

A testing time ahead for the property market

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Agenda

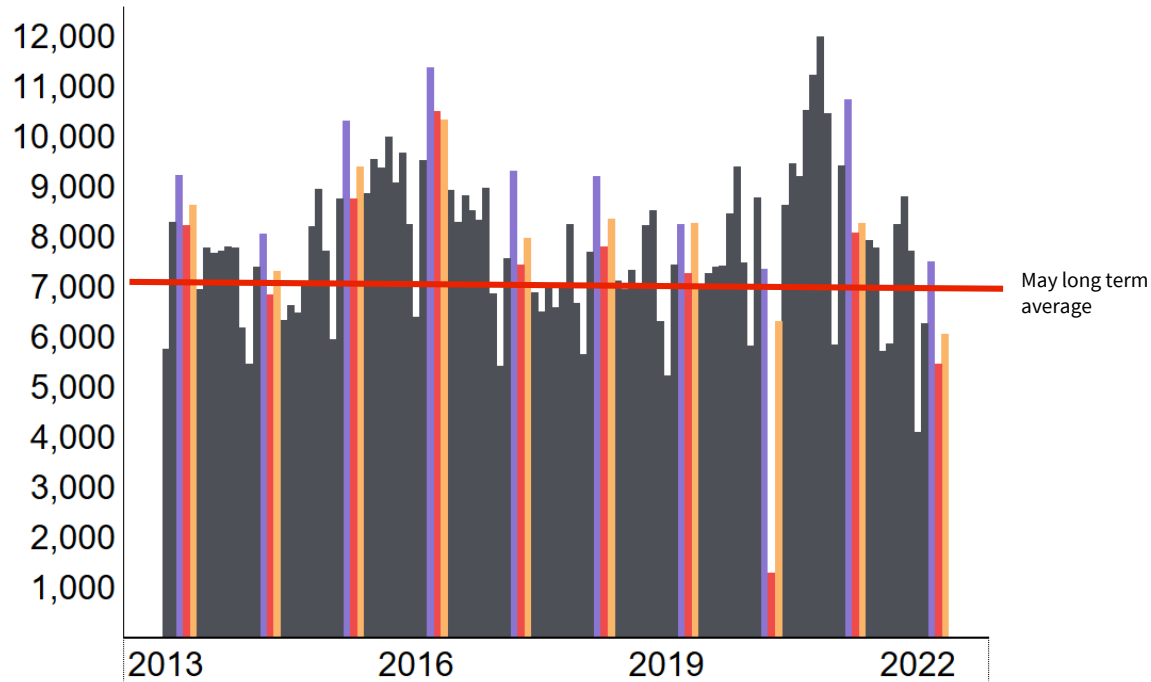
Quick market read
Lessons from the GFC?
Swing factors to watch
Regional vulnerability



