



Analysis of the current Residential Property Market Performance

Kiwi's have a long history of investment in the property sector and recent experiences with the wider finance industry drove many to seek security in property only to find that their investment was declining in value as the economy struggled. Recently, commentators have been inclined to hint that the property market has indeed bottomed out and now we are seeing a rise in buyer interest and prices being paid. Few however are prepared to state categorically that things are on the improve.

A recent BNZ-REINZ Market Survey gave some early indications based on a survey of 664 respondents and a review of what other commentators are thinking, has provided a number of insights into the key developments in the main centre residential property sector:

- Most parts of Auckland are experiencing upward pressure on prices with more motivated buyers than there are sellers and a widely reported shortage of homes. Recent comments by the Mayor that they are short of at least 5,000 homes and that the wider city has felt the pressures of an influx of people from Christchurch (estimated at 20,000+) moving there with few looking to return South suggest that this situation will continue and a possible mini building boom may result to satisfy this demand.
- Hamilton residential prices and activity is fairly static and there has been a slowdown in commercial development at the northern end. This is however predicted to show more positive growth due in part to the strength of milk and commodity price returns. There is also a likely flow-over effect in values from the Auckland market.
- Wellington by contrast is lagging in all readings and it is projected that property values will continue to drop due to business drift North, a committed government programme of reducing the size and cost of the state sector and net migration with many public servants looking at Australia where there is growth in federal and state government agencies.



- Christchurch is in disarray with many homes damaged, government indicating quite openly now that extensive demolition will be required in the CBD and many suburbs will be abandoned and the city is yet to find a way ahead with recent reports that a further 20,000 are looking to leave the region. Commentators are now suggesting that up to 40,000 of Christchurch residents will leave the region and this combined with the widespread damage will result in a difficult period ahead for that market.
- Dunedin property values are static with little evidence of growth as a result of the Christchurch earthquakes. On average homes fell 2.8% in value over the last 3 years with the only positive aspect in that market being growth in the values of dairy farms and industrial properties.
- Taranaki is benefitting from high commodity prices and expansion in its oil and gas industry and has shown relative resilience to changes in property values. However this has not resulted in large numbers of people moving to the region which is the major driver of residential property demand and price improvement.
- The Hawke's Bay economy has suffered during the recession with recent reports suggesting that the region may have lost up to 4,000 jobs over the last few years and that there has been a significant migration from the region. As a result property values continue to fall slowly and sales volumes are low.

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News and Views



Peter Harrison

The economic environment is still one that is characterised by uncertainty.

Internationally, fragile growth is being threatened by the crisis in the euro zone resulting from the threatened loan repayment defaults by Greece unless a rescue package can be put together by the European powerhouse economies of Germany and France. Economists predict a further financial meltdown in the event of a Greek default. However, it would appear there is a concerted effort being made to ensure that will not happen.

Elsewhere, economic recovery is happening in the USA and Japan albeit at a slower rate than initially anticipated. The only economies with strong growth are those of our neighbours in the region and growth there is being driven by the economic powerhouse of the Chinese economy. In New Zealand, despite strong commodity prices, economic recovery is slow because of the enormous damage that has been caused by the Christchurch earthquake. That, however, should provide an impetus for growth going forward.

In the light of the above, interest rates remain at historical lows and our distribution rate reflects this. The slowness of the recovery means that our rate is taking somewhat longer than anticipated to improve.

