



NEW ZEALAND ECONOMICS NBNZ PROPERTY FOCUS

MAY 2010

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CONTRIBUTORS

Cameron Bagrie
Chief Economist
+64 4 802 2212
Cameron.Bagrie@nbnz.co.nz

Khoon Goh
Senior Markets Economist
+64 4 802 2357
Khoon.Goh@nbnz.co.nz

David Croy
Senior Interest Rate Strategist
+64 4 576 1022
David.Croy@nbnz.co.nz

I CAN SEE CLEARLY NOW THE *BUDGET* HAS GONE

SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. In this issue we look at the implications for the property market from changes announced in the *Budget*.

THE MONTH IN REVIEW

The housing market continues to tread water. House sales recovered somewhat in April but have yet to fully make up for the sharp slump seen in January. Prices continue to flatline. Building consents are picking up, but at a time when support from net migration is starting to wane somewhat.

PROPERTY GAUGES

Our property gauges still suggest downward pressure on house prices.

ECONOMIC BACKDROP

The patchy nature of the recovery is still apparent in the dataflow, with the domestic orientated sectors still lagging behind. But on the positive side, a genuine export-led recovery appears to be underway, which will go some way towards addressing the economy's imbalances. The improvement in the labour market, including a sharp drop in the unemployment rate, is yet another concrete sign that the economy has turned the corner. Yet, the recent sovereign debt crisis in Europe is a reminder that the effects of the global financial crisis will continue to be felt for some time. While this is not expected to materially dent NZ's recovery prospects, it does highlight that there will be bumps along the way.

MORTGAGE BORROWING STRATEGY

Mortgage rates have been reasonably steady over the past month. With the RBNZ set to start raising rates as early as next month, many borrowers will be wondering whether it is time to lock in a fixed rate. But with fixed rates so much higher than floating rates, is it really beneficial to lock in now? We analyse the decision and come to the conclusion that the best value remains in the short-term rates.

FEATURE ARTICLE – BUDGET IMPLICATIONS FOR PROPERTY

The *Budget* announced major tax changes that will either directly or indirectly have an impact on the property market. While changes to depreciation rules and a tightening up of LAQCs are short-term negatives for the property market, it was not the king-hit a lot had feared. Over the longer term, we view the changes as positive for the market, though there will be some gestation issues over the years ahead.

THE MONTH IN REVIEW

The housing market continues to tread water. House sales recovered somewhat in April but have yet to fully make up for the sharp slump seen in January. Prices continue to flatline. Building consents are picking up, but at a time when support from net migration is starting to wane somewhat.

Gone are the ring-fencing clouds
that had me (worried) blind

NEW ZEALAND GOVERNMENT BUDGET

The Budget announced new policies for property investment, which included the removal of some depreciation deductions and a tightening of LAQC rules.

I can see all obstacles in my way

REINZ HOUSING DATA – APRIL

Residential house sales rose by a seasonally adjusted 3.0 percent and is the third consecutive monthly increase. However, sales remain 4.1 percent lower compared to the end of last year, and are still around historical lows as a proportion of the number of dwellings. While prices did tick up marginally, they have effectively been flat for the past seven months. Given the increase in the days to sell, we can expect house prices to continue to trend sideways or even lower over the coming months.

Here is the pick-up I've been
praying for

SNZ BUILDING CONSENTS – APRIL

Building consents rose by 8.5 percent in April in seasonally adjusted terms. Consents excluding apartments rose by 15.5 percent, more than unwinding the 8.6 percent decline recorded in March. The value of non-residential issuance fell 3.1 percent in seasonally adjusted terms, largely due to a fall in storage consents. The non-residential construction sector remains reliant on government related spending, with private related consents remaining weak.

(Is) it gonna be a bright, bright
sun-shiny day(?)

RBNZ MORTGAGE LENDING – APRIL

Household credit growth, which includes lending for housing and other consumer purposes, remained steady at 0.2 percent in the month. Compared to a year ago, household credit growth is 2.7 percent higher. Mortgage lending growth also increased by 0.2 percent in the month, to be 3.1 percent up on a year ago.

SNZ MIGRATION - APRIL

On a seasonally adjusted basis, PLT arrivals exceeded departures by 770 in April 2010, following a net inflow of 970 persons in March. This was the lowest monthly inflow since December 2008, and is considerably below the average monthly readings over the past year (1,700 inflows). Over the last few months annualised net PLT immigration has eased from just over 20,000 persons to just under 10,000.