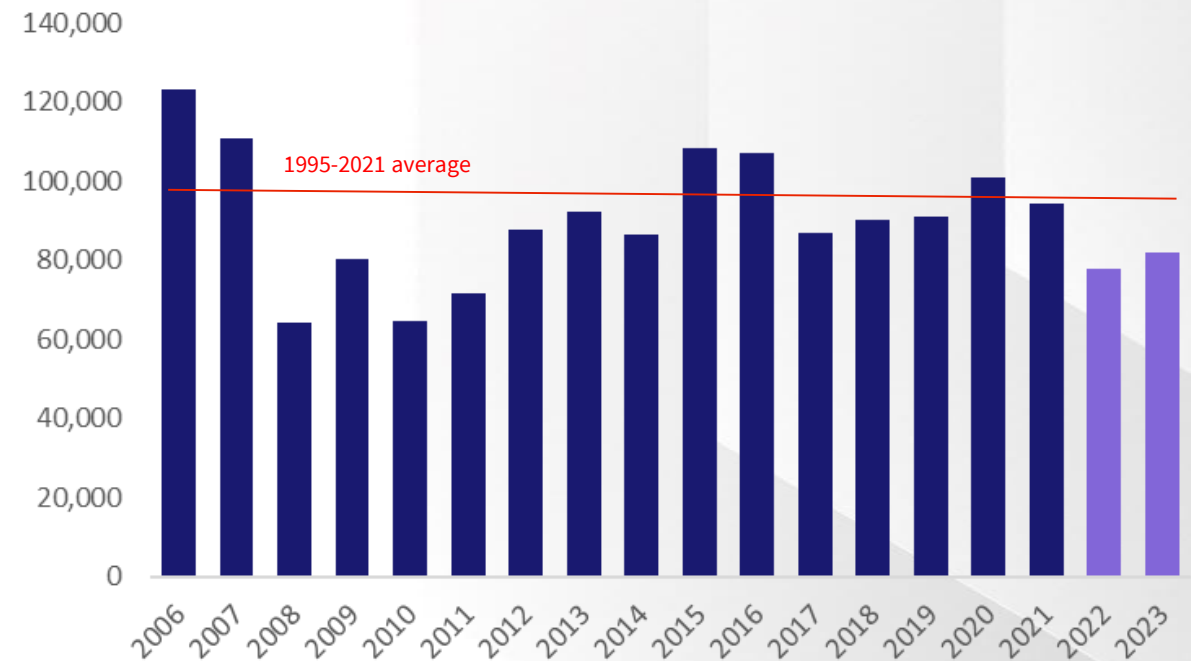
The sales downturn is entrenched

And the impact will be felt in many industries

Sales volumes – NZ



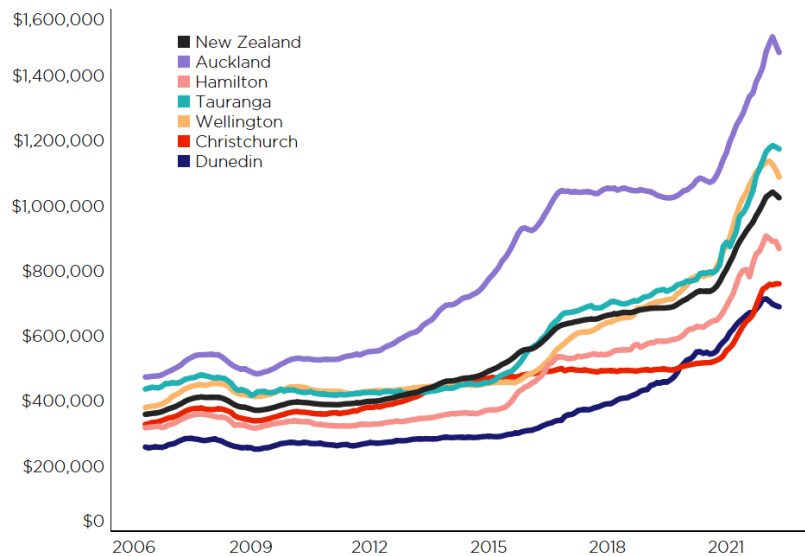
Yearly sales volume forecast - NZ



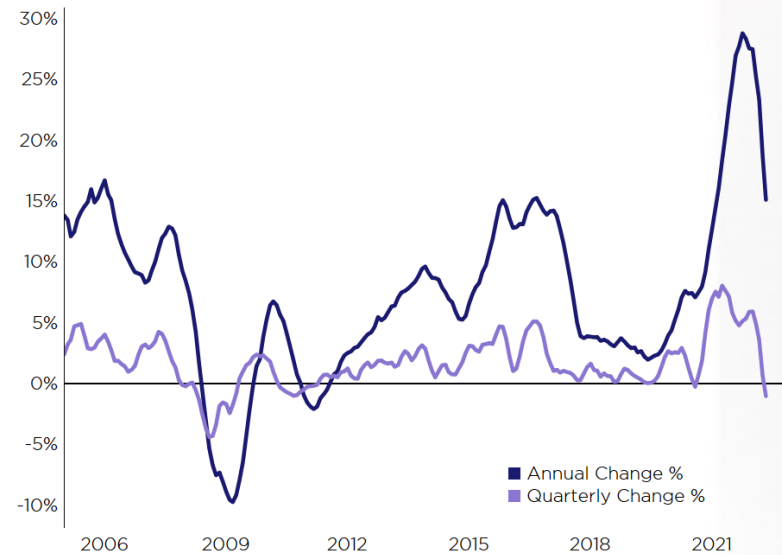
Property values are falling

But be careful of 'dramatic' headlines – median sale prices can be misleading

Average values in main centres