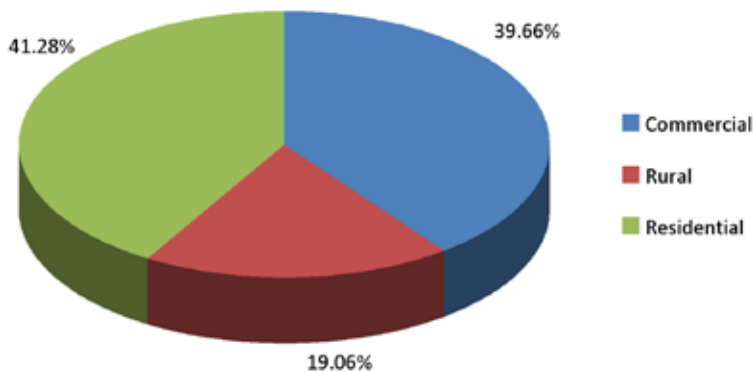
Regards

Peter Harrison
General Manager

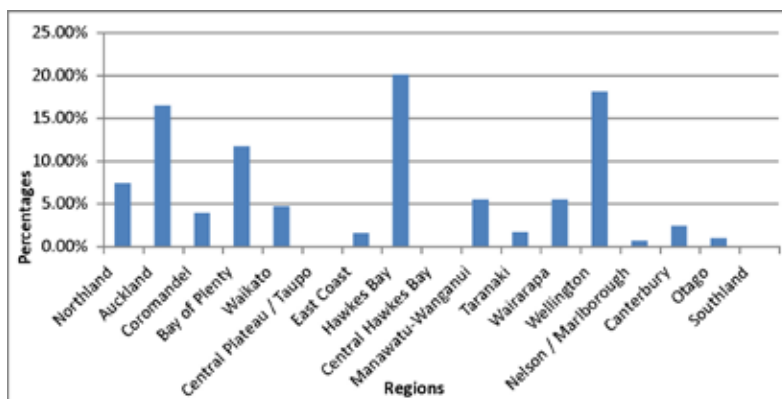


Liquidity

The fund is required to have a minimum liquidity of 5% of investor funds.
As at 31 May 2011 liquidity amounted to \$4,404 million, being 8.97% of investor funds



Loans by Region as at 31 May 2011



Out and About



Midlands Hawke's Bay Charity Wine Auction a great success!

The Midlands Hawkes Bay Charity Wine Auction was the 20th anniversary of the event this year and is the longest running wine auction event in New Zealand. It is a major supporter of the Cranford Hospice with Midlands Mortgage Trust as principal event sponsor and the wines being donated by the region's winegrowers.

A feature of the event has also been the support of artists who donate a significant work each year in support of the Charity. The further support of a wine loving audience provides the impetus for spirited bidding.

This year's gala event saw the winemakers outdo themselves in providing a superb array of wines specially crafted for the event. Elephant Hill winery in Te Awananga proved to be a stunning venue for the auction in their delightfully decorated winery and a unique painting collaboration by nationally recognised artists Dick Frizzell and Martin Popplewell drew a winning bid of \$22,000 on the day with total funds raised rounding out at \$144,000.



Granford Hospice enjoyed the support of a wine loving audience

"The Midlands Hawkes Bay Charity Wine Auction is an excellent joint effort by the Hawke's Bay Winegrowers in partnership with Midlands in supporting

our local hospice," according to Cranford spokesperson Graeme Milne.

Analysis of The Residential Property Market continued...

The Migration Effect

A significant factor in demand across the residential housing market in New Zealand has always been the impact of net migration.



The Christchurch earthquake and the massive pull from a buoyant Australian economy have pulled a large number of people from New Zealand. However, despite that, net migration is quite low due to solid arrivals from elsewhere.

Although there are many other factors at play in the housing market, cycles in migration have been mirrored by housing price cycles.

Anecdotal evidence is also that migrants are those with higher net worth at present (impacting adversely on more expensive properties) and immigrants are those with a lower wealth (and consequently buying at the lower end of the housing market).

There is also a tendency for people arriving from overseas tending to want to live in Auckland or other major centres whilst people leaving tend to depart from all over New Zealand.

At present we have a situation of emerging housing shortages in Auckland with surpluses in many other regions. High migration flows tend to hasten the long-term northward drift already evident in New Zealand and such structural shifts produce winners and losers along with the relative price changes that accompany them.

Sales

Nationwide sales rose a seasonally adjusted 0.3 percent, which followed a 4.5 percent rise in March. Sales have continued to lift from their late 2010 trough but remain around one third below historical averages as a portion of the dwelling stock.

However you interpret the data, it is clear that Auckland's market will continue to grow and the balance of the country has yet to turn the corner in terms of sales values and the demand for property.

Events Calendar

Hawke's Bay Events

'Game On' Exhibition – Hastings City Art Gallery

When: July 09, 2011 9:00am
October 02, 2011 - 5:00pm
Where: Hastings City Art Gallery
More: www.visithastings.co.nz

Peak House Restaurant Shows

When: July 23, 2011 - August 13, 2011
Where: Peak House Restaurant, Te Mata Peak, Havelock North
More: www.visithastings.co.nz

Soap The Show

When: August 19, 2011 - 7:30pm to
June 20, 2011 - 9:30pm
Where: Hawkes Bay Opera House
More: www.visithastings.co.nz

Takitimu Festival

When: September 15, 2011 -
September 18, 2011
Where: Various Hastings locations
More: www.visithastings.co.nz

