The Kiwi connection

Australian investors are being lured to the New Zealand residential market by the prospect of higher returns and lower taxes. But as Terry Ryder reports, investors need to be very careful about what they buy.

AUSTRALIANS, LIKE many NZ investors, have been buying Auckland apartments and small town houses to access higher yields. But in targeting those areas, investors are buying in the nation's most volatile markets.

Commentators warn there are many problems with the Auckland inner-city unit market, including oversupply and over-hyped claims about rental returns, while small town NZ is highly vulnerable to economic downturns.

Advertising lures such as "no capital gains tax" also provide false hope for Australian investors, because they overlook a number of factors, including the ability of the Australian Government to hit investors for capital gains made offshore.

Some companies selling inner-city apartments in Auckland, have run seminars in Sydney to entice investors disillusioned by low returns and high taxes in their own market. One company claimed investors could get net returns of 6 to 9 per cent and pay no stamp duty or capital gains taxes if they buy Auckland units.

Many Australian investors have responded by buying NZ property over the phone or via the internet. In doing so, they are leaving themselves vulnerable to the many risks of investing without thorough due diligence.

Beyond those precautionary notes, there are plenty of reasons for Australian investors to consider NZ market. Kieran Trass, managing director of research company the Hybrid Group, notes there have been waves of Australian investors checking out the NZ market and says: "I understand why. The returns are higher and the prospects are generally better."

Mary O'Brien of Sydney-based NZ Mortgage Solutions says most investors who use her business are thinking ahead to their retirement and want investments with low set-up costs that will provide a healthy return.

She says people in New South Wales in particular are disillusioned by low returns and high taxes in their own State and are targeting NZ.

There's no doubt higher residential returns have been available in NZ and prices are generally lower than equivalent Australian markets. NZ's biggest and most expensive city, Auckland has a median house price of $355,000*, which compares very favourably with Sydney, while the capital Wellington has a median price around $275,000.

But Australian investors need to proceed carefully. The NZ market has passed its peak and sales volumes have been trending downwards, while the recent price boom (prices up almost 50 per cent in three years) has pushed down the previously high yields. Economists warn there's an oversupply of new housing in the pipeline and recent interest rate rises will hit demand once they flow through the system.

And the highest yielding markets, the ones that appeal most to Australian investors, come with a financial health warning. Westpac's chief economist Brendan O'Donovan says despite clear signals of a downturn both NZ and Australian investors are seeking opportunities.

"They are increasingly disillusioned with the cities where rental yields are a fairly patchy 5 per cent or less, so they are shifting their focus to provincial NZ," he says.

Trass says: "Australian investors seem to be drawn like moths to the flame to the two markets which are the most volatile: the city apartment market and the small town market. I can't believe what people are paying for properties in small town NZ.

"Australians have never seen small town NZ in tough economic times. I have, and I can assure you it's ugly for property investors. Small town NZ suffers big time when the economy comes off the boil. People can't get jobs and they migrate to the bigger cities for work.

Auckland has a median house price of $355,000*, which compares very favourably with Sydney, while the capital Wellington has a median price around $275,000.

"The NZ dollar is very high and interest rates are rising. That will hurt our export industries and NZ is reliant on exports to generate wealth. It'll costs jobs and that will impact significantly on small town NZ which is heavily reliant on the rural sector, which gets hurt by the rising dollar."

Westpac, in a recent *Economic Overview*, warns of an impending slump, saying: "NZ house prices have increased spectacularly in the past few years, which has left many questioning whether a nasty correction is in the offing – especially now that the economic fundamentals driving the recent surge in house prices are beginning to reverse."

And First NZ Capital Securities says in a March 2005 research report that while there are similarities between the property cycles in NZ and Australia, the NZ cycle has much more of a downside risk. It says net migration is weaker in NZ and the central bank in NZ has been more aggressive in raising interest rates.

"We are much more positive on the outlook in Australia than in NZ," First NZ Capital says. "The residential investment cycles have been closely aligned, but there's a key difference in migration trends between the two countries. While net migration in Australia has been broadly steady, a significant downturn is under way in NZ. This sets the scene for a further significant correction in residential building in NZ."

The clearest indicator is the volume of residential sales, which peaked late in 2003 and has been trending steadily downwards

Prices have been slow to react, but the rate of capital growth has declined recently and in some areas prices have fallen.

