



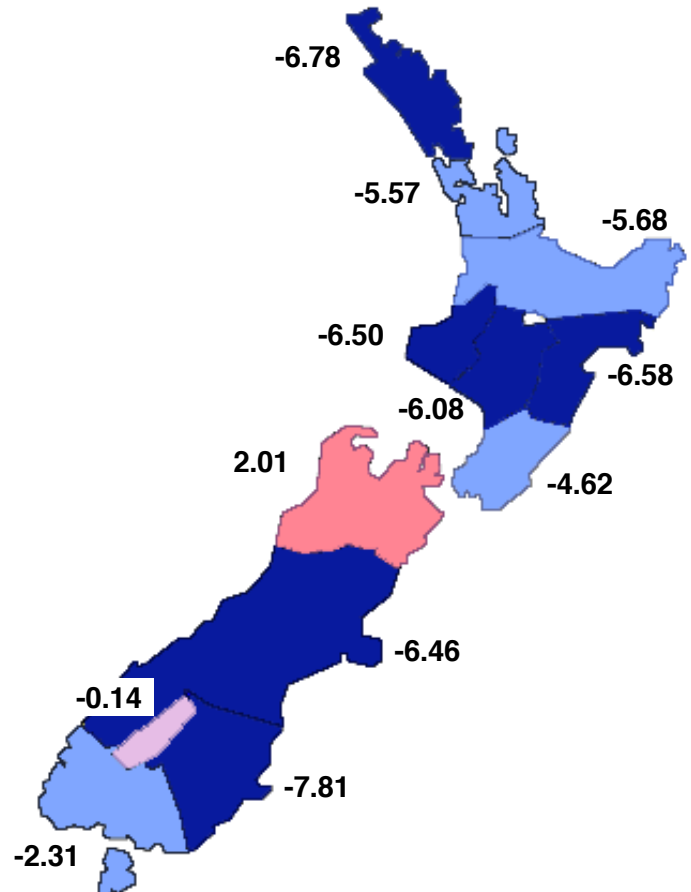
Sales volumes stabilise, but no interest rate relief in sight

- House price inflation slipped to a three-year low of 8.7%pa over the September quarter.
- Sales volumes have stabilised at close to 100,000pa, but September quarter activity was still 3.5% lower than in 2005.
- The average length of time on the market for houses is up 4-5 days on last year – a less pronounced rise than in the June quarter.
- Rental inflation remains steady at close to 5%pa.
- Rising wholesale interest rates are limiting the ability of banks to cut fixed mortgage rates in response to the roll-off of low rates from two years ago.

There was little change in The Mike Pero Mortgages - Infometrics Property Cycle Indicator over the September quarter. The Indicator edged up from -6.86 (revised) to -5.90 on the back of a slightly more positive trend in the median length of time on the market. However, that improvement was largely offset by easing house price inflation, which is now at its slowest since mid-2003.

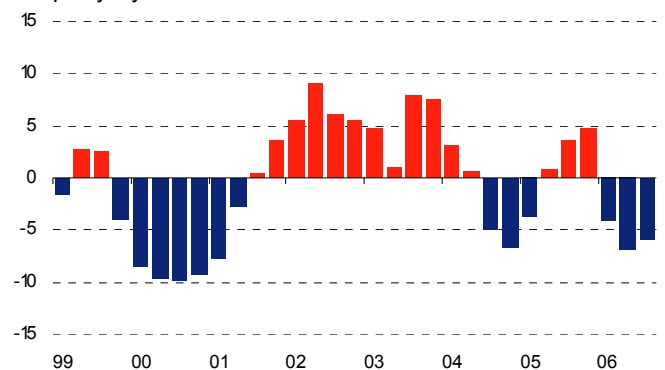
The housing markets in all regions except Wellington and Canterbury/Westland showed some improvement over the September quarter, but Nelson/Marlborough is the only region where our Indicator shows the market is gaining momentum.

The Reserve Bank's decision to leave the official cash rate at 7.25% in October has eased upward pressure on interest rates. However, trading banks' margins are already relatively thin, and there seems to be little likelihood of a repeat of the significant drops in fixed rates that occurred two years ago. House price inflation will continue slowing over the coming year, but nationwide price falls are likely to be avoided as the labour market remains tight and mortgage holders generally remain able to service their debt.



New Zealand

Property Cycle Indicator



Northland

The decline in sales volumes in Northland moderated over the September quarter, but with activity still down 15% on a year ago, the year-on-year fall is still the largest in the country. The ongoing slowdown in the market is highlighted by house price inflation, which has eased from 14% to 9.7%pa over the last three months.