Hastings Blossom Festival

When: September 16, 2011 -
September 25, 2011
Where: Hastings, Havelock North
More: www.visithastings.co.nz

Hawke's Bay Racing – Spring Racing Carnival

When: September 17, 2011 -
October 01, 2011
Where: Hastings Race Course,
Prospect Road
More: www.visithastings.co.nz

Hastings Blossom Festival Parade Day

When: September 17, 2011
10.30am - 4.30pm
Where: Hastings City
More: www.visithastings.co.nz

Rugby, Haka, and Hangi Festival

When: September 20, 2011 -
October 01, 2011
Where: Napier/Hastings
More: www.visithastings.co.nz

Hot Pink Charity Cocktail Party

When: September 23, 2011
6:00pm - 11:00pm
Where: Hastings
More: www.visithastings.co.nz

New Zealand Olive Festival

When: September 24, 2011
10:00am - 4:00pm
Where: Sileni Estate Winery
More: www.visithastings.co.nz

Le Jeu 'n' Urlich

When: September 24, 2011
6:30pm
Where: Hawke's Bay assembly room,
Hastings
More: www.visithastings.co.nz

Rugby World Cup 2011 France v Japan

When: September 27, 2011
5:00pm - 7:00pm
Where: McLean Park, Napier
More: www.visithastings.co.nz

Central Hawke's Bay Events

Norsewood To Takapau Fun Walk/Run/ Cycle

When: Sun 17th Jul 2011
Where: Norsewood School, Coronation St,
Norsewood
Time: 8am registrations. 9am walkers
Start: 10am

Mini Exhibition at Electra Gallery - "Chefs on Show"

When: Sat 6th Aug 2011 -
Sun 14th Aug 2011

Onga Onga 7's tournament

When: Wednesday 10th August
When: Onga Onga Rugby Club
Postponement day Thursday 11th

Takapau Rugby Football Club 125th Jubilee

When: Fri 12th Aug 2011 -
Sun 14th Aug 2011
Where: Takapau Rugby Club
More: www.lambcountry.co.nz

CHB Settlers Museum Inc - Lambcountry Exhibition

When: Sun 21st Aug 2011 -
Sat 29th Oct 2011
Where: CHB Settlers Museum, Waipawa

CHB - The Festival

When: Thu 8th Sep 2011 -
Sun 11th Sep 2011
Where: Pukeora Estate

The Great Lamb Chilli Cook Off

When: Sat 10th Sep 2011,
from 9am to 5pm
Where: Ruataniwha Street, Waipukurau

Mutton Dressed as Lamb Ball

When: Sat 10th Sep 2011 7:00 pm to Sun
11th Sep 2011 1:00am
Where: Kiwi Backyard, James Street,
Waipukurau

Carters Hatuma Half Marathon

When: Sun 18th Sep 2011,
from 8 am to 12 pm
Where: Waipukurau Racecourse

Taranaki Events

John Rowles - The Final Bow Farewell Tour

When: 1 July 2011
For 45 years New Zealand has watched the 'Kawerau Kid' John Rowles scale the highs and lows of the global music industry. Now in his 65th year Rowles has decided to go out on top in true style

The Man In Black - The Johnny Cash Story

When: 02 July 2011
Starring Tex Perkins & The Tennessee Four
A celebration of the life and times of one of the most incredible singers, songwriters and entertainers ever to grace the stage

Antique Fair

When: 2-3 July 2011
Come along to the 8th annual Antique Fair at New Plymouth's Pukekura Raceway. Adult tickets are \$5 (door sales only) and are valid all weekend. Children are free when accompanied by an adult

Dorothy the Dinosaur's Travelling Show

When: 21 July 2011
Dorothy the Dinosaur is bringing her brand new show to New Plymouth in 2011. It's called Dorothy the Dinosaur's Travelling Show! You won't believe your eyes!

Brass Spelndour - 27 July, 2011

When: 27 July 2011
Sponsored by National Bank Private Banking & Ryman Healthcare Ltd Vesa-Matti Leppänen - Director NZSO Soloists Brass ensemble Elgar - Severn Suite Grieg

Luger Boa and Black River Drive

When: 30 July 2011
The Rock presents: The Double Strength Tour featuring Luger Boa and Black River Drive with special guests to be announced. Raw, Wild, Sexy, Unpredictable and Mind-blowingly Intense



Peter Harrison



Darren Olsen



Tony Brooker



Anne Hunter