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TONY ALEXANDER Regional Property Insights

APRIL 2023



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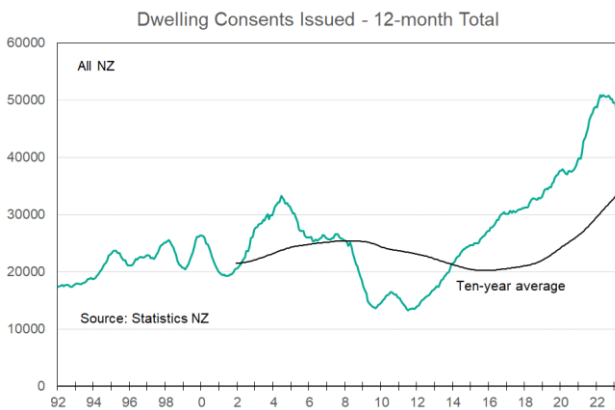
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Introduction

Welcome to the third issue of Regional Property Insights for 2023, prepared by Tony Alexander with the support of First Mortgage Trust.

In this month's Regional Property Insights, I look at the turning of the home construction boom in New Zealand which got underway in 2012. The number of consents issued for new dwellings to be built fell from 27,000 heading into the recession of 2008 to the lowest level since the 1960s of 13,500 in 2011.

This decline occurred even though New Zealand did not go into the 2008-09 Global Financial Crisis with excess production of houses as happened in many other economies. Yet our sector was tainted with the same consumer and banking aversion and construction plummeted. This created a shortage of housing, especially in Auckland, which led to a rise in consent numbers stretching for a remarkable 11 years and reaching a record 51,000 in May last year.

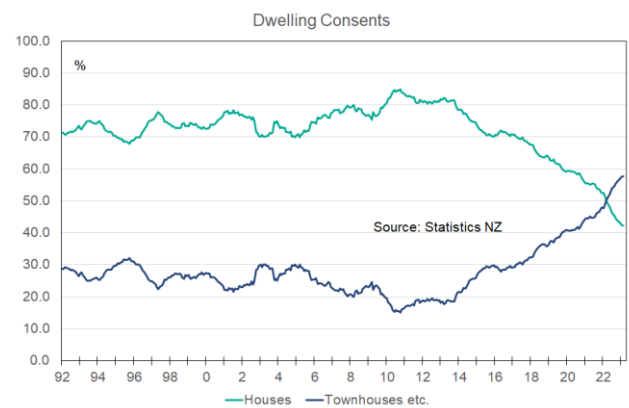


Now, consent issuance is falling in response to many pressures. Bank credit is tighter to get for both builders and buyers, consumer confidence is extremely low, monetary policy has undergone a rapid tightening from excessively loose conditions, net migration flows were negative until recently, and the sector has been hit by supply chain problems, soaring materials costs, and shortages of labour.

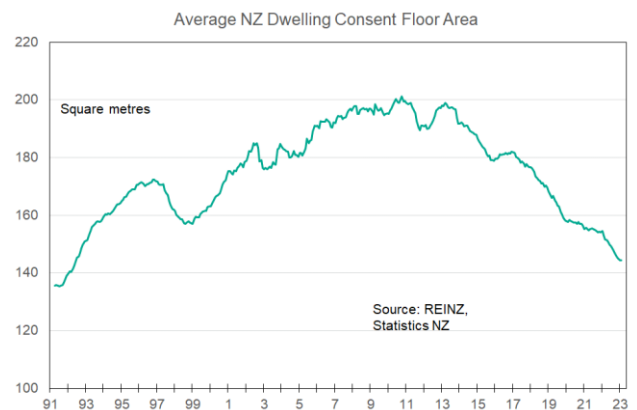
The nationwide number of consents has fallen from the 51,000 peak to 48,300 in the year to February and

numbers for the past three months were down by 18% from a year ago. February was 29% down from February 2022.

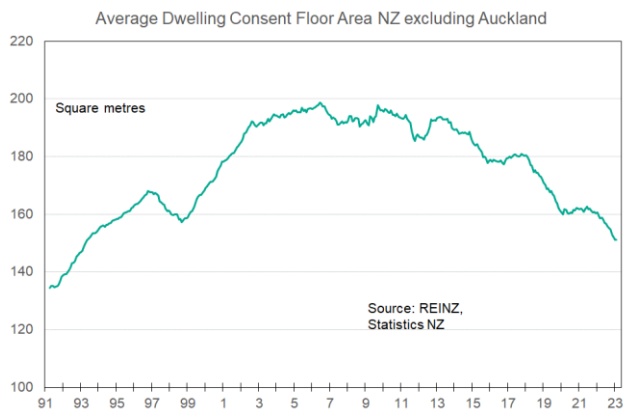
As previously noted in this publication, one of the more distinct characteristics of the surge in construction in recent years has been the switch away from standalone houses towards townhouses. Houses used to account on average for over 70% of all consents. Now that proportion is just 42% with attached dwellings accounting for 58% of all dwellings now.



For most regions there is some space left after discussing these developments, so I include a graph showing how the average dwelling size is shifting through time. The next graph here shows the change for all New Zealand. The average size is almost back to where it was when the series used to create this measure started in 1991.



Note that even removing Auckland the trend is firmly towards smaller dwellings though not to the same degree as in our largest city.



As with all the material presented in RPI, my aim is to provide information which can be collected up over time and used as input into one's property purchase and divestment decisions.

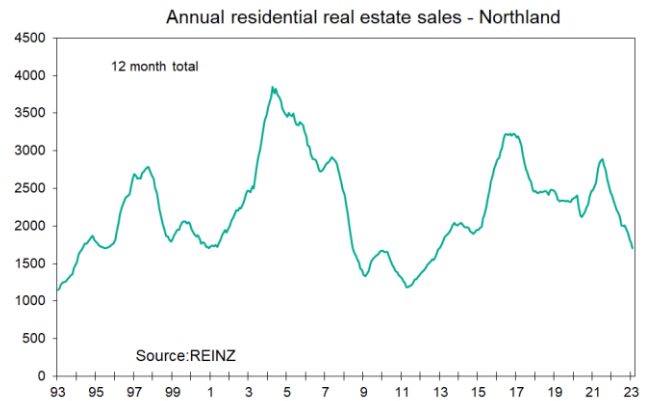
Previous issues of Regional Property Insights are available here. [First Mortgage Trust Articles](#)

Further extensive discussion of house price movements and factors affecting prices can be found in the weekly Tony's View publication available from www.tonyalexander.nz

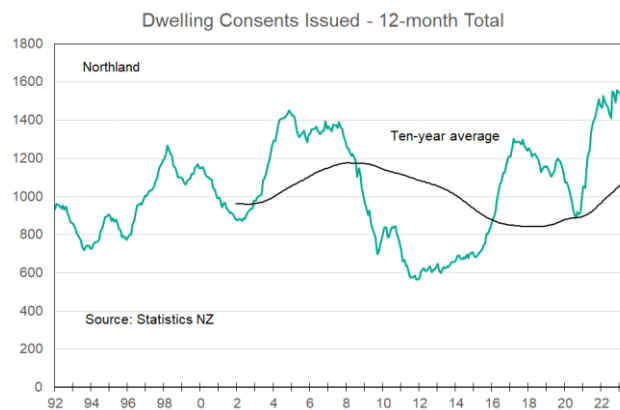
Northland

Falling away

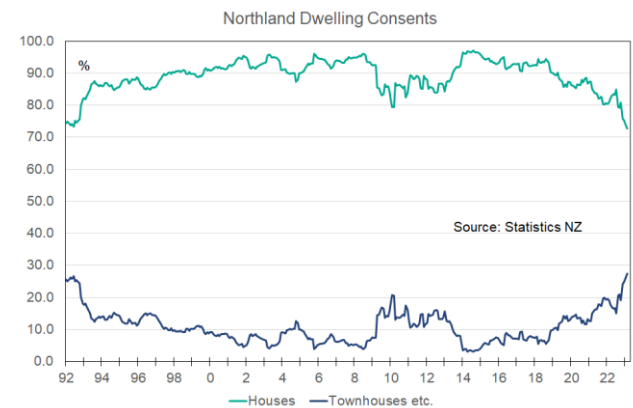
The annual number of dwellings consents issued in the Northland region peaked at 1,557 in November last year from fewer than 600 in 2011. The peak was not all that much greater than that seen pre-GFC, in contrast to the country overall where the 51,000 peak well exceeded 33,000 in 2003.



The Northland region has continued to have a relatively large proportion of consents accounted for by standalone houses rather than attached units in the form of apartments, townhouses etc.



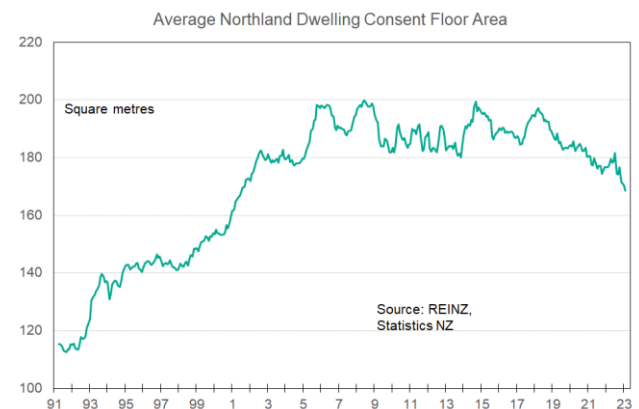
The pullback in issuance so far has been relatively mild with numbers in the three months to February down 15% from a year earlier.



This decline however is about the same as the nationwide fall of 18% and tells us that at this stage the region is not bucking the new trend towards much lower consent numbers and an eventually much lower level of dwelling construction.

For your guide, the average size of a dwelling built in Northland has been trending down since 2018. The profile of up then down since 1991 is interesting. Aging, relocating Aucklanders with wealth building houses but now townhouses becoming relevant?

