

Home Truths

22 July 2015

Rounding a corner

The past nine months has been absolutely extraordinary for the housing market. According to REINZ data, Auckland house prices rose 20% between September 2014 and June 2015. That compares to a 4% price change in Wellington, -1% in Christchurch, and between 3% and 7% outside of the three main centres. We have not seen prices diverge like this since 1996, if ever.

This has been a powerful trend, but we suspect things are about to change. The economic ground upon which the housing market is built has shifted. The global price of dairy products, New Zealand's biggest export, is plunging. Farmers who were paid \$8.40 per kg of milksolids in 2014 may be paid less than \$4.00 per kg this season. Meanwhile the Canterbury rebuild, which drove so much of New Zealand's growth between 2012 and 2014, has peaked nine months earlier than previously predicted and will make no substantive contribution to growth over the coming year. Nationwide the unemployment rate has already edged higher, consumer confidence has lost altitude, and business confidence has fallen sharply. In our view, confidence is about to fall much further.

Meanwhile, there have been significant policy changes that will affect the housing market. The Reserve Bank is going to loosen its mortgage lending restrictions for most of New Zealand, but will tighten them for Auckland. The Government will tax any capital gain on investment properties sold within two years of purchase from October 1. And the Reserve Bank is in the process of reducing interest rates – we expect the OCR to reach 2.0% by the end of this year.

This is a complex set of developments for the housing market to digest. It is very tough to predict exactly what is going to happen, but at present our thinking on the outlook for housing markets around New Zealand is as follows:

Dairying regions such as Waikato and Southland: The dairy downturn is a clear negative for housing markets. But falling interest rates and easier access to mortgage lending is a positive. We suspect that the dairy downturn will prevail and housing markets will cool in these regions.

Tauranga: The Tauranga housing market was hit especially hard in 2008, and the local economy's recovery was delayed by the PSA kiwifruit virus. The Tauranga housing market is now in catch-up mode. We suspect that catch-up relative to other housing markets may continue for a while yet.

Christchurch: We suspect that house prices will soon start to fall. Housing supply is rising, the waning rebuild may herald a

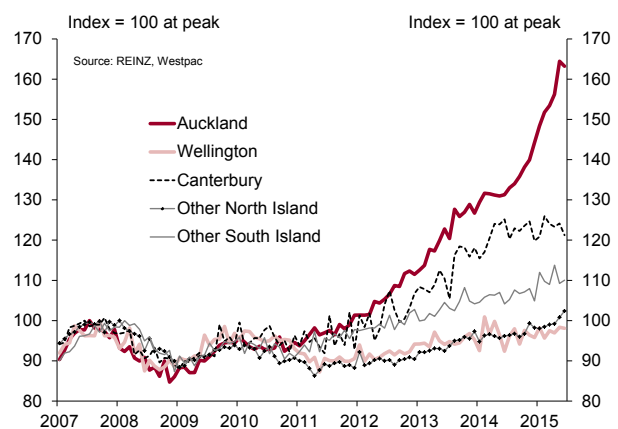
moderation in housing demand, and the dairy downturn will be a further challenge for Canterbury.

Auckland: We expect the housing market to gradually cool over the months ahead. Auckland has been singled out for tighter mortgage lending restrictions, and the tax rule changes may have more of an impact in Auckland than elsewhere. One key driver of Auckland house prices have been expectations that the cities population will intensify, which has driven up the price of land in central districts of the city. As the economy cools, ebullient beliefs about what land in Auckland is really going to be worth in the future may be challenged.

Other regions including Wellington: The outlook is a little more positive for these regions. Falling interest rates and looser LVR rules may outweigh declining economic confidence and present some modest upside to the housing market.

REINZ housing data

	Jun-15	May-15	Jun-14
House sales, number, s.a.	7432	7383	5932
Mth % chg	0.7	1.4	2.4
Ann % chg	28.9	21.6	-6.1
Days to sell, sa	33.5	34.0	38.3
House Price Index (s.a.)			
Mth % chg	2.3	2.0	-0.5
Ann % chg	14.8	11.8	5.5

REINZ house price index, seasonally adjusted**Dominick Stephens**

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