"The number of residential sales provide the best early warning of an imminent downturn," says First NZ Capital Securities.

The danger for Australians considering the NZ market is that the investment segment of the market is expected to be hit the hardest.

There are high levels of new supply of investment product at a time when demand is falling. All indicators point towards a looming oversupply of houses and apartments.

The normal market cycle in NZ

O'Donovan says the residential market historically has a large cycle every seven to eight years.

"Booms are different from busts," O'Donovan says. "Booms tend to be short and sharp while busts are mild and longer lasting."

He says the market upswing generally occupies two to three years, with prices accelerating sharply.

"You get big price swings on the upside as the supply of new houses is relatively fixed in the short term, so it takes time for increased supply to close a demand gap.

"The investment aspect of housing results in a momentum effect from rising house prices as investors jump on the bandwagon, leading the market to overshoot fundamentals."

When the bust comes, nominal house prices tend not to decline – although they're more likely to fall in a low inflation environment.

O'Donovan says, "People don't like to sell into a falling market, keeping their houses off the market and ensuring that the bust is several years of modestly increasing prices."

The current state of the market

Strong economic factors underpinned the price boom over the past three years. O'Donovan believes homes were under-valued in 2000 and there was a catch-up factor. There had been "massive" growth in primary sector earnings, large migration inflows in 2002 and 2003, low interest rates (until 2004) and good job security.

The exchange rate for the NZ dollar was near record lows in 2001 and 2002, making domestic property attractive to overseas investors and Kiwis returning from overseas. Dissatisfaction with returns on other investments provided further impetus for NZ real estate.

"It was a veritable alignment of the property stars," says O'Donovan.

But now, according the NZ Herald property editor Anne Gibson, the market has "hit the top of the wave and is heading back down again".

That seems to be the consensus among market commentators. The ASB Bank, in a March report, said the market has peaked and residential building is forecast to decline over the next two years. The Reserve Bank predicts house prices will fall 7 to 8 per cent by the end of next year.

O'Donovan says the housing market, particularly in the metropolitan areas, has "reached a mature stage" and is probably now at a plateau. Price growth peaked at the end of 2003, having risen more than 20 per cent in 12 months. By the end of 2004, annual house price growth has eased to 12 per cent and the rate of growth "is falling quite quickly".

"However, the housing boom is being extended in the provincial regions, with investors chasing yield," he says.

O'Donovan says most of the factors which drove the boom from 2001 onwards have turned. He says NZ housing is now 10 per cent overvalued and notes that in 1997, when the market last declined from a peak, housing was 6 per cent overvalued and prices fell 5 per cent on average thereafter. One difference with the 1997 scenario, however, is that the Reserve Bank pushed interest rates above 10 per cent – and NZ rates currently are much lower, though trending upwards.

The AMP *Home Affordability Report* in December 2004 recorded the steepest annual decline in home affordability (15.1 per cent) in nine years, after declines in three consecutive quarters. O'Donovan says up until the early 1990s the average NZ house price was 3.5 times the average wage – today it is 6.5 times the average wage. And BIS Shrapnel in February said the NZ building sector had reached its peak, ending the longest upturn in more than 15 years. The number of dwellings approved was expected to fall 6 per cent in 2004–2005 and a further 15 per cent over the next two years. First NZ Capital says residential building activity peaked in June 2004 and by the end of 2004 had fallen 12 per cent.

In addition to the downturn in sales volumes, specific areas are showing price weakness, such as Auckland Central, Nelson and Queenstown, according to O'Donovan.

First NZ Capital says housing supply has been increasing at a much faster rate than demand and the building approvals are about 35 per cent higher than apparent demand. It calculates underlying demand for new houses at about 18,000 a year, but dwelling approvals are currently running at 28,000 a year.

Overall, O'Donovan expects house prices to fall 5 per cent by the end of 2005, then rise around 4 per cent a year over the following three years. The greatest pressure will fall on the new investor market (owner-occupiers will be more resilient).

"There have been a lot of new entrants to the residential investor market in recent years," he says. "Much of that investment has been done on 100 per cent financing and skewed expectations of 10 per cent annual capital gains. With rental yields down to an average 4.7 per cent in Auckland, this segment of the market looks the most vulnerable.

"It's the investor part of the market where we expect most of the correction. There's a lot of the new supply coming into that market at a time when demand is drying up and we think prices will take a hit."

