

2<sup>nd</sup> Quarter 2009

## Residential Property Market Hints at Price Stability

### ➤ Improvement Strongest in Auckland, Hamilton and Dunedin

**Latest statistics show that residential property prices are still down on one year ago, but the rate of price decline is now slowing.**

**According to QV data, annual price falls during Q2 have not been as severe as in Q1, thus hinting at some stability creeping into the market.** Across New Zealand, there has still been an 8.1% fall in residential property values over the one year to May 2009, but this is well down on the 9.3% fall reported in the year to March.

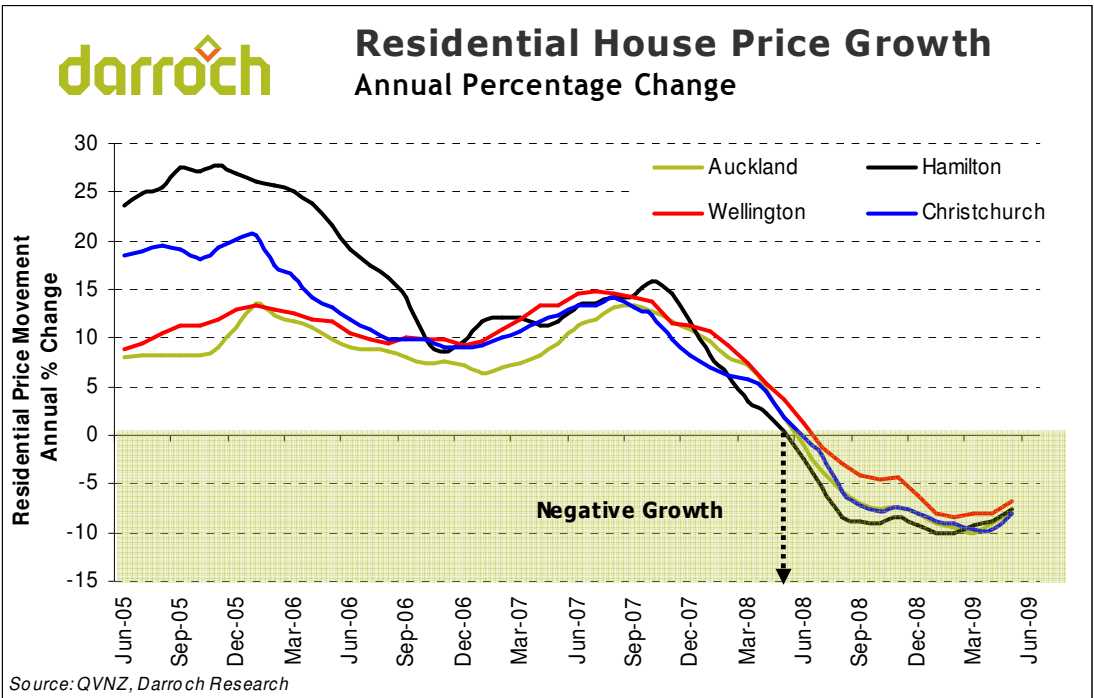


Some economists are still predicting further price corrections over the coming year, citing the current data as a temporary market blip. On the other hand, optimists are daring to suggest that the market could be nearing the bottom of its cycle, with a slow price recovery in the pipeline. Overall, the economic outlook remains subdued and only time will tell as to what transpires with house price movements. For the moment however, headline predictions by some experts of up to 30% price falls appear woefully off the mark.

**Signs of impending price stability has been strongest in Auckland, Hamilton and Dunedin.** In Auckland, house prices recorded a -7.6% decline in the year to May (as opposed to a -10.6% fall in the year to March). In Hamilton, values declined -7.5% in May compared to -10.1% in February. Likewise, Dunedin's residential price slowed from -9.4% in February to -5.4% this May. Across most main cities the speed of price decline is slowing with Wellington recording -6.7% and Christchurch -8.1%.

In short, there are some signs of recent price improvement (refer chart over) in some cities. The market is hinting at signs of stability, which if sustained would eventually see the data lines track slowly upwards. According to QV data, the average New Zealand sale price for May was \$371,555; still down on \$372,981 for April.

A number of factors have helped cushion price falls in the past 3 to 6 months. A lower OCR has seen interest rates fall dramatically. First home buyers and investors who had been priced out of the market previously have taken advantage to purchase. At the same time a number of vendors have taken their homes off the market, causing supply to become scarce. Sales activity during late summer/autumn is also traditionally quite healthy.



Looking ahead however, the general economic stance remains rather bleak. The government's latest budget forecasts low GDP growth, year on year deficits and high unemployment ahead. Many market participants remain sensitive to economic news with job security a fundamental component of decision-making. We anticipate that this news could dampen some enthusiasm in the market, as will the onset of winter which has traditionally slowed market activity.

**One of the few positives on the horizon for the housing market is net migration. According to data from Statistics New Zealand (SNZ), net migration touched +9,000 in the 12 months to April, with an influx of 5,500 people since January alone.** Fewer people seem to be leaving NZ's shores as work opportunities dry up overseas, and more Kiwis are returning home as other economies feel the pinch. At the same time new residential building consents remain downbeat, meaning that supply side dynamics is slowly being affected. This is particularly relevant in Auckland where most new migrants tend to congregate. If the number of new housing developments/subdivisions continue to plod along at modest levels and net migration remains strong, the probability for "pent up" demand to rear its head in 12 to 18 months will increase significantly. Markets are a simple function of demand and supply, and in such conditions residential prices would have to start moving up.

Average Sale Price	Jan-09	Apr-09	May-09
Auckland	\$562,319	\$542,472	\$547,108
Hamilton	\$342,347	\$335,091	\$346,274
Tauranga	\$437,612	\$432,461	\$425,621
Wellington	\$498,612	\$481,131	\$483,583
Christchurch	\$347,157	\$342,929	\$339,695
Dunedin	\$254,088	\$257,160	\$264,180
Overall New Zealand	\$382,762	\$372,981	\$371,555

Source: QV, Darroch Research