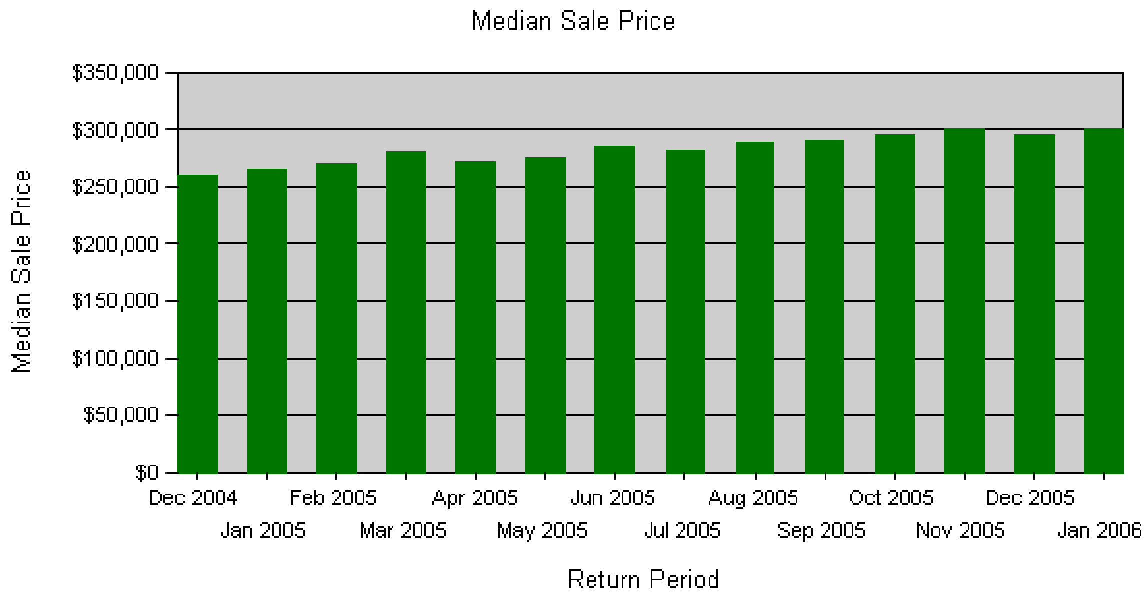
New Zealand Residential Property Review Report from Seagar and Partners

Statistics produced by the Real Estate Institute show that the number of dwelling sales over the entire New Zealand residential market and the median dwelling price for the month ending December 2005 were 6,906 and $295,000 respectively. This is a significant reduction from the 8,546 dwellings sold in the previous December when the average dwelling price reached $260,000. The statistics also show that between December 2004 and November 2005, although the number of sales fluctuated, the average price typically increased over each quarter at a constant rate of growth from $260,000 to $300,000, with only the months of April, July and December during 2005 being exceptions.

January 2006 has seen the median price rise to $300,000 whilst sales fell 4.1% month on month to 6,360 which is the lowest level in 3 years.

The following sales graph and sales schedule illustrate the monthly sales activity over the entire NZ residential market, for the period December 2004 to January 2006:-



Sourced from www.reinz.co.nz, Real Estate Institute of New Zealand (2006).

Return Period	Median Sale Price	No. of Sales	Median Days	% Diff Prev Mth	Total $ Sales	Total Nat $ Sales	% of Nat $ Sales
Dec 2004	$260,000.00	8,546	29	0.00 %	$2,687,741,945	$2,687,741,945	100.00 %
Jan 2005	$265,000.00	7,071	39	1.90 %	$2,163,790,625	$2,163,790,625	100.00 %
Feb 2005	$270,000.00	10,145	31	1.90 %	$3,201,456,217	$3,201,456,217	100.00 %
Mar 2005	$280,500.00	10,406	28	3.90 %	$3,526,633,657	$3,526,633,657	100.00 %
Apr 2005	$272,000.00	8,875	28	-3.00 %	$2,869,916,499	$2,869,916,499	100.00 %
May 2005	$275,000.00	9,249	29	1.10 %	$3,018,908,058	$3,018,908,058	100.00 %
Jun 2005	$284,500.00	8,025	30	3.50 %	$2,677,547,168	$2,677,547,168	100.00 %
Jul 2005	$282,000.00	8,135	30	-0.90 %	$2,694,916,753	$2,694,916,753	100.00 %
Aug 2005	$289,000.00	8,591	28	2.50 %	$2,895,264,833	$2,895,264,833	100.00 %
Sep 2005	$290,000.00	9,186	27	0.30 %	$3,111,109,070	$3,111,109,070	100.00 %
Oct 2005	$295,000.00	8,513	28	1.70 %	$2,920,789,673	$2,920,789,673	100.00 %
Nov 2005	$300,000.00	9,357	27	1.70 %	$3,317,975,081	$3,317,975,081	100.00 %
Dec 2005	$295,000.00	6,906	27	-1.70 %	$2,441,613,387	$2,441,613,387	100.00%
Jan 2006	$300,000.00	6,360	38	1.70 %	$2,156,751,887	$2,156,751,887	100.00 %

