How will the slowdown play out?

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Today’s outline

State of the market:

- Running out of steam
- Impact of lockdown(s)
- Increased regulation

Looking ahead:

- Regional variances

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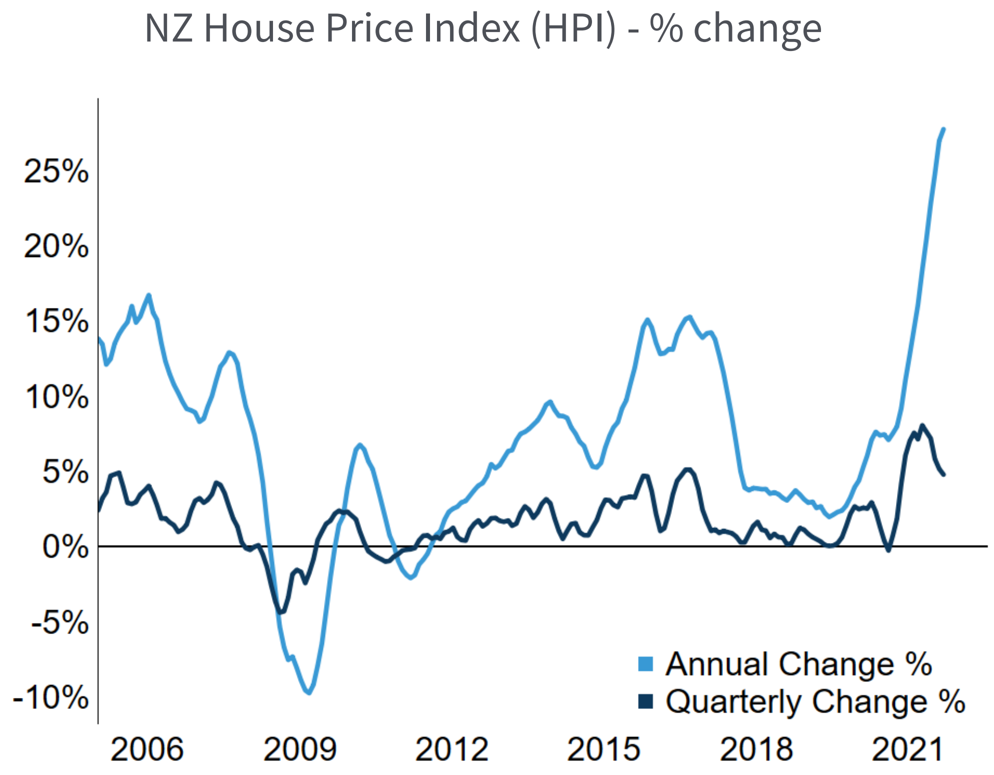
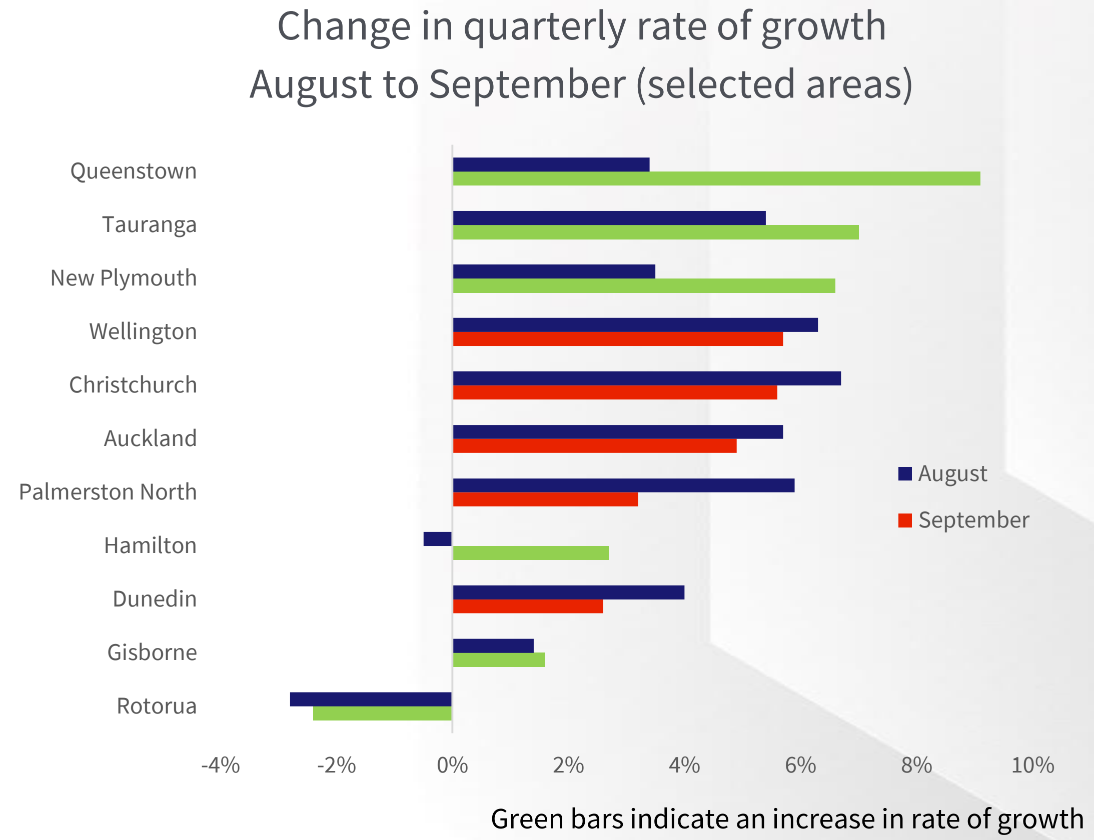
Property value growth has started to slow

Quarterly rate still relatively strong but easing (and annual rate will follow)



