

THE OCR LIMBO

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Summary

- Our monthly *Property Focus* publication is aimed at providing investors and prospective homeowners with an independent appraisal of recent developments in the property market, as well as our favoured mortgage borrowing strategy. In this issue we review the property market in 2008 and update our relative rankings of sales of sections and apartments across the regions.

The month in review (page 2)

- It was a case of déjà vu in the first month of the new year. Interest rates continued to fall substantially; building consents remained weak; the level of house sales slowed after an unexpected rise last month; the length of time to sell a house was virtually unchanged; mortgage lending was essentially flat and migration flows were on hold.

Property gauges (page 3)

- Interest rates have continued their rapid descent, with future cuts to the Official Cash Rate being anticipated. Accordingly, house affordability and debt servicing are moving in favour of new buyers. However, entrants to the real estate market are in no hurry to return and are still waiting on the sidelines to see how things pan out.

Economic backdrop (page 5)

- The NZ economy has been knee-capped with domestic demand all but drying up, and the international scene hindering our export returns. The next leg of weakness we expect is a deterioration in the labour market. Don't expect a turnaround in prospects until at least 2010. Better migration prospects and lower interest rates may get some excited. But this cycle is all about the need to de-leverage, and abstracting from various noise, it's a process that will take time.

Mortgage borrowing strategy (page 7)

- Mortgage rates have fallen steeply. In the current economic environment, and given our interest rate projections, we favour fixing for a shorter duration. The 6 month maturity still looks to be the sweet spot at this juncture.

Feature article – 2008 in review: a year of extremes (page 8)

- In terms of the property market, last year was a monumental twelve months. We look back at 2008 and reveal which districts recorded the extreme rates of change across a selection of real estate indicators.

Feature article – Vulnerability update (page 13)

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

Key forecasts (page 15)



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The month in review

It was a case of déjà vu in the first month of the new year. Interest rates continued to fall substantially; building consents remained weak; the level of house sales slowed after an unexpected rise last month; the length of time to sell a house was virtually unchanged; mortgage lending was essentially flat and migration flows were on hold.

- > **Building Consents – December.** After a small technical bounce in November, residential consent issuance hit another record low in December, falling 6.0 percent. On a seasonally adjusted basis, residential consent issuance has never been lower. Excluding apartments, consent issuance fell 0.7 percent, which is also a record low.
- > **REINZ housing data – January.** REINZ house sales data was reasonably subdued, with house sales falling 9.4 percent and days to sell remaining broadly unchanged at a seasonally adjusted 48 days. The median house price also fell in the month to \$325,000 to be down 4.4% on a year ago (and 7.7% from the peak).
- > **Mortgage Lending – December.** RBNZ credit data for December showed very subdued growth. Lending to households managed a small 0.2 percent monthly gain, following a 0.1 percent decline in the previous month. On a 3-mth annualised basis, household credit growth has almost ground to a halt. The days of 1 percent monthly percentage changes in credit growth are long gone.
- > **RBNZ Official Cash Rate Review – January.** A deteriorating and uncertain global environment played a large part in the RBNZ deciding on a 150bp cut, taking the OCR to a new low of 3.5 percent. Given the global and domestic backdrop, it is easy to agree with the spirit of what the RBNZ is trying to achieve. Further rate cuts have been flagged and are dependent on how the economy responds to the stimulus imparted to date. In a change of tone, the Governor now expects the economy to remain in recession until the middle of this year. The front loading of policy to date (475bps of rate cuts since July 2008), together with a lower currency and fiscal stimulus, should provide support to growth, but as with past episodes, this will likely take some time to play out.
- > **Net Migration – December.** Net migration recorded a seasonally adjusted net inflow of 270 people in December - reversing the trend of three consecutive net outflows between September and November. Nevertheless, the number is still relatively small and results in an annual inflow of just 3,814 people. While a positive inflow will support domestic spending and the housing market, the level is hardly going to spark a significant recovery in both.

Assessment

With déjà vu holding across most housing indicators, its time to look at potential surprise factors ahead. With the global environment souring, jobs are no longer aplenty. History has shown New Zealanders have a return-home bias in such situations, which could be exacerbated in terms of net migration by less New Zealanders leaving. Given the normal lag factors we wouldn't expect this story to manifest until late 2009. But in combination with lower interest rates, it could set the scene for a solid rebound over late-2010 and 2011. Will this turn the housing market around? It'll certainly help as a stabiliser. Yet receding migration over 2005 to 2007 did not slow property prices. It was a credit story, and we continue to envisage an elongated period of de-leveraging as dominating over the years ahead.

Property gauges

Interest rates have continued their rapid descent, with future cuts to the Official Cash Rate being anticipated. Accordingly, house affordability and debt servicing are moving in favour of new buyers. However, entrants to the real estate market are in no hurry to return and are still waiting on the sidelines to see how things pan out.

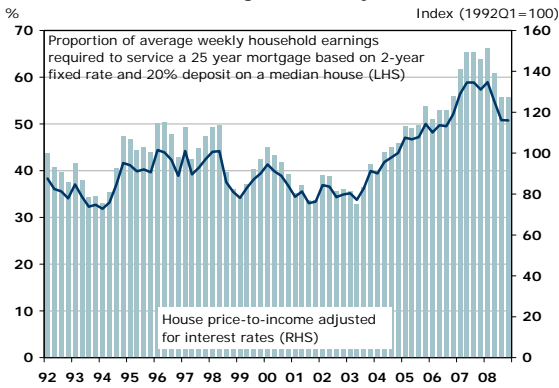
We use eight gauges to assess the state of the property market and whether warning signs are emerging.

