



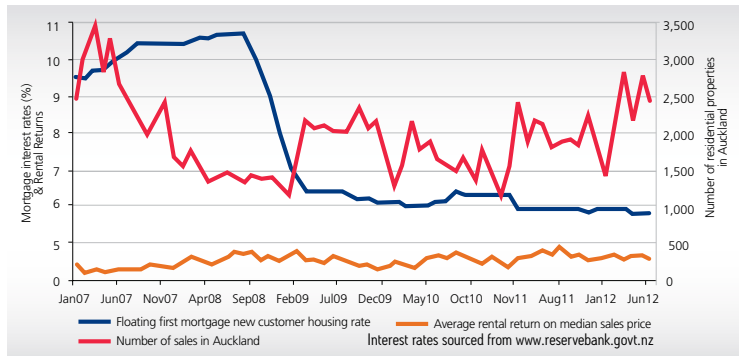
Inside this issue • Falling interest rates increase sales volumes • Bargains, Mortgage Sales and the Rental Market
• CPII August survey results – are property investors hurting the New Zealand economy? • Auckland Rental and Sales Review

Falling Interest Rates Increase Sales Volumes

It's no news to people **interested** in property that interest rates have not **shifted** significantly since their dramatic reduction in late 2008 – which clearly resulted in a **bounce-back** for the Auckland residential property market.

But what is also apparent below is the small rise in sales activity also brought on by the March 2011 drop in interest rates, culminating in a reversal of the normal March-April sales drop-off. The Reserve Bank is clearly keen for the economy to continue with this upward trend, hence the announcement on June 14 that the Official Cash Rate will remain at 2.5%. Said Reserve Bank Governor Alan Bollard, "Offsetting these negative influences, housing market activity continues to increase, supported by recent reductions in mortgage interest rates. In addition, repairs and reconstruction in Canterbury are expected to substantially boost construction sector activity in coming quarters. Aggregate GDP growth is projected to pick up slightly to just over 3% next year. Given this economic outlook, inflation is expected to settle near the mid-point of the target range."

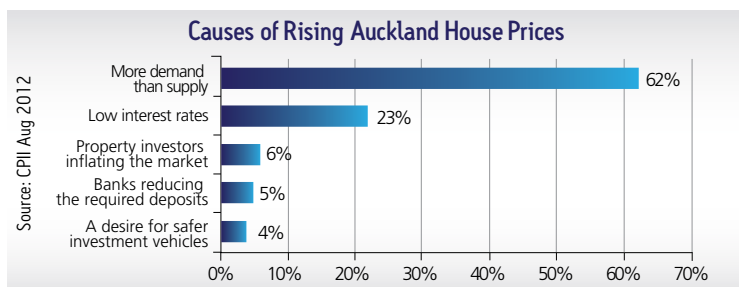
For the 12 months to June 2012, the average rental return was 4.67%, compared to 4.61% for the 12 months prior to that – indicating a small yet consistent improvement in rental returns.



High Demand the Main Driver of Rising Auckland House Prices

In this month's Crocker's Property Investment Index (CPII) survey we asked our investor **respondents** what one factor they felt was having the most **effect** in driving Auckland property prices **up**.

The result was clearly one of demand outstripping supply, the cause selected by 62% of the sample. Low interest rates are certainly part of the equation (cited by 22%), and in many cases these low rates will be causing some of the increased demand. Subtler issues such as smaller deposit requirements and a retreat to safer investments were less likely to be selected as the main cause.

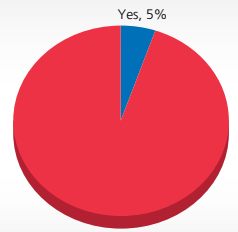


Bargains, Mortgage Sales and the Rental Market

Mortgage sales in 2012 have been at some of the **highest** levels ever **recorded**, at around 85 a month, around 30 of which being in Auckland.

Although mortgage sales are only a very small part of the total residential sales in New Zealand (less than 0.5%), a mortgage sale is three times more likely to occur in Auckland where the higher prices are making mortgage servicing much harder for the average family. This does not necessarily mean a bonanza for investors. This month we asked our CPII survey respondents if they had been able to get any mortgage sale 'bargains' over the last year, and just 5% had done so (nor were there any skews between large and small portfolio investors).