I think I can make it now, the
uncertainty is gone

ASSESSMENT

Uncertainty over changes to the investment property tax landscape continued to weigh on housing market activity. While housing turnover was up in April, the level is still very low historically. And the rise in the median days to sell as well as flat house prices point to ongoing caution. The supply side looks to be picking up after a period of low building activity, but we would have expected a bigger increase in consent issuance than what has transpired thus far. It will probably take a few months for the full ramifications of the changes announced in the *Budget* to be reflected in the data. But as one source of uncertainty is cleared, others in the form of waning migration support (though still positive nonetheless) and interest rates that are set to rise are starting to emerge.

PROPERTY GAUGES

Our property gauges still suggest downward pressure on house prices.

We use ten gauges to assess the state of the property market, and for signs that changes are emerging.

AFFORDABILITY. For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.

SERVICEABILITY / INDEBTEDNESS. For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.

INTEREST RATES. Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.

MIGRATION. A key source of demand for new housing.

SUPPLY-DEMAND BALANCE. We use dwelling consents issuance to proxy supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.

CONSENTS AND HOUSE SALES. These are both key gauges of activity in the property market.

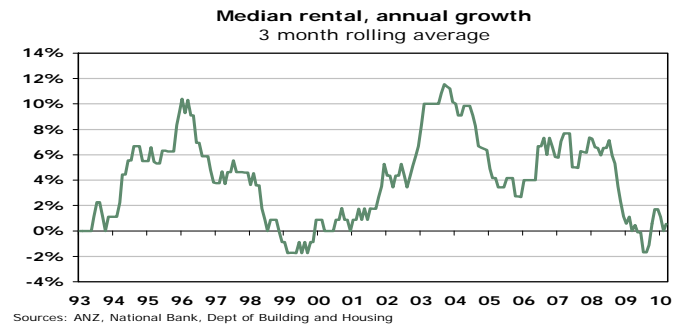
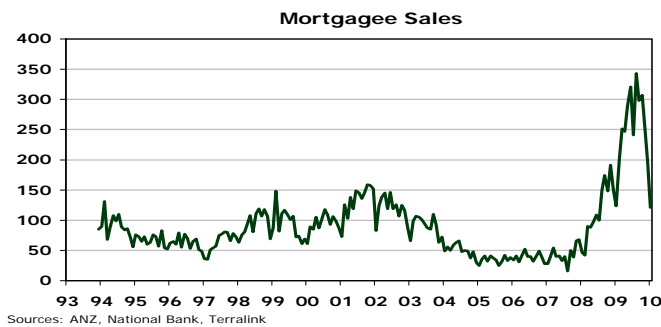
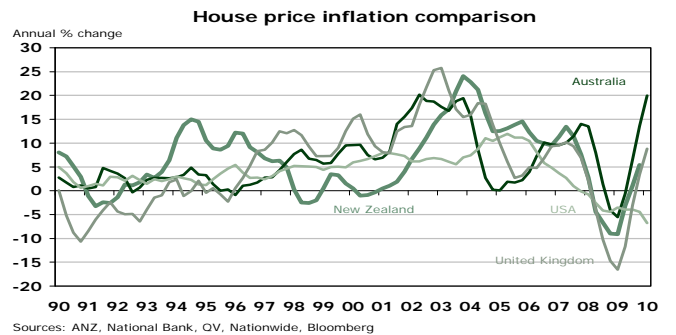
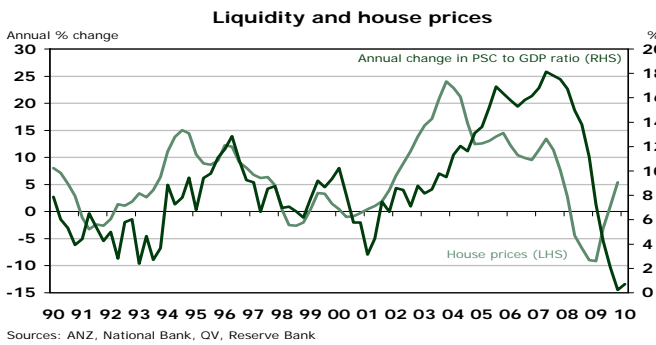
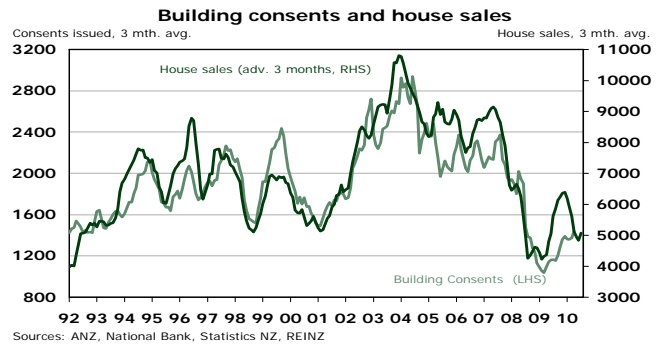
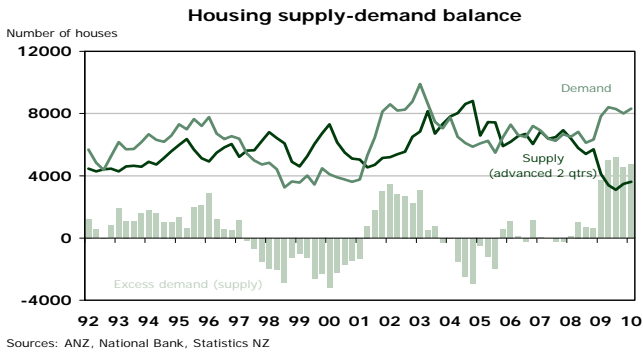
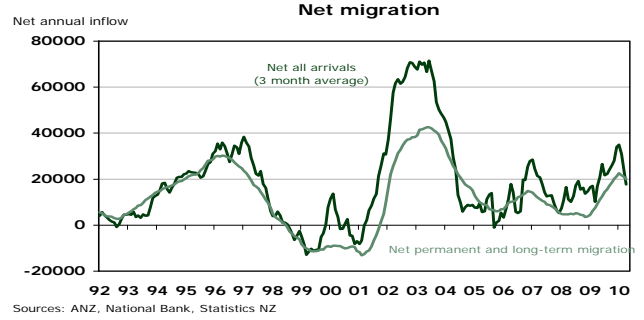
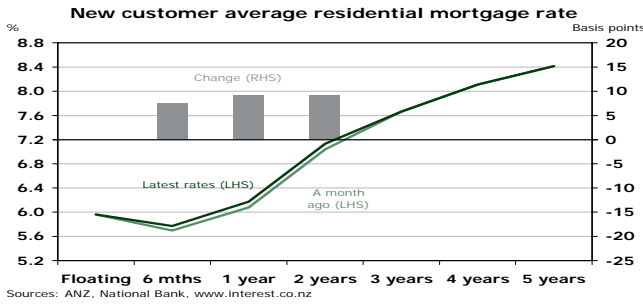
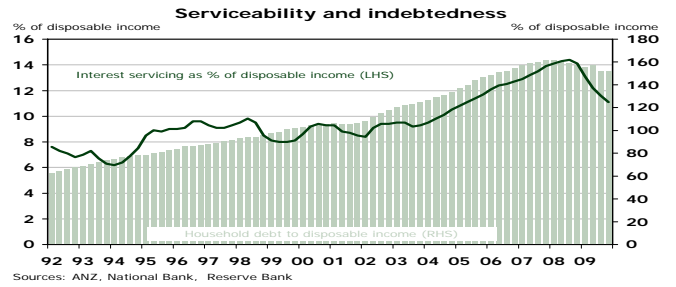
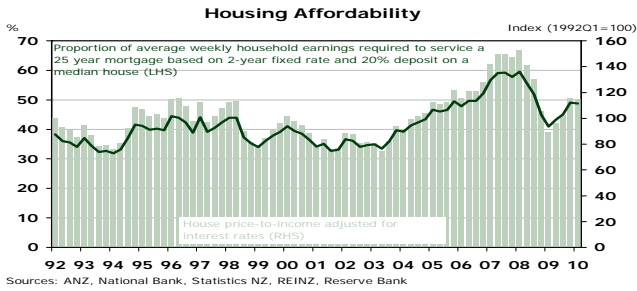
LIQUIDITY. We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