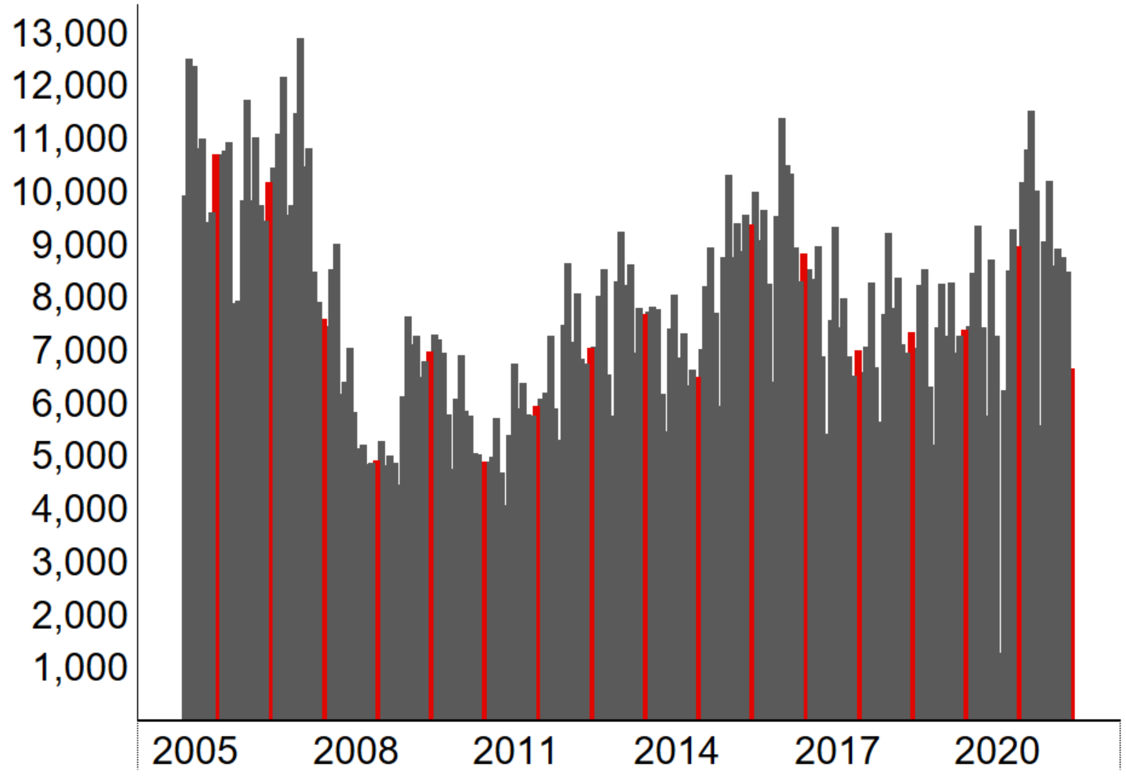


Source: CoreLogic

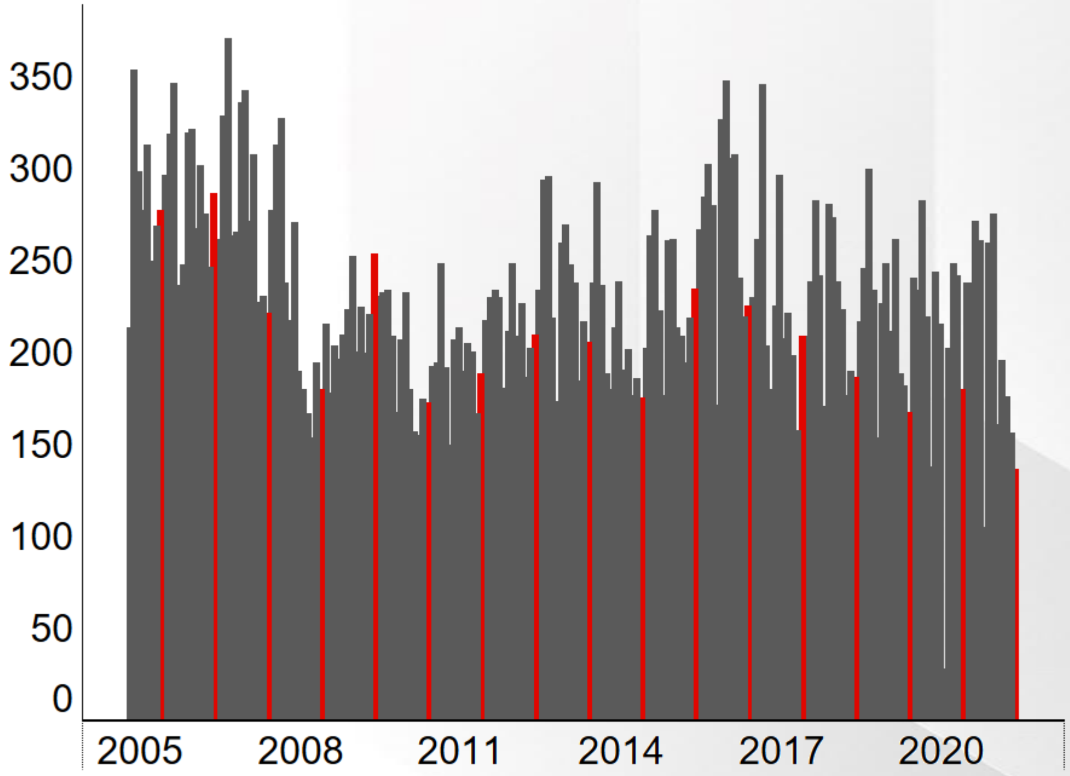
Sales volumes are settling back

Of course lockdown has distorted recent volumes, but some regions were already waning