There is a well-established relationship between rising sales and rising construction, then falling sales and falling construction. Annual dwelling sales in the Northland region have fallen 27% in the past year and were 40% lower in the three months to February from a year earlier. This tells us that much lower consent numbers are in the offing for the coming year at least.



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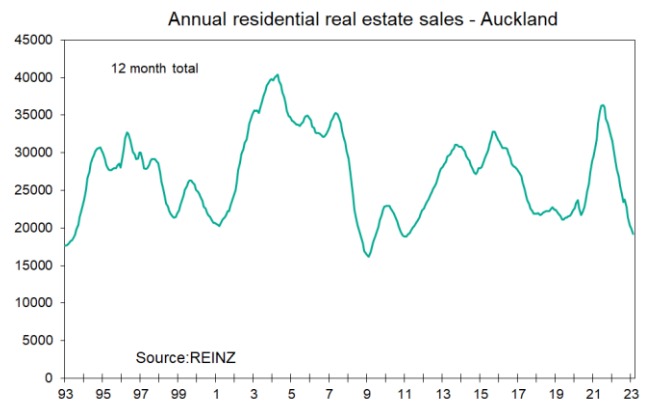
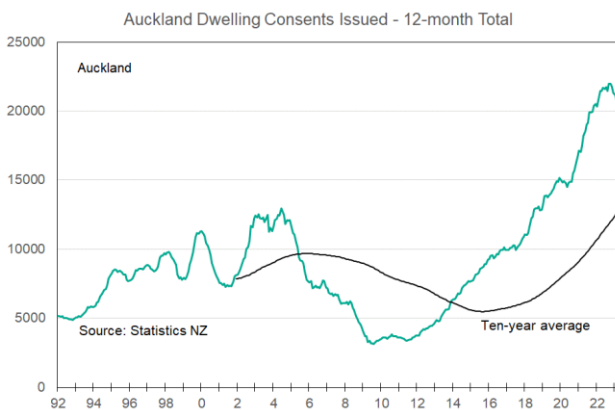
Auckland

Construction bust, boom, bust again

Consent numbers in Auckland fell sharply during and following the 2008-09 recession, hitting an annual number of just 3,400 in 2011 from 13,000 in 2004. This decline was quickly seen as producing a shortage of housing in our most populous city and this helps explain why house prices surged in Auckland 2-3 years earlier than in the rest of the country post-GFC. The shortage in turn helps explain the surge in consents to 22,000 last year.

The townhouse surge can be explained by the shortage of land zoned for residential construction on the outskirts of the city, along with the 2016 Unitary Plan allowing greater residential densification.

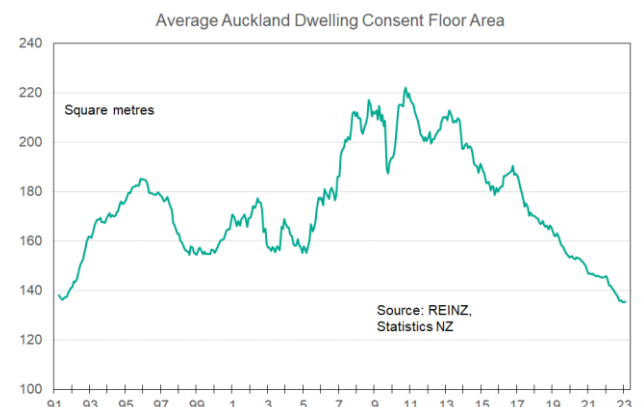
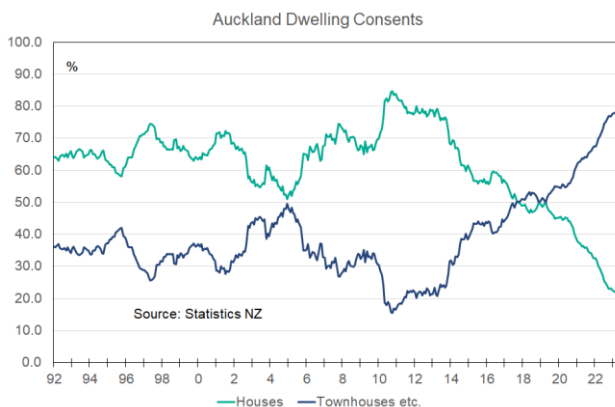
The annual number of consents issued in Auckland has fallen to 20,800 from a peak of 22,000 in September last year. The pullback so far is relatively mild considering the 1.2% population shrinkage in the two years to June 2022. Further, much more substantial, easing of consent issuance is expected in light of the decline in dwelling sales by 37% in the year to February compared with a year earlier.



A defining characteristic of that surge has been the strong shift away from standalone house construction towards attached units – some apartments but mainly townhouses. Attached units recently accounted for 78% of all dwelling consents issued compared with 20% when the construction upturn started in 2012.

Sales are now the weakest since the GFC and risk going lower. Downside risks for construction in Auckland are very strong.

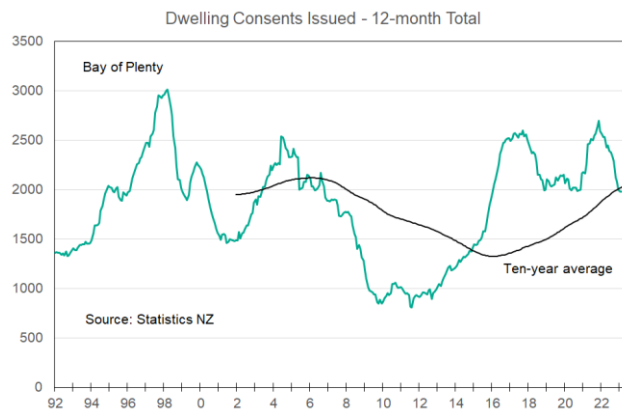
Note the strong decline in Auckland’s average dwelling size post-GFC to a now record low level of 135 square metres.



Bay of Plenty

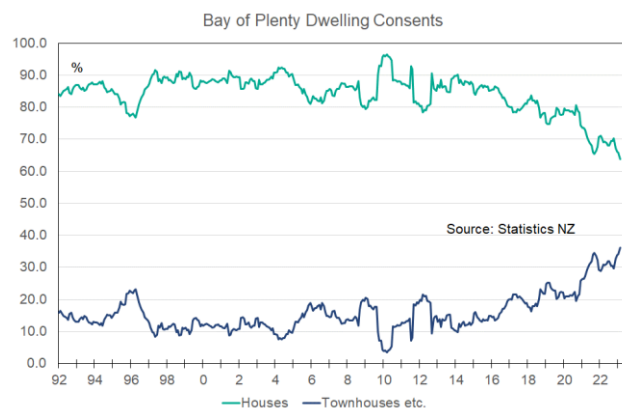
Leading the consents decline

For all New Zealand the annual number of consents issued in the past year of 48,200 is well above the ten-year average of around 27,000. In contrast, in the Bay of Plenty region consents of 1,980 in the past year are almost exactly equal to the ten-year average.

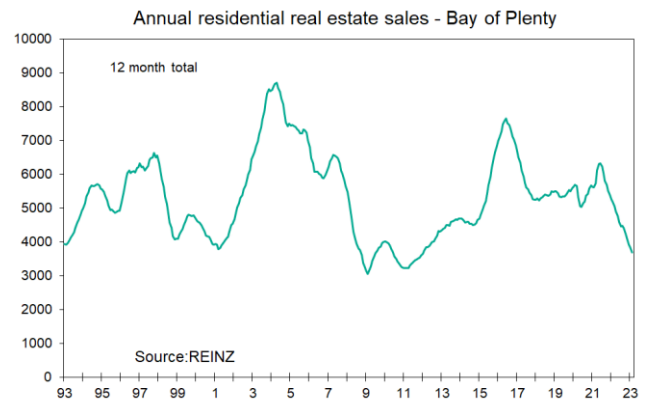


Numbers have fallen away substantially in the past year from a peak of 2,700 late in 2021 and in that regard the region can be seen as leading the rest of the country's decline by almost a year. It will be interesting to see if the bottom of the consents and therefore construction cycle is also reached ahead of the rest of the country down the track from now.

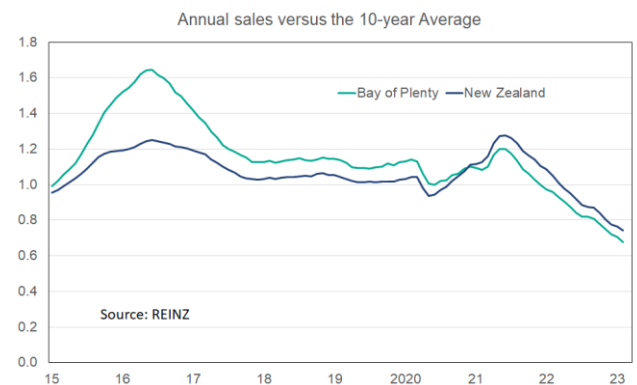
The proportion of consents accounted for by attached dwellings has been rising since 2017 and there is no indication of an ending of this trend, as shown in the following graph.



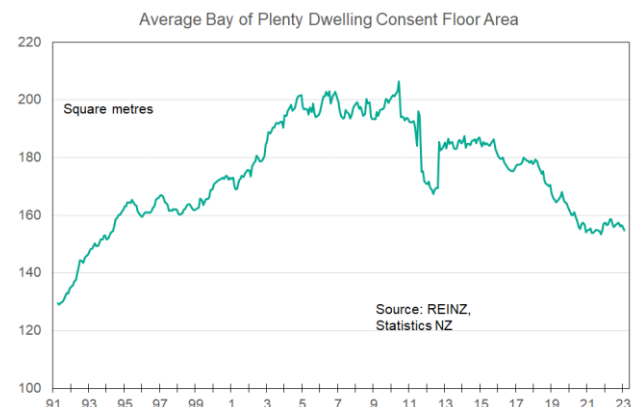
But with annual dwelling sales continuing to fall away (down by 38% in the three months to February from a year earlier) the total number of consents issued is set to fall much further.



