

## NEW ZEALAND ECONOMICS ANZ PROPERTY FOCUS

FEBRUARY 2012

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## YIELDING TO TEMPTATION

### SUMMARY

Our monthly *Property Focus* publication provides an independent appraisal of recent developments in the property market.

### THE MONTH IN REVIEW

Low mortgage interest rates continue to provide support to the property market. January house sales volumes lifted for the third successive month, with the most recent data hitting a 27-month high. Nonetheless, a faltering employment market and ongoing household deleveraging will be sufficient headwinds to prevent a nationwide housing boom taking place.

### PROPERTY GAUGES

With the Reserve Bank preoccupied with the global economy, the housing market has been left to its own devices. The January OCR Review noted that there have been signs of a limited recovery in the housing market and there is little in the most recent data releases to dispute that view.

### ECONOMIC BACKDROP

Ample liquidity and better data outturns seem to be dominating poor fundamentals globally. There remain marked differences in the outlook across countries, but with still too much debt, a drawn-out adjustment for the world economy remains in prospect. This backdrop dominates the risk profile for the NZ economy. Locally, we would characterise the economy as scratchy, a dynamic that is likely to persist for the first half of 2012. The potential for a cyclical bounce and above-trend growth continues to be capped by the realities of fixing the nationwide balance sheet.

### MORTGAGE BORROWING STRATEGY

Mortgage rates are lower again this month, but this time it was the longer term rates that were cut. Although this has made it cheaper to fix for 3, 4 and 5 year terms, these rates are still very high relative to shorter term rates. As was the case last month, with so little variation between the floating rate and fixed rates out to 2 years, we have no preference for one over the other. Each offers some balance of cost and certainty. However, there may be other considerations that complicate the decision slightly.

### FEATURE ARTICLE: REGIONAL HOUSE PRICES AND RENTS

On top of nationwide influences there are various regional drivers for rents and house prices. Here we examine regional house price and rent data to see if the nationwide fall (and subsequent lift) in rental yield is also commonplace across all regions. Our analysis shows they are not, but with a downward trend in rental yield commonplace across the regions. The distribution of rental yields is also more tightly clustered than in the early 1990s, which suggests regional property markets may be becoming more inter-connected. Rental yields in Auckland are only slightly below the nationwide average and are not significantly out of line with yields in other regions.

## THE MONTH IN REVIEW

Low mortgage interest rates continue to provide support to the property market. January house sales volumes lifted for the third successive month, with the seasonally adjusted number of sales in January hitting its highest level since October 2009. Nonetheless, we expect that a faltering employment market and ongoing household deleveraging will be sufficient headwinds to prevent a nationwide housing boom taking place.

### REINZ HOUSE SALES – JANUARY

Three in a row

**A 1.1 percent climb in seasonally adjusted January house sales volumes** followed strong November and December months, as sales recovered from Rugby World Cup induced lulls. The recovery is from a low base, with nationwide housing turnover still 19 percent below historical averages as a proportion of the housing stock. Prices continue to be underpinned by the low stock of available listings on the market, and while the seasonally adjusted days to sell edged higher, prices look well supported at current levels.

### STATISTICS NZ, BUILDING CONSENTS – DECEMBER

Slow grind up

Dwelling consent issuance failed to make up for the ground lost in November, rising only 2.1 percent seasonally adjusted in December. However, abstracting from the monthly volatility, the floor area of residential consents rose 4.4 percent in the December quarter, which **suggests a strengthening in construction sector activity in early 2012**. Nevertheless, the recent increase in consent numbers is off historically weak levels, with dwelling consent numbers still around 43 percent below historical averages as a portion of the housing stock.

### RBNZ, OCR REVIEW – JANUARY

End of the year?

The Reserve Bank left the OCR unchanged at 2.5 percent. With little flagged regarding where rates are headed, **the assessment was basically neutral**, and virtually the same as issued in December. Global concerns remain centre stage and continue to influence the RBNZ's view. A high degree of comfort over the inflation outlook, combined with a weaker activity outlook, have provided them with considerable scope to stay on the sidelines. As such **we do not see a RBNZ hike until December at the earliest**.

### STATISTICS NZ, MIGRATION – DECEMBER

Leaving

The final monthly migration outturn for 2011 was weaker than many had expected, with a net annual PLT outflow of 1855 persons in the year. **This is the first negative annual net PLT outturn for a calendar year since 2000**. This will detract from demand pressures and weigh on the housing market. Visitor arrivals staged a recovery from post Rugby World Cup lows, but the high NZ dollar and weak outlook in Europe look set to dampen tourist spending.

### RBNZ, CREDIT GROWTH – DECEMBER

Slim lift

Household credit growth increased by a seasonally adjusted 0.1 percent in December. **Annual growth in household lending ticked up to 1.2 percent**.

### RBNZ, MORTGAGE APPROVALS – MID FEBRUARY

Undercurrent

The *value* of housing approvals has been picking up over the last few months, although they have eased back over the last few weeks. **Approval values for early February are around 31 percent above 12 months ago** but remain well short of 2007 levels. The *number* of approvals has started the year on a firmer note than 2011, although of late the number of approvals has undershot 2009 levels. Nevertheless, **the number of approvals in early February was around 11 percent higher than 12 months ago**.

## PROPERTY GAUGES

With the Reserve Bank preoccupied with the global economy, the housing market has been left to its own devices. The January OCR Review noted that there have been signs of a limited recovery in the housing market and there is little in the most recent data releases to dispute that view.