Sales volumes - NZ



Sales volumes - Dunedin

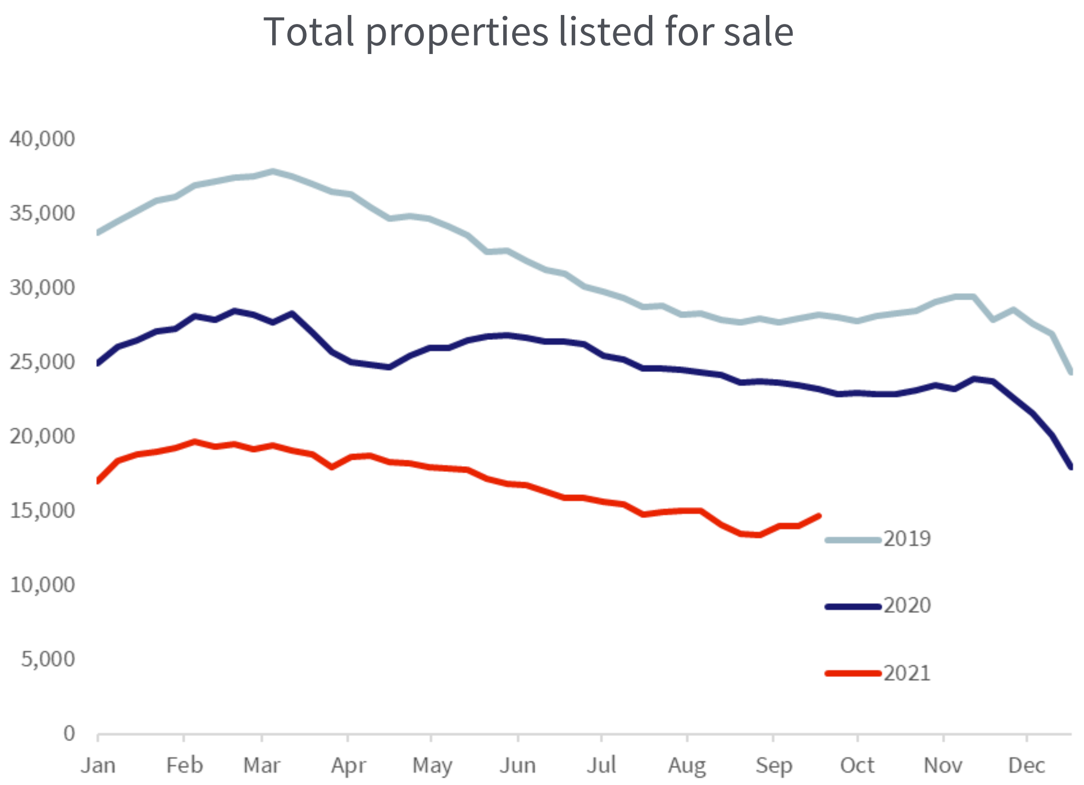


Source: CoreLogic

CoreLogic

Some areas remain held back by low listings

But not all, with regional variability showing up

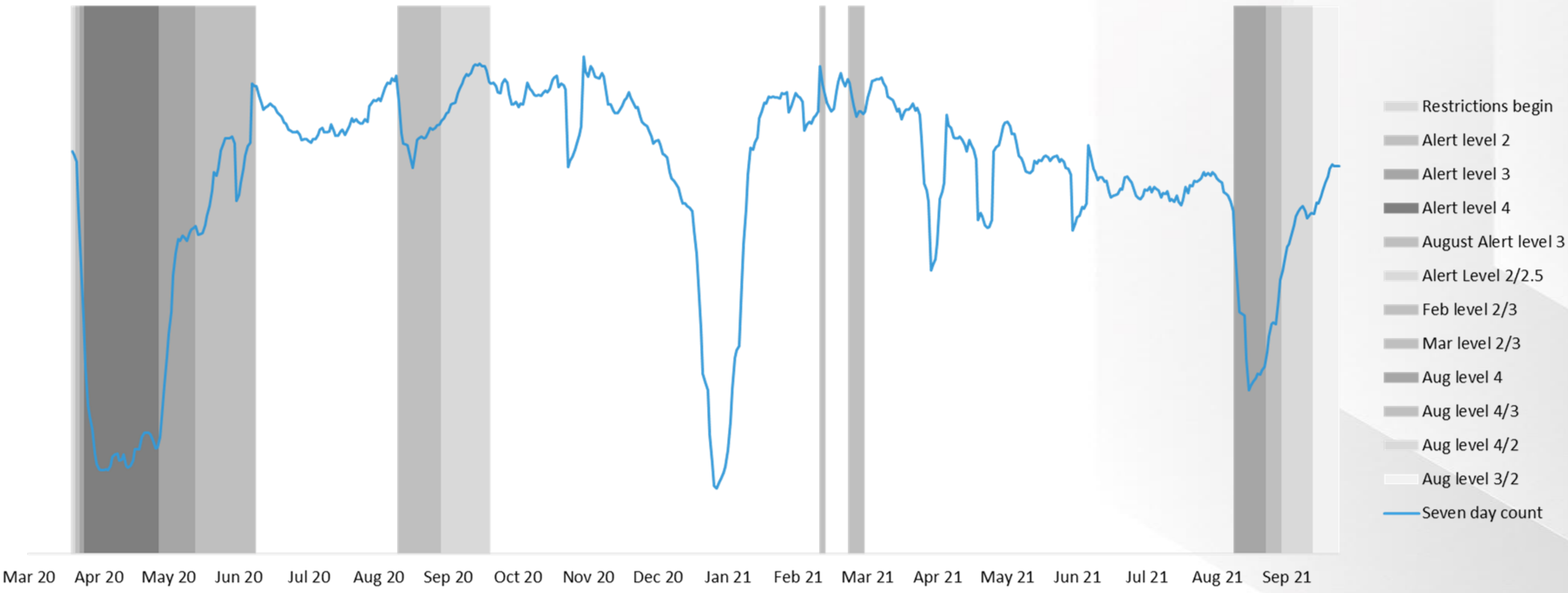


Source: CoreLogic

Agents are back out there appraising properties

But some listings won't be fully recouped (didn't happen last time either) – keeping short term pressure on prices

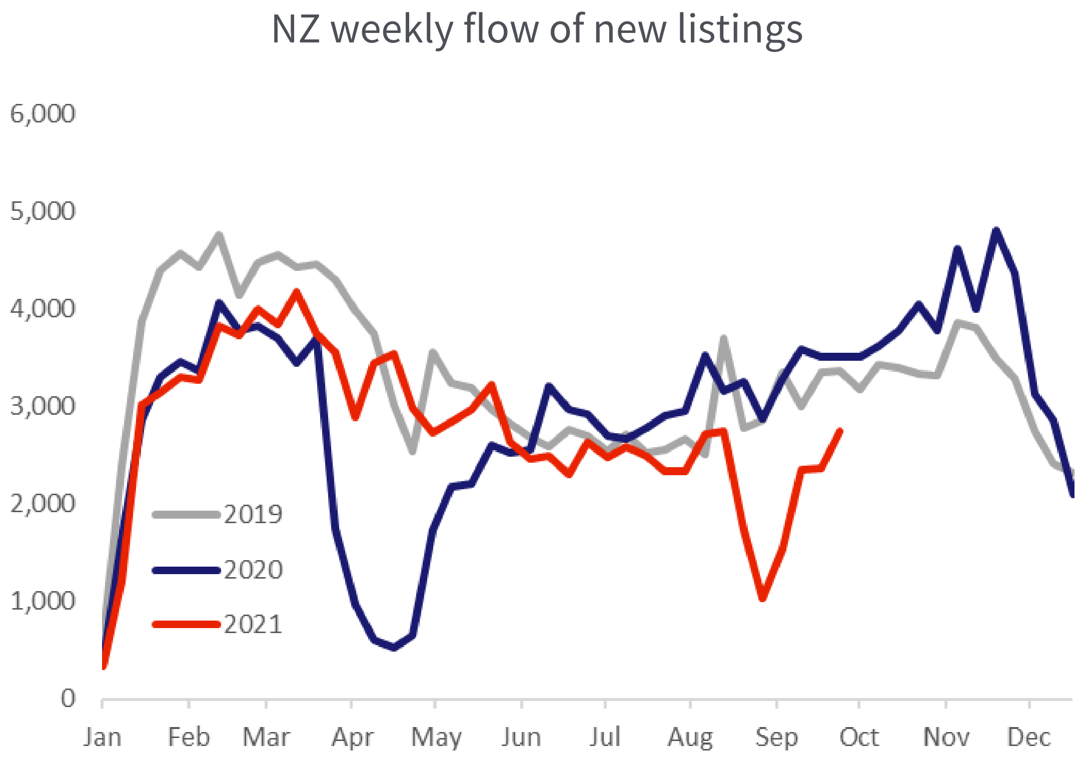
Rolling seven day count of agent appraisals