A retreat to levels of 2010-2012 is not likely however given the aging population bringing internal migration to the Bay of Plenty.



The average size of newly consented dwellings in the Bay of Plenty has recently stabilised.

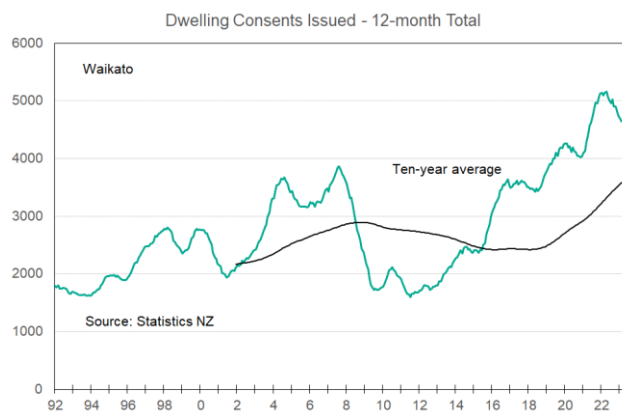


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Waikato

Easing underway

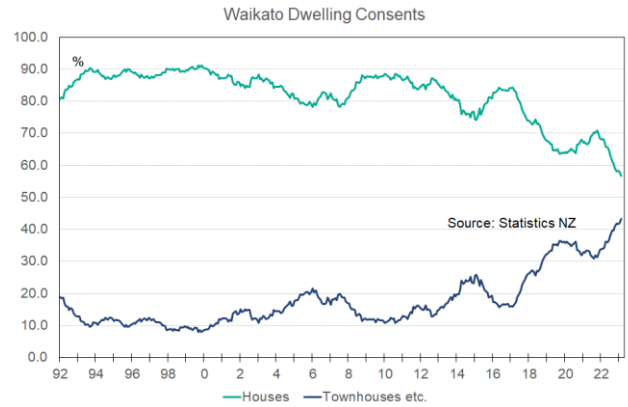
The decline in numbers of new dwelling consents issued in the Waikato region is ahead of the nationwide performance but slightly lagging the decline in Bay of Plenty. The latter region saw its annual consent total peak in November 2021 while Waikato peaked in April 2022 at 5,160.



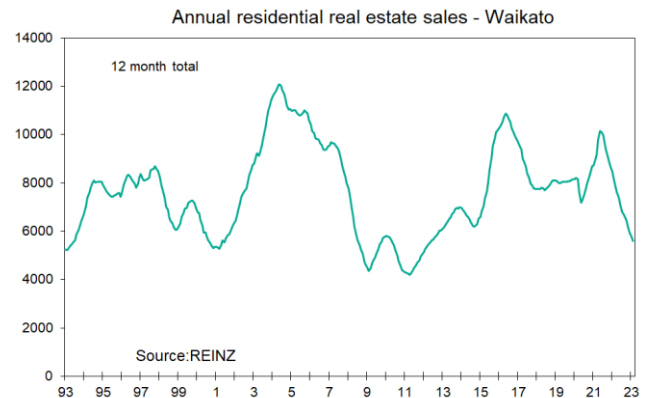
And unlike the neighbouring Bay of Plenty region, Waikato continues to display an annual number of consents well above its ten-year average – as shown in the graph above.

The region is benefitting not just from an aging Auckland population and some internal migration south, but the expansion of Auckland’s broader economic base to the south and the development of the roading infrastructure.

The shift in the Waikato region towards construction of attached dwellings like apartments and townhouses away from standalone dwellings has been greater than for the Bay of Plenty but less than for Auckland.



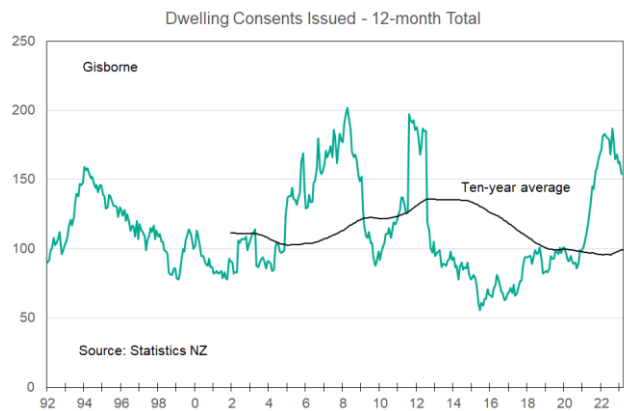
Like everywhere else around the country, dwelling sales in Waikato have fallen substantially over the past year and in the three months to February were down 36% from a year earlier. The only just starting decline in on the ground building work in the Waikato region is set to run through 2024 and perhaps also 2025 depending on how quickly interest rates decline next year and the heights to which net migration numbers go.



Gisborne

Lengthy decline commencing

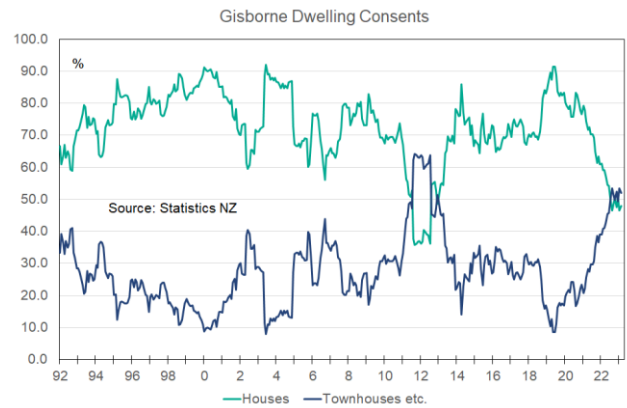
The number of consents issued for new dwellings to be constructed in the Gisborne region peaked at 187 in the year to August last year. This is a level which has been reached before, in contrast with the overall number for New Zealand which hit a record last year.



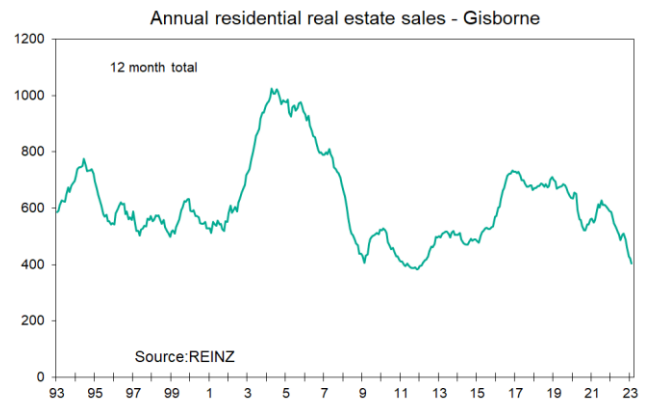
Gisborne is a region with relatively slow population growth which is likely to slow further in the near future as a result of the extreme flooding damage – as happened for Christchurch after the 2011 earthquake. There will eventually be a boost to consent numbers issued as some damaged properties are replaced. But this effect is likely to be comfortably swamped by the broader decline in construction attributable to high financing costs, low household confidence, and ending of an unsustainable pandemic-related surge in population from internal migration.

In addition, as the labour market loosens it is reasonable to expect that some people will shift away from the Gisborne region in search of employment and higher incomes.

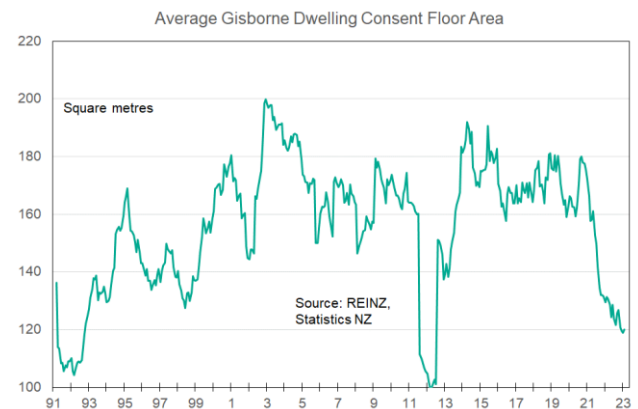
The region has recently seen a rise in the proportion of consents accounted for by attached dwellings. But if we allow for the pandemic effect of unusual demand from people escaping the cities unwinding, it seems reasonable to expect this proportion to go back down again soon.



For your guide, the number of dwellings sold in the Gisborne region in the three months to February was down by a greater than average 45% from a year ago. Annual sales are almost at record low levels and will be so soon.



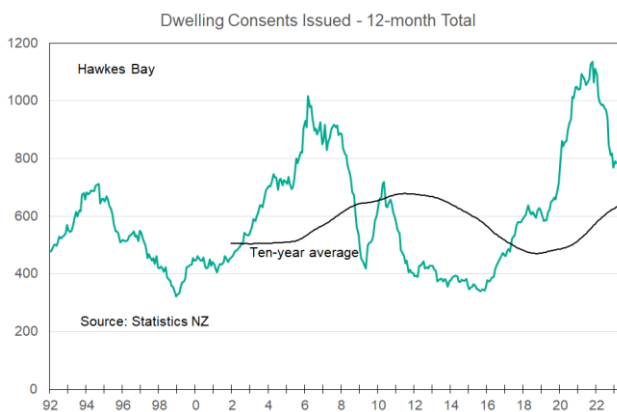
Note how the recent lift in the proportion of consents accounted for by attached dwellings has caused a reduction in average dwelling size.



Hawke's Bay

Expected correction underway

There has been a far greater than average decline in the annual number of consents issued in the Hawke's Bay region. Consents as shown by the green line in the following graph remain at above ten-year average levels – but probably not for much longer. The annual decline of 23% exceeds the all-NZ fall of 3%.

