

The changing New Zealand property market.

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It is now well known that New Zealand house values increased substantially from 2003 until they peaked in late 2007. Values levelled for several months then declined rapidly throughout 2008. In early 2009 values began to stabilise and in recent months have begun to increase slightly.

During 2008 while the market was declining, both the number of sales, and property values dropped. These drops did not occur to the same degree across the market. One way to look at these differences is by region or city, and these changes are widely published, for example through our QV House Price Index. Another way to look at the market is to group houses based on their value, to see whether there are differences in the way the market behaves from one end of the value range to the other.

To do this, all the houses in each region were ranked according to their latest Capital Value (the value of the house plus underlying land). Flats, apartments and lifestyle properties were excluded. Based on their capital value, houses were then allocated to one of ten groups, or deciles, with each group containing 10% of all the properties in the area. Each of these deciles could then be considered separately, looking at the number of sales that took place within that group of houses, and the value of these sales based on the median sales price.

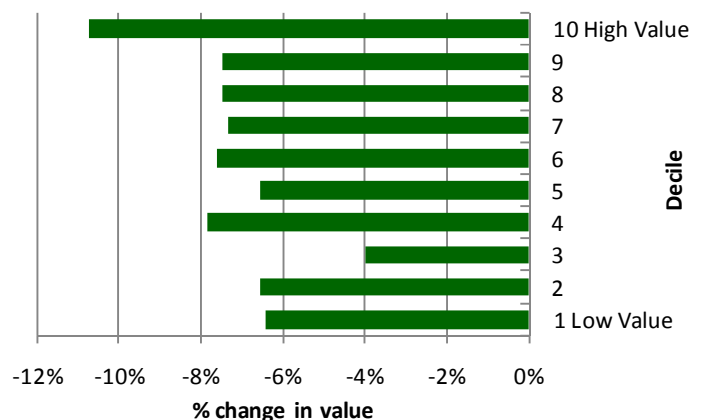
Changes in the market during the downturn

Nationally, house values dropped between late 2007 and early 2009. By comparing the median sales price in each house value group (decile) from quarter four 2007 (Q4 2007, October to December) to quarter one 2009 (Q1 2009, January to March) the percentage change in sales price can be calculated. This shows whether the value declines differed depending on the value of the house.

There were value drops right across the range, from low value houses to high value. For reference, the approximate value of houses in decile 1 in Q4 2007 is \$230k, decile 3 \$290k, decile 5 \$347k, decile 7 \$427k, decile 9 \$557k, and decile 10 \$823k.

In general the declines were greater for higher value properties, with the most

Change in value: Q4 2007 to Q1 2009



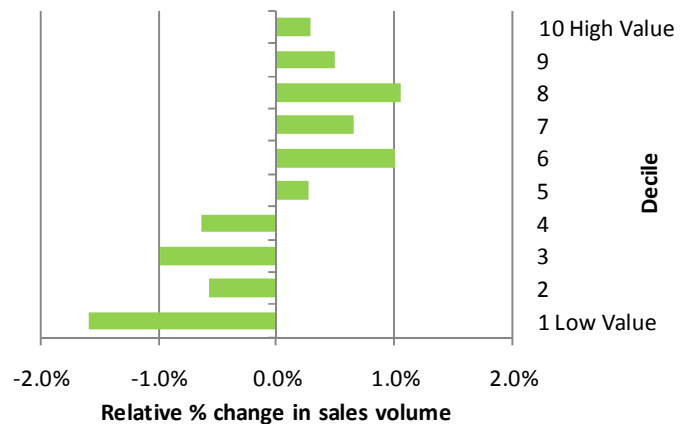
expensive group of properties declining the most.

The overall volume of sales also decreased dramatically from the peak of the market to the low, from over 9,000 sales per month at the peak of the market in late 2007 to less than 5,000 sales per month in late 2008.

To see if there were differences in activity across the market during the downturn, the percentage of the sales within each decile in Q4 2007 was compared to Q4 2008. Movements in this percentage show where the activity in the market is changing.

The results show a clear shift in the market, with relatively more sales in the top half of the market, and relatively fewer in the lower half of the market. This supports anecdotal evidence that investors and first home buyers were less active during the downturn.