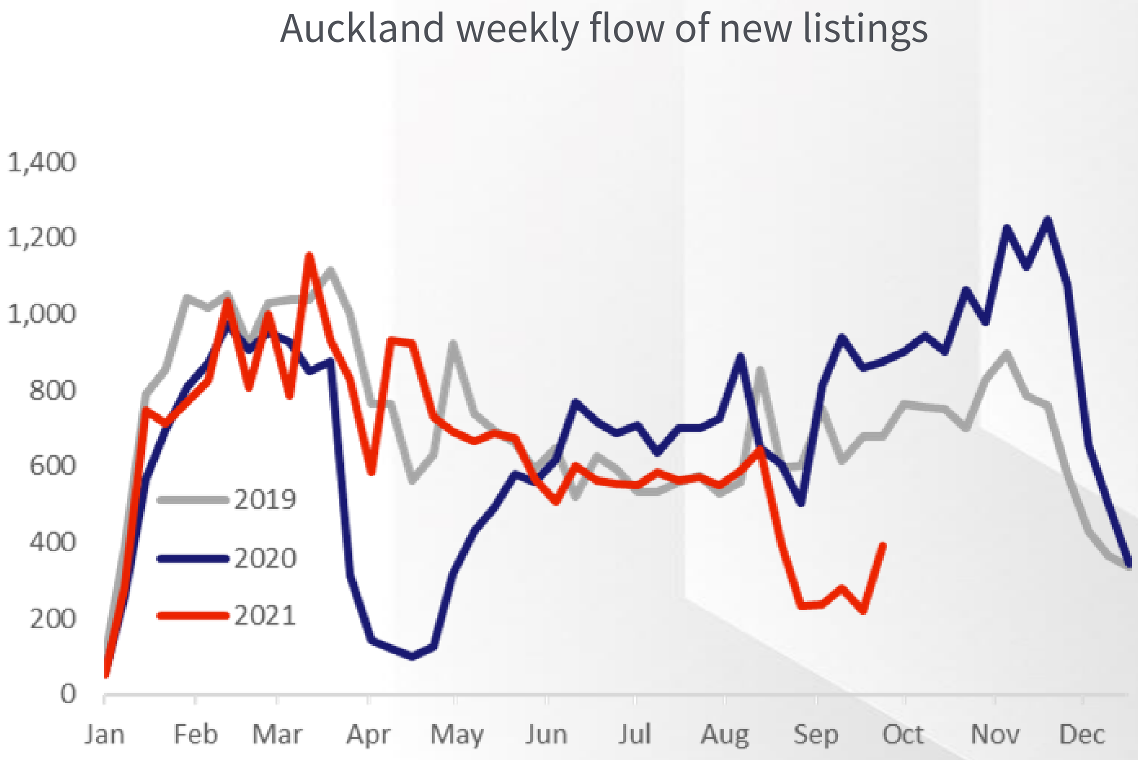


Source: CoreLogic Property Guru and RPNZ

With a visible sign of a lift in listings already

But entering the typically strong spring period so some way to go, especially in Auckland





Source: CoreLogic

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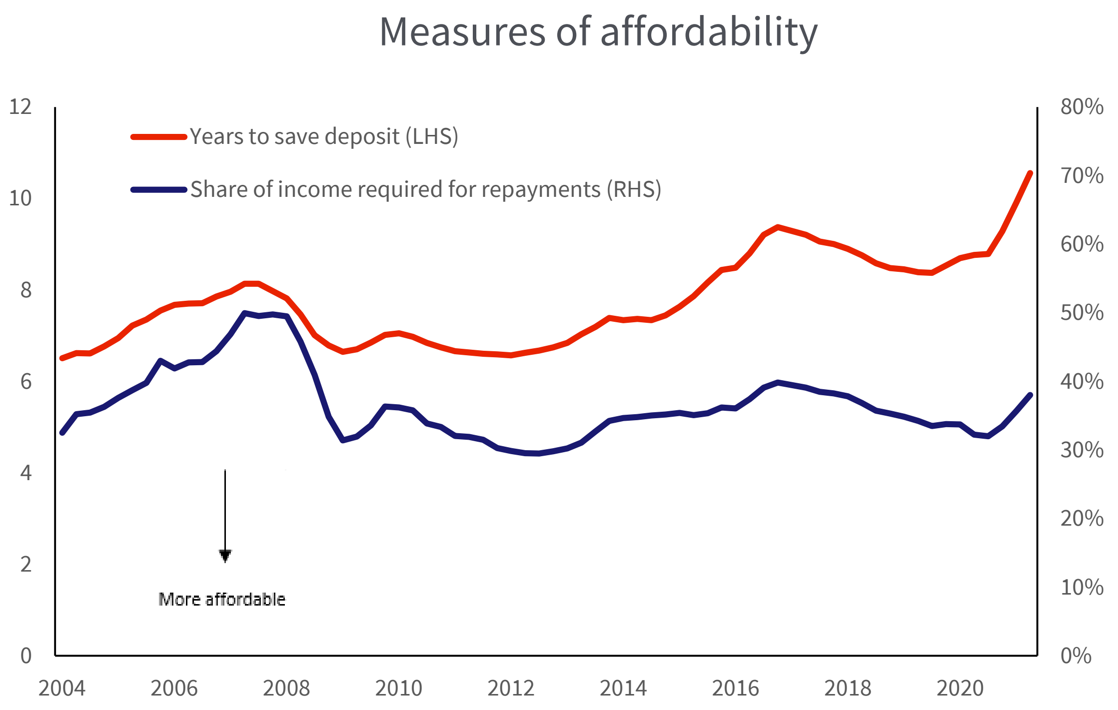
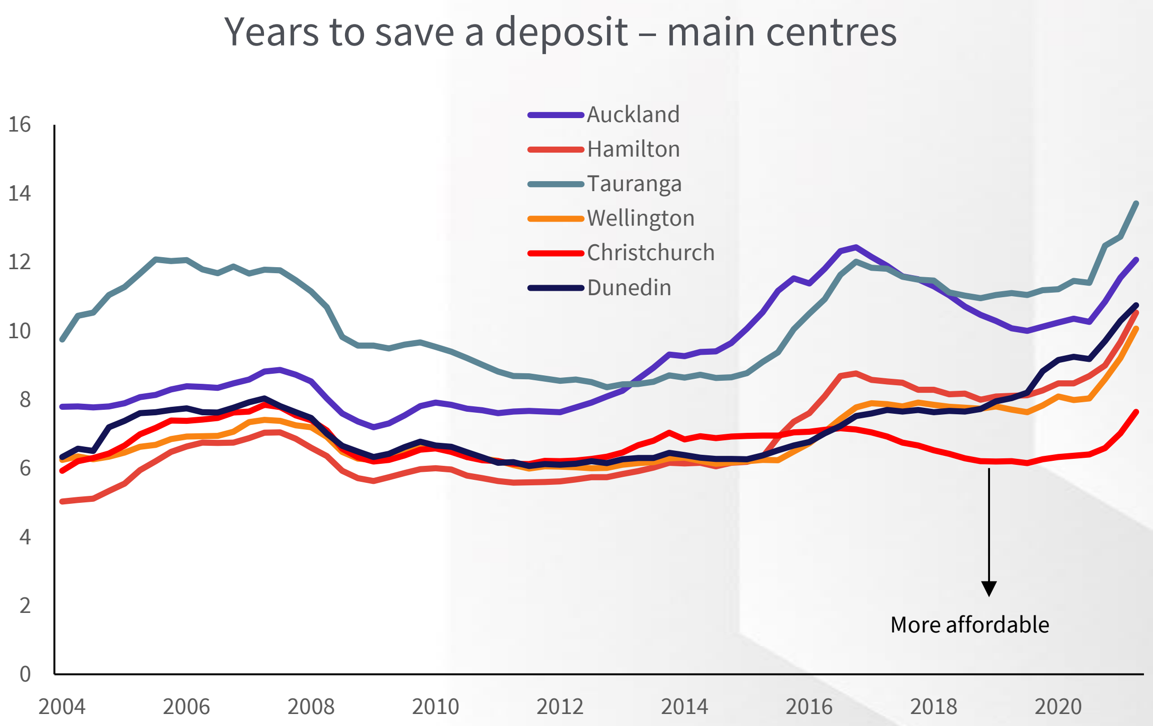
Strong value rises = decreasing affordability