Blue Hancock of QV Valuations says the annual growth in values has shown gradual decline in most areas of NZ, although some areas are still showing growth.

"There's still good growth in property values in the regional centres of New Zealand, but the annual change continues to point to a gradual softening in the market," Hancock says.

PMI Mortgage Insurance, in a recent *Property Overview*, predicts NZ house prices will fall 6 per cent in real terms this year. PMI believes the combination of rising interest rates, a slowing in residential rent growth and an oversupply of housing in some areas will hit property prices.

"Apartments and lower priced property is likely to fare worse than average due to oversupply and limited demand," says PMI managing director Ian Graham.

The impact of interest rates

Interest rates rose several times 2004 but the impact was relatively muted because 72 per cent of NZ borrowers are on fixed rates, unlike Australia where most have variable rates. But most fixed-rate mortgages are short-term, averaging 1.3 years before loans are re-set – so the impact will be felt some time this year.

Westpac says in its March 2005 Monetary Pipelines report: "Over 50 per cent of the impact of last year's interest rate hikes is still to be felt. As fixed-term mortgages roll over, increasing numbers of borrowers will be faced with higher debt servicing costs."

Lenders in 2004 were competing strongly for business and keeping their mortgage rates low despite the rises in official rates. But early in 2005 fixed mortgage interest rates rose, as banks sought to retain their lending margins.

Are house prices where they "should" be?

Westpac has developed a model for NZ house prices, incorporating income and population growth, household formation, inflation, wealth effects, interest rates, building costs and other factors to determine where house prices should be.

"Most of NZ's recent house price boom has been justified by the economic fundamentals," O'Donovan says. "But by our reckoning, the NZ housing market is now 10 per cent overvalued. This is the speculative bubble component and the part of the market which will eventually correct. Specific segments, such as coastal properties and the investor part of the Auckland apartment market, may be subject to significant correction."

O'Donovan says the market was significantly overvalued previously in 1996–1997, by about 6 per cent on average. The Asia crisis and rising interest rates "cut the housing boom off at the knees" and prices fell around 5 per cent in 1998. The falls were more pronounced in Auckland, where much of that boom was focused.

"House prices didn't regain their December 1997 peak until the end of 2001," O'Donovan says.

Auckland apartments

Investors need to be wary of the Auckland inner-city apartment market. It has been flooded with small units carrying the promise of high returns which independent commentators say are unsustainable. Unit prices are rising sharply because of escalations in construction costs, driving down yields.

"Developers have no choice but to bring stock on at more expensive prices," developer Brady Nixon says.

One realtor specialising in inner-city apartment sales has sold 61 Auckland inner-city apartments to Australians (all of them from NSW) over the past 12 months.

"The reasons are the punitive entry and exit taxes plus capital gains taxes in NSW, plus low returns in Sydney," he says.

Auckland: has a median house price of $355,000.

PHOTOLIBRARY.COM

CAPITAL GAINS TAX ON NZ INVESTMENTS

A KEY NZ ATTRACTION FOR AUSTRALIANS IS THE PERCEPTION they won't have to pay capital gains tax (CGT). This perception is largely false and a trap for Australian investors.

There are several elements to this: speculative gains on rapid trading of property attract tax, there is a depreciation clawback which acts as a de facto CGT and Australians are likely to be hit for CGT by the Australian Government.

The Complete Guide to Residential Property Investment in New Zealand, by Lisa Dudson and Andrew King, says: "In NZ there is not a complete capital gains tax – however, there is a partial one. If you invest in property for the long term and your principal income is rental money, then there is no CGT when you sell the property. But if you invest in property with the main aim of selling it for a profit, then your capital gains are taxable."

Auckland developer Brady Nixon reinforces this, saying: "The general impression that you don't pay tax on capital gains is false. If you are buying to sell in a very short time frame you'll get taxed like anyone else."

Another hidden nasty for investors in NZ property is that any depreciation allowances you have claimed while owning the property must be, in effect, paid back when you sell that property. This works as a de facto CGT.

Dudson and King call this the "depreciation clawback". Tax is paid when the sale price of the property exceeds the depreciated book value of the property – the difference is treated as taxable income to the vendor. "Any depreciation recovered is limited to the amount of depreciation you received," they say.