GLOBALISATION. We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

MORTGAGEE SALES. We look at how mortgagee sales are tracking for an indication of distress in the property market.

RENTAL GROWTH. We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

Indicator	Level	Direction for prices	Comment
Affordability	Slipping	↔	Rising interest rates have dented affordability.
Serviceability / indebtedness	Easing	↓	Borrowers continue to pay down debt.
Interest rates	Nudging up	↔/↓	Interest rates rose in the mid-part of the curve and OCR is set to rise which means floating rates about to go up.
Migration	Peaked?	↑	Departures starting to pick-up to Australia. The level is still supporting but net migration gains easing.
Supply-demand balance	Out of kilter	↔/↑	A wide imbalance still prevails but a supply side response is coming.
Consents and house sales	Headwinds ahead	↔/↑	House sales still low as uncertainty weighs. Pick-up in consents welcome but still some way to go.
Liquidity	Illiquid	↓	Demand for credit still subdued.
Globalisation	Lagging behind	↔	The Australian housing market is in a world of its own with 20 percent growth. US house prices still struggling.
Mortgagee sales	Falling	↔	Big drop in mortgagee sales suggest less desperate sellers out there.
Median rent	Still flat	↔	No signs of any upward pressure on rents at present.
On balance		↔/↓	Supply-demand dynamics positive but de-leveraging the number one priority over the year ahead.