NZ quarterly and annual % change



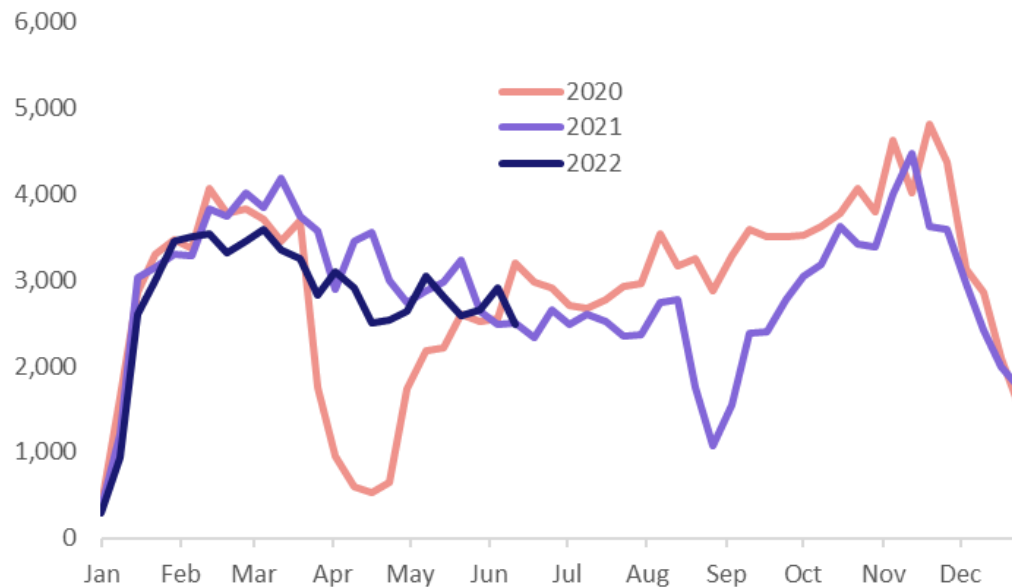
Source: CoreLogic

REINZ HPI	Change from peak
NZ	-7.7%
Northland	-2.5%
Auckland	-11.7%
Waikato	-3.7%
Bay of Plenty	-4.6%
Gisborne/Hawke's Bay	-6.8%
Manawatu-Wanganui	-6.0%
Taranaki	-2.7%
Wellington	-12.7%
Tas/Nels/Marl/WC	-3.4%
Canterbury	-4.1%
Otago	-2.3%
Southland	-1.2%

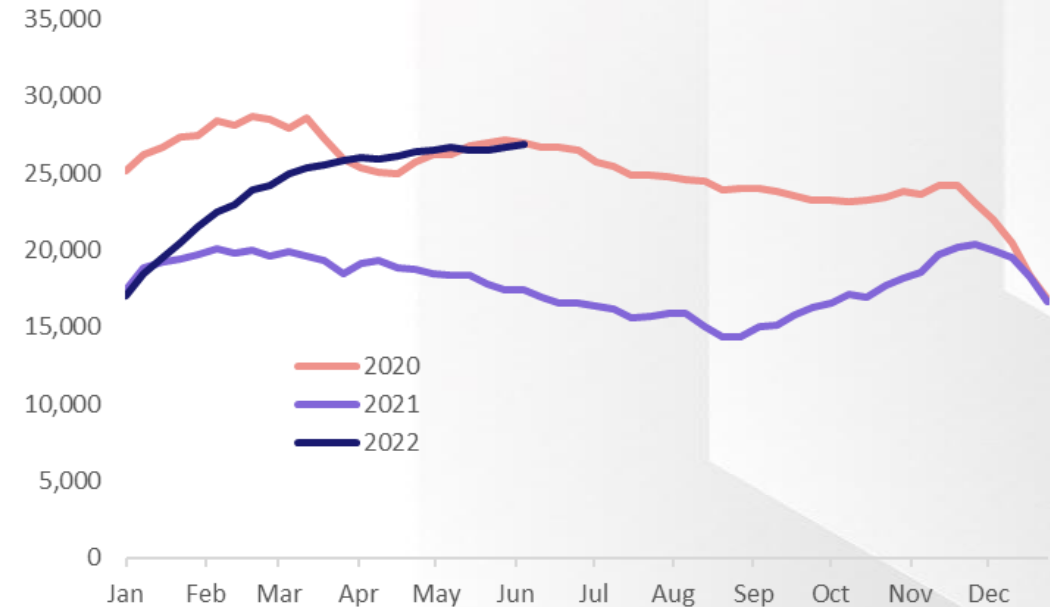
As listings improve off the back of slower sales