Waikato/Bay of Plenty/Gisborne

The upward trend in the average length of time for properties on the market in Waikato/Bay of Plenty/Gisborne moderated over the September quarter, and there was also a mild improvement in sales growth. But house price inflation is now below 10%pa for the first time in two years, and Gisborne could be suffering price falls before the end of 2006.

Manawatu/Wanganui

House price inflation in Manawatu/Wanganui is still the fastest in the country, at 19%pa. But sales volumes in the region are down 8.3% on a year ago – the largest decline in 18 months. The negative trends in sales activity and the rate of turnover point to a further gradual slowdown in price growth heading into 2007.

Wellington

The Wellington property market slipped into slowdown mode following four quarters as the best-performing region. House price inflation has eased from 15% to 11%pa since May, and the mid-year burst of sales growth has petered out. Weaker economic growth and high interest rates finally appear to be cooling the Wellington market.

Canterbury/Westland

Canterbury/Westland's house price inflation slipped to 6.8%pa in the September quarter, and has not been lower since early 2003. Sales growth also turned negative, and properties are staying on the market for the longest time in three years. A further softening of price growth is likely, although average falls across the entire region should be avoided.

Otago

House price inflation in Otago slipped to a four-year low of 4.3%pa in the September quarter, down from 14%pa just three months earlier. This was offset by a slight improvement in sales growth and some moderation in the upward trend of the average length of time on the market. Nevertheless, there is a risk of price falls before the end of 2006.

Auckland

The slowdown in the Auckland market moderated in July and August, although that improvement looked to be petering out again by September. House price inflation eased to 5.8%pa, while sales growth was similar to that recorded in the June quarter. Houses are only taking two days longer to sell than a year ago, compared with a six-day gap in June.

Hawke's Bay

House price inflation in Hawke's Bay's slipped to a five-year low of just 1.9%pa in September, and is the weakest in the country. However, buyer demand in the region still seems to be at reasonable levels – sales volumes are up 3.6% on a year ago. Current levels of buyer demand suggest that declines in property values could be avoided.

Taranaki

The extent of the slowdown in the Taranaki market continued to moderate over the latest quarter. Houses spent less time on the market in September than they did a year earlier, although that improvement was not sufficient to prevent house price inflation dropping from 21% to 11%pa over the quarter.

Nelson/Marlborough

After 2½ years of slowing momentum, the Nelson/Marlborough market is back on the way up. Sales growth held at over 20%pa in the September quarter, and house price inflation topped 11%pa for the first time in two years. Despite the positive signs, the upturn in the region's property market may be limited by persistently high interest rates.

Central Otago Lakes

Sales growth in Central Otago Lakes hit a four-year high of 25%pa in the September quarter, and house price inflation recovered from 6.1% to 17%pa. Turnover in the region remains the slowest in the country, but the Central Otago Lakes market is close to ending the slowdown that has lasted since the start of 2004.

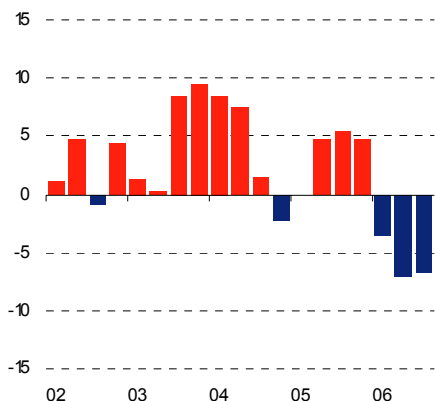
Southland

The Southland market has shown a remarkable improvement over the last quarter. Sales growth is running at a four-year high of 30%pa, and house price inflation has lifted to 8%pa. Houses took just 21 days to sell on average in September (the fastest in the country) – our Indicator for the Southland market may be on the verge of turning positive.

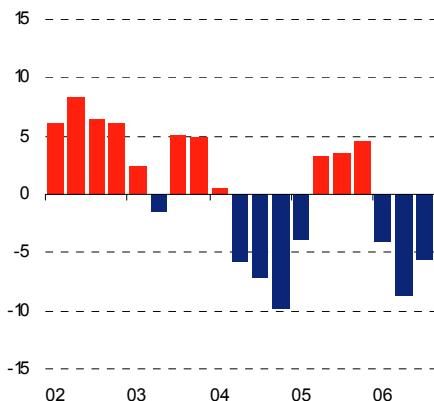
Regional Property Cycle Indicators

Each region's property market is scored between 10 and -10 dependent on where it is in the cycle: 10 is a strong upturn, while -10 is a large slowdown. See the final page for more details on the methodology behind the Indicator.