ECONOMIC BACKDROP

The patchy nature of the recovery is still apparent in the dataflow, with the domestic orientated sectors still lagging behind. But on the positive side, a genuine export-led recovery appears to be underway, which will go some way towards addressing the economy's imbalances. The improvement in the labour market, including a sharp drop in the unemployment rate, is yet another concrete sign that the economy has turned the corner. Yet, the recent sovereign debt crisis in Europe is a reminder that the effects of the global financial crisis will continue to be felt for some time. While this is not expected to materially dent NZ's recovery prospects, it does highlight that there will be bumps along the way.

OUR CORE ECONOMIC VIEW

The economic recovery and rebalancing continues to progress, though at an uneven pace across regions and sectors. There is a certain dual-speed nature to the economy at present, though it is the kind that we want – with the export orientated sectors (e.g. manufacturing) lifting (in some cases off lows) while the domestic orientated ones (e.g. retail and housing) sluggish at best. Record high prices for NZ's major export commodities are no doubt helping drive an export led recovery, such that the annual trade balance has returned to surplus for the first time since July 2002. Recent PMI readings also suggest the manufacturing sector is expanding at a brisk pace, helped no doubt by a still favourable NZD/AUD exchange rate and strong demand from Australia.

The large decline in the unemployment rate from 7.1 percent in the December 2009 quarter to 6.0 percent in the March 2010 quarter provides concrete evidence that the economy has well and truly turned the corner. Employment intentions from various business surveys have been pointing higher for months beforehand, but this is the first time that we have seen intentions translated into the actual hard data. While the labour market is improving, business investment remains weak despite improving investment intentions. Indeed, at this stage in the cycle, we would have expected more of a pick-up in investment by now. The delay could be due to ongoing deleveraging by businesses as they seek to get their balance sheet in order. But with signs that profitability is improving, and the fact that most businesses are hiring again, the recovery in business investment may not be far behind. This is crucial for improving the productive capacity of the economy, as it will help avoid inflation pressures from emerging too soon into the recovery process that will necessitate a sharp rise in interest rates.

We can expect a lot of noise in the economic data over the rest of the year as various government policy impacts on behaviour. The introduction of GST from 1 October will see a lot of spending, especially on durables, being brought forward, creating a large spike in Q3 GDP. But this will be followed by a slump in Q4. Likewise, housing market activity has been subdued so far this year as uncertainty over tax changes to investment property weighed. With this uncertainty now lifted, we can expect to see a recovery in transactions, though we expect prices to still flatline or fall further. But there is no doubting that the majority of households should benefit from the tax cuts announced in the *Budget*. Together with a higher than expected opening dairy forecast payout for next season of \$6.90-\$7.10/kg ms (before retentions), the economy is set to benefit later in the year as the income gains flow through.

While domestic developments have undoubtedly been positive, the sovereign debt crisis in Europe highlight that there will still be bumps along the way. At this stage, apart from increased volatility in global financial markets and lower equity prices, events in Europe have not had a material impact on NZ. The NZD has been knocked back on general EUR weakness, but it is not clear yet how NZ's export commodity prices have been affected. The direct trade exposure to the Euro area is small, accounting for 7.4 percent of total exports. The biggest impact will be via indirect trade (i.e. via China) and financial linkages. While credit spreads have widened, it is not yet to a level which is cause for concern.

If the RBNZ were to focus solely on domestic developments, then a rate hike in June is a done deal. Global financial market unease could yet cause Governor Bollard to delay the tightening cycle, but it will take a further material deterioration for that to occur. We continue to expect a 25bp hike in June, but for a gradual removal of policy stimulus as opposed to more aggressive moves. Normally interest rates rise partly in response in a strong housing market. This is not the case at present with the housing sector still weak. Prospects for higher interest rates (which are set to gradually rise from very low levels) will elongate the adjustment process the housing market is embarking on.

MORTGAGE BORROWING STRATEGY

Mortgage rates were steady or rose slightly over the past month, with rises in the 6 month rate (from 5.70 percent to 6.00 percent), the 1 year rate (from 6.15 percent to 6.35 percent) and the 2 year rate (from 6.60 percent to 6.79 percent). Importantly, the floating rate remains unchanged at 5.69 percent, the lowest rate in over 45 years. With the RBNZ set to start raising rates as early as next month, many borrowers will be wondering whether it is time to lock in a fixed rate. But with fixed rates so much higher than floating rates, is it really beneficial to lock in now? We analyse the decision and come to the conclusion that the best value remains in the short-term rates.