Impact of increasing interest rates now also showing through



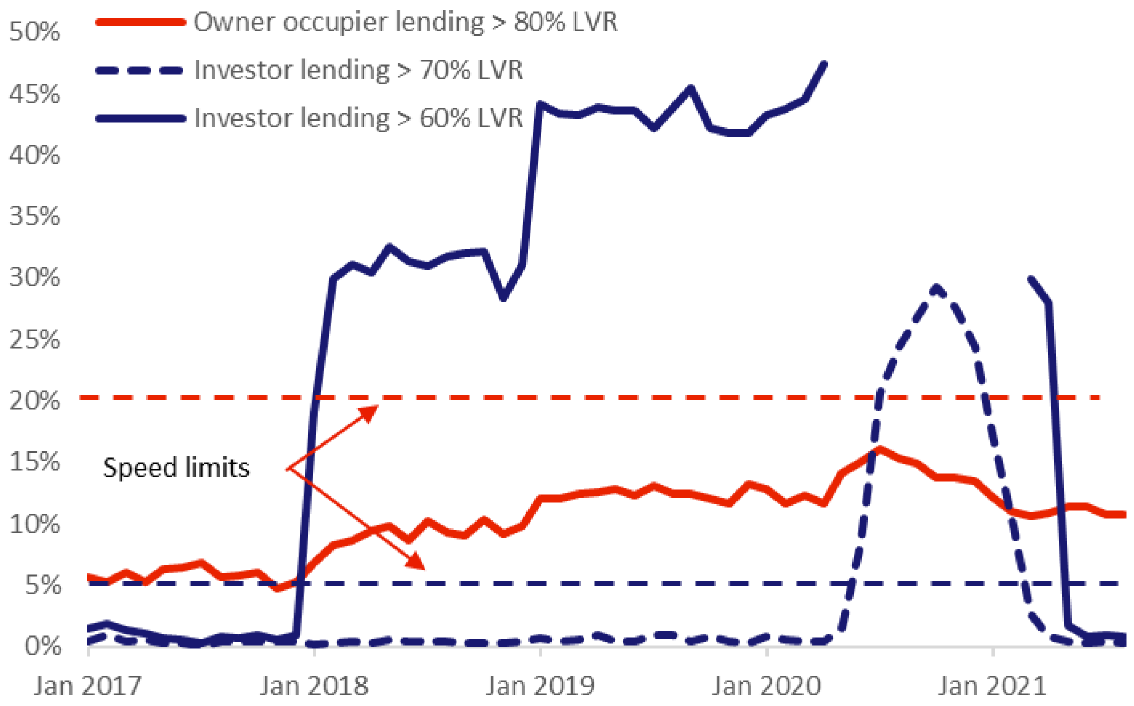


Source: CoreLogic

Which has lead to increased regulation

From both the Government and Reserve Bank

Lending at certain LVR levels



Limiting interest deductibility on residential investment property

Explanatory note

Tax measures relating to housing

This Supplementary Order Paper (**SOP**) proposes to make changes to tax settings to improve affordability for first home buyers by dampening investor demand for existing properties.

The SOP proposes to:

- limit interest deductions for investors in residential property; and
- address issues arising out of the extension of the bright-line test from 5 years to 10 years.

Many landlords who invest in residential property do so expecting to earn a large capital gain when they sell their property. The current tax system allows landlords to deduct all interest expenditure relating to their residential rental properties, even if they do not pay any tax on the capital gain when they sell their property. Interest deductions related to residential rental properties will therefore be limited. To ensure there is no adverse impact on housing supply, property development and new builds will be exempt from the interest limitation rules.

In summary, the key features of the interest limitation proposal are:

- the rules would apply to interest incurred on or after 1 October 2021;
- for pre-existing loans relating to property acquired before 27 March 2021, interest denial would be phased at 25% per year over 4 years;
- loans drawn down on or after 27 March 2021 would be subject to full limitation from 1 October 2021, unless the property was acquired as a result of an offer made on or before 23 March 2021 that could not be withdrawn before 27 March 2021;
- property developers would continue deducting interest expenses as incurred;
- new build properties would be exempt from the interest limitation rules; and
- interest deductions would be allowed when a taxable sale of residential property is made.

Source: RBNZ lending data, CoreLogic Buyer Classification

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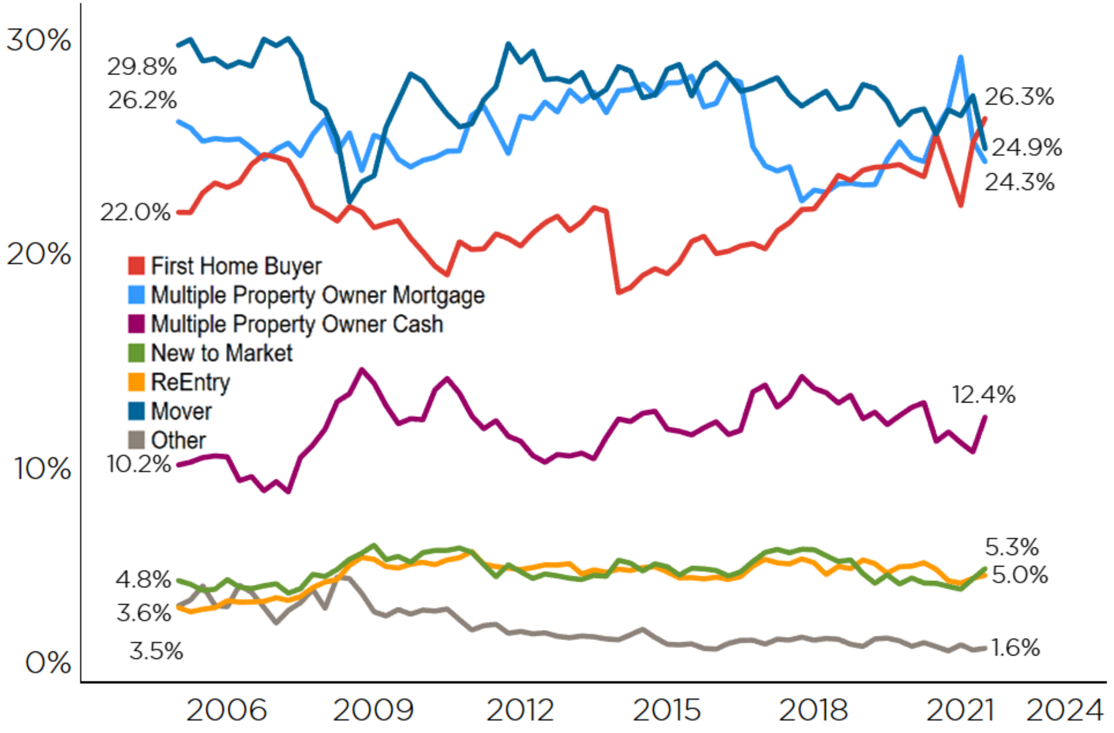
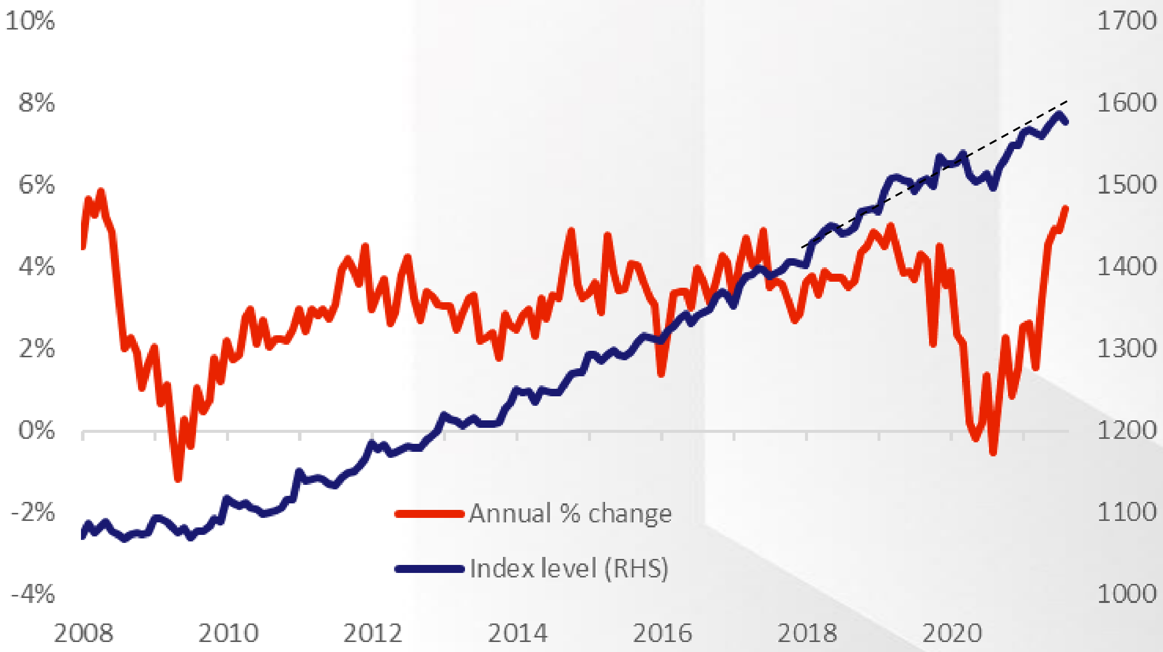
Investors pulling back from more *purchases*