And then there's the Australian Government. The Australian Edition of *The Guide to New Zealand Property Investing*, by Antony Anderson and Sigrid de Castella, says: "Australia has one of the toughest and most sweeping taxation regimes in the world. In many cases money brought into the country needs to be accounted for as income – and tax paid. The CGT laws include most capital gains made overseas."

Brisbane accountant Mark Yates of MD Yates & Associates confirms Australian investors selling NZ property for a profit have to disclose that gain in their Australian tax return.

"If you sell an NZ asset and make a capital gain, it'll be treated as a normal capital gain in Australia," Yates says.

He claims a studio apartment costing $125,000 would rent for $250 a week and provide a net return of 7.4 per cent after management fees. He says a one-bedroom apartment costing $170,000 would rent for $350 a week, returning 8.3 per cent after management fees. And he quotes a $300,000 two-bedroom apartment fetching $425 a week in rent, returning 5.5 per cent after management fees.

But independent commentators put a very negative perspective on that market.

Trass says: "Frankly, there's far too many being built. We have too many shoe-boxes – 30 or 40 square metre apartments. They're building them everywhere and rents are plummeting. A few years ago $135,000 studio apartments were fetching $350 a week in rent, but today to get a tenant at all they have to drop the rent to $200 a week. And to re-sell that property, you would be lucky to get $105,000 for it. That kind of thing is happening now in our apartment market."

Trass says Auckland apartments provided a good market to be in three years ago, when there were strong rents and "fantastic" yields.

"Unfortunately, in the last two years so many new developments have been started and more have been approved for development," he says. "There are numerous apartments blocks yet to be finished and irresponsible developers are selling off the plan – yet we have a clear situation of oversupply.

"Unfortunately for the Sydneysiders, they look at the values in Sydney and they compare the yields and think, 'We're better off in NZ'. But we're in a falling market and the rents purported by the developers to be achievable are yesterday's rents. They don't exist any more.

"By the time some of these projects are finished, the rents will be significantly lower than projected and the value of the apartments won't be what investors have paid for them. The developers are saying apartments will be worth 20 per cent more by the time the project is finished. It's hogwash."

Some believe Asian students provide a ready rental market but O'Donovan says the foreign student market has declined "so there will be less demand for the shoe-box inner-city apartments".

Developer Nixon agrees the boom in inner-city apartment sales has dissipated.

"It's fair to say that over the last year it has been a lot quieter in Auckland in terms of sales." Nixon says developers have started to reconsider development plans, not only because of a sales falloff but also because of rising construction costs.

"The construction cost of one of my buildings jumped from $13.5 million to $18.5 million in 12 months," he says. "Costs of construction materials are just horrendous and there's a shortage of labour."

Nixon says the predicted flood of apartments hasn't occurred because some developers have cancelled their projects.

"There are a lot of developers who have pre-sold but have had to cancel their projects and start again from scratch and pre-sell at prices that work.

"The prices at which they originally pre-sold made the projects unviable. So a lot of projects just haven't come to fruition.

"So we should see less and less cheap and nasty products. And that's good – the sooner they are gone the better."

Nixon builds small boutique apartment buildings in the suburbs, selling units in the $450,000 to $1.3 million price range to a niche market, a market he says remains healthy. His units are generally 90 sqm and larger.

"Everyone is running around saying that the Asian students want to live in these (small inner-city) apartments. But they don't necessarily want to live in small places. They want the same lifestyle as the rest of us and they won't buy that smaller stuff.

"While they have been advertising returns for the smaller apartments that were quite high, I would be dubious. They were projecting $400 to $550 a week on a small apartment but that's what you would expect for an ordinary-sized apartment.

"So, from the investor's viewpoint, you would have less risk buying a larger apartment. The return might not be so big but you're more likely to get a capital gain."

