290	-43%	1,231	-32%	14,175	-39%
2010*	837	16%	1,592	42%	1,707	32%	1,418	15%	18,905	33%
2011*	846	1%	1,657	4%	1,625	-5%	1,376	-3%	20,358	8%
2012*	946	12%	1,813	9%	1,672	3%	1,412	3%	23,078	13%

4. northland

State of play

House prices

House prices in Northland have fallen 6.7% over the last year and are now at their lowest level since the end of 2006. The relatively small size of the Northland market can make price trends difficult to interpret, and house price growth has fluctuated around the national average over the last 18 months. Property values in the region have suffered from the negative influences of rising unemployment and an end to the coastal property boom.

Population

The contribution to population growth in Northland from the inflow of international migrants remained close to a six-year high over the year to June 2009. But this positive effect on population growth was offset by the international outflow of migrants, which held at its highest level in at least 17 years. Northland still recorded a sizeable net inflow of people from other parts of New Zealand, boosting estimated population growth to 0.7%pa, which was marginally stronger than in June 2008.

House sales

Northland's house sales activity has tracked below nationwide trends for almost all of the last four years. At its low point in the March 2009 quarter, the annual sales total for the region was down 64% from its peak in June 2004, compared to a 54% drop nationally over the same period. However, Northland's housing market is now stabilising in line with nationwide figures, as falling prices and lower interest rates start to rekindle buyer demand.

Rents

Rental growth in the region is at its lowest in nine years, with rents in June down 2.4% from a year earlier. With house prices falling over the last year, rental yields had recovered to their highest level in four years, but the recent drops in rents have seen some of those gains reversed as landlords have focused on attracting tenants in the difficult economic environment.

Construction

Residential building activity in Northland has fallen to its lowest level in 15 years, with a 31% contraction in consent numbers recorded over the year to June. The decline in demand for holiday homes and reduced availability of finance has seen the development of new coastal subdivisions halted.

Forecast

House prices

Bargain hunters are likely to become increasingly common in the Northland property market over the coming year. The potential for improving sentiment in the nationwide housing market could lead to more buyers trying to obtain relatively cheap property in Northland in the near-term. That buyer competition is likely to bid prices up, particularly in desirable locations. House prices are forecast to rebound 14% over the year to June 2010, although price growth will be weaker over the subsequent two years, reflecting the lack of solid fundamentals behind the short-term price recovery.

Population

Northland is expected to benefit considerably from the nationwide lift in population growth. With fewer New Zealanders expected to depart overseas, the international outflow from Northland next year is forecast to shrink to its smallest in six years. With international immigration and interprovincial population flows largely unchanged, Northland's population growth could reach 1.3%pa in 2010 and 2011, surpassing the growth recorded in 2002 and 2003.

House sales

House sales growth in Northland is forecast to run ahead of the national average over the next two years. This outlook reflects renewed interest from bargain hunters as well as the region's role as a holiday destination for Aucklanders. As the New Zealand economy starts to recover, some people who have kept their job and maintained a solid wealth position are likely to once again start to consider purchasing a holiday home in Northland.

Construction

Although financing conditions will gradually become easier over the next 1-2 years, the rate of development of coastal property is likely to be more muted going forward than it has been over recent years. Although nationwide consent numbers are forecast to climb 64% over the three years to June 2012, consents in Northland are only expected to rise by 37%. Developers are likely to take a more cautious approach to projects and try to avoid generating the same oversupply of new coastal property that parts of Northland suffered in 2007 and 2008.

Graph 4.1
Median house prices (\$000)



Graph 4.2
Annual house sales total



5. auckland

State of play

House prices

Auckland house prices have fallen slightly over each of the last two June years, recording a 0.9% decline over the year to June 2009. But on a quarterly basis, prices in the Auckland region look to have bottomed out in the second half of 2008, and are generally now drifting upwards again. Annual price growth across most of the metropolitan area is now slightly positive, with the strongest result being recorded in Manukau (up 4.9%). In contrast, prices in outlying parts of the region are still falling – prices in the Rodney District, for example, are currently down 13% from a year ago.

Population

Population growth in Auckland eased to an estimated ten-year low of 1.4%pa over the year to June 2009. Population growth in the region has benefited slightly from the improvement in international net migration flows, but because the biggest contributor to the lift has been fewer people leaving, the boost to Auckland's population is less marked than when net migration rose strongly between 2001 and 2003. Overall population growth continues to be dragged down by a sizeable outflow of people to other regions around the country.