OUR VIEW

Regular readers will be familiar with what we have termed a “conundrum” facing borrowers at the moment. Put simply, the conundrum is this – you think interest rates are set to rise, and want to fix to avoid getting hit. But fixed rates are so much higher than floating rates, making the decision that much trickier. What is best depends on your personal circumstances, but generally speaking, breakeven analysis shows that in most cases, fixing for a longer period is likely to cost more in the long run. Broadly speaking, we therefore favour remaining floating.

Our broad preference for floating is based mainly on our view that interest rates will not rise as quickly as what is “implied” by the term structure of mortgage rates. One easy way to analyse this is via breakevens, which are shown in the table below. We have no way of knowing for sure where mortgage rates may be in the future. But if you are thinking of fixing for 2 years at 7.20 percent, you could compare that against, say, fixing for 6 months now, and then looking to fix again in 6 months for 18 months. So long as the 18 month rate is 7.60 percent or less in 6 months (and it is 6.79 percent right now), you will be better off fixing for 6 months. Similarly, thinking again about the next 2 years, you could fix for 1 year at 6.35 percent, and then fix again for 1 year in 1 year’s time. So long as you could re-fix at 8.05 percent or less, you’d be better off. The RBNZ is set to raise the OCR this year, but we doubt that will see mortgage rates rise as quickly as breakevens imply. In fact, the RBNZ have reiterated on several occasions that monetary policy is “sharper” this time, most recently when Governor Bollard noted that “the official cash rate will not need to rise as far in this cycle as it did in the last one”. This is mainly because more households and businesses are on floating rates. Being floating also offers more flexibility. While this is not something many borrowers feel they may need, there are occasions when it can be useful, especially if you are considering paying down your mortgage more quickly, or selling a property.

Of course, there’s more to it than just the numbers – risk appetite matters too. As an analogy, consider a simple betting game where you were offered two choices – either a guaranteed \$5, or a coin toss between nothing and \$10. In theory, both offers have the same value (i.e. \$5) and a risk neutral person would be indifferent between the two choices. When it comes to small bets like that, few people think too long and hard about the decision. However, if you upped the bet to a choice between a guaranteed \$5million, and a coin toss between nothing and \$10million, how would people respond? Most people have some degree of risk aversion, and it’s reasonable to expect more people to take the guaranteed \$5million over the coin toss. But what would happen if you offered people a choice between \$4 million and a coin toss? It’s likely more people would take the toss, which has more value. But some would still take the guaranteed \$4million. The same logic applies to mortgage rates. Because of their size and significance, people are likely to be more comfortable with a higher degree of certainty even if it might cost a bit more. Fixing may therefore still be appropriate if you think rates may go up quickly, or if you literally can’t afford to be wrong.

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.75%				
6 months	6.00%	6.71%	7.67%	8.73%	8.28%
1 year	6.35%	7.19%	8.05%	8.70%	8.77%
18 months	6.79%	7.60%	8.26%	8.89%	8.92%
2 years	7.20%	7.87%	8.51%	8.97%	9.10%
3 years	7.79%	8.33%	8.82%	9.18%	9.30%
4 years	8.20%	8.65%	9.04%		
5 years	8.50%				

FEATURE ARTICLE – BUDGET IMPLICATIONS FOR PROPERTY

The *Budget* announced major tax changes that will either directly or indirectly have an impact on the property market. While changes to depreciation rules and a tightening up of LAQCs are short-term negatives for the property market, it was not the king-hit a lot had feared. Over the longer term, we view the changes as positive for the market, though there will be some gestation issues over the years ahead.

The *Budget* heralded a host of policy initiatives directed at the property market, and others that will have an indirect impact. These are listed below, but the spirit of the tax package is pretty clear. Individuals win via income tax cuts and this is partly financed via more tax from the property sector.