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

**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 housing.

**SUPPLY-DEMAND BALANCE:** We use dwelling consents issuance to proxy growth in 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.

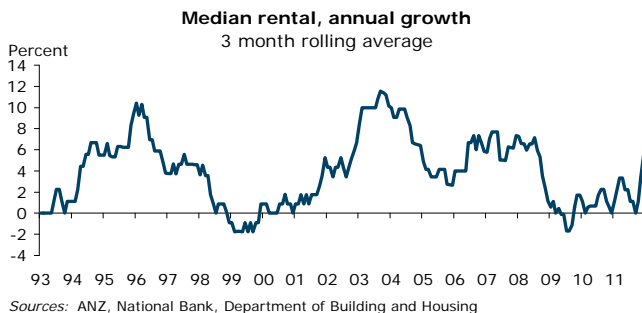
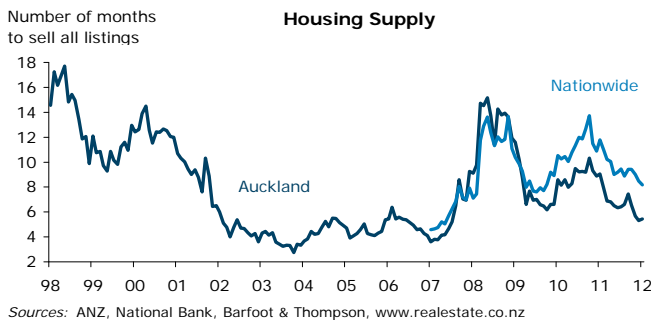
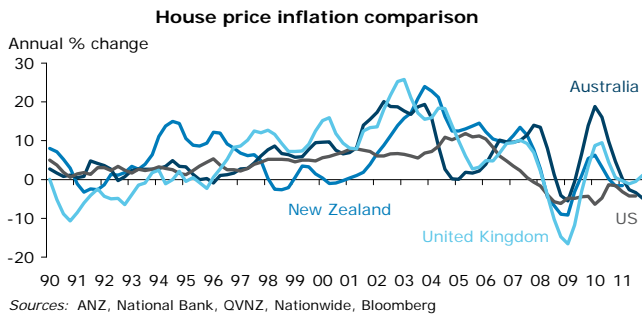
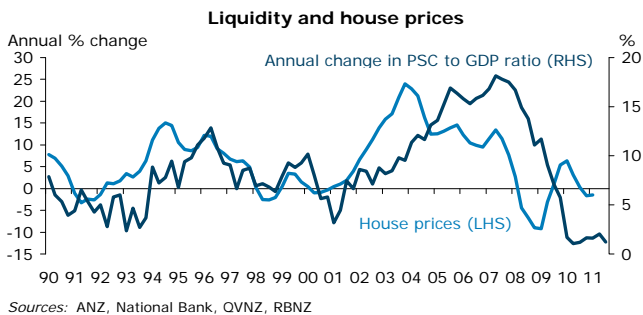
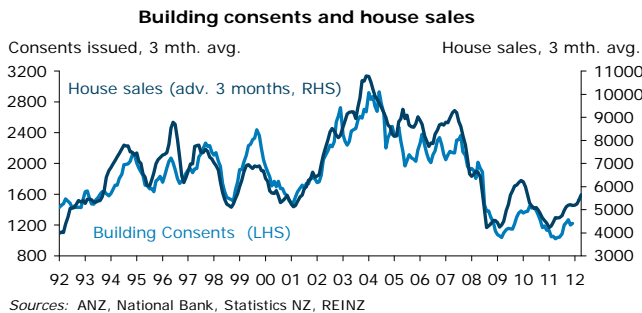
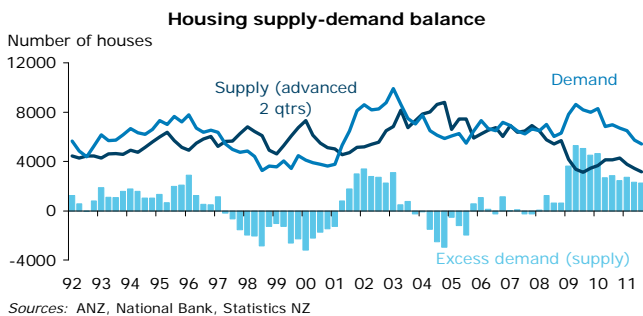
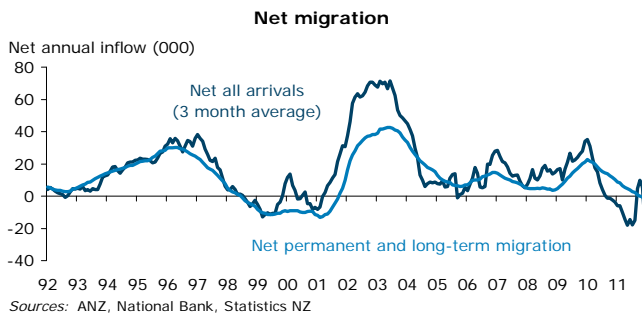
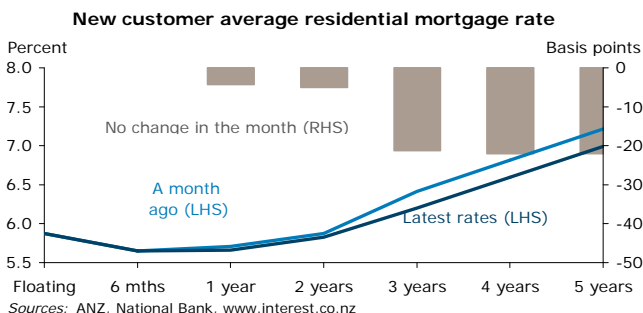
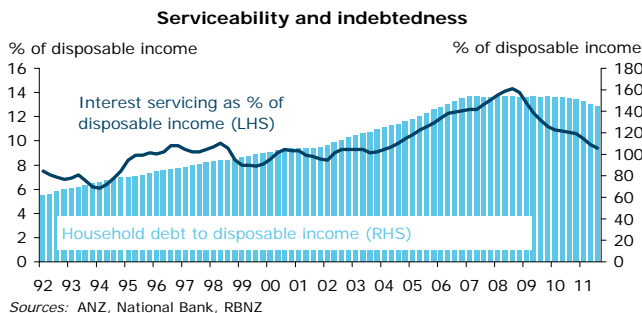
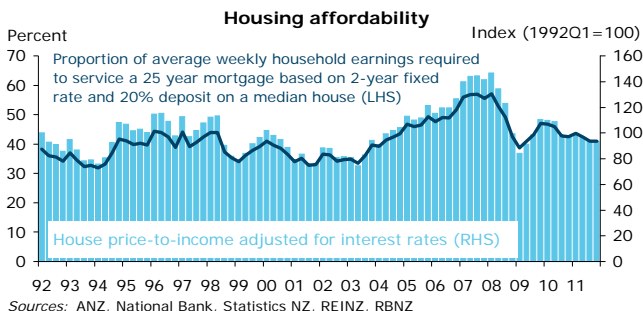
**GLOBALISATION:** We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

