

# Home Truths

11 May 2018



The housing market is cooling again, based on the most recent data from REINZ and Quotable Value.

The New Zealand housing market was booming in 2016, and cooled over the first half of 2017. However, there was a brief resurgence from roughly September 2017 until about February 2018. The latest data confirms that the brief resurgence is over, and the New Zealand housing market is cooling once more.

These trends can perhaps be viewed most clearly in Quotable Value's monthly house price index. Chart 1 compares house prices over a three month period to the previous three month period in the three main centres of New Zealand. Price inflation has slipped back into negative territory for Auckland and Christchurch. The slowdown has been most pronounced in Wellington, although prices in the capital are still rising.

REINZ data allows us to zero in on the month of April, and again the story it told was weak. Based on Westpac seasonal adjustment, house sales fell 3.3% in April after a similar sized decline in March, and the house price index fell 0.1%. The weakness in April was most pronounced in the upper North Island – Northland, Auckland, Waikato and Tauranga. In these regions, which account for about half of New Zealand's population, both house prices and house sales fell noticeably.

Our long-held views on the housing market are on track. We have been expecting the housing market to cool and house prices to fall due to a raft of law changes. The first of these was the extension of the Bright Line Test, introduced at the end of March. Property investors must now hold a property for five years before selling if they want to avoid being taxed on capital gains. We expect the market reaction to this change to intensify next month. After that we will have a foreign buyer ban, and next year property investors' ability to claim tax deductions on rental property losses will be phased out. Finally, later this year the Tax Working Group will report back, and will probably recommend further

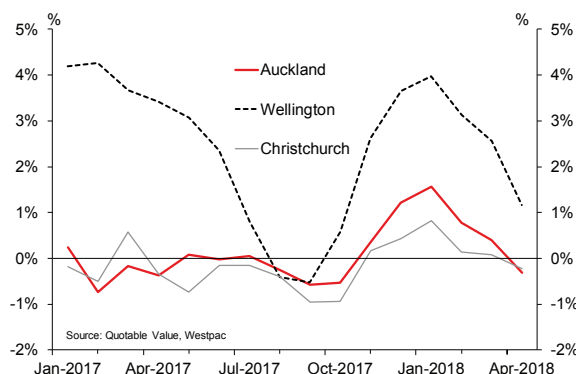
taxes on property. Just this week, a background paper to the group pointed out that the marginal effective tax rate on property investors is about two-thirds of the rate paid by investors in other assets.

These tax changes and regulatory changes are going to have the desired effect, and will cool house prices.

## REINZ housing data, Westpac seasonal adjustment

	Apr-18	Mar-18	Apr-17
House sales, number, s.a.	6225	6438	6369
Mth % chg	-3.3	-3.7	-3.0
Ann % chg	6.6	-8.1	-30.1
Days to sell, sa	36.8	36.6	34.7
House Price Index (s.a.)			
Mth % chg	-0.1	0.4	0.2
Ann % chg	3.8	4.1	9.1

Chart 1: QV house price inflation, three month average versus previous three months



**Dominick Stephens**  
Chief Economist

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# Contact the Westpac economics team

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**Dominick Stephens**, Chief Economist +64 9 336 5671

**Michael Gordon**, Senior Economist +64 9 336 5670

**Satish Ranchhod**, Senior Economist +64 9 336 5668

**Anne Boniface**, Senior Economist +64 9 336 5669

**Paul Clark**, Industry Economist +64 9 336 5656

**Any questions email:** [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

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