Buyers have pricing power and aren't rushing anymore

NZ weekly flow of new listings



NZ total properties listed for sale

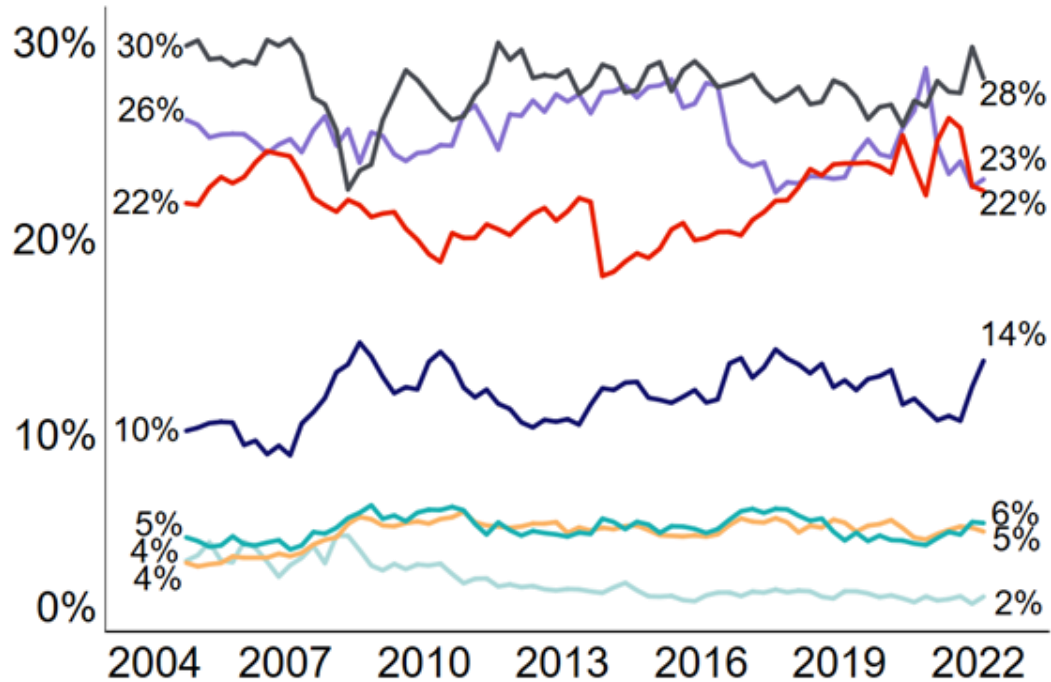


Source: CoreLogic

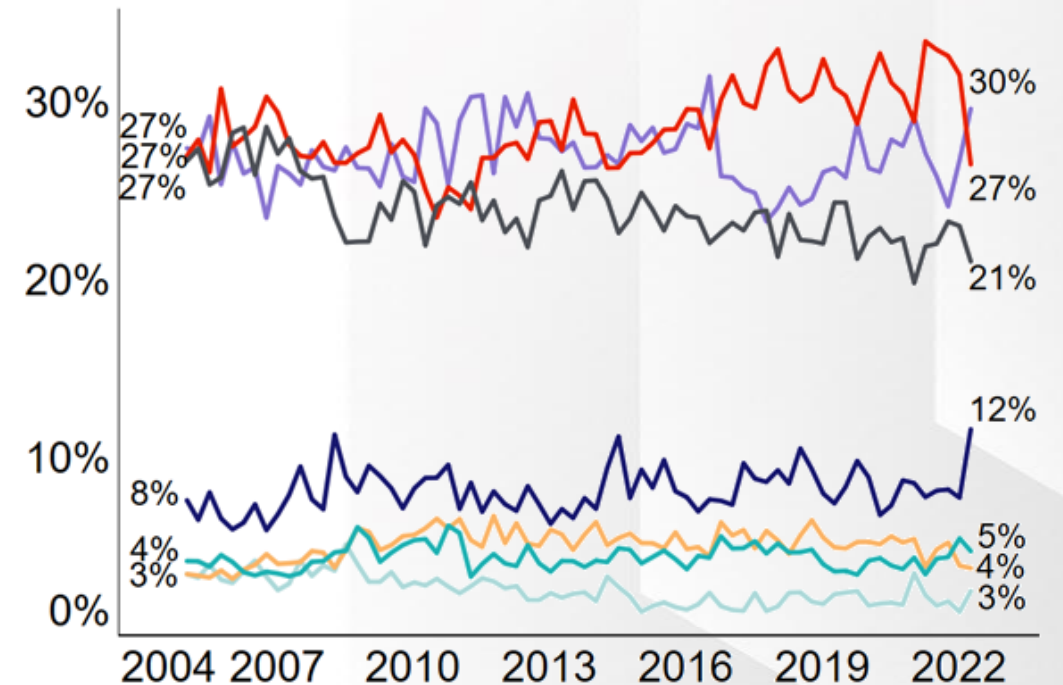
With fewer first home buyers active

Either unable or unwilling to pay recent prices

NZ % share of all purchases



Wellington % share of all purchases



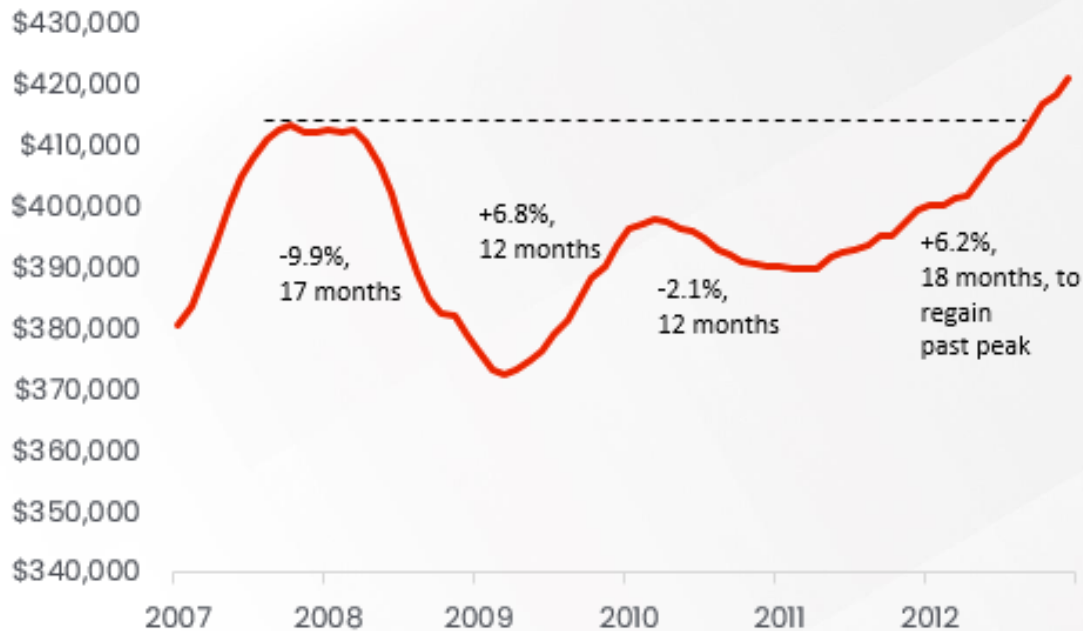
- Mover
- First Home Buyer
- Multiple Property Owner Mortgage
- Multiple Property Owner Cash
- New to Market
- ReEntry
- Other

Keep in mind the GFC 'bath tub'