Mortgage Sales Bargains in Last 12 Months

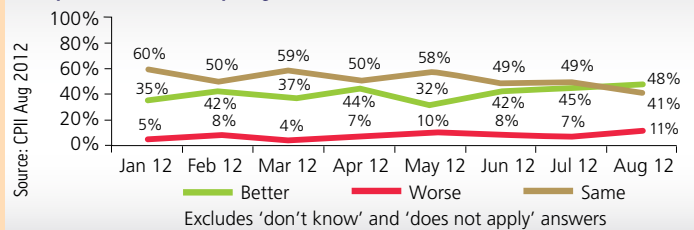


Source: CPII Aug 2012

Expected Rental Property Investment Performance - Next 12 months

Investor respondents to the latest CPII survey have mixed views on their expected rental property returns for the upcoming 12 months. With a decrease in investors expecting similar returns to the last 12 months (down 8%), there has been an increase in the proportions expecting both better and worse returns (up 3% and 4% respectively). While not statistically significant, these results do indicate a degree of vacillation within the market as a whole – with property prices rising faster than rentals (and some notable rates rises), the returns to be enjoyed may not be for some, as clear-cut as in the past.

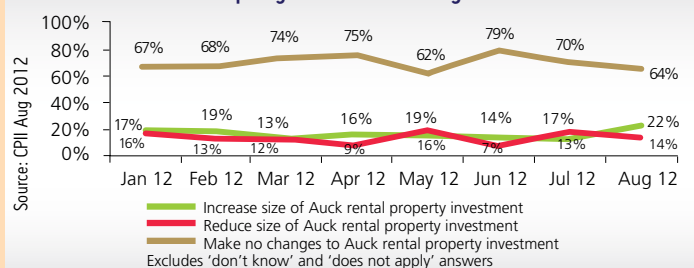
Expected Rental Property Investment Performance - Next 12 months



Planned Rental Property Investment Changes - Next 12 months

With mixed views like those described above, it is not surprising to see the majority of investors deciding to 'sit tight' with their rental properties – 64% not planning on any changes for the next year. Nonetheless there remains a skew towards increasing investments, with 9% more planning to increase their portfolio (up to 22%) and just 14% planning to reduce (down 3%). All in all – a guarded market, tending towards cautious but optimistic investments. Smaller investors are more likely to be taking the "wait and see" approach (74% planning no changes c/f 57% of large investors), whereas larger investors are slightly more likely to be planning to enlarge their portfolios (25% c/f 14%).

Planned Rental Property Investment Changes - Next 12 months



Are Property Investors Hurting the New Zealand Economy?

Financial **analysts** say that New Zealand's high levels of household / private debt (which mainly take the form of mortgages) could **inhibit** the country's economic **recovery**.

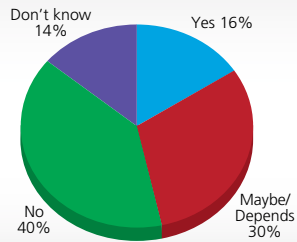
In a speech to the Employers and Manufacturers Association in Auckland on August 6th, Dr Alan Bollard of the Reserve Bank said that "The accumulation of debt owed by individual firms and households, and borrowers disappointed that incomes and asset prices have not gone on rising as they expected are 'clearly playing some role in the low rates of growth New Zealand has seen in productivity and GDP'"

Some others claim that property investment does not create jobs, robs the government of tax, and makes new homes unobtainable for many – amongst other things!

So this month we asked our CPII survey respondents if they felt that the country would benefit from more people reducing their debt by choosing to rent instead of buying their homes. Granted, our sample of investors is not representative of the wider population, but they are more knowledgeable about property investment.

The result found that those saying "no" outnumbered the "yes" vote by over two to one – 40% saying that the country would not benefit from more people opting to rent, and only 16% saying the country would. The rest either did not know or found the issue too complex for a simple yes/no response.

Would NZ Benefit from More Renters & Fewer Buyers?