House sales

Having experienced a larger decline in sales activity than the national average over 2008, house sales growth in Auckland is now moving in line with the nationwide trend. Sales volumes were down 12% over the year to June 2009. North Shore recorded the best performance, with a decline of just 0.4%pa, while the price weakness evident in the Rodney District was also reflected in its sales volumes (down 17% over the last 12 months).

Rents

Auckland's weak economic performance and rising unemployment rate have contributed to the weakest result for rental growth in four years. Rents in June were 0.4% lower than a year earlier. Rental yields across the region had recovered between mid-2007 and mid-2008 as house prices declined, but the recent stabilisation in property values, combined with sliding rents, has seen yields drop back to 12-month lows. The exception is the outlying parts of the region, where the ongoing falls in house prices have seen rental yields reach a five-year high.

Construction

Residential construction activity in Auckland has consistently underperformed the national average over the last six years. Since mid-2003, the annual total of new dwelling consents in Auckland has fallen by 74%, compared to a 51% decline nationwide. Although an 85% drop in the number of apartment consents in the region over the last six years has exaggerated the downturn in the region's construction sector, a 67% decline in traditional housing consent numbers shows that the drop in residential construction in Auckland has been widespread. Over the last six years, Auckland City and Manukau have recorded the largest drops in consent numbers.

Forecast

House prices

The persistently low level of residential construction activity in Auckland over the last few years has led to a shortage of property in the region. These undersupply issues are set to provide good support for property prices over the next 12 months, with house prices forecast to rise 9.8% over the year to June 2010. Faster price growth will be difficult to achieve in the near term due to a soft labour market and relatively weak performance by the region's economy. By 2011/12, however, housing supply issues are likely to be dominating price trends in the region, and house price growth in Auckland is forecast to be the fastest in the country, at 9.2%pa.

Population

With international departure numbers forecast to ease to a six-year low over the year to June 2010, Auckland's population growth is expected to strengthen slightly, to 1.6%pa. However, with the lift in net international migration being driven primarily by fewer people heading overseas, the dynamic effect on regional population growth will be very different to the previous migration boom between 2001 and 2003. On that occasion, Auckland's population growth got as high as 3.3%pa due to a substantial lift in international arrivals. It is not forecast that this phenomenon will be repeated over the next 2-3 years.

House sales

After very weak house sales volumes in 2008, the Auckland market has been among the leaders of the recovery in activity over the first half of this year. As prices stabilise and start to increase again, "bargains" or "affordable" property will become more difficult to come by, and sales volumes are forecast to edge lower from early 2010. A shortage of property in desirable suburbs or locations may also encourage existing homeowners to renovate their current property over the next two years rather than moving. Sales volumes are expected to pick up over 2011/12 as the region's economy gains momentum.

Construction

With such a large drop in residential construction activity over the last six years, there is scope for a considerable pick-up in consent numbers in the Auckland region once financing conditions start to improve. Over the three years to June 2012, a massive 147% lift in consent numbers is forecast, with apartments contributing around two-fifths of the total increase. Even with that lift, activity would still be almost 40% below the level recorded in the year to June 2004. A recovery in building activity remains highly dependent on the willingness of banks to lend to property developers.

Graph 5.1
Median house prices (\$000)



Graph 5.2
Annual house sales total



6. waikato/bay of plenty/gisborne

State of play

House prices

House prices in the Waikato/Bay of Plenty/Gisborne (WBG) region in the June quarter were up 0.5% from June 2008. Prices bottomed out in the final quarter of 2008, down 6.3% from the December 2007 quarter, and have started recovering in response to low mortgage rates. Price growth in the main centres of Hamilton and Tauranga is still lagging behind the regional average, with prices down 2.0% and 4.7% respectively from June last year.

Population

The WBG region's population growth lifted to an estimated three-year high of 1.0% over the 12 months to June 2009. The pick-up has been driven by a lift in the net international migration flow, with overseas arrivals making their biggest contribution to population growth since 2003. The shift in migration flows has been least pronounced in the Bay of Plenty, where population growth remains at its lowest since 2001.

House sales

House sales in WBG have consistently underperformed the national average over the last four years. Sales volumes in the WBG region have fallen by 53% since June 2005, compared with a 42% decline for New Zealand as a whole. Although sales over the year to June 2009 were still down 14% from a year earlier, the most recent monthly data shows a strong recovery in sales activity is occurring, particularly in Gisborne and the Bay of Plenty.