Sourced from www.reinz.co.nz, Real Estate Institute of New Zealand (2006).

Notably much of the activity during 2005 was evidenced outside the major Auckland market, particularly in smaller regional centres around the North Island and in Christchurch.

According to statistics from Quotable Value NZ, since the quarter ending December 2004, Hamilton, Christchurch and Palmerston North have consistently achieved the strongest house price growth of the cities, whilst Auckland, Nelson and Tauranga have shown the least growth. This is evidence of smaller cities and provinces which had less initial growth during the 2002 – 2004 period now playing 'catch up' due to the greater relative affordability of housing in those areas.

Overall, the residential property market in NZ is approaching a period of consolidation after a sustained period of constant growth in each type of residential property and across all value tiers. This was particularly evident from early 2002 until late 2004. A recent decline in sales volumes is attributable to the decline in net migration numbers, an increase in interest rates and increasing uncertainty towards New Zealand's economic outlook for the immediate future. Over the next 6 - 12 month period, although any potential negative impact on the market could see a general decrease in residential values, we believe this will not be as significant as has been predicted by some property market commentators, provided there are no major changes in current economic conditions.

Whilst bank economists are cautious about this year's prospects for the NZ economy, most are predicting positive albeit slower growth in GDP, a continuing tight labour market, and eventually, an easing in monetary policy by the Reserve Bank. The Reserve Bank increased the bond rate to 7.25% in November last year, primarily to dampen activity in the residential property market and consumer spending levels. Whilst this has not curtailed the supply of fixed rate mortgages to date, there is an expectation that higher mortgage rates will progressively impact property owners whose mortgages mature during the course of the year at significantly higher rates than two years ago. However with the NZ Dollar at recent record highs, it is generally felt that the Reserve Bank will be unlikely to raise interest rates further and an easing could be expected by the end of the year, or sooner if economic conditions deteriorate.

In the meantime, rental returns from residential property which have been eroded over the past year by rising real estate prices and a static rental market, are now set to stabilise at rates below fixed mortgage rates in most residential markets. These rental returns currently range between 4% and 6% for most residential property, although higher yields are available from furnished and investment quality apartments which are currently well supplied in the Auckland market.

Property Market Commentary by Key Regions – December 2005

Auckland

New Zealand's most populated city is located toward the northern end of the North Island and contains a population of approximately 1.3 million people out of a total national population of approximately 4.1 million people, as at June 2005. Major areas within the Auckland region include North Shore City to the north of the Auckland central business district and Manukau City to the south. Auckland International Airport is located in Manukau City.

Summary by Seagar and Partners (City and South/East Auckland offices)

AUCKLAND CENTRAL AND EASTERN BAYS SUBURBS

Whilst not reaching the levels of growth evident in the two years preceding November 2003, the residential property market in Auckland City experienced steady growth in both values and sales volumes during 2005. This trend was quite consistent across most value tiers of the residential market and also between different categories of property, with the exception of the inner city apartment market. Property types which showed extra ordinary growth in values throughout the last 12 months included those in the inner city suburbs including Ponsonby, Parnell and Freemans Bay, as well as clifftop properties within the eastern bays suburbs and extending to Herne Bay, particularly those with unobstructed harbour views.

