Home Truths

13 December 2017

A brief respite

Welcome to Home Truths, Westpac's regular update on the housing market.

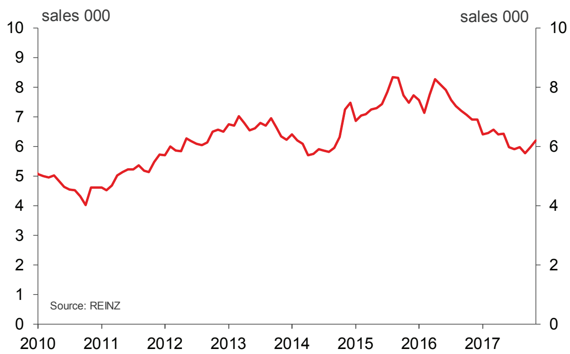
Back in October, Home Truths noted that housing market conditions were changing. After a sharp slowdown through much of 2017, markets in northern New Zealand (Northland, Auckland, Waikato and Bay of Plenty) registered a return to rising prices beginning in August. In central and southern New Zealand conditions were more mixed, with prices rising more slowly than earlier in the year. At the time, house sales were very slow, but that was probably a product of the looming election. Home Truths predicted that the market would experience a little more positive impetus over the coming few months, but that conditions would deteriorate again in 2018.

With two more months of data under our belts, those previous prognostications look to be on track. The number of house sales has risen very sharply in seasonally adjusted terms – 3.4% in October and 4.1% in November. This takes seasonally adjusted house sales back to a level last seen in May, although sales are still 9% lower than a year ago.

One important thing to note is that REINZ has changed its methodology. It now revises its historical data, adding to the database sales that came to its attention too late to be included when the data was first released. This will create a tendency for the number of sales to be understated at first, and then revised higher over time. For example, in October we reported that house sales had risen 1.3%, but that has now been revised to 3.4%. The implication is that house sales may have risen even more than 4.1% in November.

The lift in sales is probably mainly a product of the election, which delayed some market activity, but it was still important confirmation for characterising the market. We had previously observed a very sharp lift in the number of properties going up for sale on realestate.co.nz. The big question was whether this was a rush for the door among investors looking to get out ahead of looming government regulatory changes, or a classic market upturn. The lift in sales confirms that it is the latter. Further confirmation comes from the average time to sell, which has fallen from 38 days in August to 34.6 now (figures seasonally adjusted by Westpac).

Figure 1: REINZ house sales



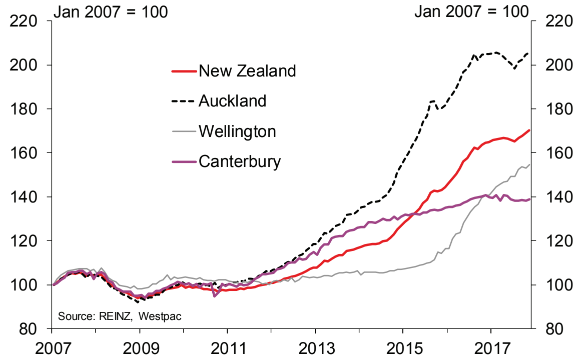
House price inflation has lifted on a nationwide average basis, although there are differences between regions. In northern New Zealand prices have continued to accelerate. Prices in Auckland are now up 3.6% since the market nadir in July, while prices in other regions have risen to a lesser extent. In central and southern New Zealand, prices are rising (quite rapidly in the case of Gisborne/Hawke's Bay), but the pace of increase is much slower than it was at the start of the year.

We expect the current market upturn to persist for a few more months. One driver of the pickup has been fixed mortgage rates, which have been trickling lower in recent weeks and could fall a little further in the short term. We may also experience a bit of a rush to beat looming regulatory changes such as the ban of foreign buyers and the extension to five years of the “bright line test” for taxing capital gains on investors who resell a property. The RBNZ’s recent decision to loosen its LVR mortgage lending restrictions will also have a modest short-term impact. Property investors will be able to leverage up a little more, and a few more owner occupiers will be able to borrow more than 80% of a house’s value.

But we remain very firmly of the view that the good times will not last long. Almost every factor we can think of is lined up against the housing market: Net migration is dropping away sharply; fixed mortgage rates are likely to rise next year; foreign buyers will be banned; property investors’ tax treatment will deteriorate; and sentiment will take a knock because people know that further deleterious tax change is likely, including the possibility of a capital gains tax which would reduce house prices significantly. That the housing market will be weak over 2018 seems like a straightforward call to us.

The only positive driver we can see on the horizon is the RBNZ’s LVR restrictions, which could be loosened further. This is the reason one can’t get too negative on house prices over 2018 – if the market really tanked, the RBNZ would ride to the rescue by loosening the LVR restrictions. Consequently, we have limited our forecast to a two percent decline over 2018. But we wouldn’t see LVR loosening as a reason to forecast rising house prices over 2018.

Figure 2: House price indices by region



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