Rents

Rents in WBG recorded their biggest annual fall for nine years in June, down 0.6% from a year ago. Although all parts of the region have experienced some decline in rents over recent months, the drop has been most muted in the Waikato area. Landlords enjoyed some recovery in rental yields over 2007/08, but as the region's economic outlook has weakened and unemployment has risen, avoiding vacancies has become more important and gross yields have edged lower since the start of 2009.

Construction

Residential building activity across the WBG region fell by 40% over the year to June 2009. Residential development around Hamilton and Tauranga has dried up as financing conditions have tightened considerably and developers have struggled to sell completed properties. The weaker economy has also led to a substantial reduction in demand for holiday homes in areas such as Taupo and the Coromandel Peninsula.

Forecast

House prices

House price growth in WBG will continue to strengthen over the rest of this year and through until mid-2010. Lower interest rates will continue to boost competition among buyers in the near-term. But throughout the next three years, house price growth in WBG is forecast to remain below the national average, as relatively low dairy prices have a dampening effect on aggregate income growth in the region.

Population

International departure numbers from WBG are expected to ease further over the next 12 months, which would help push the region's population growth to a six-year high of 1.3%pa. These weaker departure numbers are likely to be felt across all parts of the region. Although the unemployment rate across WBG is above the national average, it is lower than in Auckland, suggesting the region should be able to maintain the interprovincial population inflow that has persisted over recent years.

House sales

Although a modest forecast for aggregate incomes could prevent house price growth from keeping up with the national average over the next three years, that weaker price growth may have a perversely positive effect on house sales activity. Weak house price growth implies that the affordability of property in WBG will not deteriorate by as much as in some other regions, enabling a greater pool of buyers to remain in the market and facilitating above-average growth in sales volumes. House sales activity is forecast to increase by 30% over the three years to June 2012 in WBG, compared to a 19% increase nationally.

Construction

Residential construction activity in WBG is forecast to track largely in line with nationwide trends over the next 12 months as finance conditions improve and boost consent numbers around Hamilton and Tauranga. Medium-term growth in building activity will be more muted, however, as demand for holiday homes fails to recover to the levels seen 4-5 years ago.

Graph 6.1
Median house prices (\$000)



Graph 6.2
Annual house sales total



7. hawke's bay

State of play

House prices

The performance of house prices in Hawke's Bay lagged behind the nationwide average between 2006 and 2008, but over the last year, property values in Hawke's Bay have been more positive than for the country as a whole. After some falls over 2007/08, house prices in Hawke's Bay have stabilised over the last 12 months, and prices in the June quarter were actually up 1.1% from a year earlier. This result was the best for any region in the last year.

Population

Hawke's Bay's population growth has held at an estimated rate of 0.2%pa over the last year, with little shift in the components of that growth. Despite the lift in international net migration numbers for New Zealand, Hawke's Bay has failed to record much of a rise in this component of population growth. Although the region's unemployment rate (combined with Gisborne) is the second highest in the country, Hawke's Bay still enjoys a net inflow of people from other regions within New Zealand.

House sales

House sales activity in Hawke's Bay has moved broadly in line with the nationwide trend over the last year. Sales volumes over the year to June 2009 were down 16% on the previous 12 months. Having experienced a larger downturn in activity as the market slowed, sales growth in Napier is now rebounding more strongly than in Hastings as low mortgage rates have improved the affordability of housing in the city.

Rents

Rental growth in Hawke's Bay has turned negative for the first time in nine years, with rents in June down 0.4% from a year earlier. With both rents and house prices almost static over the last year, rental yields have held close to their highest levels since 2004. Despite the lack of rental growth, the number of bonds lodged with the Department of Building and Housing over the last year has been at its highest since 2000, suggesting that there may be an excess supply of rental property available and that the recession is encouraging tenants to try and cut their accommodation costs by finding cheaper places to live.

Construction

Building activity in Hawke's Bay performed relatively strongly over the last 12 months, dropping by 34%, compared with a 39% fall nationally. However, Hawke's Bay's figures include 75 apartment units as part of a retirement village, meaning that the underlying trend in activity is relatively weak. The drop-off in demand for coastal property has had a major negative effect on the rate of residential construction in Hawke's Bay.

Forecast

House prices

The relatively strong performance by house prices in Hawke's Bay is expected to continue over the next 1-2 years. The outlook for lamb, horticulture, and wine exports is relatively positive compared to some other export commodities, so income growth in the region is likely to be good compared with some other provincial areas. With the location of a property proving important in the current market, house price growth in Napier is expected to outpace growth in Hastings.