Widely known that GFC price fall was 10%

But the long slow grind to recovery isn't acknowledged nearly as often

NZ average property values



% change in average values from Oct. 2007 to Sept. 2012



The swing factors to watch



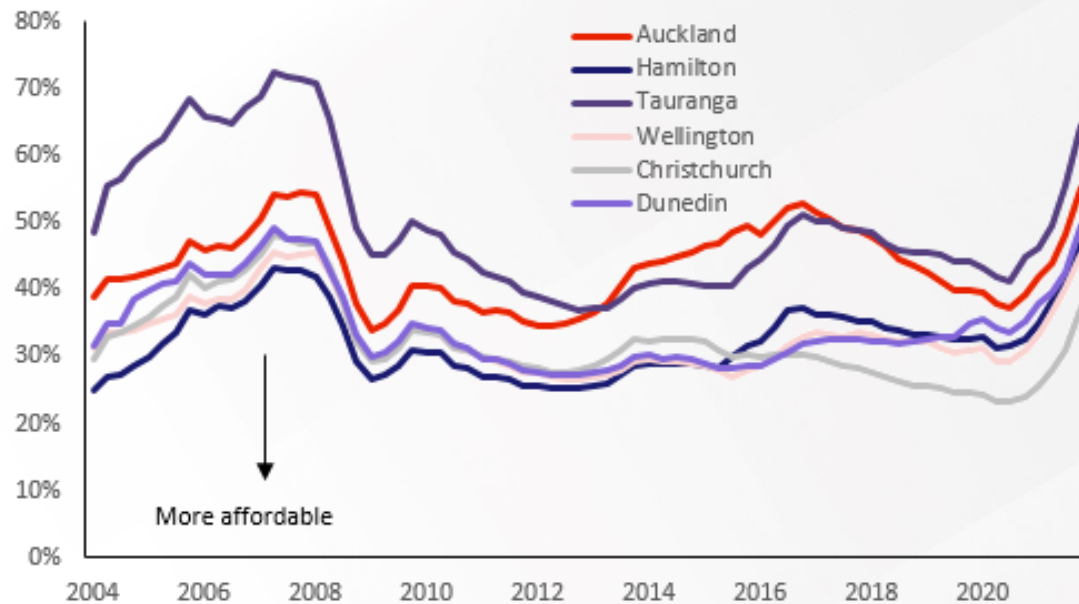
Owner occupiers



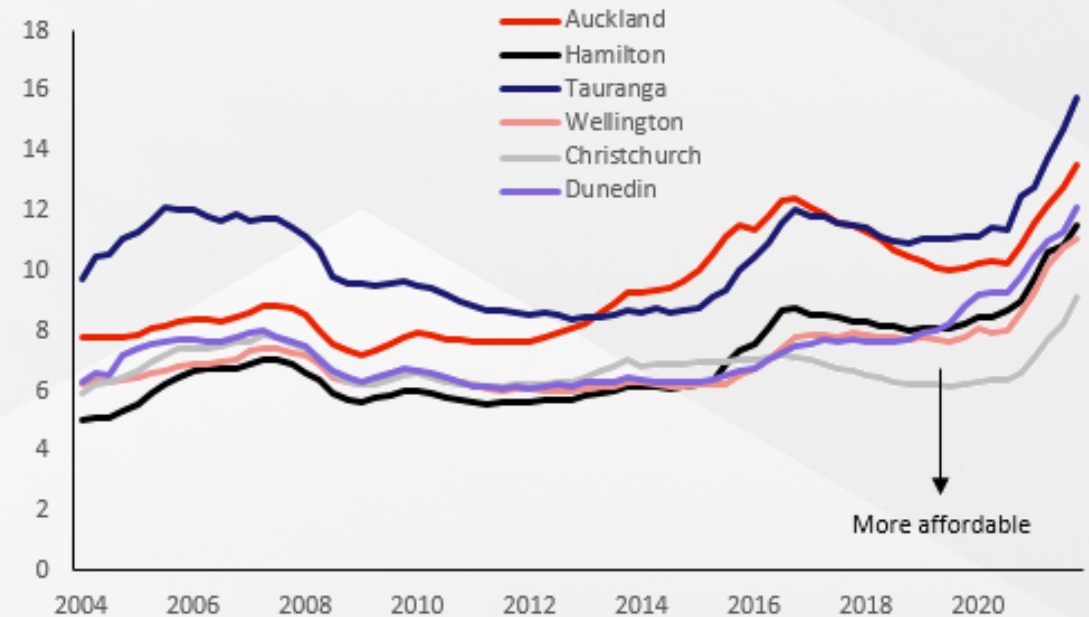
Affordability has reduced everywhere

But some are worse than others – Christchurch looks the best placed

Main centres % of gross average household income to service a mortgage

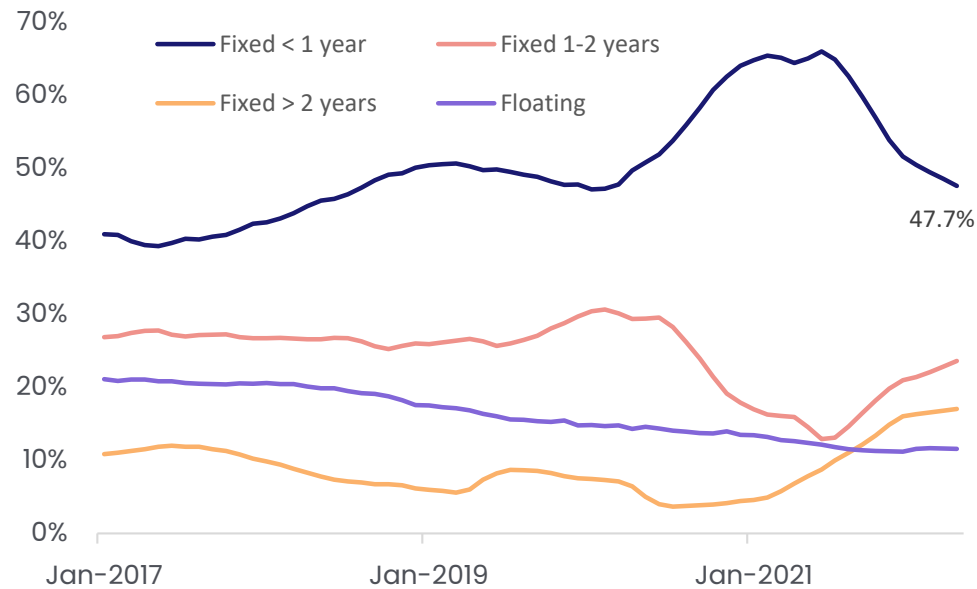


Main centres years to save a deposit

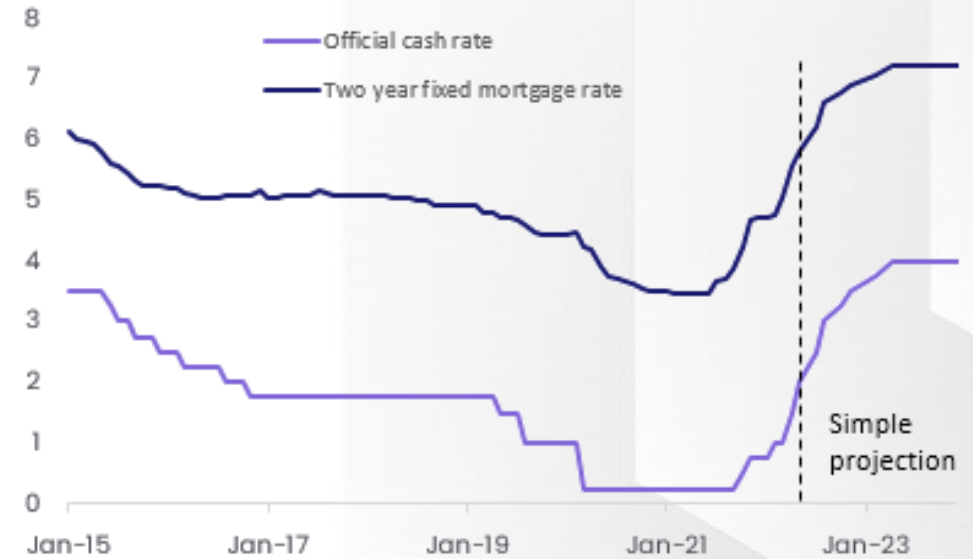


Mortgage rates up and large refi profile coming

% of existing mortgages on various terms