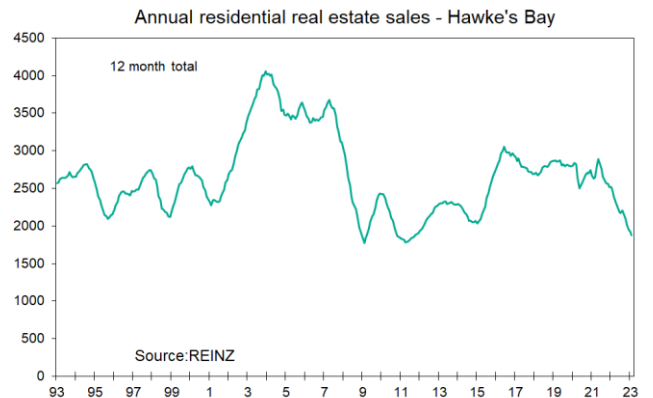


As highlighted in this publication for some time now, Hawke's Bay received an unusual population boost during the pandemic from people choosing to retire earlier than planned out of the major cities – along with some working from home migrants. This population boost happened at the same time as councils had to identify where land for construction would come from to handle projected population change over 30 years rather than 10, and the impression was given of an extreme shortage.

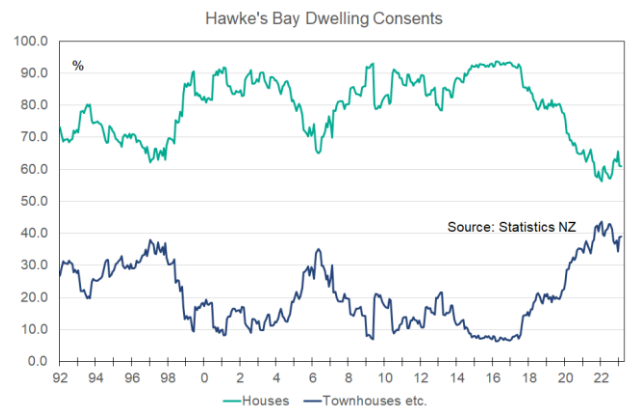
There has been a reaction to this perception in the form of a strong lift in construction. But my warning has been that the region is vulnerable to a greater than average construction decline and price correction when the special factors unwind. Now, that unwinding is coinciding with the destruction from Cyclone Gabrielle likely placing the region lower down the list of locations which aging Kiwis will consider shifting to in the next few years – as happened with Christchurch post-earthquake.

The number of dwellings sold in the Hawke's Bay region in the three months to February was down by

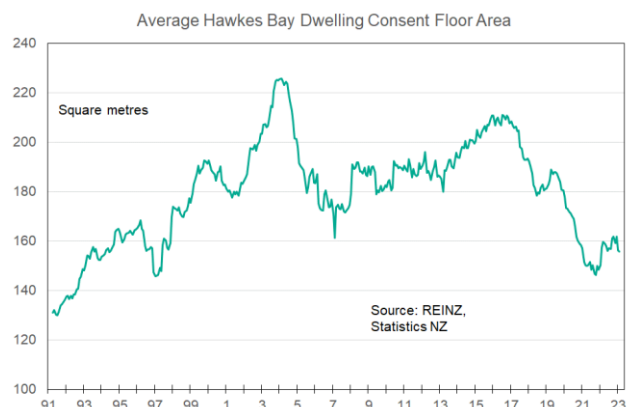
27% from a year ago which is actually quite good compared with the 32% NZ-wide decline when we take the cyclone into account.



For the record, as with most of the country the past few years have produced a rise in the proportion of consents accounted for by attached dwellings – shown as the dark blue line below. Some unwinding of this trend may now occur.



The average Hawke's Bay dwelling size has increased slightly recently after a few years of decline.



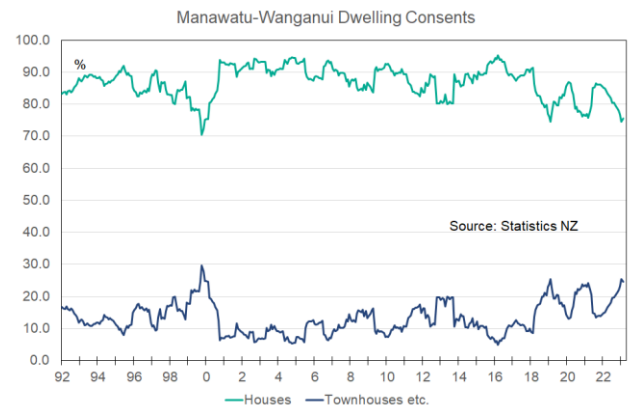
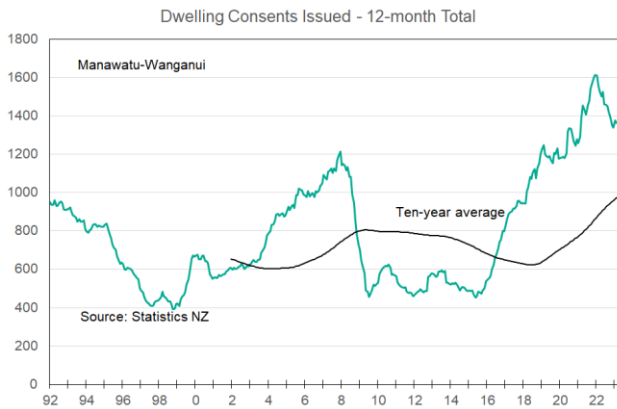
Manawatu-Wanganui

Mild correction underway

Annual dwelling consent numbers in the Manawatu-Wanganui region peaked at 1,610 in December 2021 and since then have declined to 1,360. The pullback so far is relatively mild and in the three months to February numbers were actually 3% ahead of a year earlier. This stands in contrast to the 18% decline nationwide and suggests that although further declines in numbers can be reasonably expected, the fall may be less severe than elsewhere.

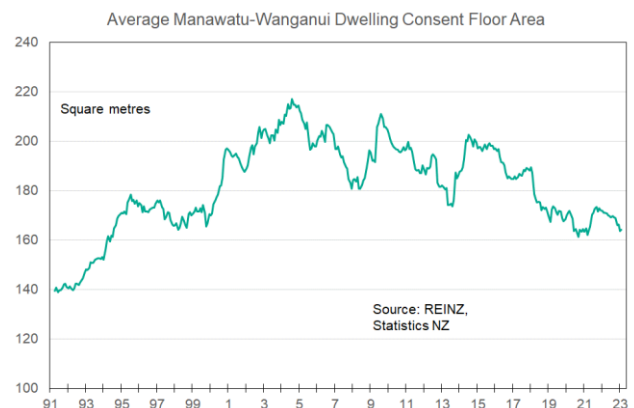
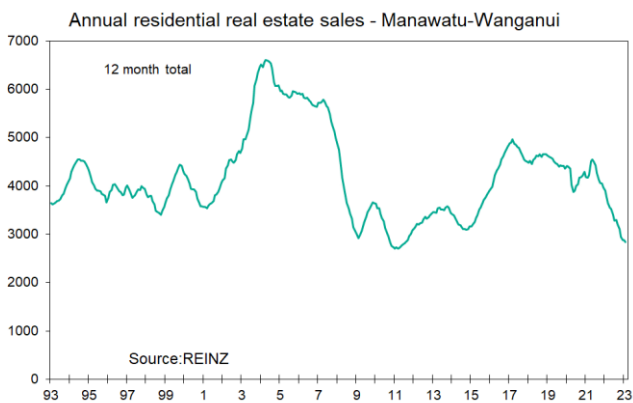
One supporting factor for the Manawatu-Wanganui region is the extension of the expressway network north of Wellington which as transport infrastructure has historically done around the world is encouraging a population movement away from the population-dense starting point of the network to further afield.

Unlike much of the rest of the country, there has been little change in the mix of dwelling consents issued between standalone houses and attached dwellings like apartments and townhouses. Land is less scarce than in many other locations.



The fact that dwelling sales in the three months to February were down 15% from a year ago tells us there is a strong relationship between changes in dwelling sales and subsequent changes in dwelling construction.

There has been a broad trend decline in the average size of dwellings concentrated in Manawatu-Wanganui since 2005.

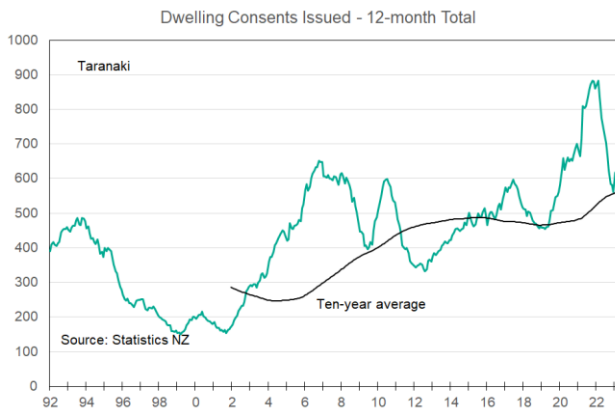


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Taranaki

Easing off

While the rest of the North Island experienced a surge in house prices during the pandemic, Taranaki experienced less than average gains and the surge in construction consents can be seen in the following graph to have all but completely unwound. Annual consent numbers are back to their ten-year average but still relatively high in the context of the past three decades.



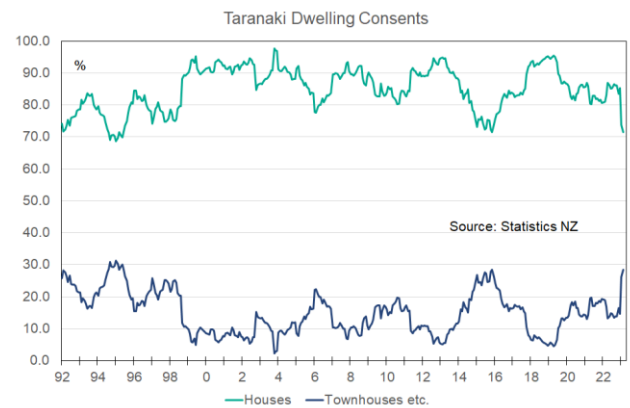
The region does not enjoy much population growth, but it does offer a better level of housing affordability than many other parts of the country.

