

3<sup>rd</sup> Quarter 2009

## Residential Property Market Continues Recovery

### ➤ A Number of Key Factors Helping Drive Market Back Up

Confidence in the residential housing sector continues to strengthen as the New Zealand economy seemingly edges out of recession. House prices have improved for the sixth month in succession, according to QV's latest Residential Price Movement statistics. Overall, national house prices are down just -1.1% on 12 months ago, but in most major urban cities, prices have now edged into positive territory. Auckland, Wellington, Christchurch and Dunedin are now displaying higher values than one year ago. Provincial New Zealand is lagging a little, but in general values are heading in a positive direction.



A number of key factors have helped revive the market. Favourable mortgage interest rates, stronger net migration levels, improved business confidence and a general scarcity of housing stock have all impacted strongly to the point that pent-up demand has resurfaced in many sectors of the market. Market players also appear to be more comfortable with general economic direction, with many feeling now is perhaps the 'time to buy' as the residential property market bounces back from low levels. Active buyers include many who had, until recently, deferred purchasing for up to two years. This includes first home buyers, many second-home purchasers, as well as some investors. Overall there has been a dramatic improvement in price recovery, considering that in March national prices were -9.3% down on the previous year.

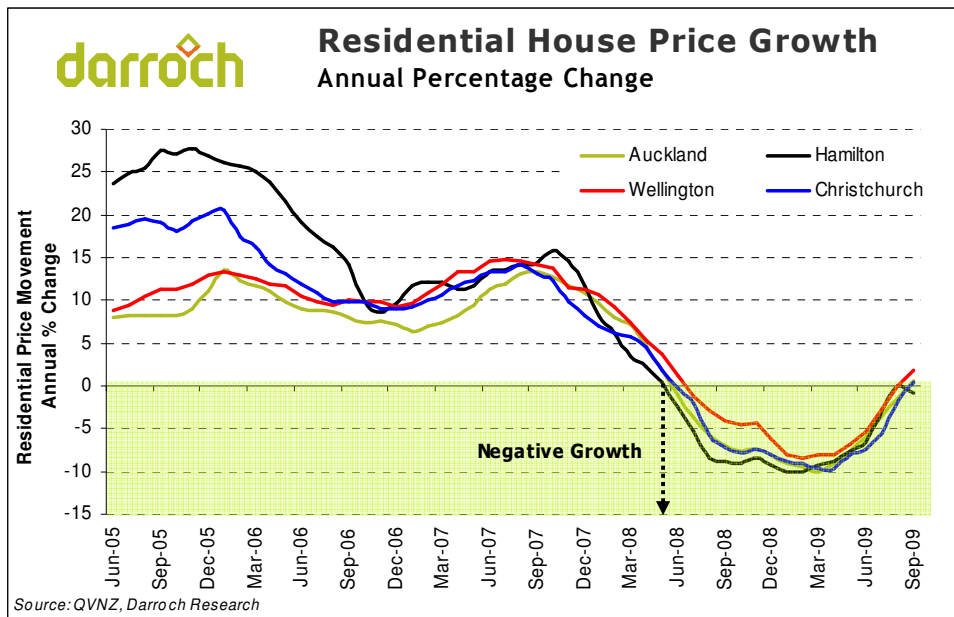
However, the QV data needs to be put into context; price comparisons are with 12 months ago, and this time last year house prices were in steep decline. Hence, even a stabilisation in prices in 2009 will appear as positive growth when comparing to a falling market 12 months prior. Still, average national house prices have improved steadily since Q1 2009. The average house price across New Zealand recorded \$387,567 at the end of Q3 compared to \$378,000 at the end of Q1. Similarly, Auckland's average house price has risen from \$495,000 to \$507,000 over the same period.

Regardless, the downturn experienced from late 2007 until early 2009 appears to be over for now and market forecasters who had predicted heavy (downward) price readjustments remain tight-lipped. As in past economic downturns, the New Zealand housing market has again shown itself to be surprisingly resilient with prices holding up better than expected. The bounce-back during quarters 2 and 3 of this year has been strong, further driven by a shortage of housing stock which has helped vendors achieve better prices.

Optimism in residential property is now more positive with buyer interest quite strong. Many open homes are reporting increased attendance levels. Although cautious purchasers try to research the market as best they can, competition from other parties is having an impact. Some properties have been selling prior to their designated auction date.

Darroch Auckland's residential property specialist, Cole Cleverley said; "Increasingly, buyers are showing a lot more urgency in terms of purchasing behaviour. They are definitely aware of growing competition. In some specific cases we have seen substantial premiums paid, but to suggest that this was happening right across the Auckland market would be over-stating the situation. However, one cannot deny that demand has strengthened in Quarter 3".

Of the major cities, price rebounds have been strongest in Auckland, Wellington and Christchurch. In Auckland, house prices recorded just a +0.7% rise in the year to September 09, as opposed to a -10.6% fall in the year to March. In Wellington, values hit positive territory in September to reach +1.9% compared to -10.8% in February. Likewise, Christchurch's residential price improved; from -9.7% in March to +0.4% in September.



Although the residential property market has improved considerably during 2009, a number of potential threats remain. Uncertainty over job security remains a concern for many, given unemployment is forecast to peak around 8.0% (currently 6%). Many people have tightened their purse-strings and adopted a cautionary stance to consumption, as job losses ultimately affect one's ability to repay loans. Rising interest rates will also impact. Medium and long term interest rates are forecast to rise and purchasers will need to factor this in when buying. An improving Australian economy could also slow down net migration numbers, thus dampening demand.