**HOUSING SUPPLY:** We look at the supply of housing listed on the market, recorded as the number of months needed to clear the housing stock. A high figure indicates that buyers have the upper hand.

**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	Turning?	↓	Improving trend, but little change in the most recent data.
Serviceability/indebtedness	Low	↓	Household claims (i.e. debt) to disposable income have slipped to a five-year low. but this is still not low enough.
Interest rates	Cut	↔/↑	Lower fixed mortgage interest rates will provide support at the margin, but floating remains the most attractive option for many.
Migration	More Leaving	↓	Net migration continues its drift into the negative side of the ledger.
Supply-demand balance	Gulf	↔/↑	A sizeable gap persists, but is slowly closing.
Consents and house sales	Moving up	↔/↑	House sales ticked up, but building consents are still making only a hesitant recovery.
Liquidity	Flat	↔/↓	A continuation of low borrowing growth.
Globalisation	On the up?	↔/↓	Global growth forecasts are generally being revised down.
Housing supply	Flattish	↔/↑	Nationwide listings remain tight, but are higher in Auckland.
Median rent	Lifting	↔/↑	Rents have increased sharply to a three year high.
<b>On balance</b>	<b>Emerging</b>	↔	<b>The recovery that started in Auckland is starting to spread to other regions.</b>

# PROPERTY GAUGES



## ECONOMIC BACKDROP

### SUMMARY

Ample liquidity and better data outturns seem to be dominating poor fundamentals globally – a welcome reprieve for risk appetite, though we view it as temporary. There remain marked differences in the outlook across countries, but with still too much debt out there, a drawn-out adjustment for the world economy remains in prospect. This backdrop dominates the risk profile for the New Zealand economy. Locally, we would characterise the economy as scratchy, a dynamic that is likely to persist for the first half of 2012. The potential for a cyclical bounce and above-trend growth continues to be capped by the realities of fixing the nationwide balance sheet.

### OUR CORE ECONOMIC VIEW

**The outlook for the New Zealand economy remains “complicated” relative to historical standards, and this reflects the interaction of five significant shocks.** We still face a deleveraging headwind, which will crimp growth. Growth needs to become more earnings and export centric, leading as opposed to lagging the spending side of the economy. We are seeing historically very high commodity prices, which represents a huge positive income shock. The global scene remains fraught with downside risk. We have had earthquakes in Christchurch – a huge hit to our national balance sheet to contend with.

**These shocks are leading to tensions and mixed signals across the economy.** Housing market activity picked up over late 2012, a natural response to lower interest rates and the prospect of rates remaining lower for longer (a by-product of supporting the economy in the face of global challenges). Building consents remain low and we have now seen nine months of a net migration outflow in the past ten months. The retailing environment remains very soft. The labour market is weakening, with registered unemployed figures on the rise. Business confidence is solid, but there appears an expectations-reality divide. Credit growth is weak. Consumer confidence has been flat-lining for a year. Commodity prices are strong and Mother Nature has been kind delivering favourable growing conditions, though the NZD is blunting returns. **Net on net we can see signs of relative resilience, challenges considered, but an economy that remains scratchy and schizophrenic.**

**We expect this picture to continue for some time.** Putting data outturns aside (which lag developments) we would characterise the New Zealand economy as being in a stage of transition,

where normal pro-cyclical forces and drivers of the business cycle have been dampened by a debt payback dynamic. We know housing has shown a mild fillip, but this has not been accompanied by demand for credit, and there has been zero spill-over into other areas that can benefit from the perceived wealth effect. Both here and abroad this transition period is occurring on a number of levels, including altering the mix of growth (rebalancing) and lowering indebtedness relative to GDP (deleveraging). This entails a period of stuttering and “grumpy” growth.