My expectation for some time has been that as the country overall goes through the downward leg of the housing cycle in terms of sales, prices, and consents, Taranaki will be less badly affected. So far, consents have fallen by 35% in the past year compared with only 3% nationwide while issuance in the three months to February was down 5% from a year earlier versus 18% for all the country. The pullback started earlier in Taranaki than elsewhere on average.

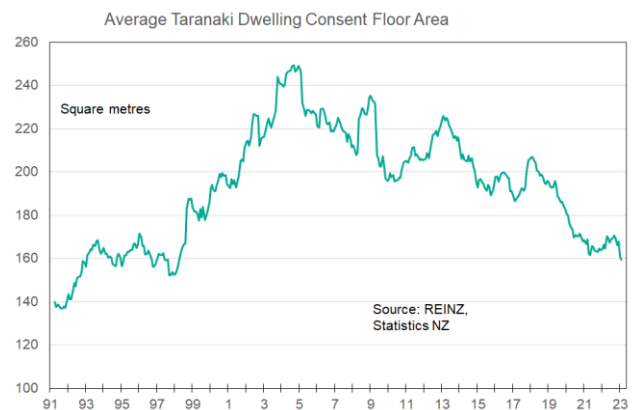
Sales of dwellings in the three months to February were off 25% from a year earlier versus a 32% fall nationwide. Falls in sales precede falls in consents and this relationship suggests greater issuance weakness ahead outside of the region than in it – but weakness still to come along, nonetheless.

So far, the data does not suggest that Taranaki is doing better than the rest of the country on this downturn when it comes to sales and consents. Prices however are down just 6% from a year ago versus 14% nationwide.

Although there has been a recent blip up in the proportion of consents issued accounted for by attached dwellings such as apartments and townhouses, no sustained trend shift has occurred or is likely to be underway.



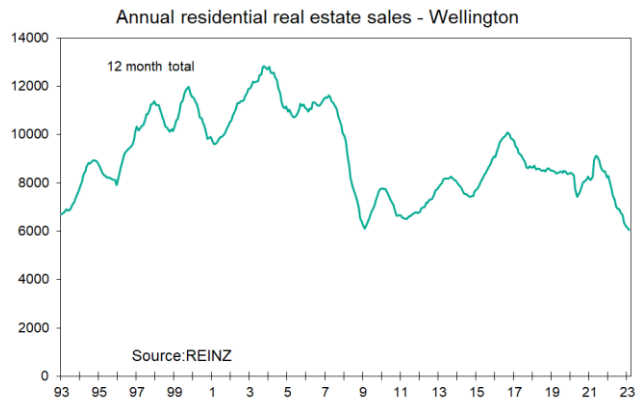
The average Taranaki dwelling size for new consents has, like for the Manawatu-Wanganui region already discussed, been trending down since 2005.



Wellington

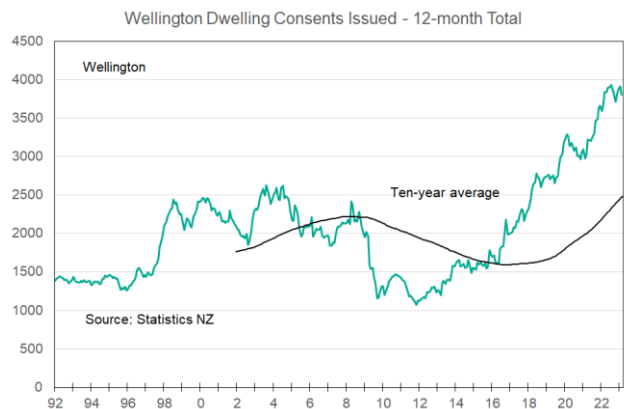
Correction coming

The annual number of dwelling consents issued in the Wellington region almost quadrupled between 2011 and 2022. There are as yet no solid signs that numbers are falling if we look at the graph of this annual total here.

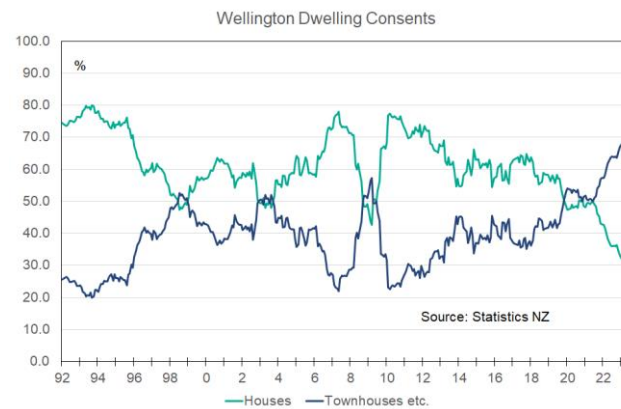


Annual sales are now the lowest on record.

The upturn in construction since 2011 has involved a rise in the proportion of new builds which are attached dwellings. Intensification is growing. The graph below shows that as yet there is no sign of this trend ending and it may well be sustained for some time given the intensification focus of the Wellington and Lower Hutt City councils.

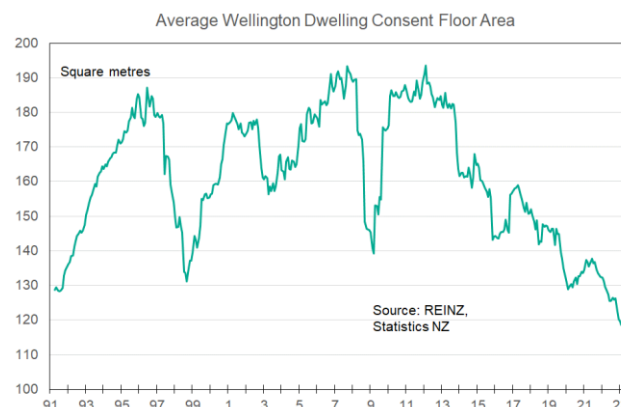


In the three months to February the number of consents issued was down by 18% nationwide but unchanged in Wellington. The decline has yet to start. One factor insulating the sector to date may be the soaring of prices during the pandemic which strongly encouraged buyers to get a new property built. The fall in stock numbers will also have contributed to this newbuild drive. There is also the expansion of the population into the Kapiti Coast District, especially the retiring generation. Intensification is also being actively pursued in Lower Hutt City. In Porirua an extensive programme of state house replacement is underway.



Note the sharp trend decline in average new dwelling size in Wellington.

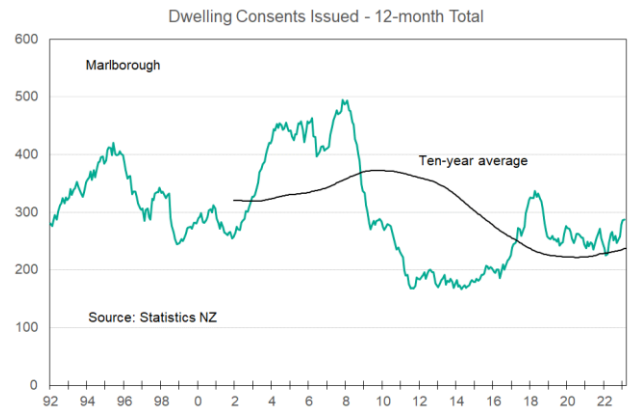
But a construction decline is coming. Wellington real estate prices have fallen by around 25% and stock levels are more than double those in the middle of 2021. There is also a generally firm relationship between changes in dwelling sales and changes in consent numbers. In the three months to February sales were 21% down from a year earlier.



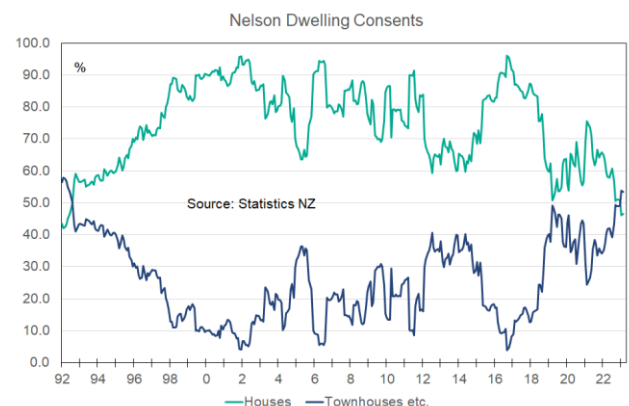
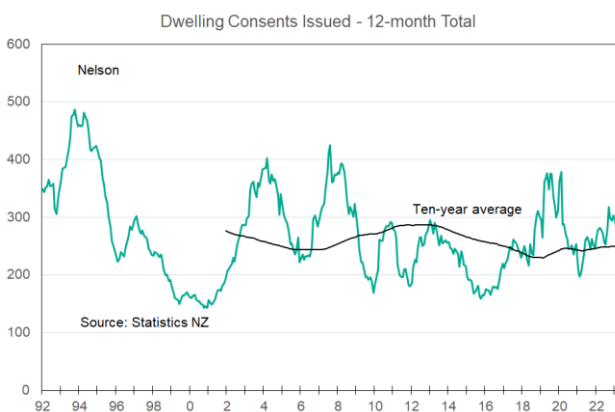
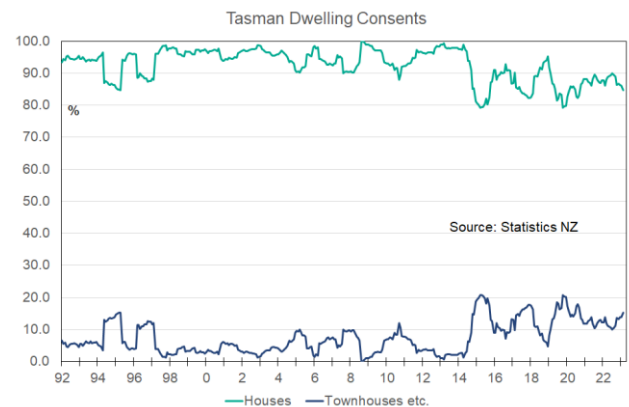
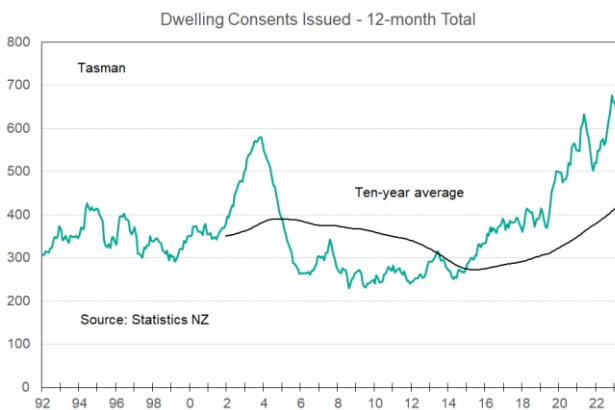
Nelson, Tasman, Marlborough