Change in volume: Q4 2007 to Q4 2008



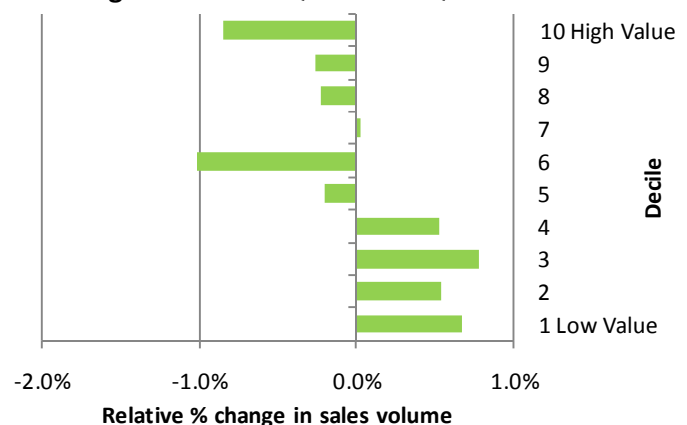
This change in composition is the main reason why median and average sales prices appeared to decline less from the peak of the market than the decline recorded by our QV House Price Index. During the downturn, although overall volumes were lower, there were proportionally more sales at the high value end of the market, and proportionally fewer at the lower value end of the market. This acted to push the average and median values higher.

Further changes in recent months

In recent months the market has begun to stabilize. The overall number of sales has started to rise again, and how they are distributed across the market has once again changed.

By comparing the number of sales in Q1 2009 to Q2 2009 it is clear that there has been a shift back towards the lower end of the market. First home buyers and investors are once again more active, spurred by historically low interest rates and lower property values.

Change in volume: Q1 2009 to Q2 2009



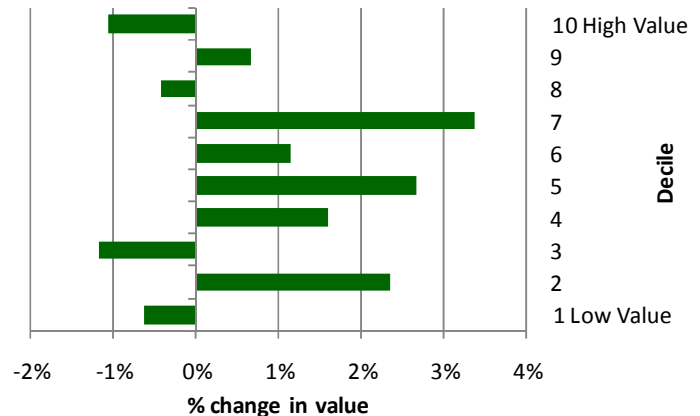
House values across New Zealand have increased slightly in recent months. By comparing values from Q1 2009 to Q2 2009 it can be seen that value gains have not occurred right across the market.

Although growth in the number of sales has been in the lower half of the market, the growth in value has been driven by the mid range of the market, with declines in value at the top and bottom ends.

While the market was declining, most areas followed the national pattern of house price declines. In the current market, house prices have only been increasing for one quarter, and the market is still in a state of change. As a

result it is too early to identify clear regional trends. Furthermore, there are differences between cities within each region, clearly demonstrating how local factors are influencing each market. However there is a consistent pattern emerging in the cities of Auckland, North Shore, Manukau, Hamilton, Wellington and Christchurch which are all showing the greatest value gains in the middle part of the market.

Change in value: Q1 2009 to Q2 2009



Where to from here?

The decline in house values seen during 2008 appear to have ended, for the moment at least. The number of house sales each month has risen from the very low levels of last winter, and are now approaching long term average levels. The last time house values remained steady for any length of time was during 1998 to 2001. The number of house sales in the last few months is at roughly the same level as seen during this last plateau, but are still well below the levels seen during the booms of 1993 to 1997 and 2003 to 2007.

The composition of sales now occurring is quite different to that seen during the boom, but is also different to that seen during the last plateau. The market is clearly still changing. Many commentators are predicting that house values will remain relatively flat for the next few years. There will need to be a considerable increase in the volume of sales to return supply and demand to equilibrium, and therefore for the market to show another sustained period of growth.

While the market remains in a state of change there are likely to be differences between areas. General statements about the national market cannot always be applied to each local market where different factors are at work. In the coming months we will examine some of these regional differences more closely.