Population

Although the lift in international net migration has not boosted Hawke's Bay's population growth yet, that situation is expected to change over the next year as international departure numbers drop away to their lowest level in six years. With the outlook for the region's economy looking reasonably bright, population growth is forecast to average 0.6%pa over the next three years, only slightly slower than the growth achieved between 2001 and 2004.

House sales

House sales growth in Hawke's Bay is expected to continue moving in line with national trends over the next three years. Although stronger population growth and the region's economy might suggest a greater lift in sales volumes, demand at the lower end of the market will be tempered by the forecast rebound in house prices. Housing affordability is also likely to be eroded during 2010 and 2011 as mortgage rates trend upwards.

Construction

House building in the Hawke's Bay region is forecast to rebound over the next year, with a 17% increase in consents predicted for the year to June 2010. However, construction activity in Hawke's Bay is expected to be largely stagnant over the following two years. Weaker medium-term demand for coastal property developments will limit additional increases in building activity, and even with population growth holding at around 0.6%pa, underlying demand for housing in the region will not justify any further lift in the build rate.

Graph 7.1
Median house prices (\$000)



Graph 7.2
Annual house sales total



8. taranaki/manawatu/wanganui

State of play

House prices

House prices in Taranaki/Manawatu/Wanganui (TMW) rose 85% over the three years to June 2007, compared to a 43% increase in property values nationally. Despite this rapid rise, subsequent house price falls have been muted, totalling just 4.3% over the last two years. Ironically, the largest price falls over the last two years have occurred in Manawatu (down 8.2%), despite the area having the fastest population growth in the region.

Population

TMW's population growth has been boosted substantially over the last year as the number of international departures from the region has fallen to its lowest level in three years. With international arrivals holding up, population growth has risen to an estimated 0.5%, the fastest growth in over a decade. The improvement in population growth has been felt across the entire region, with Wanganui recording the biggest improvement relative to historical averages.

House sales

Across the TMW region as a whole, house sales have moved broadly in line with the national average, with volumes contracting 37% over the last two years (compared to a 43% decline for all New Zealand). But within the region there has been a significant variation in trends. Sales in Wanganui have dropped 55% over the two-year period, suggesting that property owners are largely unwilling to lower prices and are instead maintaining their holdings. Sales in Taranaki have fallen by just 26%, with the area's housing market being underpinned by the influence of the energy sector on the economy. Sales in Manawatu have fallen 36%, and when combined with the price fall recorded in the area, this drop suggests that people in Manawatu are struggling the most to service mortgages and are willing to lower their asking price to get rid of property.

Rents

Rental growth in TMW remains positive, but had slowed to just 0.7%pa by June 2009, representing an eight-year low. Rents are still rising in Taranaki and Manawatu by 2-3%pa, but rents in Wanganui have fallen 2.6% over the last 12 months. Although rental yields across much of the region (excluding Wanganui) have continued to recover since mid-2008, they remain around 1.5 percentage points below the average recorded over the last 12 years.

Construction

Residential building activity in TMW was particularly strong between 2003 and 2008, with annual consent numbers rising by 76% over five years. In contrast, nationwide consent numbers fell 20% over the same period. But the region's fall in construction work over the last year has been larger than the New Zealand average (down 51%, compared to 39% nationally). Consent numbers in both Manawatu and Wanganui has fallen by over 55%.

Forecast

House prices

The strong lift in house prices in the TMW region over recent years, combined with the limited decline that has been recorded over 2008/09, mean that there is little scope for house price growth in the region over the medium-term. Lower interest rates are likely to lead to a bounce in prices over the year to June 2010. But price growth over the following two years is expected to be close to zero as investors remain wary of overvalued property and the relatively difficult economic conditions faced by parts of the region.

Population

With international departure numbers expected to remain reasonably subdued, TMW could see population growth hold up at an average of around 0.4%pa over the next three years. Although the region's unemployment rate is currently the lowest in the North Island, it is anticipated that as the nationwide labour market stabilises and then starts to improve over 2010/11, the population outflow to other regions within New Zealand will start to increase again.

House sales

With housing in the region remaining considerably overvalued, house sales volumes are expected to contract again over the year to June 2010, following a brief period of positive year-end growth in late 2009 and early 2010. Buyer demand is likely to be temporarily buoyed by low mortgage rates, potentially underpinned by investors in cheaper parts of the region such as Wanganui. Overall, activity in TMW's housing market is not expected to record any significant expansion until 2011/12 as a lack of price growth makes property in the region start to appear relatively cheaper when compared with other parts of the country.