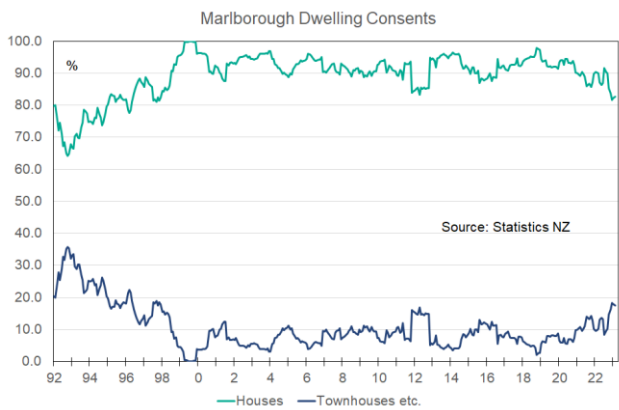
Mixed

In Tasman, the availability of land has facilitated firm population growth and construction to well above average levels in recent years. But the low availability of development land in Nelson City and generally low population growth for Marlborough have kept construction constrained in these two locations. The following series of three graphs show annual consent numbers since 1992 for each of the three locations covered each month in this section.



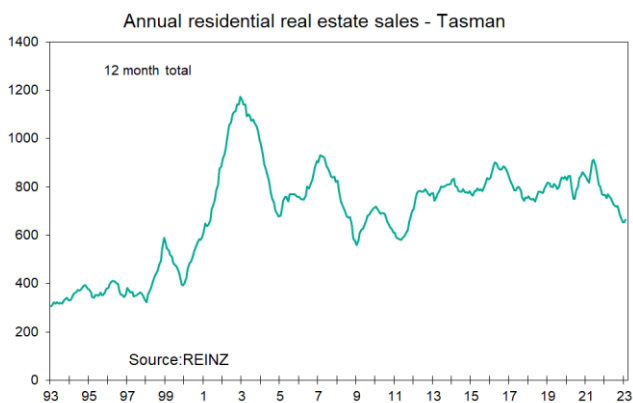
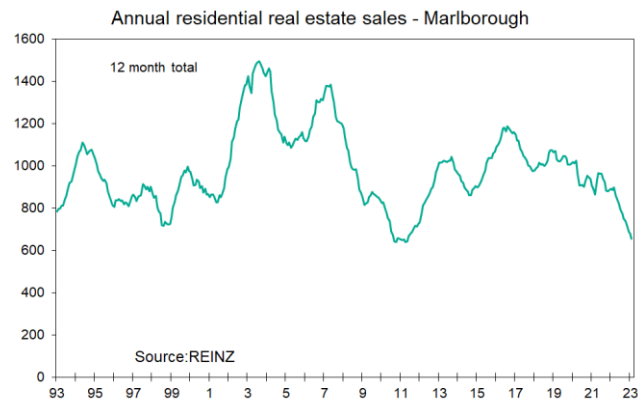
In Nelson the lack of available land has encouraged some increase in the proportion of consents which are for attached dwellings like townhouses and apartments. But this is not the case for the other two locations; Tasman has land available, Marlborough does not lend itself towards that type of housing.





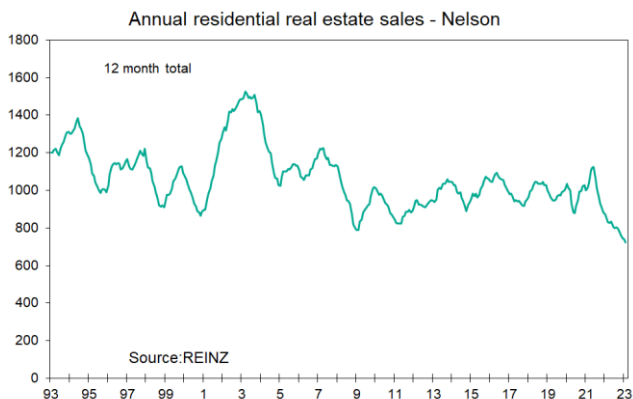
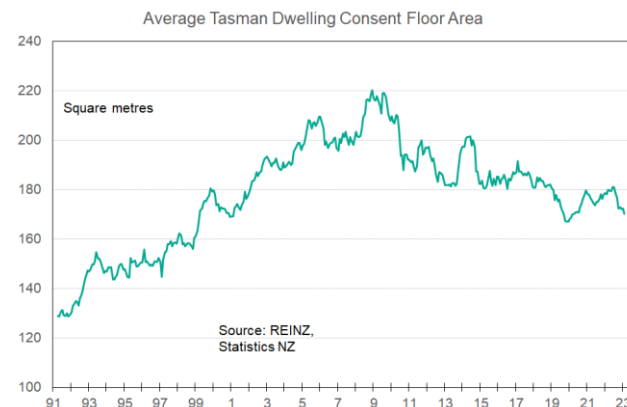
In Tasman dwelling sales are falling and this suggests some weakening of construction soon – but perhaps of lesser magnitude than in regions already discussed above.

In Marlborough the decline in dwellings sales is more noticeable, so the falling away of construction this cycle may be more than for Nelson and Tasman – but perhaps only slightly.

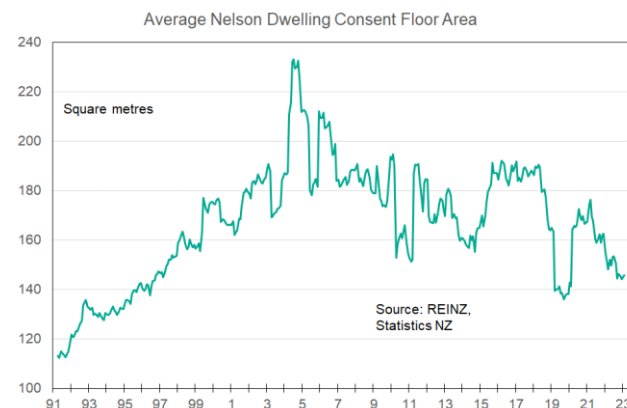


The same comments can be made also about Nelson.

There is a flattening in average new dwelling size underway in Tasman.



Not so in Nelson.

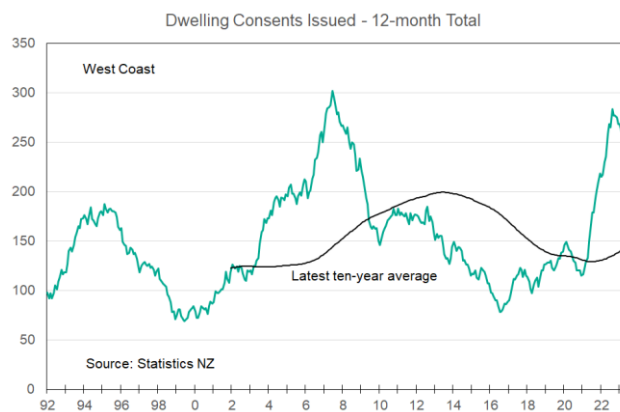
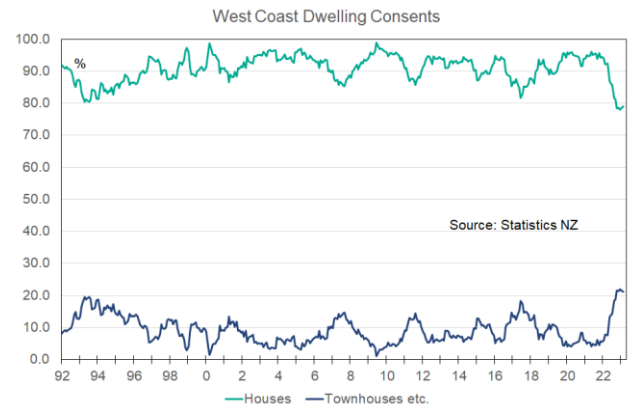


Regional Property Insights

West Coast

Mild downturn to come

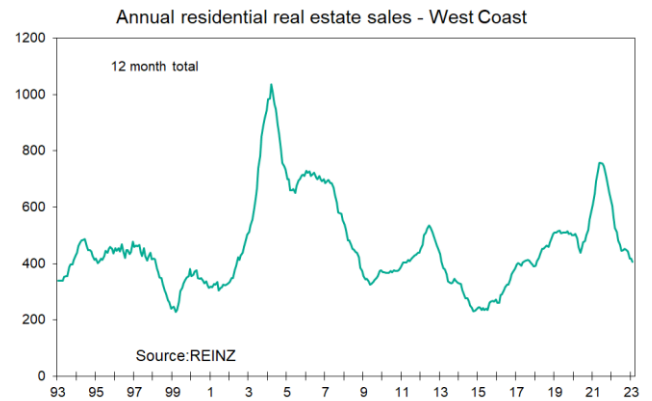
There has been a less noticeable trend upward in consent issuance on the West Coast since 2011 than for most other regions around New Zealand. Nonetheless, consents hit 280 late last year from a low of 85 in 2016 – a timing for that low completely different from the rest of NZ by five years.