- > **Affordability.** For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.
- > **Serviceability / indebtedness.** For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.
- > **Interest rates.** Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.
- > **Migration.** A key source of demand for new housing.
- > **Supply-demand balance.** We use dwelling consents issuance to proxy supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.
- > **Consents and house sales.** These are both key gauges of activity in the property market.
- > **Liquidity.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.
- > **Globalisation.** We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

With the domestic economy already on its knees prior to global events and clear non-linear dynamics impacting on prospects (job security, credit availability, the rural chequebook), we see little prospect of the economy stabilising any time soon. In this environment, the bias will remain tilted towards monetary policy taking the Official Cash Rate to new lows, and a further downward adjustment in the currency.

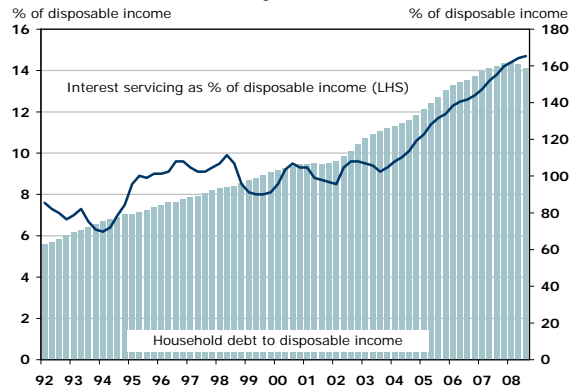
Indicator	Level	Direction for prices	Comment
Affordability	A long way to go	↓	Lower mortgage rates have made mortgage repayments more affordable. However house prices remain high relative to incomes.
Serviceability / indebtedness	Peaked	↓	Debt serviceability looks to have peaked, but remains high.
Interest rates	The big unknown	↑	When it comes to dancing the OCR limbo, it's all a matter of "how low can they go?"
Migration	Jitterbug	↔	Migration jitters are still evident.
Supply-demand balance	Footloose	↔↑	Demand has taken the lead and has swept supply off its feet.
Consents and house sales	Staying alive	↔	A far from perfect score from these two figure skaters.
Liquidity	Lack of timing	↓	Rock and roll with a touch of swing.
Globalisation	Tango	↓	Dancing cheek to cheek.
On balance		↓	Lambada – the forbidden dance.

Housing Affordability



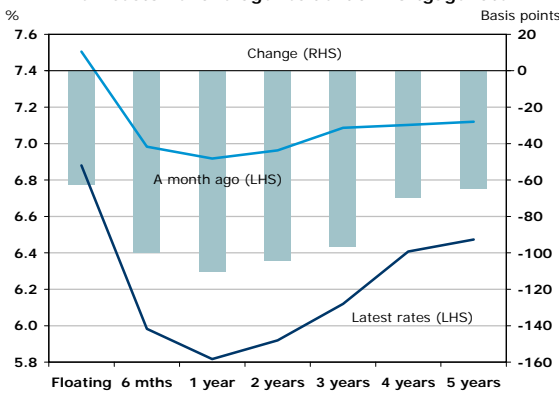
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

Serviceability and indebtedness



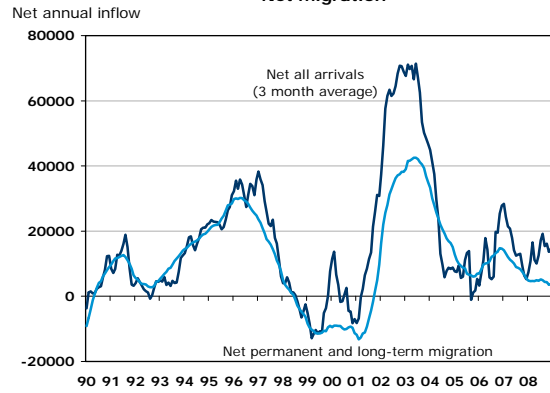
Sources: ANZ National Bank, Reserve Bank

New customer average residential mortgage rate



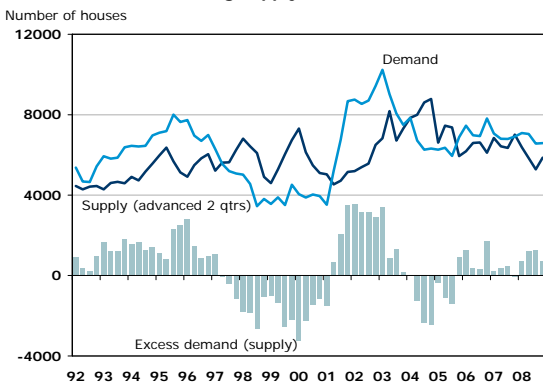
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

Net migration



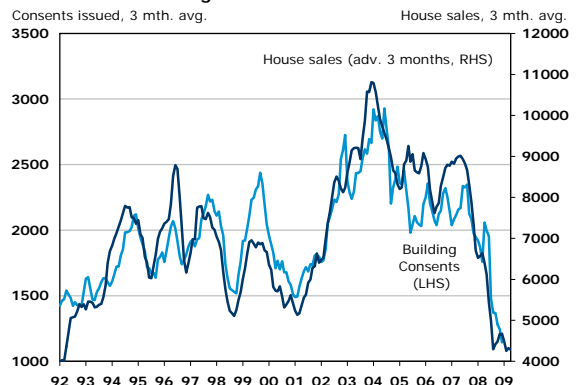
Sources: ANZ National Bank, Statistics NZ