Change	Details	Impact on Property
Personal income tax cuts	Across the board cuts to the personal income tax rates from 1 October: from 12.5% to 10.5% for income up to \$14,000; from 21% to 17.5% for income between \$14,001 and \$48,000; from 33% to 30% for income between \$48,001 and \$70,000; and a reduction from 38% to 33% for income over \$70,000.	Most households will have more disposable income even after accounting for higher GST. This means they will have more choices. Property "bulls" will favour using the money to rent a bigger house, service a bigger mortgage or save quicker for that deposit. Others will say it gives households more scope to pay down debt or save more to invest in other assets. In reality we think we will see a combination of all of the above.
Cut to company tax rate	The company tax rate will be reduced from 30% to 28% from the 2011/12 income year. The top Portfolio Investment Entity (PIE) tax rate and the tax rate for savings vehicles such as superannuation funds will be reduced to 28% from 1 October 2010 for PIEs that pay tax at investors' marginal tax rates and from the 2011/12 income year for other savings vehicles.	At the margin, this could be negative for property as it increases the attractiveness of alternative savings (including reinvesting company profits rather than withdrawing it to invest in property).
GST increase	The Goods and Services Tax (GST) will rise from 12.5% to 15% from 1 October.	There will be no direct impact on rents as GST is not applicable. The tax cuts should more than compensate for higher GST costs (see above).
Depreciation changes	Tax depreciation will be set to 0% for all buildings with an estimated useful life of 50 years or more from the 2011/12 income year. The 20% depreciation loading will be removed for assets purchased after 20 May 2010.	This will be cashflow negative for property investors, and will lower the returns generated.
LAQC and QC changes	Loss attributing qualifying companies (LAQCs) and Qualifying Companies (QCs) will become flow-through entities for tax purposes starting on or after 1 April 2011.	The losses claimed will no longer be at the individual's top marginal tax rate, which means there will be a slight cashflow impact. Should encourage investors to hold property under their own name rather than via an LAQC.
Working for Families (WFF) entitlement changes	Investment losses (such as from rental properties) will be excluded from the definition of income for the purposes of calculating Working for Families entitlements from 1 April 2011.	This will impact on the approximately 10,000 taxpayers currently claiming WFF while declaring rental losses. Not expected to have a major impact on the broader market but the spirit is pretty clear: no more double dipping for welfare support when you have other assets.

WHAT DOES IT MEAN?

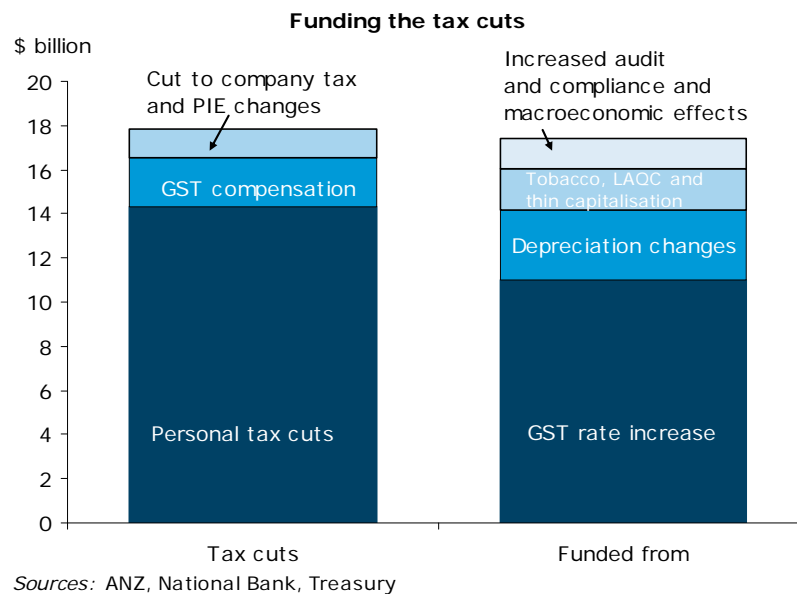
We don't profess to be tax experts so we will leave that to the accounting boffins. Rather, we'll focus on the broad spirit of the changes, particularly in relation to the economic side.

Observation 1: Focus on the BIG picture. If the overall *Budget* package delivers better economic performance, then the housing market will actually be better off over time (with particular emphasis on the "over time" aspect). Housing's performance is fundamentally tied to the health of the economy. You cannot have the economy being out of step with the housing market, or have dynamics such as house prices growing at two to three times the rate of income growth. It's an explosive and flawed model. The foundation for a strong property market resides in strong economic performance, which is what reforming the tax system is all about. The tax package announced in the *Budget* is not going to deliver economic nirvana – the Treasury puts the economic benefits at around 0.9 percent of GDP over seven years as changes to the incentives to work and invest take time to accrue. But accrue they will. In the near-term there is certainly going to be gestation issues for the property market, especially those whose cashflow was reliant on the tax advantages. The key point is that the medium-term story is positive.

Observation 2: Timing versus permanence. Changes to depreciation rules are without doubt a negative for property investors in terms of the impact on cashflow. But with most property investors likely to be on the higher marginal tax rates, any disappointment will have been more than offset by the income tax cuts. Depreciation enables you to defer your tax liability, but ultimately it has to be paid back when you sell. Therefore, it is a timing issue though you get the benefit of the time use of money. On the other hand, tax cuts are permanent. Given the choice between tax cuts or a continuation of the old depreciation allowances, we are pretty sure that most people would choose the latter. The overall tax changes need to be judged in this context.