But this shift will probably not be sustained given the availability of land.

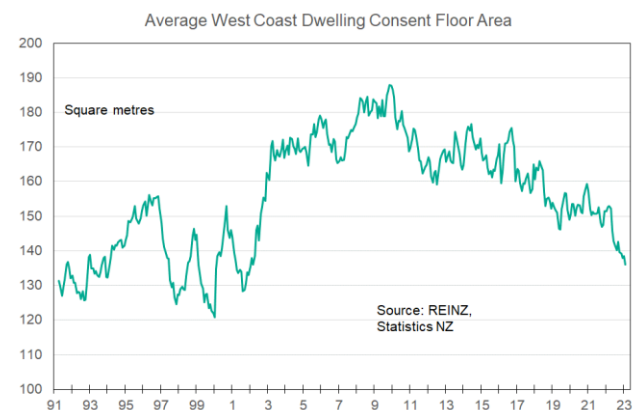
Dwelling sales in the three months to February were down by 29% from a year ago which is about the same as the 32% decline nationwide. No special real estate turnover weakness is apparent on the West Coast.

In the most recent three-month period consents were down by 30% from a year ago compared with 18% nationwide. But these data are volatile in small regions and it would not be appropriate to strongly conclude that the West Coast building outlook is turning for the worse at a far faster rate than elsewhere. Having said that, what sticks out from the graph above is that only rarely do consent numbers attain their recent heights. A substantial building sector easing does seem reasonable to expect although with some mitigation from rebuilding caused by Westport flooding.



Recently the proportion of consents accounted for by attached dwellings has risen – as seen in the following graph.

Note the firm downward trend in West Coast average new dwelling size since 2009.

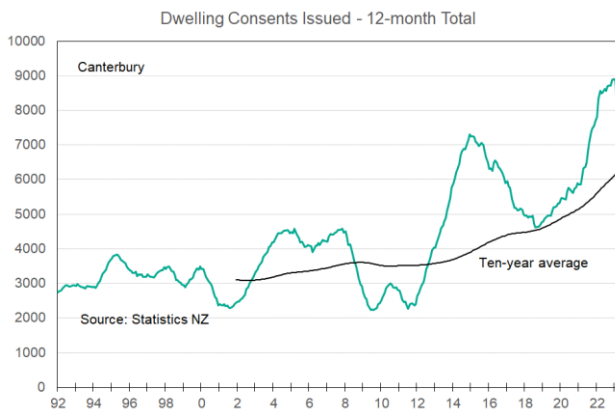


Canterbury

Decline about average so far

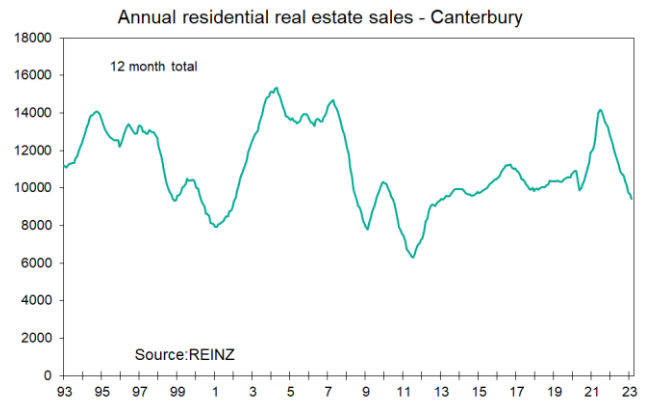
There are still trend forces underway in Canterbury resulting from the earthquake in February 2011. Most notable of these recently has been the more muted decline in prices from pandemic peaks than in other parts of the country with Christchurch prices still catching up following limited post-earthquake rises caused especially from 2015 by the high quantity of development land quickly made available.

Our first graph here shows that annual consent numbers are falling from high levels, but the decline has only just started and is very mild.



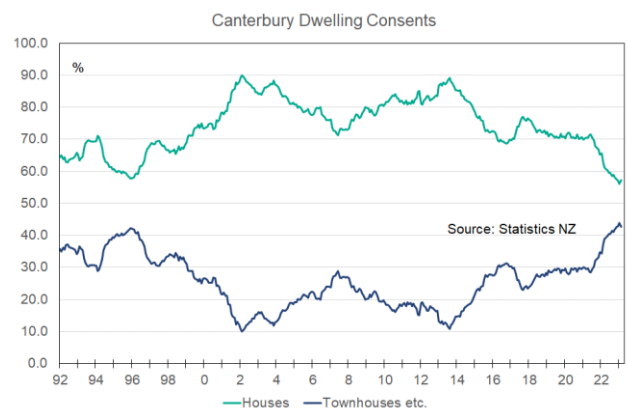
Consent numbers in the three months to February were down by 20% from a year ago which about matches the all-NZ fall of 18%. Will the so far average pace of decline go as far as is likely for the country overall – a fall of perhaps 40%? Maybe not.

The decline in dwelling sales about matches the NZ fall though with annual turnover further above 2011 lows than is the case for the rest of the country. But if we strip away the 2011 earthquake’s effect of suppressing sales this comparison may not count for much.



On the face of it the region appears set for as large a construction fall as the country on average. However, surging net inward migration will benefit locations like Auckland and Christchurch more than the regions. Christchurch also has an affordability benefit for young buyers over the other cities, and the city’s image appears to be holding up a lot better than Auckland and most certainly Wellington. That, coupled with rental accommodation quality and cost may account for the surge in tertiary study in Christchurch compared with Auckland and again, Wellington in particular.

Finally, there is a shift underway towards intensification. But some easing may occur soon following a rash of inner city building which does not appear to have captured the respect of all Christchurch dwellers.

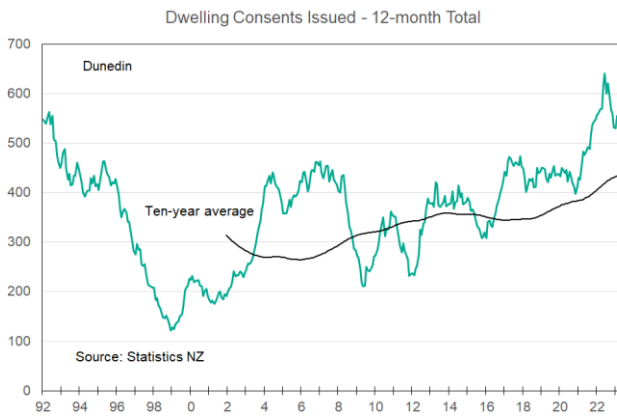


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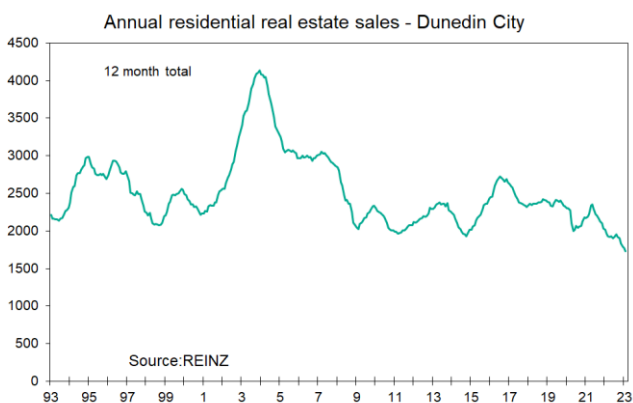
Dunedin City/Otago

Mild fall so far

In the three months to February the number of dwelling consents issued in Dunedin City was down only 3% from a year earlier compared with an 18% fall nationwide. However, this does not mean the construction sector is performing better than the rest of the country. As the first graph here shows, annual consent numbers have already fallen from the peak of 640 reached in the middle of last year to 560.



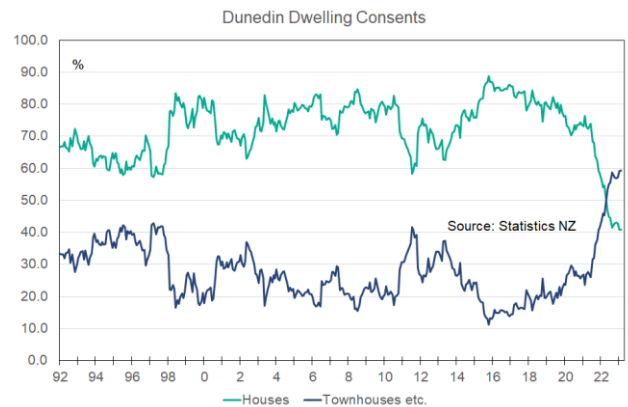
Further falls are likely as consent numbers remain well above the ten-year average and dwelling sales have been moving downward since the first half of 2021.



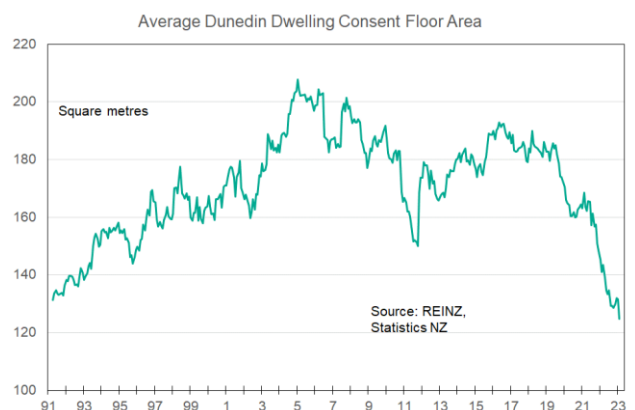
Annual sales don't alter to the same degree in Dunedin as most other locations, but they are nonetheless at record low levels since our data started in 1993.

