

Home Truths

17 January 2019



The foreign buyer ban starts to bite

The impact of the foreign buyer ban has really shone through in the latest housing market data, which covers December 2019. Housing market turnover shot higher in October (just before the ban came into force), but has subsequently tanked. Based on our seasonal adjustment, and taking into account the fact that the Real Estate Institute initially understates the number of sales in a given month, house sales are now about 10% lower than they were a year ago. That's roughly as low as they were during the slow housing market phases of early-2014 and early-2017.

The regional breakdown suggests that the foreign buyer ban's fingerprints are all over this. The big drop in sales was concentrated Auckland, where seasonally adjusted sales dropped 20% in December, and to a lesser extent in Wellington and Christchurch. That matches where foreign buyers are most active (Queenstown Lakes has a high proportion of foreign buyers, but these are often Australians who are exempt from the ban).

Since August last year, Home Truths has been arguing that the housing market is going to experience a temporary and modest pickup, due to a recent drop in fixed mortgage rates and the RBNZ loosening its LVR mortgage lending restrictions. Does this sudden drop in house sales suggest that the foreign buyer ban is actually going to kibosh that and cause a decline in prices? Not necessarily – we were always braced for some impact from the foreign buyer ban. It is not clear yet whether the foreign buyer ban will prove a bigger deal than the drop in mortgage rates and recent LVR loosening. What is clear, though, is that disparities between regions in house price inflation will remain.

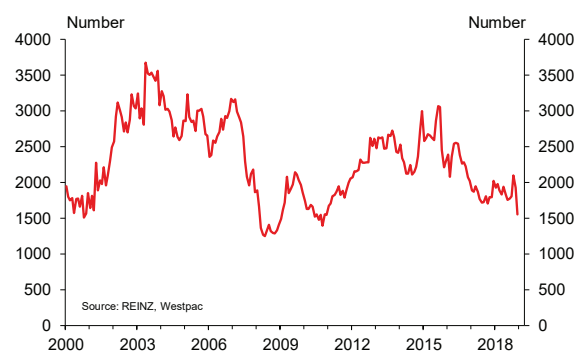
In Auckland, house prices were falling earlier in 2018 but have been roughly flat since September. They remained flat according to the latest data. But a drop in house sales is usually a good indication that house prices are about to weaken, so there is a risk that Auckland house prices could start falling again.

But meanwhile, prices in the lower North Island, Otago and Southland continue to roar away. Price inflation has actually accelerated markedly in Bay of Plenty and Hawkes Bay. The full force of the mortgage rate decline and LVR loosening has yet to come through, so in these regions where foreign buyers play almost no role, it seems more likely that prices will continue to rise strongly.

REINZ housing data, Westpac seasonal adjustment

	Dec-18	Nov-18	Dec-17
House sales, number, s.a.	5850	6632	6634
Mth % chg	-11.8	-6.3	3.2
Ann % chg	-12.9	5.8	-6.9
Days to sell, sa	38.7	37.2	35.4
House Price Index (s.a.)			
Mth % chg	0.6	0.1	0.4
Ann % chg	3.3	3.1	3.7

Auckland home sales (monthly)



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