Housing supply-demand balance



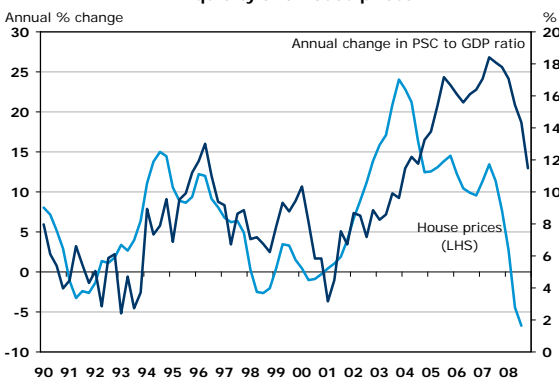
Sources: ANZ National Bank, Statistics NZ

Building consents and house sales



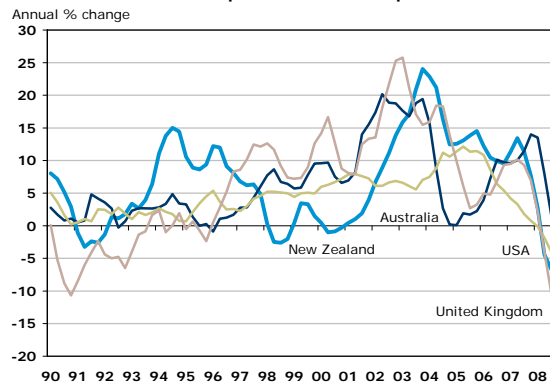
Sources: ANZ National Bank, Statistics NZ, REINZ

Liquidity and house prices



Sources: ANZ National Bank, QV, Reserve Bank

House price inflation comparison



Sources: ANZ National Bank, QV, Nationwide, Bloomberg



Economic backdrop

The NZ economy has been knee-capped with domestic demand all but drying up, and the international scene hindering our export returns. The next leg of weakness we expect is a deterioration in the labour market. Don't expect a turnaround in prospects until at least 2010. Better migration prospects and lower interest rates may get some excited. But this cycle is all about the need to de-leverage, and abstracting from various noise, it's a process that will take time.

Our core economic view

The economic environment is unequivocally weak; and will likely deteriorate further. Business and consumer confidence are subdued, despite falling interest rates and tax cuts. As the Governor of the Reserve Bank noted, the global scene is *"very bad"*. It is looking increasingly likely that the recession, which began in the March 2008 quarter, will now extend for six quarters, as the full impact of recent financial market turbulence is felt. We have to go back to the mid 1970's to see such a string of declines.

The initial impact of the global credit crisis was through confidence. The next was via the cost and availability of credit. Following from that, the NZ economy is now being hampered by reduced export demand and weaker commodity prices, as the economies of our trading partners slow considerably. This is at a time when there is considerable leverage in the system, which will delay the necessary rebalancing required from the spending to the earning sectors. In the meantime, the economy is essentially stuck treading water until the economy's export "growth engines" return back to full production over 2010.

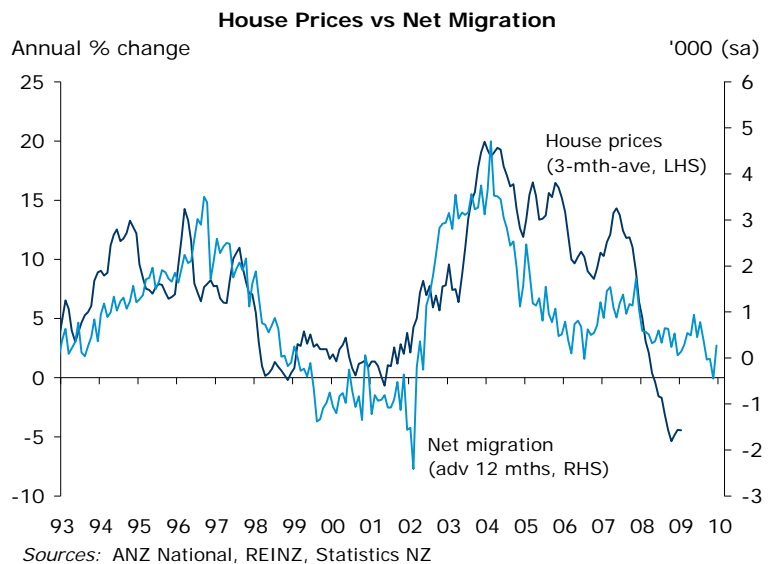
A deteriorating labour market represents the next leg of vulnerability for the NZ economy, in effect forcing de-leveraging. While the economy retreated over the first nine months of 2008, employment growth was flat, with firms continuing to hoard labour in the hope that economic conditions improved. This strategy is now not tenable given cost and demand pressures on businesses and it is becoming increasingly clear that the labour market is turning rapidly. Recent business intention surveys have shown one third of businesses intend to reduce staff over the next three months. This suggests the unemployment rate is set to rise rapidly and we expect it to head comfortably above 7 percent.