**With the level of activity around 5 percent below the 2007 peak on a per-capita basis there are obvious cyclical supports that will act to boost activity over 2012 and 2013.** Construction sector activity looks set to benefit from this cyclical springboard, with impetus gradually provided by earthquake reconstruction. This is growth, but in the case of the building industry it’s coming off a low base. You need a big lift before the level will become satisfying. Moreover the modest pace of consumption growth illustrates there are also structural impediments to a typical rebound occurring. The deleveraging baton is being passed from the private to the public sector, with tight fiscal settings expected to restrain demand. The New Zealand taxpayer is on the hook for the Government returning to surplus by 2014/15. Recent market optimism and the better flow of US economic data have raised hopes of a steady pace of global expansion taking place. However, country differences remain apparent, with the key source of downside risk being a Europe-led slowdown which will filter through into funding markets. New Zealand will not be immune from global developments.

**We have pencilled in around 2 percent real GDP growth for this year and around 3 percent growth over the next two years courtesy of a Christchurch-induced building fillip, but continue to characterise the outlook as one of “grumpy growth”.** A better national balance sheet is a precursor to a strong pro-cyclical upswing. The journey that started in 2008 is not yet complete. Until it is, the likes of the property market will move in a listless fashion as opposed to clearly trending.

# MORTGAGE BORROWING STRATEGY

## SUMMARY

Mortgage rates are lower again this month, but this time it was the longer term rates that were cut. Although this has made it cheaper to fix for 3, 4 and 5 year terms, these rates are still very high relative to shorter term rates. As was the case last month, with so little variation between the floating rate and fixed rates out to 2 years, we have no preference for one over the other. Each offers some balance of cost and certainty. However, there may be other considerations that complicate the decision slightly.

## OUR VIEW

Although we have seen a decline in longer term mortgage rates in the past month, rates for terms out to 2 years are pretty much the same as they were a month ago, with very little difference between all rates between floating and 2 years fixed. By contrast, interest rates rise in hefty steps for terms 4 years and longer. **On the face of it then, the premium for fixing for shorter terms is very low or even negative** (for example, the 6 month rate is below floating). In other words, the opportunity cost of fixing – that interest rates may fall in the future – is low.

But even if the opportunity cost is low, it is not zero. Interest rates may yet fall (or rise even). However, with the RBNZ obviously comfortable with monetary policy and the OCR where it is, **floating rates are unlikely to move anytime soon**. Fixed rates could move. But when we look at where long-term wholesale rates are now relative to historic ranges, one would have to be very pessimistic on the economic outlook to expect them to fall. We are somewhat guarded as to the outlook for the economy, but broadly speaking, we expect things to generally improve, and that suggests that **term mortgage rates are unlikely to fall much**.

**Long-term wholesale interest rates may also rise – but again, we do not think that is extremely likely at this stage.** This is especially so at the moment, with central banks like the US Federal Reserve, the Bank of England, the Bank of Japan and the European Central bank all either actively engaging in, or contemplating **flooding markets with liquidity with the express intention of keeping term interest rates low**. That being the case, we generally view the outlook for interest rates as broadly stable, leaving the decision to fix as something of a trade-off between certainty and cost, as opposed to offering potential to save some real money before interest rates shoot higher, as many borrowers may have had experience with prior to the GFC.

However, as we have discussed in previous issues, this ignores three (perhaps less obvious) considerations. Briefly, they are (1) early repayment, (2) discounts and (3) timing.

For example, repaying your mortgage with lump sums might affect any potential decision to fix. However, as many people tend to only make incremental changes to their payments (e.g. by increasing repayments each week), this is really only a marginal issue. As such, it is probably better not to use this as an excuse not to fix a mortgage, **but it may be a good reason not to fix the entire sum**.

**Discounting is perhaps the most serious consideration.** However, this too need not be confusing, or a reason to hold off making a decision, especially if discounts offered are the same across the curve. Because fixing is a relative consideration, things really only start to get tricky if discounts vary by term – and if they do, it just tends to sway the decision one way or the other.

**In our view timing is the trickiest of these less obvious considerations.** We are not talking about getting your timing right just once (that is, getting set before the rate you want disappears). **What we are talking about here is getting your timing right over multiple periods.** As an example, at the moment the 6 month rate is the cheapest, and it is below floating. This should be an obvious drawcard – but the risk is, if in four months you want to lock in for much longer, your hands will be tied for the next two months. However, **with interest rates expected to be broadly stable, we do not see that as likely to be a major problem for now**.

That being the case, in terms of preferences, we are pretty indifferent between any of the terms between floating and 2 years. All have their good points, not the least being cost. All that separates one from the other is the amount of micro-managing one might want to do, which goes hand in hand with uncertainty.

Mortgage Rates		Breakevens			
Term	Current	In 6 mths	In 1yr	In 18 mths	In 2 yrs
Floating	5.74%				
6 months	5.65%	5.65%	6.37%	5.49%	6.57%
1 year	5.65%	6.01%	5.93%	6.03%	6.72%
18 months	5.89%	5.84%	6.14%	6.31%	6.98%
2 years	5.79%	6.02%	6.33%	6.61%	7.21%
3 years	6.10%	6.41%	6.78%	7.11%	7.64%
4 years	6.50%	6.83%	7.21%		
5 years	6.90%				

As usual, we have included our breakeven table. As was the case last month, interest rates still need to rise mildly in order for one to be better off fixing. In particular, they show that **interest rates need to rise rapidly for it to be worthwhile fixing for longer terms like 4 and 5 years**; hence we do not favour such strategies.

