

Home Truths

17 September 2018



This month Home Truths peruses the latest housing market statistics, sets the record straight on Westpac's house price forecast, and discusses the impact of the imminent ban on foreign buyers.

Taking the latest REINZ statistics and applying our own seasonal adjustment revealed that in August the housing market kept on keeping on. Not much changed. Auckland house prices continued falling, and are now down 2.6% over the past six months. Interestingly, that's about the same annualised pace at which Sydney house prices are falling. Excluding Auckland, prices North of Lake Taupo and in the top of the South Island are broadly flat, or in some cases falling. However, house prices in the North Island south of Lake Taupo and in the southern part of the South Island continue to rise rapidly.

Setting the record straight

Judging by the way it was reported in the media, it seems that our latest house price forecast was unclear to some readers, so we will take this opportunity to set the record straight.

Our unambiguous and unchanged view is that New Zealand house prices will fall modestly on balance over the coming few years. This is because the New Zealand housing market faces a menagerie of negative forces, including tax changes, slowing population growth and the foreign buyer ban.

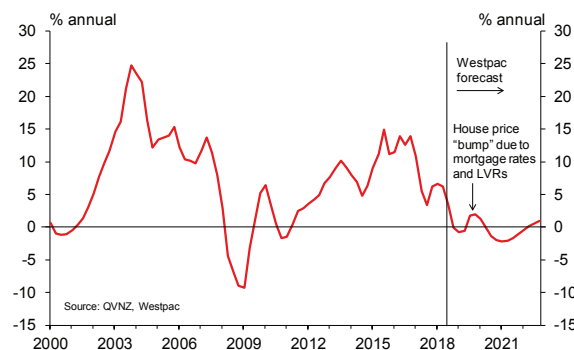
However, last month Home Truths predicted that the dovish turn taken by the Reserve Bank would soon cause a drop in fixed mortgage rates (which looks to be happening now). The RBNZ is also sounding more inclined to loosen its LVR lending restrictions – we predict a loosening in early-2019. Home Truths predicts that the confluence of these RBNZ-induced factors will generate a brief period of rising house

prices around New Year, before the broader negative trend reasserts itself. Figure 1 shows the scale of the predicted price “bump” relative to the bigger-picture housing market slowdown. It is pretty small, but still worth bearing in mind.

REINZ housing data, Westpac seasonal adjustment

	Aug-18	Jun-18	Aug-17
House sales, number, s.a.	6176	6131	6073
Mth % chg	0.7	-3.8	0.7
Ann % chg	3.1	4.6	-18.2
Days to sell, sa	38.2	38.0	38.1
House Price Index (s.a.)			
Mth % chg	0.3	0.3	1.1
Ann % chg	4.1	4.9	2.9

Figure 1: House price forecast



Home Truths makes no apology for the complicated “up then down” nature of this forecast – housing markets are complex.

Foreign buyer ban

The so-called foreign buyer ban will come into force within the next few weeks. The impact on the market will clearly be negative, but it is hard to say how negative. One reasonable starting point is Toronto's stamp duty on foreign buyers, which was so high that it functioned like a ban. Toronto house prices fell around 5% soon afterward.

But New Zealand's foreign buyer ban has been watered down, and is probably weaker than Toronto's stamp duty. For a start, Australians and Singaporeans will still be able to buy houses in New Zealand. Second, foreign buyers will be able to purchase 60% of the units in new property developments of 20 units or more (in other words, apartments). This will have the effect of pushing foreign buyers out of some segments of the New Zealand housing market, and into the new apartment market. With more foreign buyers seeking new apartments, some locals will be squeezed out of that market and will purchase second-hand apartments instead.

It is possible that this will cause new apartments to rise in price while second-hand apartments trade at a bigger discount. But those types of price discrepancies don't tend to last long in markets – in time, the net effect will simply be to reshuffle who buys what. The foreign buyer ban will have a negative effect on prices, but if there are enough new apartments to satisfy a good portion of the foreign demand for New Zealand property, the price impact will be a lot smaller than it would have been under a blanket ban.

What we do know is that the foreign buyer ban will have the biggest impact on Auckland's North Shore, Central City, Howick and Henderson-Massey districts, as well as Queenstown Lakes district. These are the places in which foreign buyers account for more than 5% of sales at present.

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