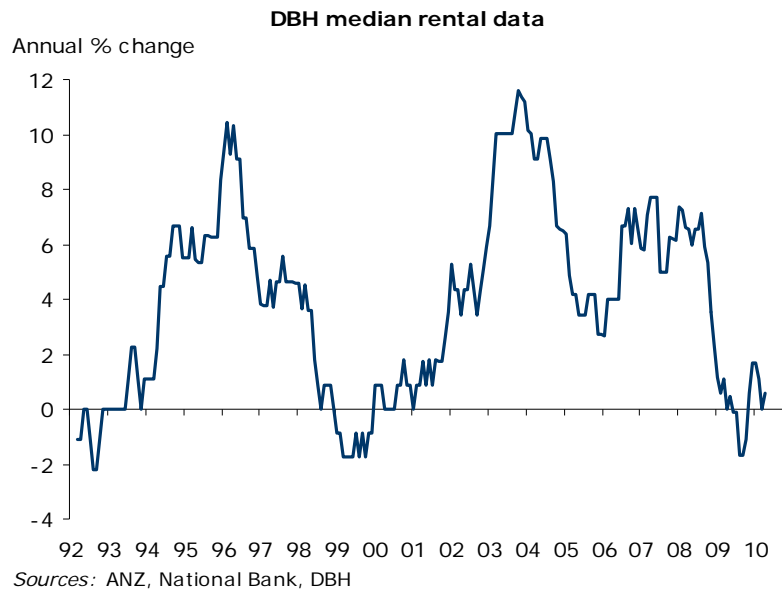
Observation 3: House prices will fall. Not by much, (politicians are pragmatists when it comes to re-election prospects) but in aggregate we think house prices will be down by a couple of percent over the year. In practice it will be impossible to disentangle the myriad of influences (credit, interest rates, tax changes, migration etc) which are impacting on the market in a simple model. We also believe that the housing market is not a traditional market in many respects: if you can't get your desired price you simply don't sell, hence the owner occupier market will tend to perform better, resulting in housing market adjustments that tend to be flatter but longer in duration. But if increase in the likes of the top marginal tax rate to 39 cents in the dollar in 2000 and creation of other tax dodging incentives had such a profound impact over that period, then it is hard to go against a strong reciprocal effect over the coming years, especially in the investor market. For smart, savvy investors, this means being patient for there are always two sides to every transaction.

Observation 4: A quick look at the numbers gives an idea of the net impact. The tax package is worth around \$17.86 billion over four years, or around \$4.5 billion year. But the total fiscal impact has been designed to be fiscally neutral – that is, the tax package is being funded from revenue raised from elsewhere. The bulk of this (\$11 billion or around 62 percent) comes from the increase in GST. Changes to depreciation rules are expected to cover around 17 percent (\$3.1 billion) of the tax package's cost, while the increase to tobacco taxes, LAQC changes and other tightening of tax rules help fund around 11 percent (\$1.9 billion). The balance comes from increased IRD audit which is expected to net \$745 million in extra revenue over four years, and \$670 million in extra revenue from the extra economic activity which the tax package is expected to generate. Hence, while most taxpayers are expected to be better off, a fair proportion of the funding for the tax package will fall on the property sector and smokers.



Observation 5: There will be more tax changes going forward. The tax changes announced in the *Budget* have gone some way towards broadening the tax base. But it is still too narrow. The Tax Working Group's report noted that "There are areas in which New Zealand's tax base is not as broad as in other countries. An example is the absence of a comprehensive capital gains tax (CGT) across all types of income. This means that New Zealand has a lower tax on capital gains, including gains on property, than most other OECD countries. By not comprehensively taxing capital gains, New Zealand is unusual amongst OECD countries." So while a capital gains tax or land tax have been shelved for now, it is hard to see them not rearing their heads again at some stage. To think otherwise is to also believe that NZ Superannuation will remain in its current form for all those aged 65+ in twenty year's time! Yes we know the government of the day has ruled out changes, but there is an inevitability about what needs to happen when you look at the numbers – especially the Long-term Fiscal Statement released by the Treasury in October last year which showed net debt blowing out to 223 percent of GDP by 2049. The same applies to the tax system and the need for a broader tax base. The tax reforms in this year's *Budget* should be seen as only the start.