It must be remembered that the housing market and retail sectors were weak before the labour market turned. The risk is now that a rapid deterioration in the job market and much smaller wage increases over the coming year, along with potentially tighter credit conditions and falling house prices, set off some non-linear type dynamics and second-round effects for the domestic economy. Above all we need to remember that this cycle is all about de-leveraging. Poor job prospects and heightened job insecurity suggest the process will be more rapid.

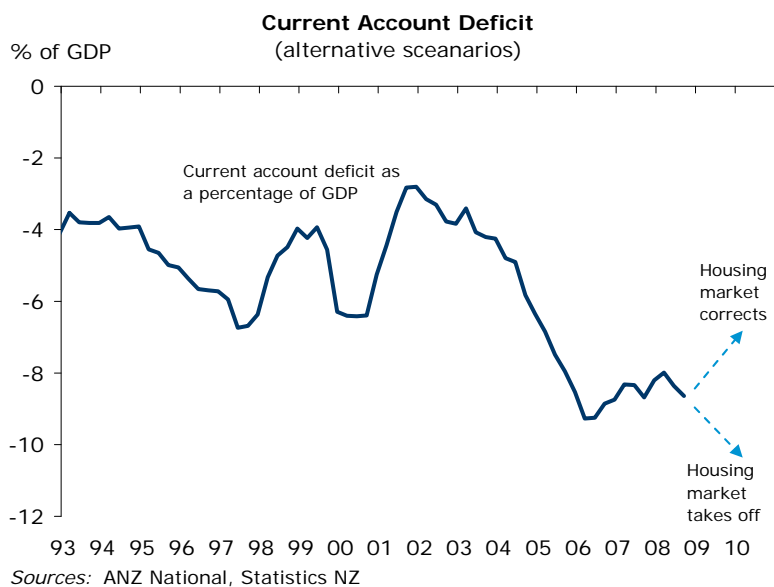
Taking these factors together, we expect the NZ economy to contract by at least 2 percent over 2009. This magnitude of weakness surpasses the 1990/91 recession. Sectors linked to the housing market will remain weak although we fully expect to see some volume rebound over the coming months as some get tempted. But in a de-leveraging world, this will not extend to price gains. The next leg is expected to involve the rural regions, whom enjoyed the fruits of high commodity prices, and ripple effects from the rural chequebook, both of which are now operating in reverse. The export sector needs to lead the economic recovery. It would indeed be ironic

if NZ managed to spend and borrow its way out of the debt fuelled global crisis. However, this is likely to be a 2010 story, given the dampening influence weak trading partner growth will have over 2009.

Migration has the potential to provide a positive fillip as has aggressive action by the RBNZ to stimulate / support the housing market by cutting rates. But the housing market "taking off" courtesy of such forces just doesn't add up. That would mean more debt and leverage during biggest financial crisis of our lifetimes.



Or put it another way, if NZ is truly to spend its way of this jam relatively quickly, then the current account deficit will be widening. Given the significance such "fundamentals" are now playing in the allocation of global capital, we struggle to see that sort of scenario panning out.



History shows housing cycles to be reasonably elongated as adjustments take time to be worked through. There'll no doubt be bouts of euphoria, excitement, hype, and then returning gloom as bulls, bears and those with self interest have a say. Amongst it all keep a track of the big picture. Adjustments take time. When we sift through the tea leaves, we expect this cycle to be no different.

Mortgage borrowing strategy

Mortgage rates have fallen steeply. In the current economic environment, and given our interest rate projections, we favour fixing for a shorter duration. The 6 month maturity still looks to be the sweet spot at this juncture.

Our view

Retail mortgage rates have fallen hand-in-hand with the OCR and wholesale interest rates, and are likely to continue to do so. Wholesale credit markets remain "difficult", but they are improving and if that continues, will enable lenders to pass on cost savings. However, the economy faces significant downside risks, and if they materialise, interest rates are likely to remain lower for longer. Even though interest rates are very low, with an economic recovery some way away, the scope for interest rates to head higher is limited, and as such, we don't believe borrowers should be in a hurry to extend fixed terms.

Themes we favour in the current environment

There is no doubting that mortgage rates are attractive at current levels, which gives rise to the obvious question – is now the time to switch to a longer term fixed rate? As always, this is a tricky question to answer. However, things that may influence the outcome include:

1. The structure of mortgage rates: the fact that short-term fixed rates are lower than long-term fixed rates. Making the decision to extend your fixed rate term is therefore likely to cost you more. However, as the general level of interest rates fall, this situation is likely to endure, so when the time does come to lock in for an extended period, this is an expense you will be faced with anyway.
2. The floating rate: The floating rate remains the highest rate. Choosing the floating rate is therefore an expensive decision to make. However, it may pay if interest rates fall quickly.
3. Motivations: extending your term is likely to be motivated by a desire for certainty, and the trick is to make that decision when you think rates have got to a level you're comfortable with, and/or you think they aren't likely to go much lower. When long-term rates were lower than short term rates, the decision to fix for longer was more difficult, as you also had to think of the cashflow savings that went with a cheaper rate. However, this is no longer a concern.
4. Breakevens: Thinking about where rates need to be in the future will allow you to make better decisions. For example, when choosing between, say, a 5.79 percent 1 year rate or a 5.95 percent 2 year rate, one thing is for sure – if the 1 year rate ends up at or below 6.11 percent in 1 year, you'd be better off choosing the 1 year, and then re-fixing again in 1 year. The breakeven rate of 6.11 percent is quite a bit higher than the current 1 year rate – is that likely?