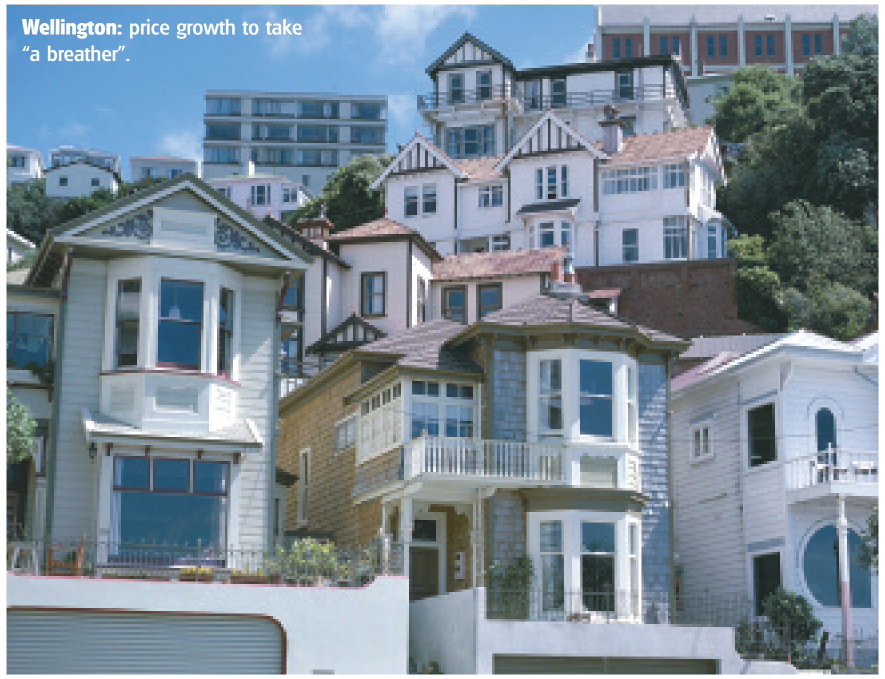
Nixon says $400 to $500 a week is achievable on a two-bedroom apartment of 70 sqm or larger, providing returns in the 5 to 7 per cent range.

"Australians have been coming to NZ expecting to get really high returns, more than 7 per cent. I would suggest they should do some more homework. It's not normal to get more than 7 per cent in NZ. They should tread carefully. They have to take what a developer says with a grain of salt."

Nixon suggests investors ignore returns when making buying decisions but look at the fundamentals of the market and the property.

"People are buying expecting to be able to live on the surplus income but in real terms those returns aren't so good."

Another factor is the re-sale value. Early 2005 re-sales in The Statesman, sold off the plan in mid-2003: a one-bedder originally bought for $250,000 re-sold for $270,000 (about 5 per cent a year capital gain), a $280,000 two-bedder re-sold for $307,500 (about 6 per cent a year) and a $140,000 studio apartment re-sold for $160,000



Wellington: price growth to take "a breather".

PHOTOLIBRARY.COM

THE DANGERS OF BUYING IN SMALL TOWN NEW ZEALAND

MANY INVESTORS HAVE TARGETED PROVINCIAL CENTRES AND small towns in NZ for the higher residential returns on offer.

The small South Island city of Timaru is one example, where yield-chasing investors have been buying enthusiastically.

Carl Slade, who runs a real estate agency in Timaru, says his local market has continued to trade strongly in 2005, despite weakness in some of the big city markets. Slade says the local economy is healthy, with a strong dairy farming industry.

"It seems like we're bucking the national trend," Slade says. "It's no longer a frenzy and I believe we're past the peak. But it's still a strong market.

"Investors are still buying which I find amazing because the returns are right down. Blocks of flats are selling at 7 to 8 per cent which I think is really low but a lot of Australians think it's good. At the start of the boom you could buy rental properties and get 12 to 13 per cent returns."

Based on the January median house price and the median rent for a three-bedroom house, Timaru provided gross rental yields of 6.5 per cent, while a higher median price in February ($170,000) reduced the average yield to below 6 per cent.

Researcher Kieran Trass, managing director of research company the Hybrid Group, says small centres are vulnerable to economic downturns or a hiccup in the major industry which underpins its prosperity – such as the local farming economy.

"Australian investors haven't seen small town NZ in tough economic times and how it impacts on property investment in places like Timaru," he says.

Trass says Timaru suffered in an economic downturn in the 1990s which "wasn't pretty", with high vacancy rates.

Another small provincial centre which has attracted property investors is Tokoroa in the Waikato region of the North Island. The real estate has been cheap and the yields high.

But a downturn in the major economy supporting the area, the timber industry, can result in layoffs and high property vacancies. Trass says that has happened in the recent past and city investors have had to sell out at "giveaway prices". Recently, Tokoroa has been characterised by high unemployment, below-average household incomes and falling population.

Mary O'Brien of NZ Mortgage Solutions says areas such as Tokoroa are typical of the ways Australian investors can get bitten in the NZ market and investors should avoid towns with just one industry.