# REGIONAL HOUSE PRICES AND RENTS

## SUMMARY

On top of nationwide influences there are various regional drivers for rents and house prices. Here we examine regional house price and rent data to see if the nationwide fall (and subsequent lift) in rental yield is also commonplace across regions. Our analysis shows they are not, with rental yields the highest for Otago and the lowest for Central Otago. But despite some regional differences, a downward trend in the rental yield has been commonplace across the regions we examined. The distribution of rental yields is also more tightly clustered than in the early 1990s, which suggests regional property markets may be becoming more inter-connected. Rental yields in Auckland are only slightly below the nationwide average and are not significantly out of line with yields in other regions.

## Introduction

In this article we examine trends in house prices and rents for New Zealand and 12 regional areas over the last 20 years. On top of nationwide influences, there are various regional drivers for rents and house prices and this analysis is used to highlight those differences.

Its aim is to compare rental yields (denoted as the ratio of annual rent payments) and highlight regional differences. The higher the yield, the lower the house price value relative to the sum of rental payments.

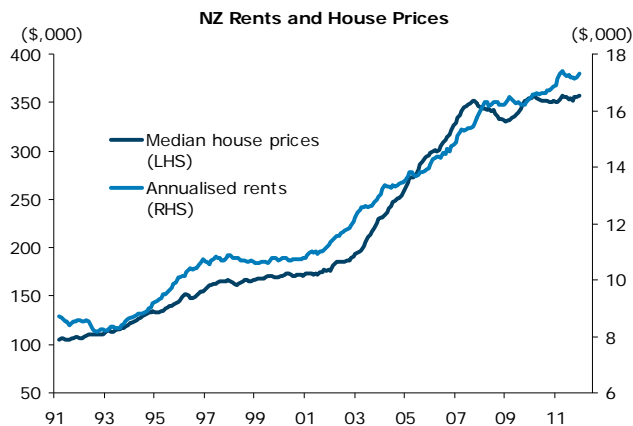
To facilitate regional comparison, we have assumed that the median dwelling sales price collated from REINZ data and tenancy bond data collected by housing NZ for each region are adequate proxies for the typical value of a rental dwelling and its associated rental income respectively. While the actual *level* of rental yield that we derive may not be exact given data limitations, the *direction* of yields and comparisons across regions should be closer to the mark.

## National trends

Before looking into the regions **it would be useful to recap and examine nationwide trends** in house prices and rents. House prices on the median REINZ measure have risen 223 percent since 1992, the earliest date for which we have regional data. Increases in dwelling rents (as represented by the median dwelling rent from the Housing NZ tenancy bond data) have managed a more modest 102 percent increase over that period.

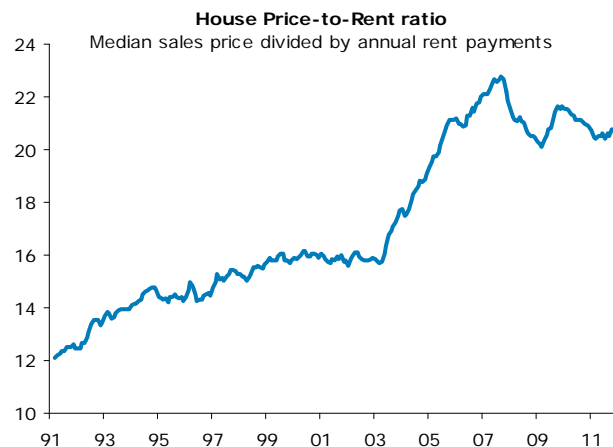
While property values have essentially flat-lined over the last few years, rents have continued to move

higher (up 8 percent since 2007), albeit at a slower pace than early last decade.



Sources: ANZ, National Bank, REINZ, Department of Building and Housing

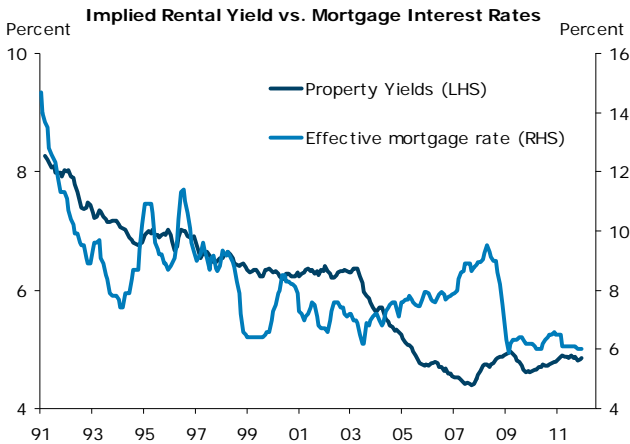
**The ratio of house prices to rents climbed from the early 1990s till about 2007, with the ratio easing off slightly since then.** In the early 1990s, the value of a typical rental dwelling was equivalent to about 12.5 years of rent payments. By 2007 this peaked at just under 23 years, and it is now just over 20.