Taking these factors into consideration, we favour the 6 month, which is currently at 5.99 percent. This isn't the lowest rate available, but it's very close to it, and our sense is that by the time it rolls off, longer term fixed rates (such as the 5 year, currently at 6.50 percent) will be lower. Of course, if something unexpected occurs in the next 6 months and it looks like mortgage rates start heading higher, if you do decide to break and re-fix, with such a short term remaining, break costs are likely to be relatively low so it's a cost-effective option from both sides.

Feature article – 2008 in review: a year of extremes

Last year was a monumental year in the property market. We look back at 2008 and reveal which districts recorded the extreme rates of change across a selection of real estate indicators.

Overview

As well as a nationwide measure, the Real Estate Institute (REINZ) compiles sales statistics for 132 districts. In this article we look back at 2008 to determine which districts have topped and tailed the regional rankings.

Number of Sales

According to the REINZ figures, there were 56,071 dwellings sold in NZ in the 2008 calendar year. This represents a drop of 39% from 2007, when 92,101 dwellings were sold. The monthly level of house sales hit a 17-year low in November 2008, when a seasonally adjusted 3,754 houses were sold. While the country as a whole suffered a massive drop in sale numbers, two districts (Waverley and Mangonui) actually recorded a rise in sale numbers.

Number of Houses Sold in 2008, annual percentage change				
Top ten districts			Bottom ten districts	
1	Waverley	30.0%	Kaikohe	-74.6%
2	Mangonui	8.1%	Kawakawa	-66.7%
3	Hawera	-7.1%	Bluff	-66.4%
4	Te Anau	-7.7%	Waipawa Area	-66.3%
5	Riverton	-7.8%	Manukau Rural	-57.7%
6	Whangaroa/Kaeo	-10.0%	Otamatea County	-55.0%
7	New Plymouth City	-15.6%	Manurewa Area	-54.7%
8	Takaka	-17.2%	Kaiapoi	-51.5%
9	Chch Southern Seaside	-17.6%	Islands Of Gulf	-51.5%
10	Chch Inner North West	-18.4%	Papatoetoe Area	-50.8%

The number of sections sold in NZ in the 2008 calendar year was 3,956 – a fall of 60 percent from 2007 when 9,816 sections were sold. This is the lowest annual figure since the REINZ began releasing the data in 1991. The number of sections sold in Western Wellington more than doubled in the 2008 calendar year while, at the other extreme, the number of sections sold in five regions evaporated. Of course, the opening up of new developments can have a huge impact on these statistics.

Number of Sections Sold in 2008, annual percentage change				
Top ten districts			Bottom ten districts	
1	Western Wellington	108.3%	Chch Inner Southern	-100.0%
2	Chch Northern Seaside	80.0%	Waverley	-100.0%
3	Wanganui Country	57.1%	Manukau Rural	-100.0%
4	North Canterbury	27.8%	Kawakawa	-100.0%
5	Avonhead	25.0%	Whangaroa/Kaeo	-100.0%
6	Te Anau	21.2%	Bluff	-91.7%
7	Dargaville Borough	19.0%	Ellerslie / Panmure	-88.9%
8	Gisborne Country	18.2%	Paihia	-88.2%
9	Riverton	6.9%	Chch Outer South-West	-86.6%
10	Moerewa	0.0%	Franklin County	-83.4%

Average Sale Price

The *average* sale price (as opposed to the median sale price) of all dwellings sold in NZ in 2008 was \$397,128. This was 3.1 percent lower than the respective figure of \$409,771 in 2007. House prices in Hokianga recorded the highest rate of increase over the year, lifting over 25 percent from the previous year – to an average of \$451,182 in 2008. Several other Northland districts featured in the top ten fastest growing areas in 2008. However, the Northland areas of Mangonui, Kaikohe and Paihia all recorded double-digit declines in the average sale price of dwellings over 2008.

Annual Average Sale Price growth in 2008, dwellings				
Top ten districts			Bottom ten districts	
1	Hokianga	25.2%	Mangonui	-25.3%
2	Wanganui Country	23.7%	Marlborough Sounds	-22.4%
3	Gore	22.4%	East Otago	-13.8%
4	Moerewa	21.8%	Mt Eden / Epsom	-13.2%
5	Waverley	17.8%	Kaikohe	-13.2%
6	Central Otago Lakes	16.0%	Paihia	-11.8%
7	Otamatea County	15.8%	Gisborne City	-10.5%
8	Rodney North	15.6%	Christchurch South-East	-10.2%
9	Christchurch Central	13.4%	Devonport Area	-9.4%
10	Kerikeri	13.3%	Titirangi Area	-9.2%

Most analysis done in section prices is on the median sale price, which averaged \$177,125 over 2008. However the *average* sale price of a section in 2008 was substantially higher, at \$301,267. This was a 15 percent increase on the average sale price of a sections sold in 2007. Several localities in Otago posted strong gains in section prices. South Otago recorded the largest increase in section sale prices, more than doubling from a year earlier. Other top ten rises were noted in East Otago and the Central Otago Lakes district. At the other end of the spectrum, Christchurch recorded several of the largest falls in section sale prices, with the largest drop in the suburb of Riccarton. This suburb also featured in the average length of time to sell (see overleaf).