Construction

The high levels of residential building activity in TMW over recent years have generated an oversupply of housing that will take some time to absorb. Although consent numbers are forecast to rebound over the next year (up 36%), the growth is unlikely to be sustained, and lower consent numbers are likely in 2011 and 2012. Any oversupply of housing is likely to be most easily absorbed in Manawatu, and this area has the most positive outlook for construction in the region over the medium term.

Graph 8.1
Median house prices (\$000)



Graph 8.2
Annual house sales total



9. wellington

State of play

House prices

House prices in Wellington have outperformed the national average over each of the last four years, rising by a total of 31% compared to the nationwide average of 22%. Nevertheless, Wellington has not been immune to price falls, with the median price in the June 2009 quarter down 1.4% from two years earlier. Momentum in house prices has started to turn upwards since the second half of 2008 as lower interest rates have improved housing affordability.

Population

Wellington's net international migration inflow lifted to a five-year high over the year to June 2009 as departure numbers eased and arrival numbers made their biggest contribution to population growth in six years. But with the region still experiencing a significant net outflow of people to other parts of New Zealand, population growth remained slightly below average at an estimated 0.8%pa.

House sales

The reliance of Wellington on the government sector means that the region's property market is often seen as being relatively countercyclical. However, house sales activity in Wellington has fallen by a similar amount to the national average over the last year (15%). The change of government and concerns about the robustness of public sector employment going forward may have contributed to the downturn in activity in the Wellington housing market.

Rents

Rental growth in Wellington over the year to June had eased to 2.5%pa. Even though rental growth in Wellington was at a four-year low, this result was still the strongest in the country. With poor housing affordability and an uncertain outlook for employment and the economy, demand for rental accommodation appears to have held up. As a result, rental yields have recovered substantially and are now above 5% for the first time in over four years.

Construction

The late-cycle strength of the Wellington housing market shows up most clearly in building consent numbers, which rose 5.5% over the two years to June 2008, in contrast with a 9.0% fall in consents nationally over the same period. Even over the most recent year, to June 2009, the 32% fall in residential consents in Wellington was well short of the 39% nationwide drop. Apartment consent numbers have actually lifted 31% over the last year, although a number of consented projects have not actually progressed given the economic downturn and difficult financing environment.

Forecast

House prices

The patchy nature of the current recovery in the Wellington housing market is likely to be reflected in price growth over the coming year, which is not expected to keep up with the national average. Additionally, uncertainty in the near term about the outlook for public sector employment will also put some limit on house price growth. However, it is expected that government spending in the medium-term will continue to increase under National, and house price growth in Wellington is forecast to average 6.7%pa over the next three years.

Population

The number of people leaving Wellington and heading overseas is expected to drop further over the coming year and remain at relatively low levels through until 2011/12. The effect will be to push the region's population growth up towards 1%pa next year, but faster growth is likely to be undermined by the ongoing loss of people to other parts of New Zealand.

House sales

Wellington's house sales are forecast to continue moving in line with nationwide trends over the next two years. Low mortgage rates will fuel investor demand into the second half of this year, but the renewed lift in prices will reduce the number of available bargains and see demand ebb again heading into 2010. By 2011/12, as the employment outlook in the region becomes clearer, house sales activity is expected to grow more strongly than the national average.

Construction

The forecast recovery in building activity in Wellington is later to occur, and less pronounced, than the nationwide trend. With relatively strong consent numbers over the last 2-3 years, particularly for apartments, the scope for a recovery in construction appears much more limited than in other regions. Even with reasonable population growth, developers are likely to steer clear of new apartment projects in particular until the delayed or postponed projects of recent quarters are able to obtain their required finance and are mostly constructed. Building of traditional housing is likely to recover in line with national trends, but recent experience suggests that location will be of major importance for developers over the next 18-24 months.

Graph 9.1
Median house prices (\$000)



Graph 9.2
Annual house sales total



10. nelson/marlborough

State of play

House prices

House prices in Nelson/Marlborough (NM) fell 3.2% over the year to June 2009, a slightly larger fall than the nationwide average of 1.2%. Looking within the region, however, reveals that house prices in Nelson have recovered substantially over the last six months and are actually 1.1% higher than in June last year. In contrast, property values in Marlborough have plunged 14% over the last 12 months and are at their lowest level since the second half of 2006.