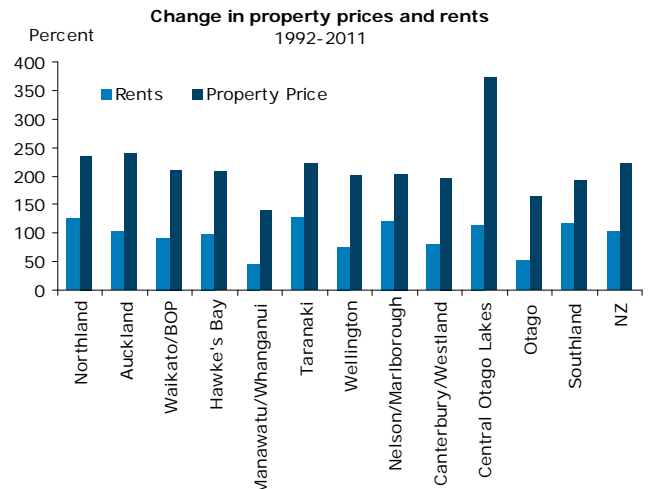
Sources: ANZ, National Bank, REINZ, Department of Building and Housing

Another way of expressing this is to derive a dwelling rental yield, which is the ratio of annual rental payments to the purchase price of the house. **This implied yield has been trending lower since the early 1990s, with a sharp fall apparent over the 2003–07 housing boom.** Implied rental yields on this metric troughed in 2007 and have increased somewhat since then. Yields remain much lower than they were a decade or two ago. **The fall in yield has coincided with the drift lower in mortgage interest rates.** No doubt the fall in debt service costs would have helped push property values up.

# REGIONAL HOUSE PRICES AND RENTS



Sources: ANZ, National Bank, REINZ, Department of Building and Housing



Sources: ANZ, National Bank, REINZ, Department of Building and Housing

## Regional Comparisons

Housing markets have different regional characteristics and drivers (including differing rates of population and income growth, and differences in intra-regional migration flows), so **it is useful to examine whether the decline in rental yield has been commonplace across the regions.**

For our regional house price data, we use median house prices data from the Real Estate Institute of NZ for 12 geographical regions. We have also obtained rental data from tenancy bond information collected by the Department of Building and Housing to examine regional trends. This data is only available since August 2006 on a monthly basis, but we also have a series of 6-monthly regional snapshots available since the early 1990s. There are obvious data limitations so we focus on the trends, as opposed to outright levels.

Table 1 summarises median dwelling values and weekly rents for a selection of regional areas within New Zealand.

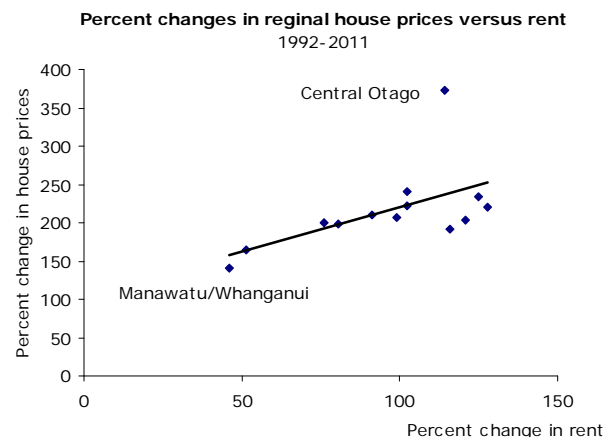
	1992		2011	
	Weekly Rent	Price	Weekly Rent	Price
Northland	113	90,220	255	302,187
Auckland	197	137,760	397	468,483
Waikato/BOP	130	100,214	249	310,772
Gisborne/Hawke's Bay	130	87,530	259	268,598
Manawatu/Whanganui	141	93,476	205	224,296
Taranaki	104	84,556	238	271,416
Wellington	190	127,756	335	383,969
Nelson/Marlborough	133	107,702	294	327,713
Canterbury/Westland	151	104,689	272	311,460
Central Otago Lakes	117	89,658	251	422,849
Otago	158	87,160	239	230,995
Southland	89	65,380	193	190,509
NZ	164	109,867	332	354,703

Source: ANZ, National Bank, REINZ, Department of Building and Housing

The table shows weekly rents tend to be higher in regions with higher house prices. Auckland typically has the highest rents and house prices, whereas Southland typically has the lowest.

What has happened to regional rents and house prices over the last 20 years? The chart above compares changes in house prices and rents for each region. With the exception of Central Otago, percentage increases in property values were reasonably uniform. **In all of the regions, increases in property values outstripped rents by a considerable margin,** with the largest differences seen in Central Otago, Otago and Wellington.

We also investigate whether regions experiencing larger gains in property values also experienced larger proportionate increase in rents. The scatter plot shows a positive relationship between the two, as one would expect.



Sources: ANZ, National Bank, REINZ, Department of Building and Housing

Our regional analysis reveals other interesting findings:

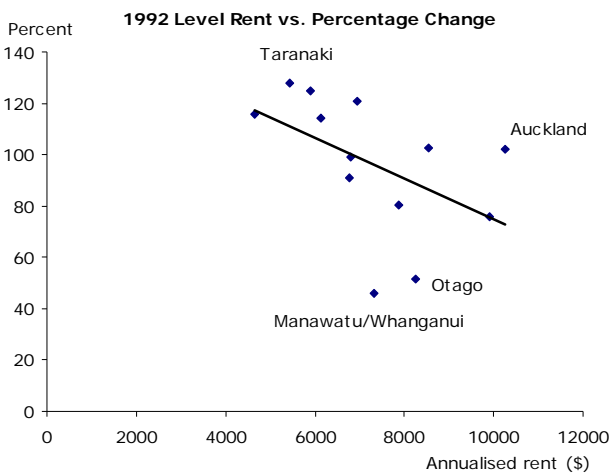
- Divergences in prices across the regions. **Barring Central Otago, there appears to be a weak positive relationship between price levels in the early 1990s and price increases since**