Annual Average Sale Price growth in 2008, sections				
Top ten districts			Bottom ten districts	
1	South Otago	117.1%	Christchurch Inner West	-78.5%
2	Milford/Takapuna	102.7%	Auckland City / Pt Chev	-53.6%
3	East Otago	94.5%	Chch Inner South-West	-50.9%
4	Albany District	90.4%	Waitara	-43.4%
5	Motueka	70.7%	Henderson Area	-41.0%
6	Upper Hutt	69.9%	Devonport Area	-40.2%
7	Central Otago Lakes	55.5%	Riverton	-37.9%
8	North Canterbury	51.7%	Feilding	-37.2%
9	Mount Maunganui/Papamoa	50.8%	Banks Peninsula	-33.5%
10	Hokianga	49.7%	Avonhead	-30.9%

Days to Sell

The median number of days to sell a house in NZ lengthened considerably over 2008. Over the calendar year the average time to sell was 49 days, up 17 days from an average of 32 days in 2007. Not surprisingly, urban districts dominate the top part of the days-to-sell table. The district with the distinction of having the quickest turnaround time was Southern Wellington, with an average 34.3 days to sell in 2008. Glen Eden was a close second with 34.5 days to sell on average. On the other side of the ledger, Russell recorded an average 211 days to sell a house, with a few other Northland areas among the slowest selling districts.

Median Days to Sell in 2008, dwellings				
Top ten districts			Bottom ten districts	
1	Southern Wellington	34	Russell	211
2	Glen Eden Area	34	Hokianga	142
3	Western Wellington	35	Banks Peninsula	137
4	Gore	35	Otamatea County	123
5	Auckland City / Pt Chev	35	Paihia	120
6	Mount Albert Area	36	Takaka	117
7	Christchurch Outer South	38	Waverley	111
8	Invercargill	39	Raetihi/Ohakune/Taihape	101
9	Papatoetoe Area	39	Mangonui	98
10	Chch Outer North-West	40	Te Anau	96

The length of time to sell a section also rose in 2008 but the rise wasn't as pronounced. The average length of time to sell a section in 2008 was 73 days, up 4 days from the average duration in 2007. The shortest time to sell a section, based on the REINZ district summary, was in the Christchurch suburb of Riccarton. Only one section was sold in this locality last year, with the sale only taking a week after it was listed. Milford/Takapuna had the next shortest time to sell, with three sales of sections recorded over the calendar year. Central Wellington had the dubious distinction of having the longest average length of time to sell a section in 2008. Six sections were sold in this district, with the length of time to sell ranging between 345 and 1,098 days.

Median Days to Sell in 2008, sections				
Top ten districts			Bottom ten districts	
1	Christchurch Inner Western	7	Central Wellington	761
2	Milford/Takapuna	21	Motueka	546
3	Albany District	28	Taupo	470
4	Glen Eden Area	28	Southern Wellington	447
5	East Otago	29	Waitakeres	415
6	Ellerslie / Panmure	30	Chch Southern Seaside	407
7	Henderson Area	31	Eastern Wellington	406
8	Gore	31	Dargaville Borough	389
9	Rangiora	35	Waitara	371
10	Stratford	37	Nelson Country	362

Sale-to-List Prices

The last summary we present for the 2008 residential real estate market is for the *sale-to-list price ratio*. In the July 2008 issue of *Property Focus*, we reviewed the sale-to-list price ratio across the nation. In short, the sale-to-list price ratio refers to the difference between what price a property is first listed at, and the eventual price that the property is sold for. In general this gap widens when the real estate market is weakening. In calendar 2007, the sale-to-list price ratio was 98.3 percent or in other words, houses sold for an average 1.7 percent discount to the price they listed at. In 2008 the sale-to-list price ratio had widened to 4.1 percent (a ratio figure of 95.9 percent). Wellington has a strangle hold on the top of the sale-to-list price ratio table. In fact, in Central Wellington over 2008, dwellings sold above the listing price. At the other extreme, dwellings in Wanganui Country areas sold at under two-thirds the value that they were listed at – indicating a very wide gap between where house buyers and sellers were mutually agreeing to transact.

Sale-to-List Price Ratio in 2008, dwellings				
Top ten districts			Bottom ten districts	
1	Central Wellington	100.6%	Wanganui Country	61.1%
2	Western Wellington	99.5%	Hokianga	68.2%
3	Eastern Wellington	99.3%	Russell	79.8%
4	Northern Wellington	99.2%	Marlborough Sounds	80.3%
5	Chch Outer South	98.5%	Gisborne Country	84.5%
6	Bell Block	98.4%	Mangonui	88.2%
7	Richmond	98.4%	Otamatea County	88.9%
8	New Plymouth City	98.3%	Paihia	89.2%
9	Eastern Suburbs	98.3%	Whangaroa/Kaeo	90.1%
10	Feilding	98.1%	Rodney North	90.4%

The sale-to-list ratio for section sales was 95.3 percent in 2008 (a gap of 4.7 percent) up from 97.9 percent in 2007. Several regions had a sale-to-list ratio greater than 100 percent (indicating that section sale prices were above listing prices, on average). Auckland areas are widely represented at the top of the table.