The OCR and two year 'standard' fixed rates



Source: RBNZ

But unemployment is low

And the safeguards are in place

Unemployment rate



Source: Stats NZ

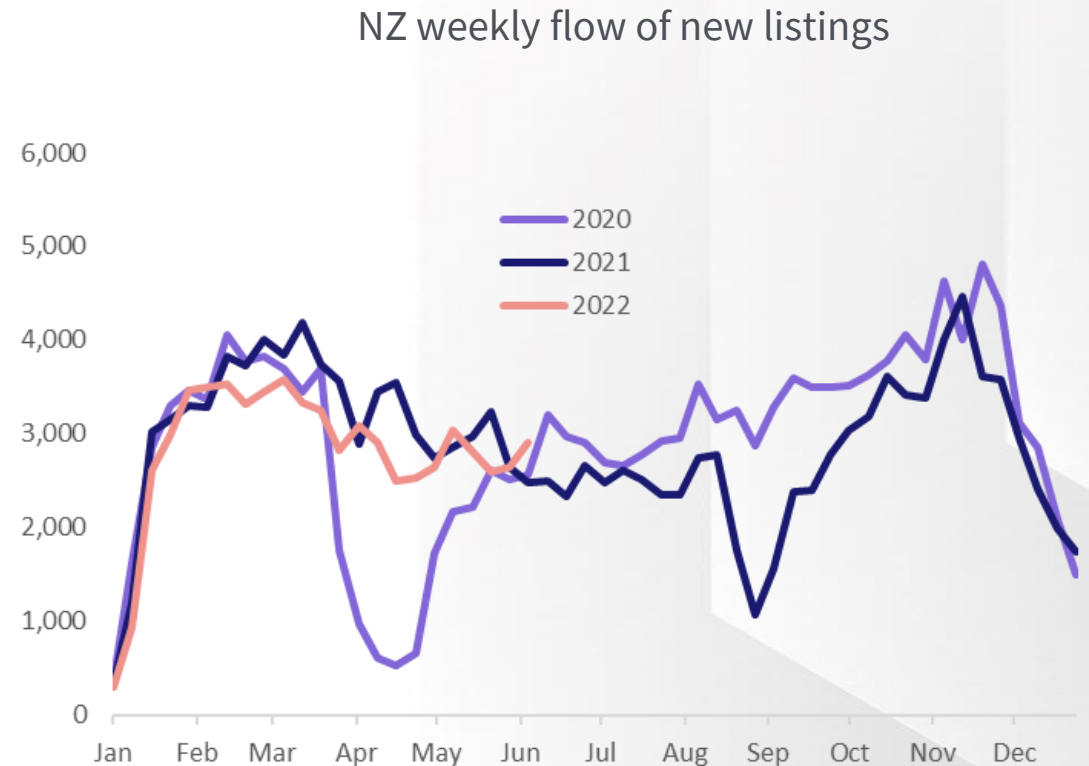
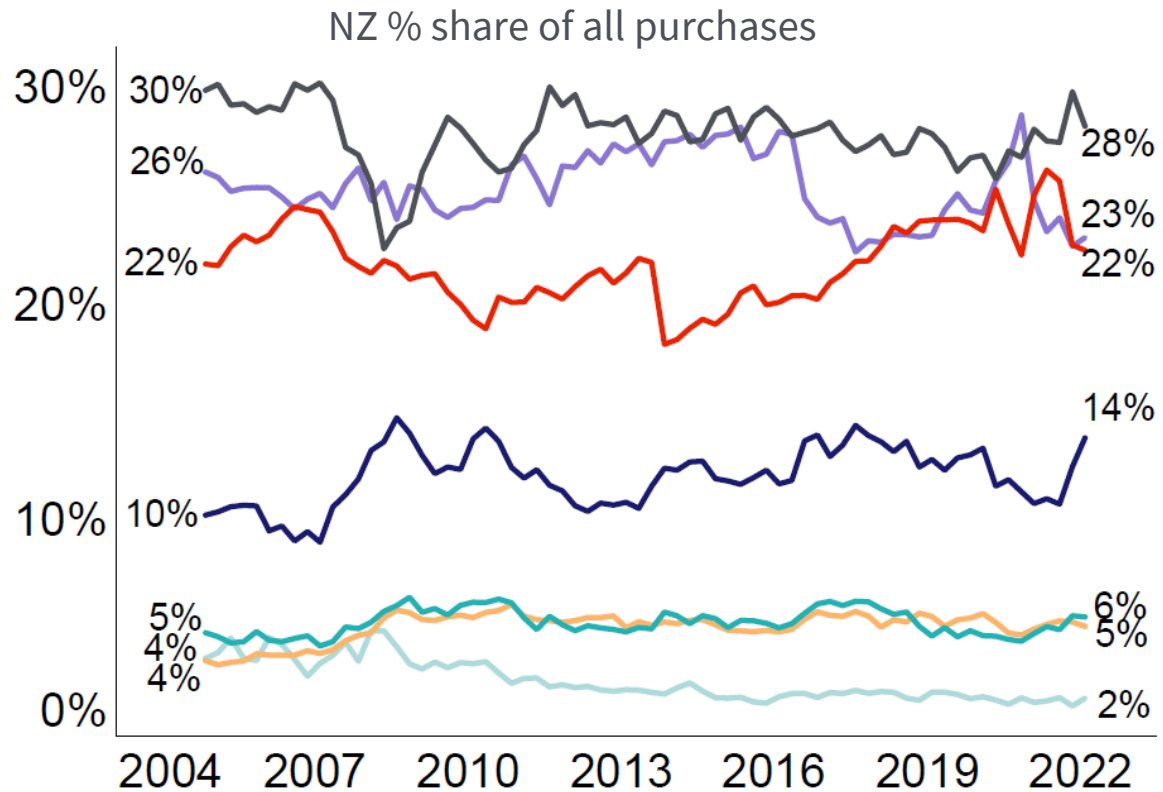
- The LVR rules have also built a buffer into the system
- Mortgage serviceability tested at much higher rates too
- Many people ahead on their repayments
- And it'll be a long time (if ever) before we get 'too many' houses

Investors



Investors not as active, but also not fleeing

Potentially delayed by Brightline test



Source: CoreLogic

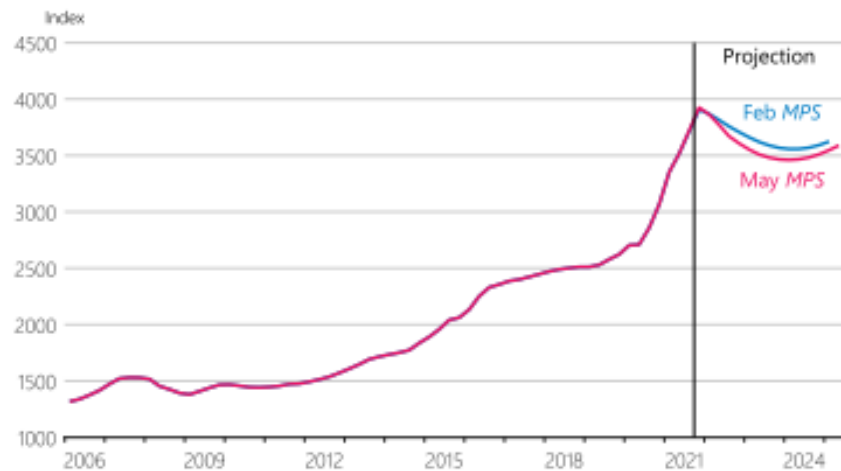
Can *new* investors make it pay?

Expectations of capital growth reducing by the minute. Search for yield?