Drivers within the upper echelon of the market include offshore purchasers and continued demand from high net worth individuals, whilst a lack of supply is evident for good quality larger homes as well as clifftop or waterfront properties. The middle tier of the inner city market could broadly be described as those properties positioned within a value range of $450,000 and $1,000,000 and including a large proportion of the housing stock in the inner city suburbs previously mentioned, being Ponsonby, Freemans Bay and to a lesser extent, Parnell. Again this market is driven primarily by professional couples often with two incomes, and to a lesser extent, overseas purchasers who plan to move back to New Zealand within the foreseeable future with this market seemingly unaffected by the relatively high New Zealand dollar. Increases in interest rates have also had a limited effect as yet, with the exception of investment motivated purchasers, who are finding it difficult to justify the excess of interest payments over rental income.

Whilst it is difficult to predict future trends, we are of the opinion that the market is likely to remain steady during the next 6 - 12 months, given continuing high levels of employment and availability of finance at fixed interest rates. We would not envisage residential property values falling without a significant contributing factor such as further significant increases in interest rates or a slump in business confidence.

Christchurch

This city is situated within the Canterbury region, New Zealand's second most populated region, behind Auckland. Located on the eastern side of central South Island. The Canterbury region is a major farming district within New Zealand.

Summary by DTZ New Zealand (Mark Shalders)

The upper end of the Christchurch residential market ($500,000 to $2,000,000) has been the first sector to show a slowdown, the fundamental problem being vendor expectations of continued value growth getting ahead of perceived purchaser value levels. Several properties that sold earlier this year have been exposed to the market in recent weeks for re-sale auction, and have been passed in, failing by a considerable margin to meet the previous sale price.

The low to middle end of the market is more robust although price increases have clearly eased considerably. There still is an expectation from some of the less experienced purchasers, that townhouse property boom will continue indefinitely, and that impression may be helping to extend the market cycle at the lower end of the market. Listing periods have lengthened considerably over the last 4 months.

The residential rental market is beginning to show early signs of stress which may be a reflection of the university year ending but is clearly more obvious than this time last year. Yields are typically about 5% gross on a $200,000 to $300,000 single unit property and 5% to 8% gross on a multi unit property depending on location, quality and maintenance requirements.

Combining a weakening rental market with yields below current interest rates, and throwing in minimal migration growth and an expectation of zero or negative capital growth in the next few years, contributes to pessimism in terms of future value trends for investment orientated property. A substantial portion of investors in this market appear to be short term capital gain chasers, and a number have been taking their gains in recent months.

This market is insulated from the perils of the small apartment market, most of the recent development in Christchurch being 2 or 3 level attached units of $125m^2$ - $150m^2$ floor area, built primarily for rental, but also suited to owner occupiers.

All things being equal, and assuming no major event triggers off a strong immigration flow, a general drop off in sales volumes in the next 2 to 3 years, a levelling of price levels, and the likelihood of value reductions are expected as investors particularly will ultimately leave the market due to its poor performance.

Queenstown

Arguably New Zealand's most famous holiday destination, Queenstown is located toward the lower end of the South Island and is set amongst the Southern Alps. Queenstown receives a large number of local and overseas visitors throughout each year and includes areas such as Wanaka and Arrowtown.

Summary by MAC Property Services Ltd (Alastair Wood)

The Queenstown property market peaked in 2004 and is currently consolidating. There is potentially an oversupply of listings as sales volume continues to drop. Higher interest rates combined with the higher dollar and the general slowing of the economy are the predominant factors in this consolidation. For 'normal' housing there is a risk of a correction of between 5% - 10% although house prices at this stage are holding.

The 'premium' residential and lifestyle property $2m plus continues to sell at a premium to historic levels and is considered relatively buoyant. This is seen continuing albeit at a relatively lower sales volume. There was a recent sale, at the end of 2005, for a house on $4000m^2$ rural site for $6.5m to an overseas purchaser who in turn bought the adjoining vacant site for $2.5m to protect his privacy.

The outlook is that the Residential market is to consolidate and level off over the next three years, whilst the managed apartment market is at risk. In the medium term, i.e. 5 – 10 years, strong growth is predicted and there are some substantial developments with consent which will see substantially more growth over the next 10 years compared to the last 10 years.

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January 2006

Sources : Real Estate Institute of New Zealand (REINZ)
: Quotable Value New Zealand

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