"Tokoroa has the largest saw mill in the southern hemisphere but it's the only industry there and there have been redundancies galore. Some Australians have bought multiple houses there, attracted by 12 or 15 per cent returns. I have a cousin with four there and they've been empty for 12 months.

"There's only one bank that will lend in Tokoroa now."

In addition, with recent rapid price rises, those high returns are now much harder to find.

In North Island regional centres such as Tauranga, New Plymouth, Hastings and Taupo, gross rental yields are now in the 4 to 5 per cent range, based on the median house price at February 2005 and the median rent for a three-bedroom house. Rotorua, Wanganui and Gisborne are closer to 6 per cent, while Levin returns are around 6.5 per cent gross.

Small South Island centres like Timaru and Oamaru have seen price rises which leave gross yields around 6 per cent. You need to head for the deep south to find higher yields, with Invercargill providing around 7 per cent and nearby Gore 9 per cent.

Christchurch: benefiting from population growth.

PHOTOLIBRARY.COM

(about 9 per cent a year). On the other hand re-sales in The Stanford, completed in 2004, have show substantial losses. Tiny 37 sqm apartments which were originally bought for $189,000 have re-sold for $150,000 or less.

Investors should also beware of products sold with rental guarantees. One realtor says many Auckland developments have been sold in the past with 9 per cent returns guaranteed for the first two years, but says the value of the guarantee was built into the sale price.

O'Brien says lenders are becoming stricter on lending for inner-city apartments. She says many lenders adopt a policy of perhaps 80 per cent LVR for apartments above 50 square metres, but are increasingly tough on smaller units.

"For apartments below 40 square metres, only three will lend at all and then only with a 50 to 65 per cent LVR," she says.

FINANCE CONSIDERATIONS

MARY O'BRIEN OF SYDNEY-BASED NZ MORTGAGE SOLUTIONS HAS BEEN "VERY BUSY" helping Australians and Australian-based New Zealanders looking to buy NZ property.

O'Brien, a New Zealander who worked in mortgage broking in Auckland for five years, says she deals with 15 different lenders in NZ.

"Most people don't realise they can get a loan here in Australia to buy property in NZ," she says. "They can get a pre-approval and fly over to NZ with the confidence that they can make a purchase."

O'Brien says there are new loan products designed for Australian-based investors buying in NZ and borrowers can potentially get up to 90 per cent of the purchase price to buy in NZ's main centres. There are also low-doc loan products, although the LVR is more likely to be 70 per cent.

She says most of the mortgage products she handles provide a valuation report, with a copy going to the borrower, unlike in Australia.

"The valuer may cost $350 or more but the client gets a copy of the valuation which tells them a lot about the house they're buying. The valuer may reveal there's a leaky wooden window or a roof in poor condition."

She says most of the NZ lenders she deals with don't charge establishment fees.

"It's important to deal with someone who has lived over there and been associated with the banks over there," she says.

Specific areas

Hancock says while capital growth has slowed in NZ overall, some areas have continued to show impressive growth.

New Plymouth residential property values grew 33 per cent in the year to February 2005, while Dunedin (28 per cent), Tauranga (24 per cent) and Christchurch (19 per cent) also did well. But more recently these cities have shown a decline in growth.

QV Valuations says residential property values in Nelson fell 4.3 per cent in the year to February 2005 while nearby Tasman fell 1.4 per cent.

According to the *QV Residential Price Movement Report* for February 2005, the most affordable areas include the North Island regions of South Waikato ($84,000), Ruapehu ($91,000, despite 38 per cent annual price growth), Waitomo ($101,000), Rangitikei ($104,000), Stratford ($112,000, despite 42 per cent growth), South Taranaki ($113,000), Otorohanga ($124,000), Wairoa ($125,000), Wanganui ($128,000, despite 34 per cent growth), Horowhenua ($147,000), Central Hawkes Bay ($165,000), Manawatu ($167,000), Waikato ($168,000), Masterton ($175,000) and Gisborne ($183,000, despite 27 per cent growth).

In the South Island, the cheapest areas are Buller ($113,000, 38 per cent growth), Grey ($141,000, 39 per cent), Westland ($147,000), Ashburton ($180,000), Timaru ($158,000, 27 per cent), Mackenzie ($165,000, 32 per cent), Waimate ($108,000, 34 per cent), Waitaki ($148,000), peninsula/coastal Dunedin ($186,000), Clutha ($107,000, 34 per cent), Southland ($136,000), Gore ($110,000) and Invercargill ($133,000).