# REGIONAL HOUSE PRICES AND RENTS

**then.** In other words, the more expensive regions have gotten still dearer, relative to the rest of the country.

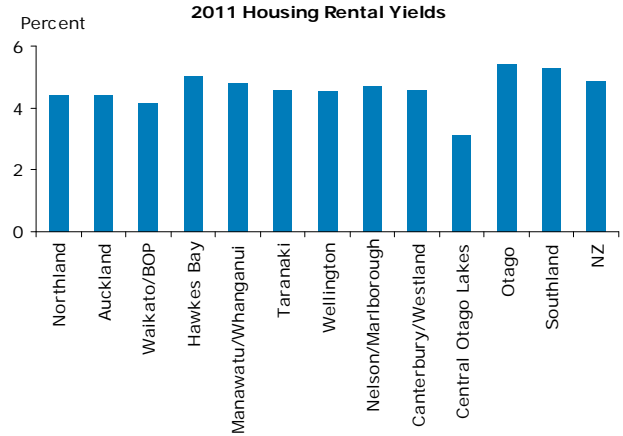
- Proportionate increases in house prices have been reasonably uniform since 2000, with house prices generally doubling. However, with the exception of Auckland, proportionate price increases since 2005 have generally been the highest for lower priced regions (e.g. Southland, Manawatu/Whanganui). **In other words, divergence up till 2005 was replaced by convergence, or "catch-up"**. Prices in most regions are still below 2007 levels, whereas those in Auckland are around 3 percent higher. The price split between Auckland and the rest of NZ has widened since then. Clearly convergence has its limits.
- There has been increasing convergence in regional rents since the early 1990s.** There is a negative relationship between the level and growth rates for rents, with regions that had the lowest rent levels in the early 1990s tending to have had the strongest proportionate rent increases since then.
- This result largely reflects a period of "catch-up" whereby faster than national average increases in rents were evident in most regional centres from about 2000 till 2007, particularly for regions like Taranaki. While dwelling rents in most regions have tended to move up since 2007, proportionate increases have been larger for Auckland as well as the less expensive regions. Auckland is again the exception to the convergence story.



Sources: ANZ, National Bank, REINZ, Department of Building and Housing

Comparing the absolute level of implied rental yields shows regional divergences. Yields tend to be higher in Otago and Southland, and the lowest for Central Otago (a region in which house prices have long outstripped incomes). **Yields for the**

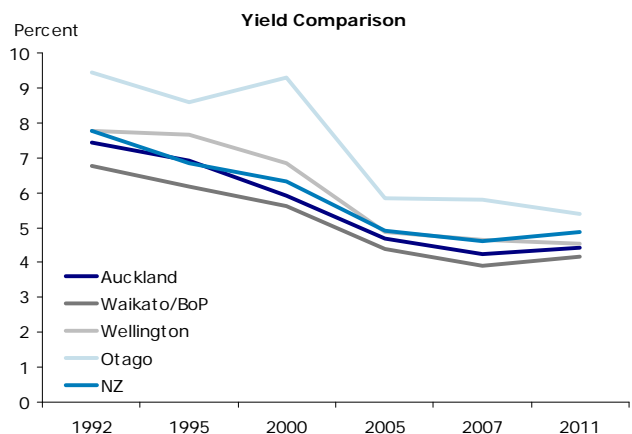
**Auckland region are slightly below the nationwide average.**



Sources: ANZ, National Bank, REINZ, Department of Building and Housing

Comparing the trend in rental yields by region (see the figure below and table 2 at the end of this article for the full regional summary) shows a similar downward direction in yields since the early 1990s.

**A lift in rental yield since 2007 for 8 of the 12 regions in our analysis is evident, driven by increasing dwelling rents.** The largest climb in yields has been for Southland, Nelson/Marlborough, and Northland as rents have continued to climb whilst house prices have either flat-lined or fallen. Rental yields have declined in Central Otago, Otago, Wellington and Taranaki, which is largely reflective of lower dwelling rents.



Sources: ANZ, National Bank, REINZ, Department of Building and Housing

**Generally, however, the distribution of yields is tightly clustered.** The range of rental yields across the regions is much tighter than it was 20 years ago<sup>1</sup>.

<sup>1</sup> The standard deviation of regional rental yields across the 12 regional areas was 0.6 percent in 2011 (0.4 percent ex-Central Otago), 0.5 percent in 2007 (0.5 percent), and 0.9 percent in 1992 (0.9 percent).



## REGIONAL HOUSE PRICES AND RENTS

This suggests that regional property markets are becoming more inter-connected, with trends being increasingly driven by common nationwide elements (e.g. mortgage interest rates).

As we were limited by data a number of assumptions have had to be made. We encourage readers to focus on the broad trends that our analysis highlights rather than to focus on the point estimates.

### The upshot

On top of nationwide influences, housing and rental markets have different regional characteristics and drivers.

While data limitations mean that we are not comparing apples with apples our analysis is intended to highlight differences in movements of house prices and rents across the regions.

Our analysis suggests:

- **As a whole, the declining trend in nationwide rental yields over the past 20 years has also been evident in varying degrees across the regions.** Rental yields are now on their way up in most regions after troughing in 2007.
- There appears to be a weak positive relationship between prices and price increases since 1992, but this is heavily dependent on which time period you look at.
- There is a negative relationship between the level and growth rates in rents, with regions that had the lowest levels of rent in the early 1990s tending to have had the strongest proportionate rent increases since then. Once again this depends on the timeframe.
- Our analysis suggests rental yields are the highest for Otago and the lowest for Central Otago. **Generally, however, the distribution of yields is tightly clustered, and in a much narrower range than the early 1990s.** This suggests a greater inter-connectedness of regional property markets, with a larger impact of nationwide influences, most notably mortgage interest rates.
- **Rental yields in the Auckland region are only slightly below the nationwide average,** suggesting Auckland house prices are not markedly more expensive relative to rents than in the rest of the country. Even within regions, however, there are likely to be sizeable differences in rental yields and affordability.