But not 'selling out', and no clear evidence of jump in rental prices

Percentage share of purchases - NZ



Monthly rental prices



Source: CoreLogic, Stats NZ

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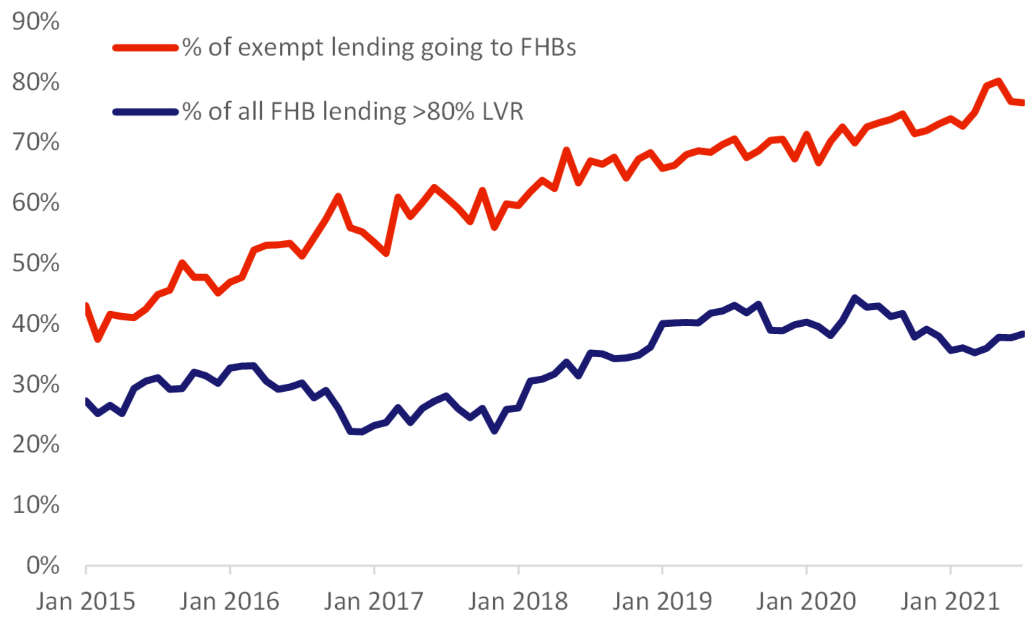
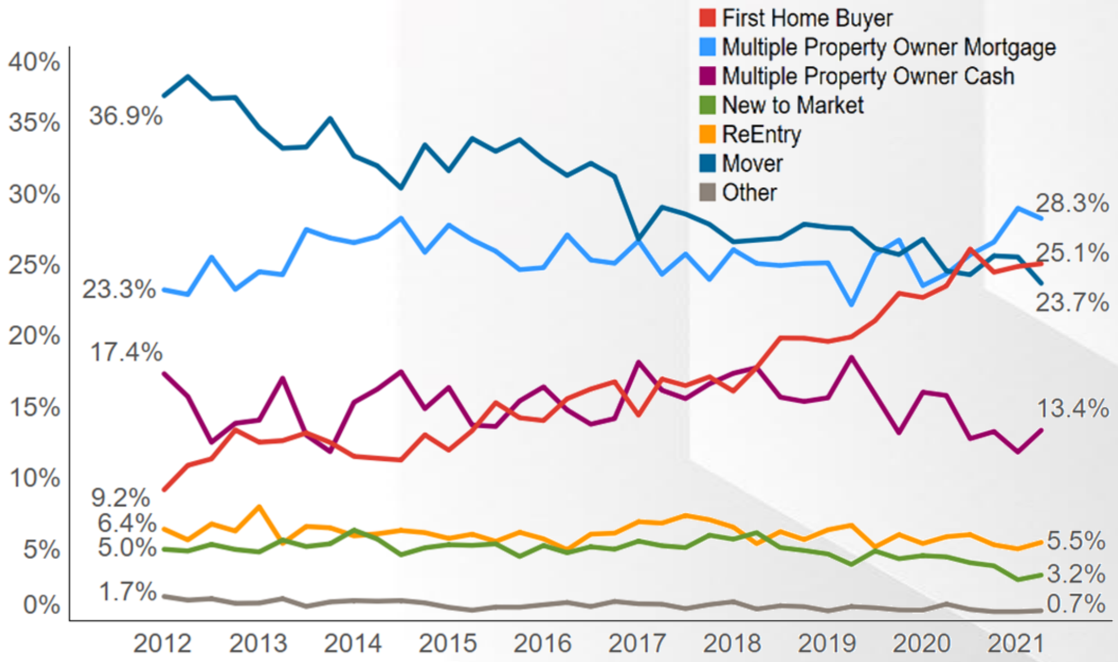
Tighter lending rules now to hit FHBs