Population

The shift in international migration flows has so far not really affected population growth in the NM region, as departure numbers were virtually unchanged over the last 12 months. The region continues to attract people from other parts of New Zealand, but the net inflow over the last few years has been between one-third and one-half of the annual inflow maintained over the second half of the 1990s.

House sales

Since the end of the correction in the region's housing market in 2004, house sales in NM have outperformed the national average. Over the five years to June 2009, house sales volumes declined by 27%, compared with a 49% contraction nationally. For the year to June, sales volumes in Nelson were down 7.5% from a year earlier, and over recent months the Nelson market has shown stronger signs of a recovery than Marlborough.

Rents

Rental yields in NM reached a six-year high earlier this year, but the emerging rally in house prices over recent months has seen some of the lift in yields eroded. Rents across the region are still up 1.3% on a year ago, but rental growth is now at its weakest since 2001. Bond lodgement numbers from the Department of Building and Housing suggest that tenant demand for rental accommodation in the region is at high levels, particularly in Nelson. But as in other regions, landlords appear to be taking a cautious approach when setting rents given the current economic environment.

Construction

As with house sales, residential construction activity in NM has outperformed the nationwide average in recent years. New dwelling consent numbers in NM eased 19% over the three years to June 2009, compared with a 45% fall nationally. Nelson's contraction in building activity has been less pronounced in particular, although activity was already at a lower level heading into the downturn, implying that there was less of an oversupply of housing in Nelson compared with Marlborough or other parts of the country.

Forecast

House prices

House price growth is forecast to pick up across the NM region over the next year as buyers look to take advantage of low interest rates and compete over an increasing shortage of good-quality property in key locations. Although the region's price growth over the medium term is expected to move in line with nationwide trends, Nelson is likely to be the primary driver of the lift in property values as its role as a business centre at the top of the South Island continues to develop.

Population

The nationwide drop-off in international departure numbers is expected to feed through into faster population growth in NM over the next 12 months. Departure numbers are expected to fall by as much as 25% over the year to June 2010. Population growth is predicted to reach a six-year high of 1.4%pa next year. Healthy population growth will also be facilitated by the fact that NM has the lowest unemployment rate in New Zealand, at an average of 3.1% over the year to March 2009.

House sales

With sales activity having remained more buoyant than in other regions, there is probably less scope for a further pick-up in sales volumes over the next few months in NM. By mid-2010, year-end sales growth is still expected to be at -14%. The potential for a shortage of property around Nelson is likely to limit sales growth in the city in the near term.

Construction

Although residential building nationally is forecast to climb by 63% over the three years to June 2012, the construction upturn in NM is forecast to be more modest. The number of new dwelling consents in NM is expected to increase by 31% over the next three years. With consent numbers in NM currently around 30% below the average of the last decade, the base of activity is stronger than it is nationally, where consent numbers are more than 40% below average.

Graph 10.1
Median house prices (\$000)



Graph 10.2
Annual house sales total



11. christchurch

State of play

House prices

The median house price in Christchurch peaked in the December 2007 quarter, and had fallen 9.8% by March 2009. However, house prices have shown signs of rallying over the last three months, and by June 2009, price in Christchurch were down just 1.5% from a year earlier. Low mortgage rates appear to have reignited buyer interest and are resulting in more stable property values.

Population

Christchurch's international net migration inflow rebounded from the very weak result in 2008, as departure numbers eased and foreign arrivals made their biggest contribution to population growth in five years. However, the city's international migration position is still much less positive than 5-6 years ago, and so population growth remained relatively low for the year to June 2009, at 0.9%pa.

House sales

House sales activity in Christchurch over the last year has hinted at the relatively substantial drop in prices that has occurred. Sales over the year to June were just 6% down from the previous 12 months, compared with a 12% fall nationally. People trying to sell property in Christchurch appear to have been more willing to lower their asking prices to meet market conditions than in some other parts of the country.

Rents

Rental growth briefly turned negative in Christchurch earlier this year, recording its first falls since 2001. But by June rents were rising again, and were up 2.1% from the same time last year. Rental yields have recovered substantially over the last two years and have reached their highest level since 2004. Concerns about an oversupply of rental accommodation and the potential to put downward pressure on rents have dissipated over the last few months as sales activity has picked up, and purchases by first-home buyers have started to reduce some of the supply of rental accommodation.

Construction

Building activity in Christchurch has come under downward pressure over the last two years, particularly as the surge in apartment consents that occurred in 2007 has been reversed out and an oversupply of units in the inner city has developed. Apartment consent numbers in Christchurch have fallen 64% over the last two years, whereas the number of non-apartment consents has declined by a more modest 52%.

