

Home Truths

14 August 2015

This month Home Truths marvels at the way New Zealand's housing market has shrugged off the economy's woes, and questions whether Auckland house prices really fell in July.

The economic backdrop to New Zealand's housing market has changed substantially. China's economy has slowed, global dairy prices have plunged, and the Canterbury rebuild has peaked nine months early. The fallout from these developments is already apparent – business confidence is falling fast and unemployment is rising slowly. We expect these trends to continue, culminating in an unemployment rate of around 6.5% by early next year.

But the latest data suggests that New Zealand's housing market shrugged off the economy's travails in July. The Real Estate Institute's July figures, seasonally adjusted by Westpac, were superlative. House sales leapt 6.1%, the time taken to sell a house fell from 33 days to 31, and nationwide house prices increased 1.1% in the month. Nationwide annual house price inflation has reached 14.9%, the highest since the halcyon days of 2007.

Within this unperturbed national trend, there has been a clear change in the regional breakdown. Markets in the North Island outside of Auckland and Wellington have picked up considerably, and are now experiencing sharply higher activity levels and rising prices. Canterbury had a good month in July, although that was probably a blip within an overall trend of falling prices and slowing sales.

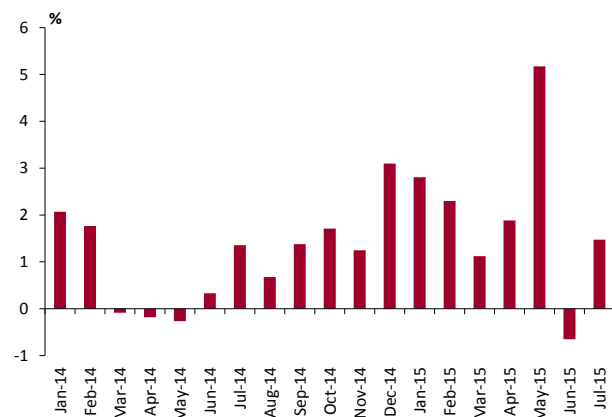
Meanwhile, Auckland's headline-hogging house price saga has taken a very interesting twist. House sales jumped 11% in July (seasonally adjusted), and are now running hotter than in the post-election flurry of late-2014. But average asking prices fell 2.2% on Trademe and 1.4% on realestate.co.nz. Barfoot and Thompson reported a 2.1% drop in the median price of the houses it sold, the Real Estate Institute reported a massive 8% drop in the median selling price for Auckland, and Harcourts reported no change in average selling prices in Auckland.

But we must be very careful with this type of price data. All of the measures quoted above could be polluted by a change in the composition of house sales (or advertisements) – for example, if a bunch of low-price properties happen to sell in a given month, median selling prices will fall even if house prices were actually unchanged on an apples-for-apples basis.

REINZ housing data

| | Jul-15 | Jun-15 | Jul-14 |
|---------------------------|--------|--------|--------|
| House sales, number, s.a. | 7921 | 7469 | 5909 |
| Mth % chg | 6.1 | 0.9 | -0.7 |
| Ann % chg | 37.8 | 28.9 | -13.0 |
| Days to sell, sa | 31.4 | 33.2 | 36.3 |
| House Price Index (s.a.) | | | |
| Mth % chg | 1.1 | 2.3 | 1.0 |
| Ann % chg | 14.9 | 14.8 | 6.1 |

Monthly increase in Auckland House Price Index



The Real Estate Institute's House Price Index (HPI) doesn't fully adjust for composition either, but it does at least adjust for the location in which houses are selling. It isn't quite apples-for-apples, but it does get much closer to the truth. Seasonally adjusted, the HPI for Auckland rose very sharply in May, fell in 0.8% June, and rose 1.6% in July.

Putting all of this information together, our tentative conclusion is that there has been **a surge in sales of low-price properties in Auckland**. Because lower priced properties are disproportionately owned by investors, it would be no stretch to propose that there has been **a flurry of sales to property investors in Auckland**. This isn't particularly surprising, when one considers that both the tax regime and access to finance is about to change for property investors, but not for owner occupiers in Auckland.

We would suggest that the rate of increase in Auckland house prices has slowed. But we doubt that Auckland house prices actually fell in July.

The outlook for housing markets around New Zealand, including Auckland, is not great. Falling mortgage rates are certainly a boon, but we expect that will be overshadowed by declining economic confidence in most regions. Later this year we expect to see cooling housing markets in Auckland, Canterbury, and most dairy-dominated regions. The non-dairying regions and Wellington may fare better as the balance between falling mortgage rates and the slowing economy may tip in a slightly more favourable direction.

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