Table 2 Housing Rental Yields

	1992	1995	2000	2005	2007	2011
Northland	6.5	6.1	5.5	4.1	4.0	4.4
Auckland	7.4	6.9	5.9	4.7	4.2	4.4
Waikato/BOP	6.8	6.2	5.6	4.4	3.9	4.2
Gisborne/Hawke's Bay	7.8	6.8	6.8	4.7	4.8	5.0
Manawatu/Whanganui	7.8	7.7	7.8	5.8	4.2	4.8
Taranaki	6.4	6.6	6.8	4.5	4.8	4.6
Wellington	7.8	7.7	6.8	4.9	4.6	4.5
Nelson/Marlborough	6.4	6.1	6.1	4.5	4.3	4.7
Canterbury/Westland	7.5	6.7	6.4	5.0	4.4	4.6
Central Otago Lakes	6.8	5.3	4.6	3.1	3.9	3.1
Otago	9.5	8.6	9.3	5.8	5.8	5.3
Southland	7.1	7.5	8.5	5.9	4.6	5.3
New Zealand	7.8	6.8	6.3	4.9	4.6	4.9

Source: ANZ, National Bank, REINZ, Department of Building and Housing

## KEY FORECASTS

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

	Mortgage Rate (%)														
	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364	
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455	
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545	
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636	
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727	
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818	
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909	
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1,000	
600	809	829	850	870	891	913	934	956	978	1,000	1,022	1,045	1,068	1,091	
650	876	898	920	943	966	989	1,012	1,036	1,059	1,083	1,108	1,132	1,157	1,182	
700	944	967	991	1,015	1,040	1,065	1,090	1,115	1,141	1,167	1,193	1,219	1,246	1,273	
750	1,011	1,036	1,062	1,088	1,114	1,141	1,168	1,195	1,222	1,250	1,278	1,306	1,335	1,364	
800	1,078	1,105	1,133	1,160	1,188	1,217	1,246	1,274	1,304	1,333	1,363	1,393	1,424	1,454	
850	1,146	1,174	1,204	1,233	1,263	1,293	1,323	1,354	1,385	1,417	1,448	1,480	1,513	1,545	
900	1,213	1,244	1,274	1,306	1,337	1,369	1,401	1,434	1,467	1,500	1,534	1,567	1,602	1,636	
950	1,281	1,313	1,345	1,378	1,411	1,445	1,479	1,513	1,548	1,583	1,619	1,655	1,691	1,727	
1000	1,348	1,382	1,416	1,451	1,486	1,521	1,557	1,593	1,630	1,667	1,704	1,742	1,780	1,818	

Housing market indicators for January 2012 (based on REINZ data)

	House prices (ann % change)	3 mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a)	Comment
Northland	-3.6	-1.3	134	(+10%)	64	Weakest annual price growth and longest time to sell
Auckland	4.5	1.7	2,119	(-1%)	33	Shortest time to sell, with selling price at record high
Waikato/BOP/Gisborne	-3.4	-0.6	843	(+5%)	54	Sales numbers the highest since September 2009
Hawke's Bay	1.6	3.2	190	(+13%)	50	Strongest increase in sales volumes in January
Manawatu-Whanganui	1.9	2.3	255	(-15%)	56	Largest decrease in sales numbers in January
Taranaki	10.1	4.7	154	(-11%)	49	Median selling price hit a two year high of \$239,700
Wellington	3.2	1.8	615	(+4%)	37	Highest level of monthly sales volumes in a year
Nelson-Marlborough	2.2	-0.2	218	(+1%)	46	The median time to sell is on the way up
Canterbury/Westland	8.0	0.8	766	(-6%)	35	3 month percent change below NZ for first time since April
Central Otago Lakes	8.3	5.3	87	(+3%)	62	The strongest increase in prices over the past 3 months
Otago	11.4	2.5	231	(0%)	39	Recorded the strongest annual rise in prices
Southland	6.4	4.7	116	(-13%)	41	Monthly number of sales was the lowest since March 2011
NEW ZEALAND	4.2	0.9	5,777	(+1%)	40	Sales volumes increase to a 27-month high

## Key forecasts

Economic indicators	Actual			Forecast						
	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
GDP (Ann Avg % Chg)	1.1	1.3	1.6(f)	1.8	2.0	2.0	1.9	2.1	2.4	2.8
CPI Inflation (%)	5.3	4.6	1.8	1.6	1.2	1.6	2.3	2.4	2.4	2.5
Unemployment Rate (%)	6.6	6.6	6.3	6.4	6.3	6.3	6.3	6.1	6.0	5.9
Interest rates	Actual			Forecast (end month)						
	Dec-11	Jan-12	Latest	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75
90-Day Bank Bill Rate	2.7	2.8	2.7	2.7	2.8	2.8	3.2	3.7	3.8	4.2
Floating Mortgage Rate	5.7	5.7	5.7	5.7	5.7	5.7	5.9	6.3	6.5	6.6
1-Yr Fixed Mortgage Rate	5.8	5.8	5.8	5.8	5.9	5.9	6.2	6.5	6.6	7.0
2-Yr Fixed Mortgage Rate	6.0	6.0	6.0	6.0	6.1	6.1	6.5	6.6	6.7	7.0
5-Yr Fixed Mortgage Rate	7.2	7.2	7.2	7.3	7.2	7.2	7.2	7.1	7.0	7.2

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