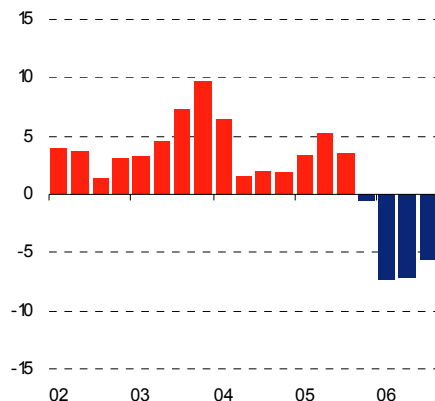
Northland



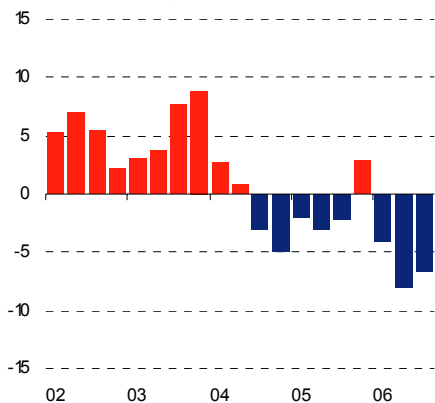
Auckland



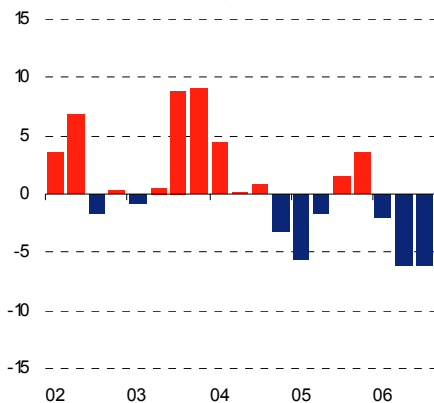
Waikato/BOP/Gisborne



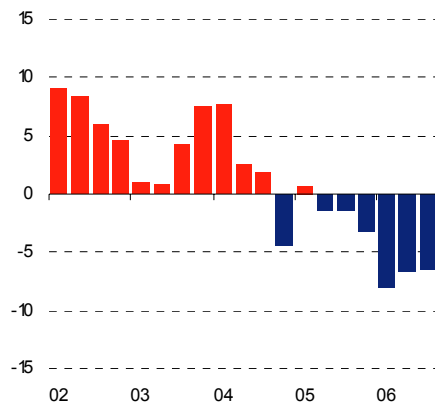
Hawke's Bay



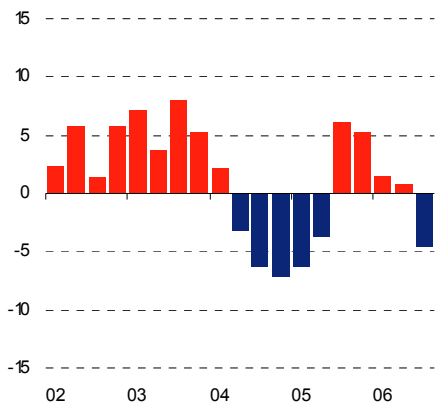
Manawatu/Wanganui



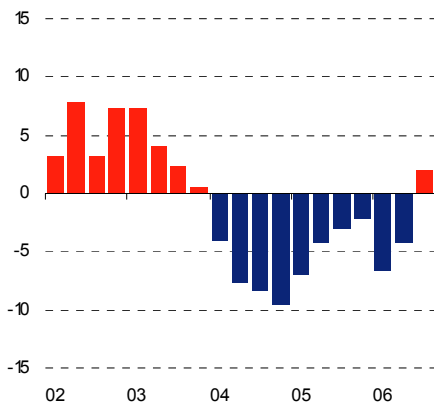
Taranaki



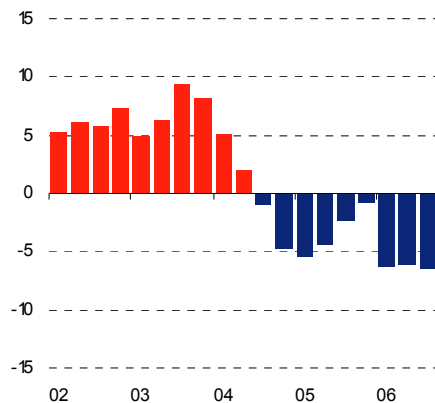
Wellington



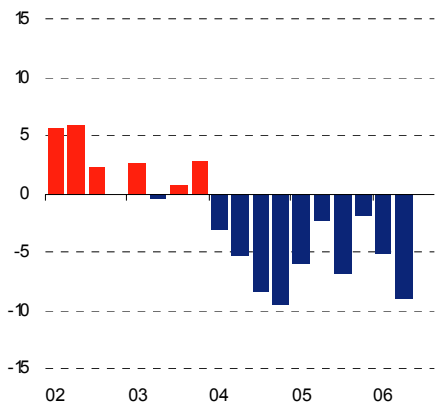
Nelson/Marlborough



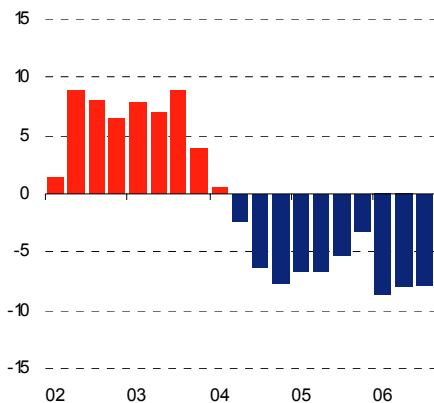
Canterbury/Westland



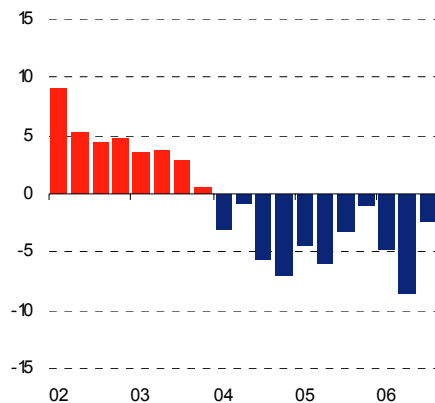
Central Otago Lakes



Otago



Southland



The Mike Pero Mortgages - Infometrics Property Cycle Indicator is prepared jointly by Infometrics and Mike Pero Mortgages.



Enquiries may be addressed to:

Shelley Magic

Marketing Manager

Mike Pero Mortgages

Ph: +64 3 365 4547

Email: shelley.magic@mikepero.co.nz

Website: www.mikepero.co.nz



Understanding The Mike Pero Mortgages - Infometrics Property Cycle Indicator

The Mike Pero Mortgages - Infometrics Property Cycle Indicator is constructed using analysis of changes in house sales, price movements, and days on the market from data provided by the Real Estate Institute of NZ. Each region is assigned a number between 10 and -10 depending on the strength and direction of these three variables. Any figure above zero suggests a region's property market is gaining momentum, and the further above zero, the stronger that momentum. The converse is true for figures below zero.