Allowing for some benefit from rapidly rising net immigration to New Zealand offset by the ending of some population growth benefit from the pandemic, reduced residential construction in Dunedin is in the offing.

Note that the surge in the past year in the proportion of dwelling consents which are for attached units is highly unusual. This is the sort of thing which could easily reverse and probably will.



The average Dunedin new dwelling size has decreased quite a bit in recent years.



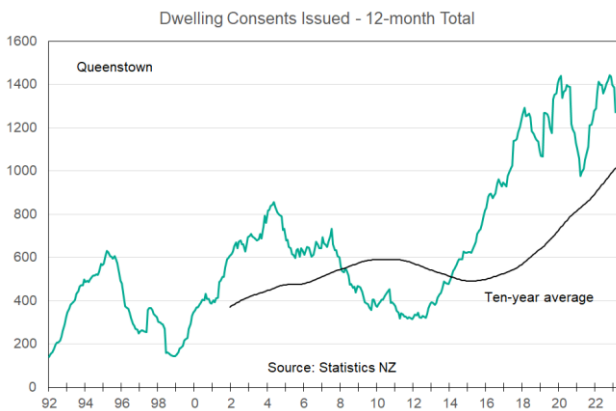
Queenstown Lakes

Construction to ease

As noted in this publication almost every month, Queenstown Lakes District is a unique location in New Zealand with forces driving the housing market which are different from everywhere else. There is fluctuating interest from foreigners, underlying strong internal migration from retiring Kiwis seeking a unique lifestyle in a beautiful location, the ups and downs of the tourism sector and its bouts of development, and the newly worsening shortage of accommodation for the many young people wanting to work in the location.

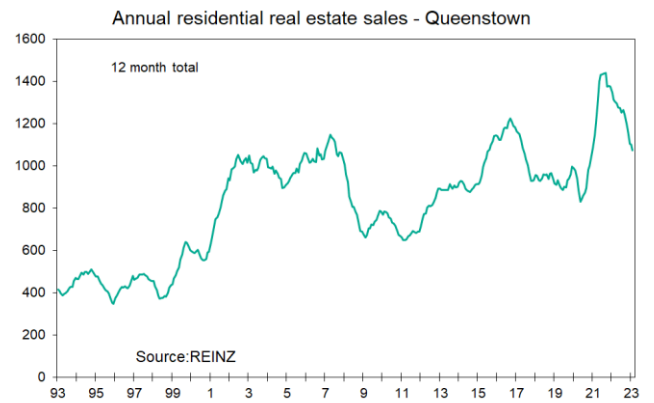
The district defies easy predictability and anyone looking at where things are headed in the Queenstown Lakes housing market in terms of turnover, prices, and construction needs to keep that in mind. It pays also to note the higher than average construction costs which often surprise people new to the activity there.

Our first graph shows that annual dwelling consent numbers have been rising in a volatile fashion since the lows of 2012 with the pandemic dip easily reversed over 2021-22 and with the dip in consents most recently being quite mild.

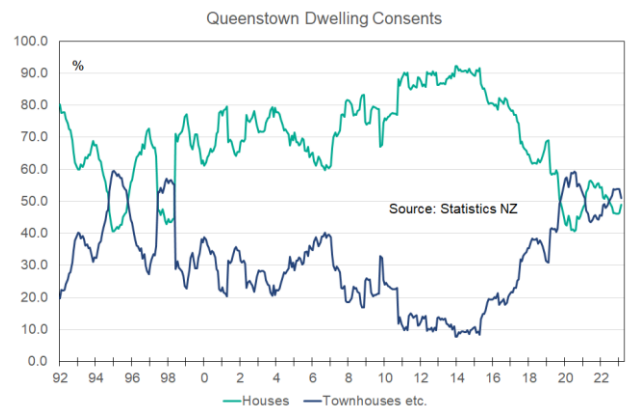


In the three months to February consent numbers were 50% down from a year earlier. But these data are highly volatile and four months earlier the annual change was growth of 17%.

Dwelling sales have fallen firmly recently as seen in our second graph and this suggests extra weakness in consent numbers and then construction just around the corner. That is concerning in the context of an aging population bringing a level of internal migration not seen in other locations, and with the tourism recovery producing housing demand unable as yet to be met. The outcome is likely to be firming prices, rising rents, and less decline in house building ultimately than would otherwise be the case.

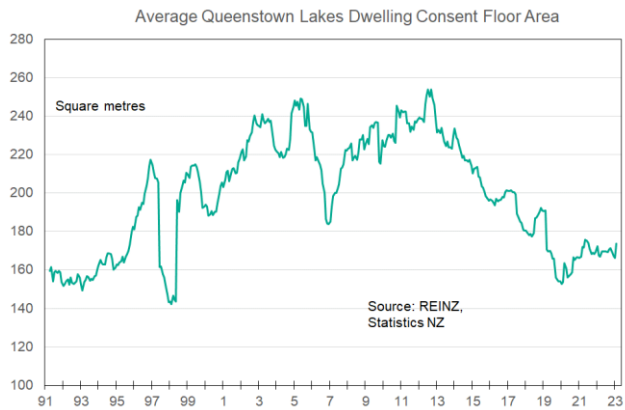


More consents now are issued for attached than standalone dwellings and the requirement for intensification suggests this could be a more sustained shift than for other non-big city locations.



Queenstown Lakes

Continued...



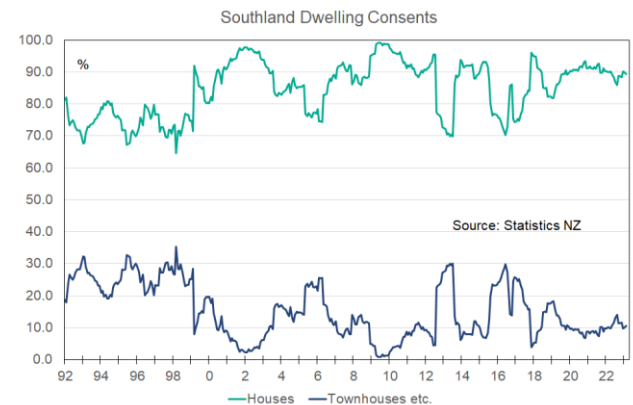
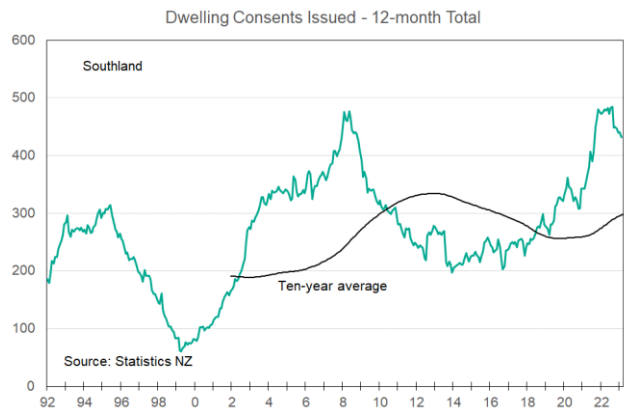
Southland

Mild decline underway

The annual number of dwelling consents issued in the Southland region hit a record of 485 in August last year. Since then, numbers have fallen slightly to 432 and in the three months to February consents were 15% lower than a year earlier. This about matches the 18% fall nationwide but still leaves consent numbers well above average levels, as seen in the first graph in this section.

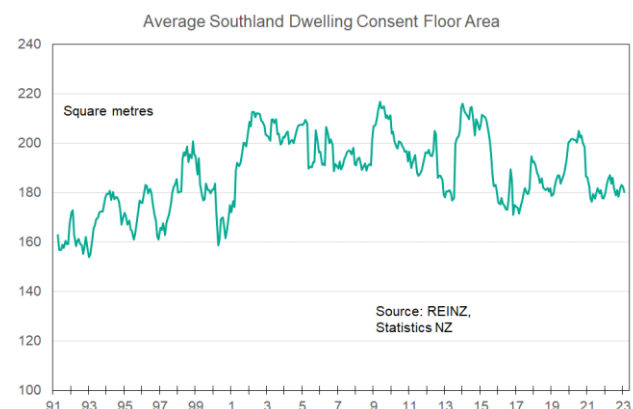
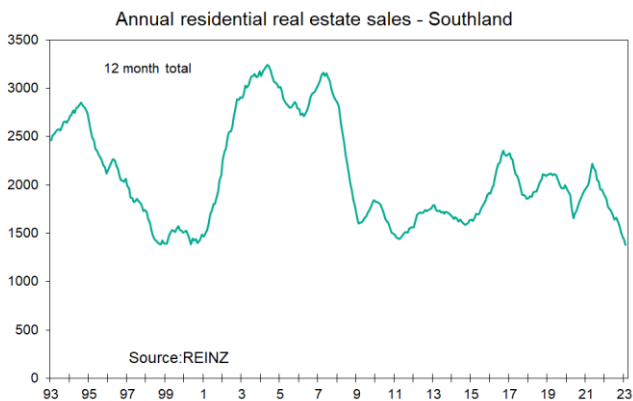
Given the tendency for construction changes to follow sales changes, this suggests we should expect additional declines in the number of consents being issued in the Southland region.

Unlike most other parts of the country there has been no shift at all towards standalone houses accounting for a smaller proportion of all dwelling consents issued. This is not unexpected considering the availability of land in the region and the lifestyle people specifically seek when they shift or stay there.



In contrast to consents recently reaching record levels, real estate turnover has just hit a record low.

Unlike every other region discussed above, there has been no downward trend in average new dwelling size in the Southland region over the past 1-2 decades.



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A light green map of New Zealand is positioned in the background, showing the outlines of the North and South Islands with regional boundaries.

TONY ALEXANDER

Regional Property Insights

APRIL 2023

This publication is written by Tony Alexander, independent economist. You can contact me via LinkedIn or email tony@tonyalexander.nz

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