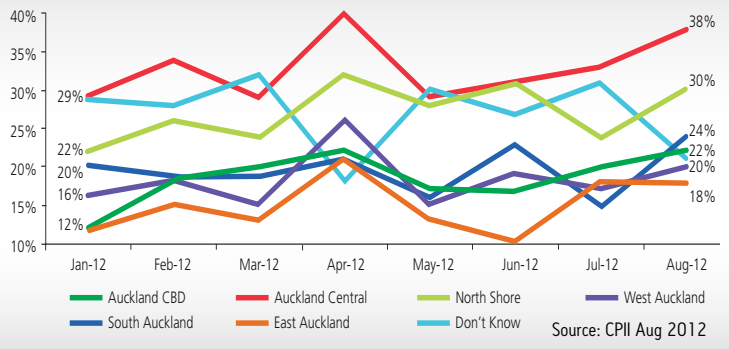
Source: CPII Aug 2012

Auckland Central / CBD the Growth Area to Watch

The proportion **planning** to invest in Central CBD **apartments** continues to slowly increase, and this is reflected in the on-going increase in those picking Auckland Central and the Auckland CBD as the future **growth** areas of Auckland.

Investors are becoming more certain in regards to these future growth areas, with the proportion unable to answer the question falling 10% to 21%. This has meant other areas such as the North Shore and South Auckland have also experienced an increased proportion citing them as future growth areas – but it is Auckland Central and CBD areas that have shown the most consistency in this measure over recent months.

Future Growth Areas of Auckland



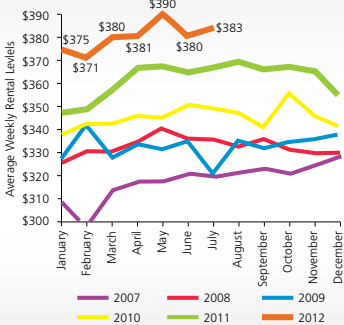
Source: CPII Aug 2012

Auckland Rental Review

Two-bedroom Auckland **properties** are now being **rented** for **\$383** per week on average.

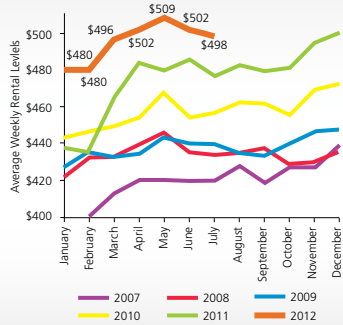
This represents a 19% premium over similar properties elsewhere in New Zealand. As can be seen in the chart, this premium has been slowly decreasing over recent months. This is due to slow yet consistent increases in rental prices in Wellington and Christchurch, whose average two-bedroom rental prices have increased by \$5 and \$19 respectively since January.

Auckland Residential Property Weekly Rentals - 2 bedrooms



Source: Real Estate Institute of New Zealand

Auckland Residential Property Weekly Rentals - 3 bedrooms



The story is similar amongst the three-bedroom market. At \$498, average weekly rentals for these Auckland properties continue to command a significant premium over other similar properties elsewhere in the country, being 38% higher.

Auckland Sales Review

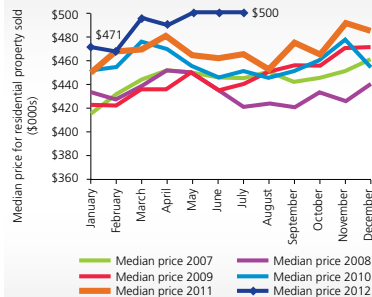
In terms of sales **volumes** the traditional winter **dip** is well upon us, with sales numbers **continuing** their seasonal decline, now down to 2,306 sales for July.

This is only 142 sales below the highest level recorded for the month (2,446 in July 2007), yet if we consider the much increased number of residential properties that now exist, we could safely assume that as a proportion of all residential properties, that the July sales volumes surpassed the 2007 level in real terms.

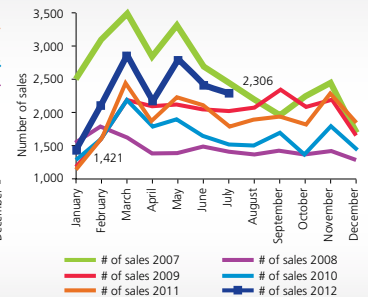
Against this backdrop the median sales price remain at \$500k, well above the median prices recorded for any year or month since 2007. The reduced number of properties for sale, coupled with increased interest, has clearly skewed the demand-supply balance in the favour of vendors. This is further supported when we consider the average time to sell, which is now (July data) at 31 days, down from 34 days 12 months ago.

The rolling annual mean sales figure is now at \$482,631, the highest yet recorded.

Auckland residential property sales median prices



Auckland residential property sales numbers



Source: Real Estate Institute of New Zealand