The Mike Pero Mortgages - Infometrics Property Cycle Indicator may show a region is losing momentum even when house prices are still rising. However, house prices are usually the last variable to change direction when the property cycle turns. Generally, lower sales volumes will be the first sign of a slowdown, followed by properties spending longer on the market, eventually resulting in less upward pressure on house prices. By incorporating all three variables, The Mike Pero Mortgages - Infometrics Property Cycle Indicator attempts to pick up shifts in the market earlier, and provide a signal of possible future movements in house prices.

Monthly updates on The Mike Pero Mortgages - Infometrics Property Cycle Indicator are available at www.infometricsproperty.co.nz.

Mike Pero Mortgages

Mike Pero Mortgages is New Zealand's largest, most trusted mortgage broking company (Colmar Brunton May 2006). Mike Pero Mortgages has been arranging mortgages for New Zealanders since 1991, and has helped more than 60,000 Kiwis achieve home ownership. Mike Pero Mortgages remains independent from the banks, and its brokers pride themselves on providing professional, impartial mortgage advice to their clients.

Infometrics

Infometrics offers a range of economic consulting and forecasting services, and the building and property sector is one of its areas of expertise. Over the past 25 years, Infometrics has built a reputation for rigorous and independent work. The company has economic models and modelling expertise to apply to specific consulting projects. Infometrics presentations are widely regarded as entertaining, thought-provoking, and professional.

Disclaimer

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Data on residential property sales and prices is provided by the Real Estate Institute of NZ (www.reinz.org.nz).