Forecast

House prices

With house prices in Christchurch having fallen by more than other regions over the last 18 months, there is potential for a sizeable rebound in property values over the coming year as buyers respond to low mortgage rates. Christchurch property values are forecast to climb 15% over the year to June 2010, with subsequent price growth moderating to be more closely in line with national movements.

Population

International departure numbers from Christchurch are forecast to drop to a six-year low over the next 12 months as the global economic environment continues to discourage people from heading overseas. This trend will contribute to a further pick-up in Christchurch's population growth (to 1.1%pa). But with property prices in the city starting to rebound, the outflow of people to the surrounding parts of Canterbury is likely to increase and limit any further acceleration in population growth.

House sales

Falling property prices have been a contributing factor in the rebound in house sales activity in Christchurch over recent months. Increasing buyer competition in the short-term is expected to push prices higher, thereby undermining demand again as the affordability of property starts to deteriorate. Sales volumes are expected to decline 8.7% over the year to June 2010, and with significant amounts of residential development and demand for property continuing to be focused in the areas surrounding Christchurch, growth in sales activity over the medium term is likely to lag behind the nationwide average.

Construction

Residential construction activity in Christchurch is likely to rebound (up 42%) over the coming year as the availability of finance starts to improve, and rising house prices encourage developers to begin new projects. But space constraints in the city suggest that, increasingly, building work is likely to take place outside the city limits, and growth in consent numbers is expected to be softer over 2011 and 2012 as a result. The oversupply of apartments generated in 2007 is also likely to take some time to absorb and keep the number of developments in the CBD down over the next three years.

Graph 11.1
Median house prices (\$000)



Graph 11.2
Annual house sales total



12. provincial canterbury/westland

State of play

House prices

After recording annual falls of as much as 9.3% earlier this year, house prices have started to stabilise in Provincial Canterbury/Westland (PCW), and by June 2009, prices were just 1.9% lower than a year ago. The West Coast is the only area where price falls have been avoided, with June quarter data showing that the median house price is still 7.6% higher than in mid-2008.

Population

Population growth in PCW strengthened to an estimated 2.1%pa over the year to June 2009, surpassing the previous peak recorded in 2004. The net inflow of people from overseas was at its highest in five years, while international departure numbers were also down in line with nationwide trends. Within the PCW region, the biggest improvements in population growth were recorded by Selwyn, the West Coast, Waimate, and Ashburton.

House sales

Trends in house sales have moved broadly in line with nationwide movements over the last 24 months, and over the year June 2009 quarter, sales volumes were down 10% from the previous year. Sales activity actually rose over the last 12 months in the Selwyn and Ashburton areas. Sales volumes on the West Coast were down 27% as the effect of falling mortgage rates on the affordability of property has been overwhelmed by the continued upward trend in house prices.

Rents

Rental growth has remained positive in PCW, but had slowed to an eight-year low of 0.8%pa by June 2009. Rents in the Waimakariri area have fallen 5.7% over the last year as tenant demand has shifted towards Christchurch instead. Rents are still rising across the rest of the region, including growth of 11%pa on the West Coast over the last year. With some falls in house prices, rental yields have reached a four-year high.

Construction

Although the nationwide annual total of residential consents in June 2009 was down 51% from six years earlier, consent numbers for new dwellings in PCW had fallen just 17% over the same period. The latest figures show residential building activity in the region around 25% below the average of the last decade, whereas nationwide consent numbers are more than 40% below average. However, the persistent strength of construction activity over the last six years appears to be dissipating, with consent numbers in the region falling 43% over the last 12 months.

Forecast

House prices

With signs that property values in PCW have started to stabilise, house price growth in the region is expected to turn positive over the second half of this year, and reach 12%pa by June 2010. The positive effect of low mortgage rates will dissipate over the following two years, however. With the supply of land in PCW relatively plentiful, house price growth is expected to lag behind the national average over the medium term. Prices are forecast to rise just 4.1% over the two years to June 2012, compared with an 11% forecast increase nationally.

Population

PCW is expected to record the strongest population growth in the country over the next three years, averaging 2.1%pa. The region is set to maintain strong net international migration numbers as the number of people heading overseas from the region is forecast to drop to a 12-year low. The inflow of people from other parts of New Zealand will also continue to be an important component of the region's growing population.