With further competition for new build market

High LVR lending to FHBs



Percentage share of purchases – new builds

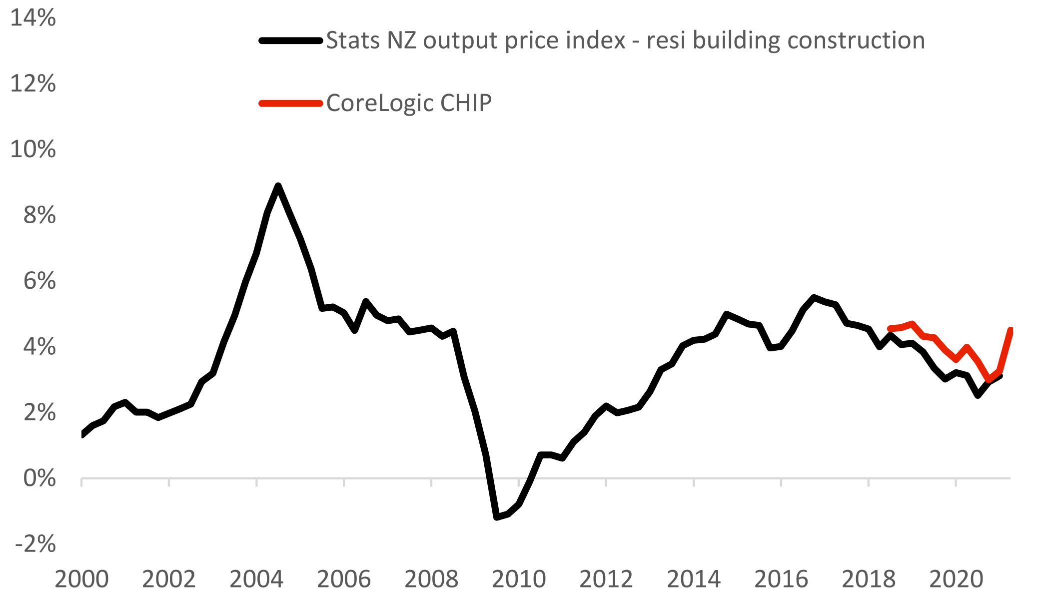


Source: RBNZ, CoreLogic

Into a market which is already close to capacity

Where costs have started to accelerate, and it may only be the beginning

Measures of house-building costs – annual % change



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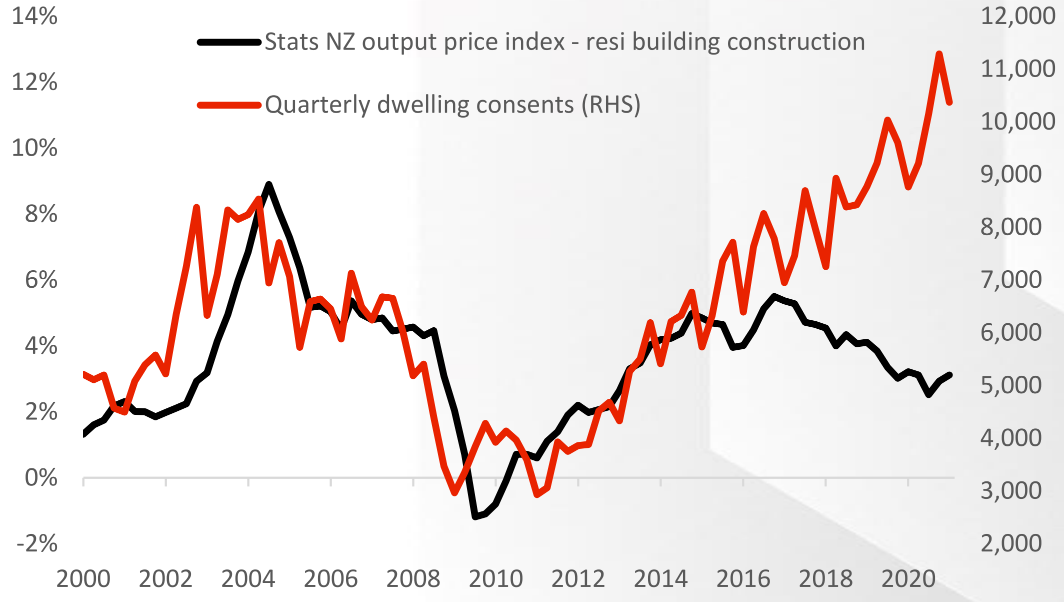
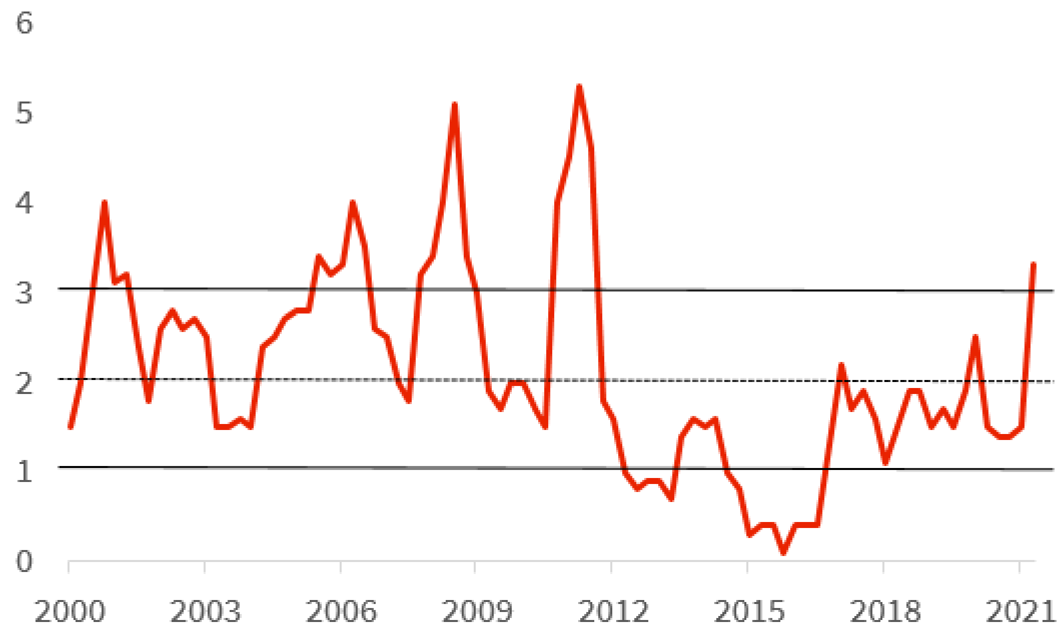


Sources: Stats NZ, CoreLogic

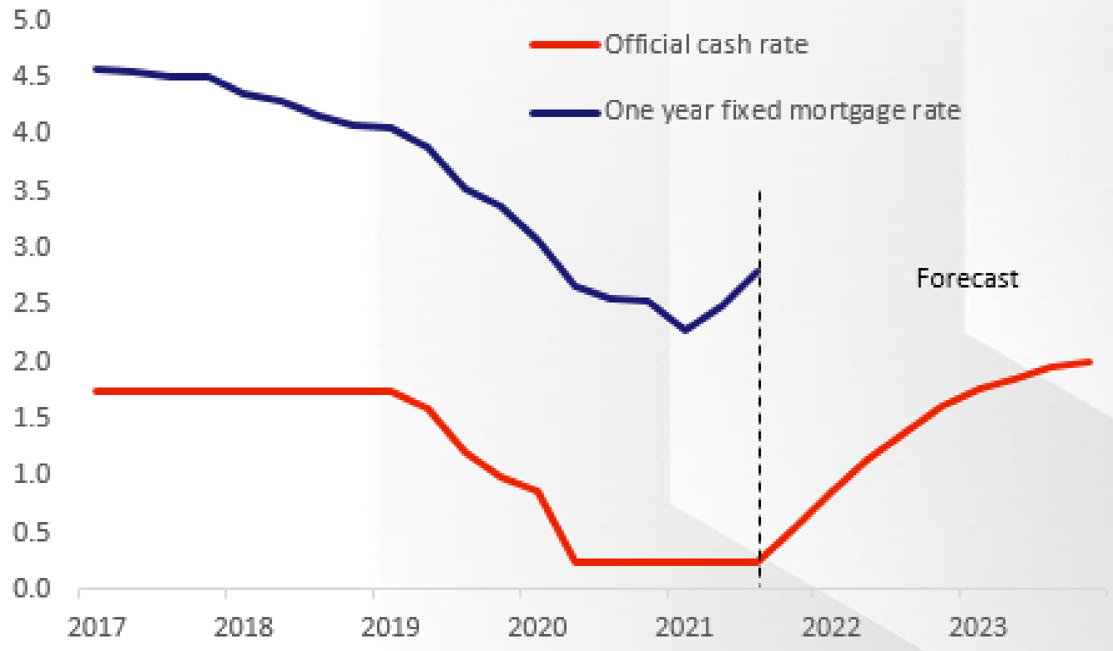
Now all about inflation and interest rates