Virtually all those locations are small town NZ. While the prices are cheap and the yields are potentially high, they may represent high risk given that they tend to be underpinned by one major industry.

Auckland

The PMI *Residential Property Overview* says population growth is easing, reducing demand for housing. The slowdown is likely to continue until late in 2005. House prices are expected to rise by 5 per cent in real terms in the next three years.

In February, the latest month for which figures are available, there were 3300 house sales across the Auckland metropolitan area, more than in December or January, but still down on the March 2004 peak of 3900 sales. The median price has fluctuated since November, from $352,000 to $350,000 to $340,000 and then $355,000 in February.

Nixon suggests investors look in near-city suburbs such as Eden Terrace and Newmarket, where the policy of the Auckland Regional Council of allowing higher density to alleviate urban sprawl should produce positive outcomes.

"Higher density is being pushed. It allows buildings of up to five storeys. These areas will develop and become really nice suburbs with a more residential feel and more cafes."

Wellington

The recent fall in sales volumes in the capital city is the fastest decline in a decade. Price growth will "take a breather", PMI says, and in real terms prices will remain unchanged over the next three years. There will be continued demand from a growing public sector. Wellington's median house price peaked at $282,000 in November 2004 and has been hovering around the $275,000 mark since. In some sections of the city, the median house price fell sharply in February, although other areas had rises.

Christchurch

The South Island's biggest city has been one of the outperformers, benefiting from population growth.

But this factor is expected to decline and prices will fall in real terms over the next two to three years, says PMI.

Early in 2005, the median house across Christchurch city was hovering around $250,000, with some areas of the city showing sharp declines in February, while others continued to show healthy increases.

Waikato/Bay of Plenty

The region's real estate has benefited from a buoyant export sector, says PMI, but price growth has not been as strong as other regions of NZ, suggesting housing is not as overvalued as elsewhere.

"This implies a positive outlook for property prices over the medium term," PMI says. Its median house price early in 2005 was around $245,000.

> **"Most of NZ's recent house price boom has been justified by the economic fundamentals. But by our reckoning, the NZ housing market is now 10 per cent overvalued."**
>
> **BRENDAN O'DONOVAN,** WESTPAC

Taranaki/Manawatu/Wanganui

This mid-North Island region enjoyed rising values in 2004, despite negative population growth. The region's mixed prospects are reflected in the outlook for house prices – it's estimated they will rise only 3 per cent rise by mid-2007 (a 4 per cent fall in real terms).

The median house price for Taranaki fell in February to $193,000, but in the Manawatu-Wanganui region it rose to $155,000.

Hawkes Bay

Demand for coastal land has driven rising values but this has not translated into population growth.

"This points to sustainability of house prices remaining in question," PMI says.

It forecasts house prices will fall 9 per cent in real terms over the next two to three years. The median house price for the region fell in February 2005 to $242,000.

Nelson/Marlborough

The northern tip of the South Island is leading the market downturn. Two years of strong price growth reduced affordability, causing a decline.

"Some price falls are expected over the next nine to twelve months," PMI says.

In Nelson, one of the stellar performers during the boom, median prices peaked at $310,000 in December 2003 and have been fluctuating wildly since, dropping as low as $247,000 in mid-2004 but increasing to near $300,000 early in 2005.

Canterbury/Westland (not including Christchurch)

Rising population growth and strong real estate activity have lifted prices across the region. PMI believes some parts are now overvalued and expects prices to fall in real terms over the next two to three years.

Median prices for Canterbury/Westland fell to $231,000 in February.

O'Donovan says investors have been paying "excessive" prices for properties.

"A few years ago people were struggling to get $35,000 for a section (home site) but now they're going for ten times that rate."

Otago/Southland

The southern-most region of NZ is considered the most overvalued and sales activity has slowed markedly recently. Population growth is also flagging, says PMI. Apart from the resort areas around Queenstown, house prices are expected to fall 12 per cent in real terms by mid-2007.

Across the Otago region the median house price eased downwards in February. In Queenstown, property prices peaked with a $510,000 median late in 2004 but eased considerably early in 2005. ■

Terry Ryder is a freelance journalist who has published four books on the real estate industry – the latest is *Real Estate Without Agents*. Email: ryder@pacific.net.au

* All prices in $NZ