House sales

House sales activity across the PCW region is likely to show a wide range of trends over the next three years. Growth in the areas close to Christchurch (ie Waimakariri and Selwyn) is expected to remain healthy, but activity in more outlying areas such as South Canterbury and the West Coast is likely to be weaker. Overall, growth is expected to be slower than the nationwide average, with sales volumes rising just 6% over the three years to June 2012, compared with a 19% increase nationally.

Construction

With construction activity in PCW having not fallen as far as in other regions, the subsequent rebound in building work once finance becomes more readily available again is likely to be less pronounced than nationally. Consent numbers are forecast to increase 32% over the year to June 2010, with construction activity around Rolleston and Pegasus in particular picking up as property values stabilise. Although nationwide building activity is forecast to grow by 22% over the two years to June 2012, PCW consent numbers are forecast to dip by 2% as developers take a more cautious approach to residential subdivisions than over recent years.

Graph 12.1
Median house prices (\$000)



Graph 12.2
Annual house sales total



13. otago/southland

State of play

House prices

House prices in Otago/Southland (OS) peaked later than in most other regions and by June last year were still rising at 6.6%pa, the fastest rise in the country by some margin. As a result of the delayed peak, the price fall over the June 2009 was the largest in New Zealand, with prices down 8.1% from a year earlier. The largest price falls, of 13% over the year were recorded in the Central Otago Lakes area, although the relatively small size of this area can result in volatility in the median house price.

Population

Estimated population growth in the OS region climbed to a six-year high of 0.9%pa over the year to June 2009, helped by a drop in the number of overseas departures. Southland particularly appears to have benefited from this change, with estimated population growth of 0.7%pa higher than at any time since at least 1996/97. However, the economic downturn has negatively affected population growth in Central Otago Lakes, as more people headed overseas from the area and sent population growth down to a nine-year low.

House sales

The OS region recorded the weakest sales growth in the country over the year to June 2009, with sales volumes down 20% from the previous year. The result is unsurprising given that the downturn in the region's housing market started later than for most of the rest of the country. Sales growth in Coastal Otago was in line with the national average, but activity in Central Otago Lakes fell 20% and sales volumes in Southland were down by 29%.

Rents

Rental growth in OS had eased to just 0.9%pa by June 2009 and was at its slowest in three years. Rents in Central Otago Lakes were down 1.9% from a year earlier, the weakest result since 1999. In contrast, data for June showed that rents in Southland were still rising at 6.5%pa. Rental yields across the region have risen noticeably over the last 1-2 years, mainly as a result of the dip in house prices that has occurred.

Construction

Building activity in OS has performed relatively strongly over the last four years. Nationally, consent numbers for new dwellings have fallen 48% since June 2005, but activity in OS has eased by just 26% over the same period. Building activity in Southland, in particular, has reflected the persistent strength of the housing market in the area, with consent numbers down just 3.9% over the last four years. By June 2009, the residential build rate in Southland was still 16% above the average of the last decade.

Forecast

House prices

Low mortgage rates will help property values in OS to turn around over the next 12 months, and house price growth is expected to recover to 14%pa by June 2010. With property in parts of the region among the cheapest in New Zealand, investor demand is being boosted by the improvement in affordability that has occurred. But price growth is likely to be slower in 2011 and 2012 as mortgage rates rise and limit the ability of buyers to pay higher prices for housing.

Population

Further declines in the number of international departures are expected to send the OS region's population growth up to 1.0%pa for the year to June 2010. The positive effect is expected to be felt most strongly in the Central Otago Lakes area, where the number of people leaving for overseas has actually risen in response to the weak global economy. Lower payouts to dairy farmers are likely to reduce the net flow of people into the region from other parts of New Zealand.

House sales

Buyer demand for housing in OS is expected to rebound in the short-term, with investors and first-home buyers responding to low mortgage rates. Activity in Southland is forecast to hold up strongest over the next year, but by June 2010, sales for the region as a whole are expected to be down 6.9% from a year earlier. Over the next three years, growth in house sales activity in OS is expected to be slower than the national average.

Construction

The rebound in residential building activity in OS over the next 18 months is expected to be relatively muted. Across the entire region, consent numbers are forecast to rise just 15% over the year to June 2010, compared with a 33% increase nationally. Nationwide consent numbers are forecast to rise 22% over the following two years, but decline 0.5% in the OS region. With building activity in Southland still at relatively high levels even now, the lack of future growth in this area will be one of the main causes of the relatively weak performance by construction activity in the region over the next three years.

Graph 13.1
Median house prices (\$000)



Graph 13.2
Annual house sales total



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