House price forecast

Figure 2.19

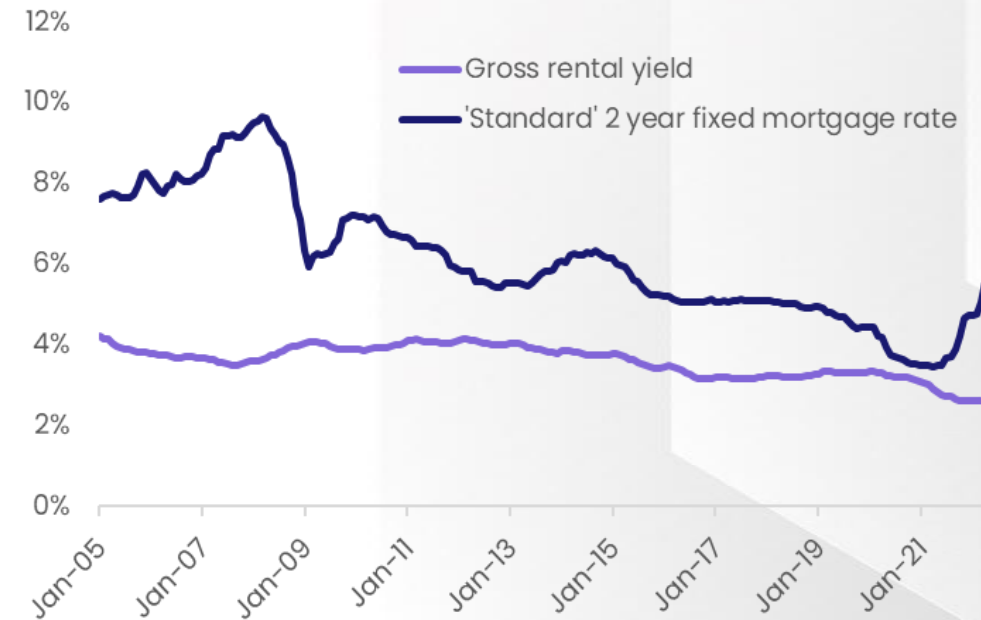
House prices (nominal)



Source: CoreLogic, RBNZ estimates.

Note: This index is the official measure of house price levels in New Zealand.

Investment returns

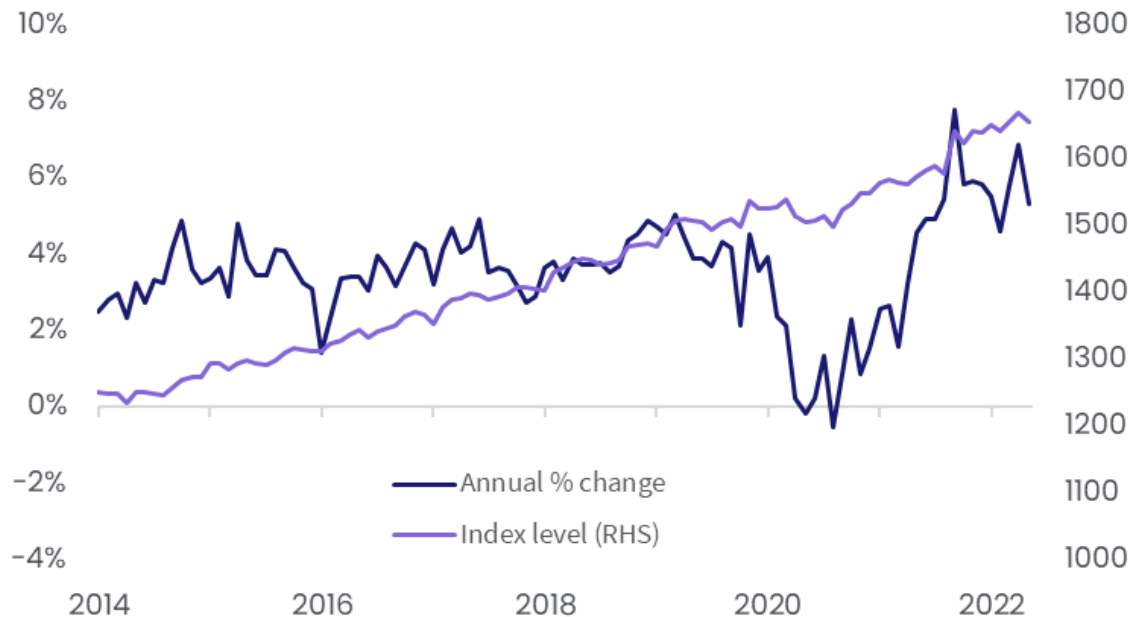


Source: CoreLogic, RBNZ

How long can existing investors make it work?

Regulation has come thick and fast

Rental index and annual % change



Source: Stats NZ

- Rents cannot sustain this growth rate
- LVR rules remain tightest in history
- Costs increasing (healthy homes, maintenance, inflation)
- More difficult to remove troublesome tenant
- Removal of interest cost deductibility (at higher rates)
- Ring-fencing of tax losses