Sale-to-List Price Ratio in 2008, sections				
Top ten districts			Bottom ten districts	
1	Onehunga / Penrose	106.9%	Kaitiaki & Far North	71.6%
2	Glen Eden Area	105.8%	Wanganui City	78.8%
3	Papatoetoe Area	105.0%	Pahiatua	78.9%
4	Whangarei City	104.8%	Titirangi Area	81.0%
5	Feilding	104.1%	Chch Inner Western	82.9%
6	Chch Outer North-West	102.0%	Mount Albert Area	84.2%
7	Paihia	100.0%	Birkenhead Area	87.0%
8	Milford/Takapuna	100.0%	Bluff	88.2%
9	Devonport Area	100.0%	Rangitikei	88.6%
10	Ellerslie / Panmure	100.0%	Mount Roskill Area	88.9%

The Upshot

Most commentators talk about the New Zealand real estate market in a generic sense. But as the previous few pages reveal, the market is widely dispersed when disaggregated to the district level. To be sure, if the data was available, one could drill down further and analyse at the street level or an even finer level of detail.

2008 was certainly a monumental year:

- > The number of houses sold fell to the lowest level since 1991. If we allow for the fact that the population is 22 percent higher now than it was back then, then this statistic is even more astounding.
- > The average sale price of dwellings sold in the calendar year dropped 3.1 percent. But the rate of growth across the regions ranged from 25 percent in either direction. (Note: this is a yearly average – more timely data shows house prices are down 6.1 percent from the same month a year ago).
- > The average time to sell a house jumped 50 percent from the preceding year. The last two monthly figures reveal a slight reduction from the peak figure recorded in July 2008. Whether this reduction is an aberration or not won't be clear for another month or two.
- > The gap between the sale and listing prices has been growing. This differential should revert to a more normal gap, once expectations of sellers fall into line with what that market is currently willing to bear.

Feature article – Vulnerability update

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

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

The table overleaf shows the number of sections and apartments for sale, relative to the total number of properties on the market across the regions. It is based on data from the Trade Me website (which provides easy access to this type of data). Although it is somewhat of a crude indicator, we feel it is still reasonably effective nonetheless as a proxy not of what is being listed, but rather focusing on the proportions. The table ranks the various regions from highest to lowest and also records the rankings in June and October last year. We have updated the following table to January 2009.

So what does it show?

- > Once again Queenstown tops the rankings, a position it has retained since February 2008. The proportion of property sales in either apartments or sections has eased slightly, but remains above 50 percent. Second place on the table is retained by the Far North, while the West Coast moves up one ranking into third place. Kaikoura recorded a swift lift into fourth position, up from tenth position three months earlier. At the other end of the scale, the composition of the bottom three regions was unchanged (although the order changed slightly). Manukau City recorded the largest slide down the rankings. The proportion of sales in the apartment and section sales has halved from 34 percent to 16 percent between October and January.
- > It's the holiday or retirement destinations that dominate the top end of the rankings, with a high exposure to sections and apartments.
- > This isn't a strict rule however, as Auckland City and West Coast are still high on the table. Auckland City ranks highly, with a large number of apartments listed (as you would expect) and the West Coast with a large proportion of sections for sale.
- > Compared with October, 16 of the 40 regions have shown a decrease in the proportion of section and apartment listings relative to totals in January, while 23 have recorded a rise in apartment and section sales. Nationwide, the ratio of sections and apartments for sale relative to total properties was 30:1 in January, unchanged from 3 months earlier.

The upshot

The nationwide supply of sections and apartments relative to the total stock of houses for sale remained unchanged in January. This segment of the real estate market is one area where we expect the housing market “correction” to play out. With both types of properties exposed to high carry costs and the likely diminished appetites to lend by financial intermediaries, expect to hear more and more anecdotes of these types of properties coming under increased downward price pressure.

Number of sections and apartments for sale, relative to total properties for sale							
Rank	Region	Number of apartment and sections as % of total listings			Percentage point change from	Oct-08 rank	Jun-08 rank
		Jan-09	Oct-08	Jun-08	Oct-08		
1	Queenstown Lakes	51.8	53.8	52.1	-2.0	1	1
2	Northland - Far North	45.4	46.2	42.7	-0.8	2	3
3	West Coast	43.2	42.9	36.6	0.3	4	5
4	Kaikoura	43.2	38.5	32.0	4.8	10	15
5	Auckland City	41.9	44.1	43.8	-2.2	3	2
6	Nelson City	41.8	42.6	26.2	-0.8	6	22
7	Selwyn	40.5	36.2	26.3	4.3	13	21
8	Thames / Coromandel	39.9	41.2	39.4	-1.3	7	4
9	Northland -Whangarei	39.7	40.6	33.1	-0.9	8	12
10	Wellington City	38.1	38.1	28.0	0.0	11	18
11	Hurunui - Hanmer	36.8	28.5	32.5	8.4	26	13
12	Rodney	36.0	35.2	32.4	0.8	14	14
13	Upper Hutt	34.8	31.3	15.9	3.5	20	32
14	Franklin	34.3	32.1	16.7	2.3	18	31
15	Taupo	33.2	36.8	35.2	-3.6	12	8
16	Hauraki	32.5	31.5	28.9	1.0	19	16
17	Waitakere	32.1	32.3	22.5	-0.2	16	27
18	Western BOP	31.9	29.1	28.4	2.8	22	17
19	Central Otago	31.7	42.7	36.1	-11.1	5	7
20	Marlborough	31.3	18.1	14.0	13.2	34	36
21	Tasman	30.5	39.2	36.5	-8.7	9	6
22	Whakatane	30.1	28.6	26.8	1.5	25	20
23	North Shore City	29.7	28.9	23.7	0.8	23	26
24	Papakura	29.4	32.1	33.2	-2.7	17	11
25	Tauranga City	29.3	30.6	25.4	-1.3	21	23
26	Kapiti Coast	28.3	23.4	20.7	5.0	30	29
27	Hamilton City	27.8	22.0	21.5	5.8	32	28
28	Gisborne	27.6	24.8	27.2	2.9	29	19
29	Waitaki	26.8	28.8	33.8	-2.0	24	9
30	Taranaki	25.4	25.0	23.8	0.4	28	25
31	Southland	23.9	21.7	24.1	2.2	33	24
32	Waimakariri	23.5	26.5	20.3	-2.9	27	30
33	Dunedin City	19.6	22.1	15.0	-2.5	31	34
34	Manawatu / Wanganui	19.1	18.0	15.2	1.1	35	33
35	Hawke's Bay	17.8	16.9	14.9	0.8	36	35
36	Christchurch City	16.4	16.1	10.8	0.2	37	37
37	Manakau City	16.4	34.4	33.5	-18.0	15	10
38	Timaru	15.6	8.6	9.4	7.0	40	38
39	Rotorua	13.2	12.6	9.4	0.5	38	38
40	Lower Hutt	11.5	11.3	7.8	0.2	39	40