Observation 6: We don't buy into the talk that rents will spike up immediately. The argument in favour of rents going up is simple: costs have gone up (or rather the cashflow returns have gone down due to changes to depreciation and LAQC rules), supply will be impacted as people will build fewer homes, hence rents will need to rise as the shortage prevails. This makes little sense to us on a couple of levels. First, it assumes that landlords have the pricing power to simply raise rents. If this is indeed the case, then why haven't they exploited their power already? According to rental data from tenancy bonds collected by the Department of Building and Housing, median rents have remained at \$300 per week since early 2008. Second, it is built around the assumption that housing supply is the binding constraint on the market. We think it is influential over time, but it is not the binding constraint. We think credit and debt accumulation has been the more dominant influence. Of course supply-demand dynamics will still be powerful but they'll also be countered by changes in the average household size. The past decades have seen a fall in the average number of people per household. This has risen over the past year and we do not expect to see the same extent of declines going forward to what we saw over the past couple of decades. Rents will rise, but not as quickly and not by as much as the double-digit or even high single digit figures being quoted.



THE UPSHOT

Overall, the tax changes were not as negative for the property market as initially feared. There will be those that will be affected by the changes. But the status quo remains for owner occupiers, and for property investors who do not use a LAQC structure or claim depreciation. On the whole, the changes are a mild negative for the property market over the near-term. But over the longer term, we view the changes as positive if it can deliver improved overall economic performance.

KEY FORECASTS

Weekly mortgage repayments table (based on 25-year term)

		Mortgage Rate (%)													
		5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00
Mortgage Size (\$'000)	200	290	297	304	311	319	326	333	341	348	356	364	371	379	387
	250	363	371	380	389	398	407	417	426	435	445	455	464	474	484
	300	435	446	456	467	478	489	500	511	522	534	545	557	569	581
	350	508	520	532	545	558	570	583	596	610	623	636	650	664	677
	400	580	594	608	623	637	652	667	682	697	712	727	743	758	774
	450	653	669	684	701	717	733	750	767	784	801	818	836	853	871
	500	725	743	761	778	797	815	833	852	871	890	909	928	948	968
	550	798	817	837	856	876	896	917	937	958	979	1000	1021	1043	1064
	600	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137	1161
	650	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232	1258
	700	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327	1355
	750	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422	1451
	800	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517	1548
	850	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611	1645
900	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706	1742	
950	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801	1838	
1000	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896	1935	

Housing market indicators for April 2010 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a.)	Comment
Northland	10.5	-0.7	166	(+41%)	73	Largest rise in sale numbers
Auckland	8.0	1.4	1,828	(+5%)	37	Selling prices retrace off last month's high
Waikato/BOP/Gisborne	-0.1	-1.2	735	(+7%)	52	Days to sell is up to a 10-month high
Hawke's Bay	1.8	-1.2	166	(+1%)	45	Average selling price drift to a 5 month low
Taranaki	4.6	0.5	207	(-13%)	47	Largest fall in sales numbers
Manawatu-Whanganui	3.9	0.4	147	(-6%)	66	Days to sell is highest since July 2008
Wellington	6.4	1.6	597	(+1%)	38	Annual growth in prices above NZ average
Nelson-Marlborough	9.1	-1.2	203	(+11%)	45	Sale numbers highest since October 2009
Canterbury/Westland	4.9	-2.8	742	(+3%)	38	Closest match to the national average
Otago	7.9	0.7	94	(+18%)	68	Highest selling prices since October 2009
Central Otago Lakes	6.6	-3.5	222	(+0%)	38	The weakest 3 month percent change
Southland	-2.9	2.1	137	(+9%)	35	Lowest annual change in selling prices
NEW ZEALAND	4.7	-0.4	5,194	(+3%)	42	Longer to sell

Key forecasts

	Actual			Forecast						
	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
Economic indicators										
GDP (Ann Avg % Chg)	-2.2	-2.3	-1.6	-0.4	0.8	2.0	2.6	2.9	3.3	3.4
CPI Inflation (%)	1.9	1.7	2.0	2.0	2.4	2.0	5.0	5.3	5.4	5.3
Unemployment Rate (%)	5.9	6.5	7.1	6.0	6.3	6.0	5.6	5.4	5.0	4.8
	Actual			Forecast (end month)						
	Mar 10	Apr 10	Latest	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11
Interest rates										
Official Cash Rate	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25	4.75	5.25
90-Day Bank Bill Rate	2.7	2.7	3.0	3.2	3.7	3.8	4.2	4.7	5.2	5.7
Floating Mortgage Rate	6.0	6.0	6.0	6.3	6.8	7.0	7.3	7.8	8.3	8.8
1-Yr Fixed Mortgage Rate	6.2	6.2	6.3	6.4	6.7	6.7	7.1	7.6	8.0	8.4
2-Yr Fixed Mortgage Rate	7.2	7.1	7.3	7.3	7.4	7.4	7.6	7.9	8.4	8.6
5-Yr Fixed Mortgage Rate	8.5	8.4	8.5	8.5	8.5	8.5	8.5	8.6	9.0	9.0

DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing**Experience**

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or

- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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