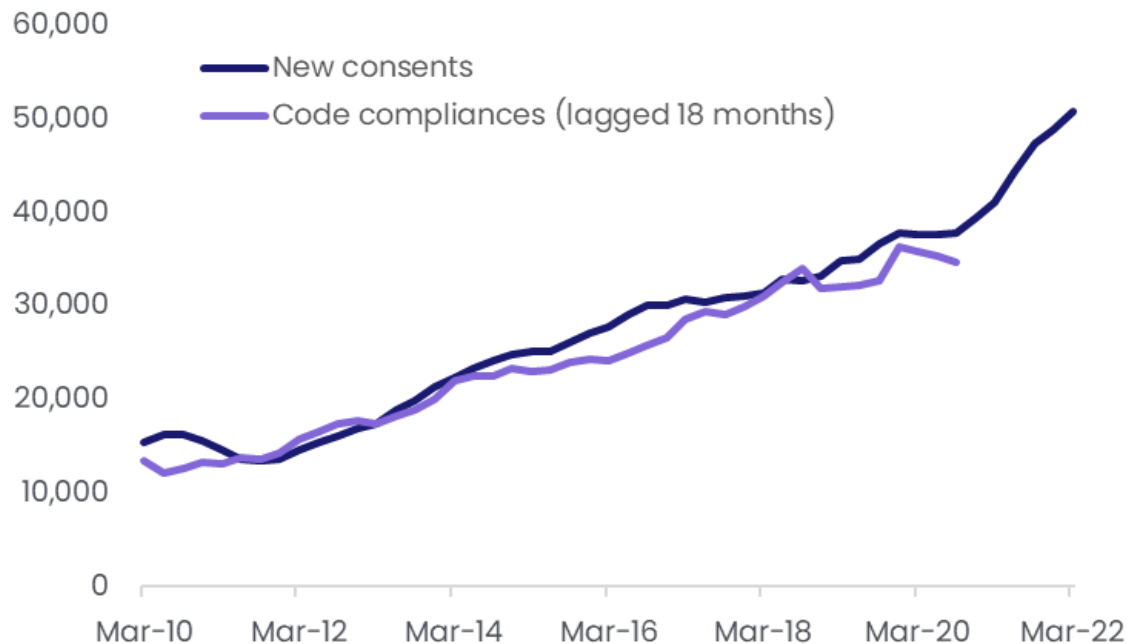
Development and construction industry



New data hints at build capacity of 35k p.a.

Stats NZ experimental construction sector data (22 TAs, circa 60% of activity)

Consents and CCCs – annual running total

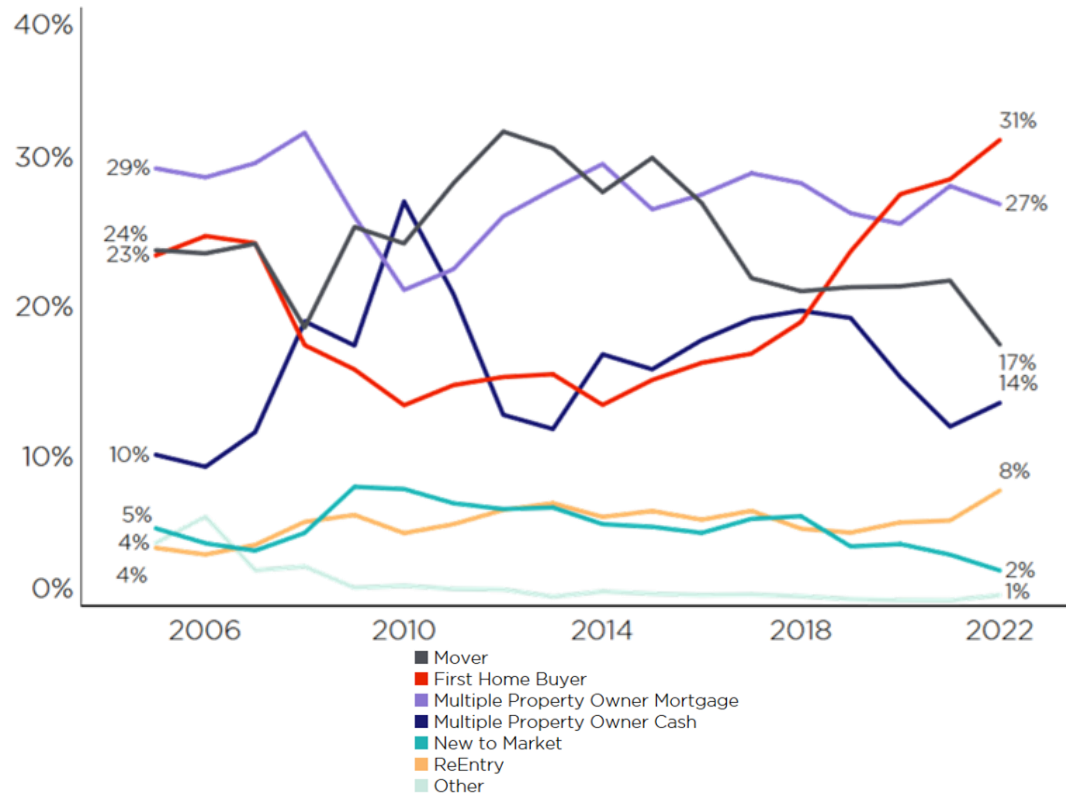


- Typical time from consent to final inspection is around 15 months
- Typical time from final inspection to code compliance is 2 months
- But build period of around 15-18 months will probably lengthen further as materials/capacity issues continue to bite
- Also remember that some consents won't get built, and we're demolishing houses too
- **In a nutshell, at least the risk of property 'oversupply' doesn't seem particularly high**

Confidence crisis for the sector?

New builds popular with FHBs but weariness increasing

Auckland % share of new-build purchases



ANZBO residential construction intentions and consents



Source: Stats NZ, Macrobond, ANZ Research

Regional Vulnerability

Centrix credit data (e.g. mortgage arrears)

Trade Me Property demand data (e.g. views and watchlist adds)

CoreLogic property data (e.g. affordability sales, listings, investor presence)

Stats NZ economic data (e.g. employment growth, industry reliance)



Canterbury 'ok', wider Wellington 'on watch'

Remember it's a relative assessment

- Nowhere is totally safe or necessarily a massive risk in absolute terms – we're looking at vulnerability on a relative scale
- With that in mind, most parts of Canterbury are to the 'least vulnerable' end of the spectrum
- They may still see price falls – but likely to be smaller (or not at all)
- Better affordability, less mortgage stress, stable and broad-based economy all support Canterbury property
- Auckland is mid-range, along with Porirua, Wellington
- But Upper and Lower Hutt look a bit more vulnerable



Some tough times yet

Where to next?

My key thoughts to take away ... just be wary that pessimism can overshoot reality

- ▶ **A 'correction' still more likely than major downturn**
 - ▶ However, this still might involve NZ-wide value falls of circa 10% -12%. Takes us back to levels mid last year
 - ▶ And start of next upswing may be a few years away, as per the GFC experience
 - ▶ Main centres generally a little less risky than some provincial markets
- ▶ **Labour market is vital – significant job losses would drive weaker housing market**
- ▶ **Rents unlikely to fall much (they're 'sticky'), but growth will likely slow** – tenant affordability constraints
- ▶ **'Typical' mortgage rates set to rise perhaps another 1-1.5% or so** – the biggest rises are behind us
- ▶ **New-builds obviously a target for investors** - but they'll continue to cost more
- ▶ Don't expect a flood of migration *in net terms*



Source: CoreLogic

Thank you – Q&A

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