Statistical Annex

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

Mortgage Size (\$'000)	Mortgage Rate (%)													
	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75
100	142	145	149	152	156	159	163	167	170	174	178	182	186	190
150	212	218	223	228	234	239	244	250	256	261	267	273	279	284
200	283	290	297	304	311	319	326	333	341	348	356	364	371	379
250	354	363	371	380	389	398	407	417	426	435	445	455	464	474
300	425	435	446	456	467	478	489	500	511	522	534	545	557	569
350	496	508	520	532	545	558	570	583	596	610	623	636	650	664
400	566	580	594	608	623	637	652	667	682	697	712	727	743	758
450	637	653	669	684	701	717	733	750	767	784	801	818	836	853
500	708	725	743	761	778	797	815	833	852	871	890	909	928	948
550	779	798	817	837	856	876	896	917	937	958	979	1000	1021	1043
600	850	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137
650	920	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232
700	991	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327
750	1062	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422
800	1133	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517
850	1204	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611
900	1274	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706
950	1345	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801
1000	1416	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896

Housing market indicators for January 2009 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a)	Comment
Northland	-16.2	-1.0	97	(-21%)	66	Monthly house sales perform a bad belly dance
Auckland	-2.5	0.8	1,401	(-4%)	44	Twelfth straight negative month of annual price growth
Waikato/BOP/Gisborne	-4.9	-3.8	568	(-12%)	68	Median time to sell couples up with Central Otago Lakes
Hawke's Bay	-7.5	2.0	161	(-8%)	59	Annual price growth and monthly sales dance the tango
Taranaki	1.4	-0.6	131	(-7%)	45	Annual price change performs an elegant quickstep
Manawatu-Wanganui	-4.3	-1.9	243	(+5%)	60	One of only two regions to record a rise in house sales
Wellington	-1.2	0.7	470	(-8%)	49	The days to sell tempo quickens to a seven month low
Nelson-Marlborough	-10.0	-2.9	203	(+5%)	56	Started the new year with a lift in house sales
Canterbury/Westland	-8.1	1.4	631	(-16%)	42	The joint shortest time to sell is added to its repertoire
Otago	-10.6	-2.7	222	(-8%)	45	Median sale price slides to a 3-year low of \$210k
Central Otago Lakes	-4.0	-4.2	67	(-9%)	68	Median time to sell gets an overhead lift
Southland	-22.2	-12.1	126	(-2%)	42	Annual house price growth has a go at "figure skating"
NEW ZEALAND	-4.4	-0.4	4,319	(-9%)	48	Property investors are participating in a masquerade ball

Key forecasts

Economic indicators	Actual			Forecast						
	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
GDP (Ann Avg % Chg)	2.5	1.7	0.4e	-0.7	-1.5	-1.9	-1.8	-1.2	-0.2	1.2
CPI Inflation (%)	4.0	5.1	3.4	3.0	2.2	1.3	2.5	2.7	2.4	2.4
Unemployment Rate (%)	3.9	4.2	4.6	5.1	6.1	6.7	7.0	7.1	7.3	7.1
Interest rates	Actual			Forecast (end month)						
	Dec 08	Jan 09	Latest	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
Official Cash Rate	5.0	3.5	3.5	2.8	2.5	2.5	2.5	2.5	3.0	4.0
90-Day Bank Bill Rate	5.2	4.4	3.4	3.1	2.9	2.8	2.8	2.8	3.6	4.6
Floating Mortgage Rate	7.9	7.0	7.0	6.2	5.5	5.5	5.5	5.5	6.0	7.0
1-Yr Fixed Mortgage Rate	6.9	5.9	5.8	5.6	5.6	5.6	5.5	5.5	5.7	6.5
2-Yr Fixed Mortgage Rate	7.1	5.9	5.9	5.7	5.5	5.5	5.5	5.5	6.1	6.6
5-Yr Fixed Mortgage Rate	7.6	6.6	6.5	6.2	6.2	6.2	6.2	6.3	6.4	6.9

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing

Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or

- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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

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

Record Keeping

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

Auditing

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

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