

Home Truths

12 June 2015

Going vertical

Housing data from the month of May suggested that Auckland house price inflation has accelerated from its already-meteoric trajectory. In financial market parlance, Auckland house prices are “going vertical”. According to the REINZ’s House Price Index, Auckland house prices rose 5.3% in May (seasonally adjusted), and are now 25.6% up on a year ago – the highest rate since 1994.

Meanwhile, the same index suggested that prices were broadly flat or fell in May across the remainder of New Zealand. Annual house price inflation outside of Auckland varied from 0.3% in Christchurch to 5.4% in the North Island ex Wellington and Auckland.

Stunningly, this REINZ data suggests that since January 2011 the relative price of houses between Auckland and Wellington has blown out by 69%. That is, if two houses had the same value in 2011, the Auckland house would now be worth 1.69 times the Wellington house.

Where to from here?

There have been three important policy developments recently that might have implications for the housing market: the RBNZ has loosened its LVR policy for most of New Zealand, but has introduced new lending restrictions in Auckland; the Government will apply capital gains tax to any house resold within two years except the family home; and the RBNZ has reduced interest rates.

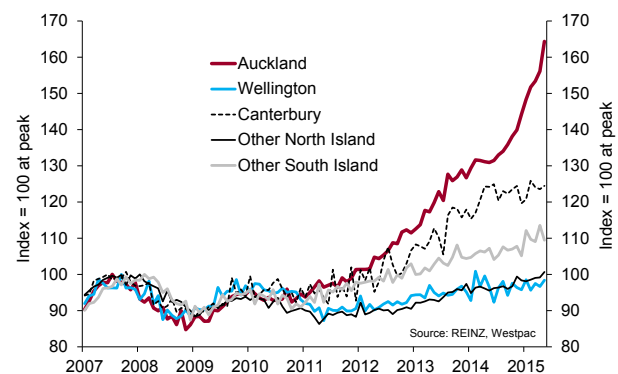
Without doubt, this mix of policy developments is positive for housing markets outside of Auckland. Combined with the anecdotes we are hearing about “Auckland money” arriving in Hamilton, Tauranga and Whangarei, we would not be surprised to see some degree of pickup in housing markets around many parts of New Zealand over the remainder of this year.

Christchurch may well be a different story – the inevitable lift in housing supply has reduced the pace of increase in both house prices and rents in the Garden City. We suspect that Christchurch house price inflation will continue to underperform prices in the likes of Wellington and Hamilton for years to come, until something resembling the pre-quake price relativities between those cities is restored.

For Auckland there has been a different mix of policy developments. However, we suspect the impact of lower mortgage rates will outweigh the tighter lending restrictions and tax changes. However, in a situation like this market sentiment will count for a lot, and can be unpredictable. So while our

REINZ housing data

	May-15	Apr-15	May-14
House sales, number, s.a.	7382	7281	5793
Mth % chg	1.4	3.4	0.7
Ann % chg	21.6	27.6	-14.8
Days to sell, sa	34.0	34.3	36.9
House Price Index (s.a.)			
Mth % chg	1.9	1.2	-0.4
Ann % chg	11.8	9.3	6.3

REINZ house price index, seasonally adjusted

tentative view is that the Auckland market will keep powering on over the remainder of this year, we will be watching the data very closely over the next few months for confirmation.

A wild ride

Last month we suggested that the blow-out between Auckland house prices and the remainder may be due to expectations of Auckland’s housing becoming denser, which have driven up the perceived value of land. This view fits with key characteristics of the market much better than other common views – most of the price increase has been in the land, not the houses; the price of land is going up much faster in the centre than in the periphery or in other regions of New Zealand; and while house prices are rising, rents are very subdued.

If our view is correct, the key implication is that land values in established districts of Auckland will keep rising so long as expectations of population intensification remain germane. Those expectations are being driven by the buoyant economy, strong population growth, the global trend for economies

to concentrate on big cities, and the recent strong drive by Government and council to facilitate intensification. None of those looks likely to wane this year.

However, the other implication is that Auckland land values could go into reverse if expectations of intensification are disappointed by the likes of an economic downturn or a slowdown in population growth. In fact, we expect both of those things will come to pass around 2017, and consequently we are forecasting a period of declining house prices at that time.

This is quite a different to the prediction that would be made by those who believe that a physical shortage of supply is the main driver of Auckland of house prices. They would argue that house prices will only fall once actual physical supply is put in place. We beg to differ – house prices hinge on expectations, and could fall before physical supply actually comes on line.

Dominick Stephens

Chief Economist (09) 336 5671

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Satish Ranchhod, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.