But a major property downturn is unlikely with a strong economy and low unemployment

Inflation – annual % change



OCR forecast (RBNZ August 2021)



Source: Stats NZ, RBNZ

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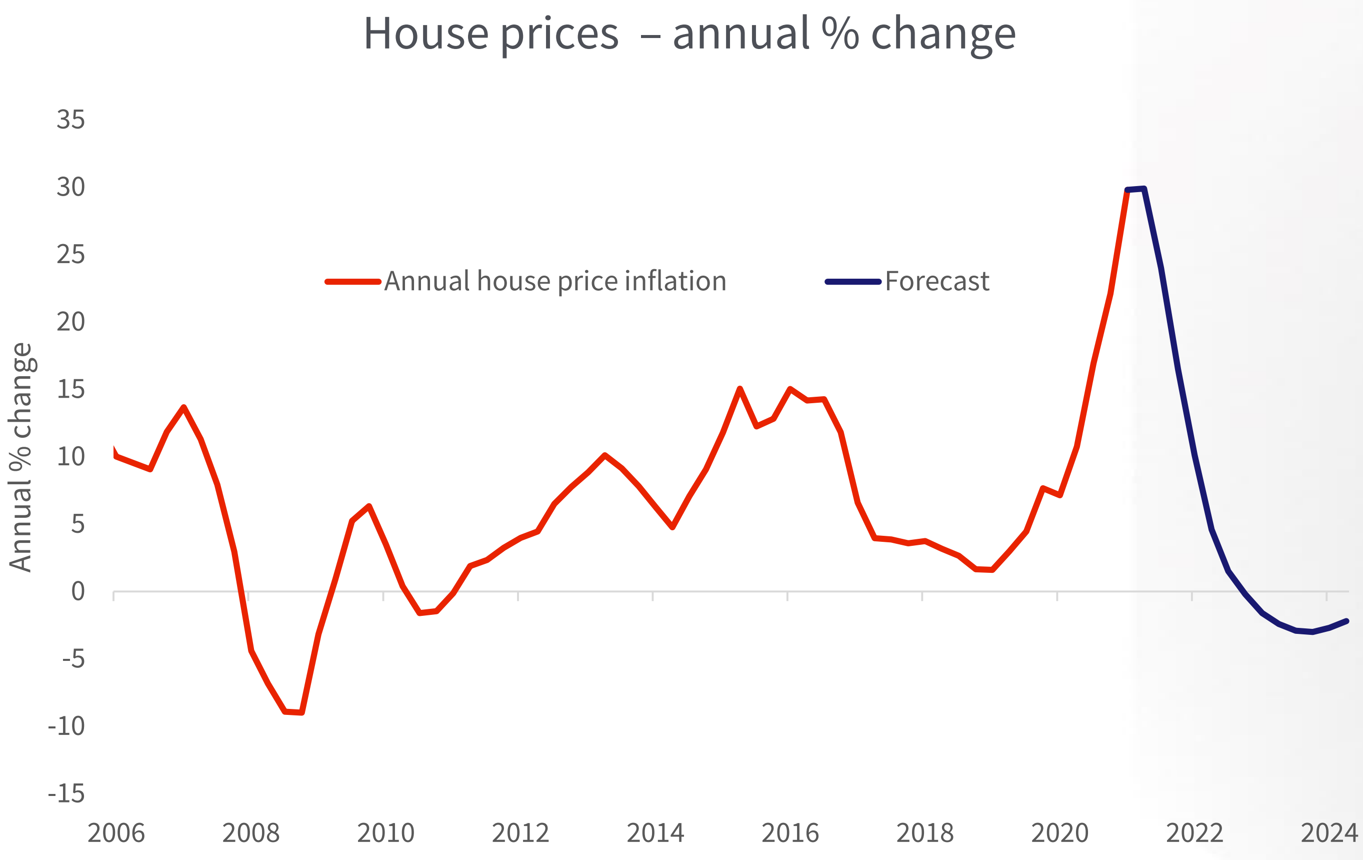
Reserve Bank warning of downside risks

We're thinking slower growth not price falls, but understandable assessments of risk



Source: RBNZ

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Regional Vulnerability

Your sneak peak

The next phase of this cycle will likely be felt to varying degrees across the country

Basic principle – where might investors sell and others not fill the gap?

CoreLogic property data (e.g. investor presence)

Centrix credit data (e.g. mortgage arrears)

Trade Me demand data (e.g. watchlists)

Stats NZ economic data (e.g. employment growth)

A broad range of factors could influence future performance

Increasing interest rates on their own are unlikely to cause values to markedly drop

Housing (Un)affordability

Sustained property value growth is stretching affordability in a number of areas, some without underlying population growth to justify it.

Otorohanga
Wairoa

Recent Credit Behaviour

Credit reporting data can provide an early indication of places where debt accumulation may foreshadow upcoming issues for borrowers.

MacKenzie
Queenstown-Lakes

Financials for investors

Increased regulation for investors will squeeze profit margins for investors. Some may want to sell and others will need greater yield to remain active – who can fill the gap?

Hamilton
Opotiki

A broad range of factors could influence future performance

Increasing interest rates on their own are unlikely to cause values to markedly drop

Demand/supply rebalance

Where property values are of have become unaffordable sales may reduce and listings start to lift (and linger longer on the market).

Ruapehu
Hurunui

Local employment and economy

Recent employment growth and the diversity of a local economy provide a guide to the robustness to weather an external shock.

Kawerau Paper Mill
Tiwai Point Aluminium Smelter
Taranaki Gas

Property Demand

Property view and watch list data may provide an early indication of areas where demand is drying up.

Stratford
Clutha

CoreLogic

Next steps

Launching to market Tuesday 12 October at 11:30am via webinar and media.

Open to anyone register at the below link

https://insight.corelogic.co.nz/property-vulnerability-webinar

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It really hasd been the year of ‘property politics’

Headwinds have strengthened, but managed slowdown more likely

- Slowdown in 2021 was always likely – affordability ‘handbrake’, 40% deposits
- And now the investor tax changes and RBNZ focus on owner-occupiers just make that even more likely
- Then we’ve also got to put rising mortgage rates into the mix – big proportionate rise from a low base (and higher average mortgages too)
- But ultimately unemployment still low, building is constrained and credit is available – different from GFC – so low risk of a downturn in prices, just a slowdown in growth
- Admittedly, we could see a post-lockdown ‘bounce’ – but it’s different from 2020

‘This time is different’

	April 2020	**August 2021**
Wage subsidies	Yes	Yes
Business support	Partly	Yes
OCR change	0.75% drop	Lift?
Quantitative easing	Government bond buying	No
LVR restrictions	Temporarily removed	Tighter (Investors and Own/Occ)
Mortgage deferral programme	Yes	No
Housing Affordability	8.8 years to save deposit	10.6 years to save deposit

Source: CoreLogic

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Thank you & Q+A

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