

Too early to call the end of the downturn?

Kelvin Davidson
Chief Property Economist

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Agenda:

Recent market movements

Three hot topics

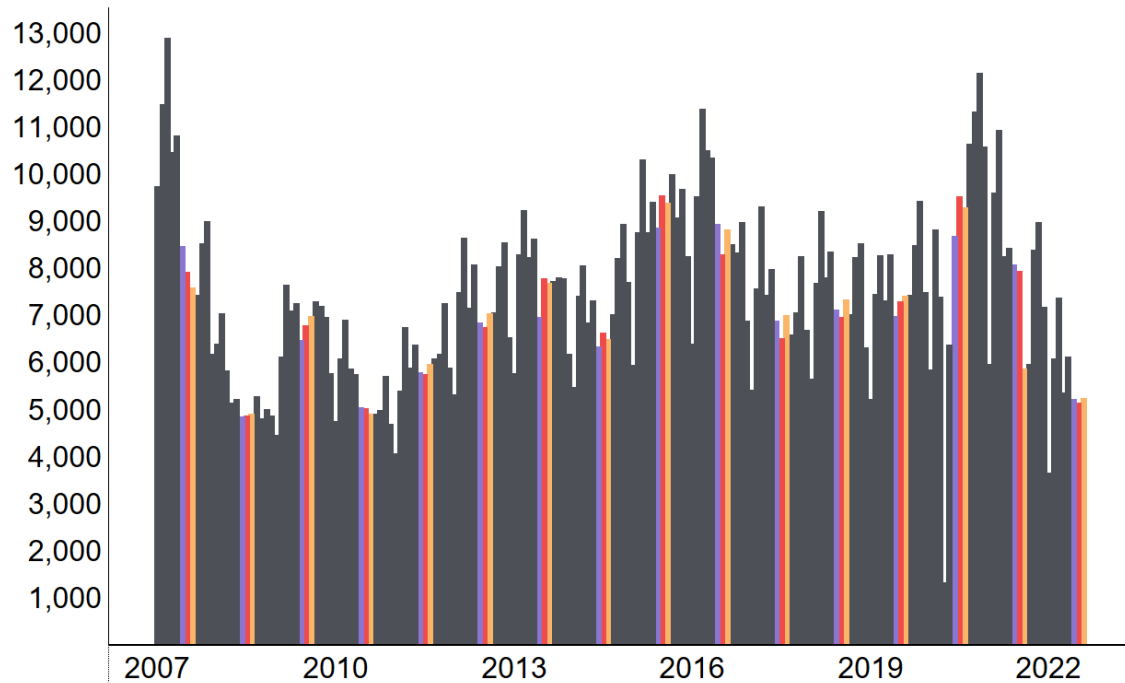
Where to next?

Quick recap of recent market movements

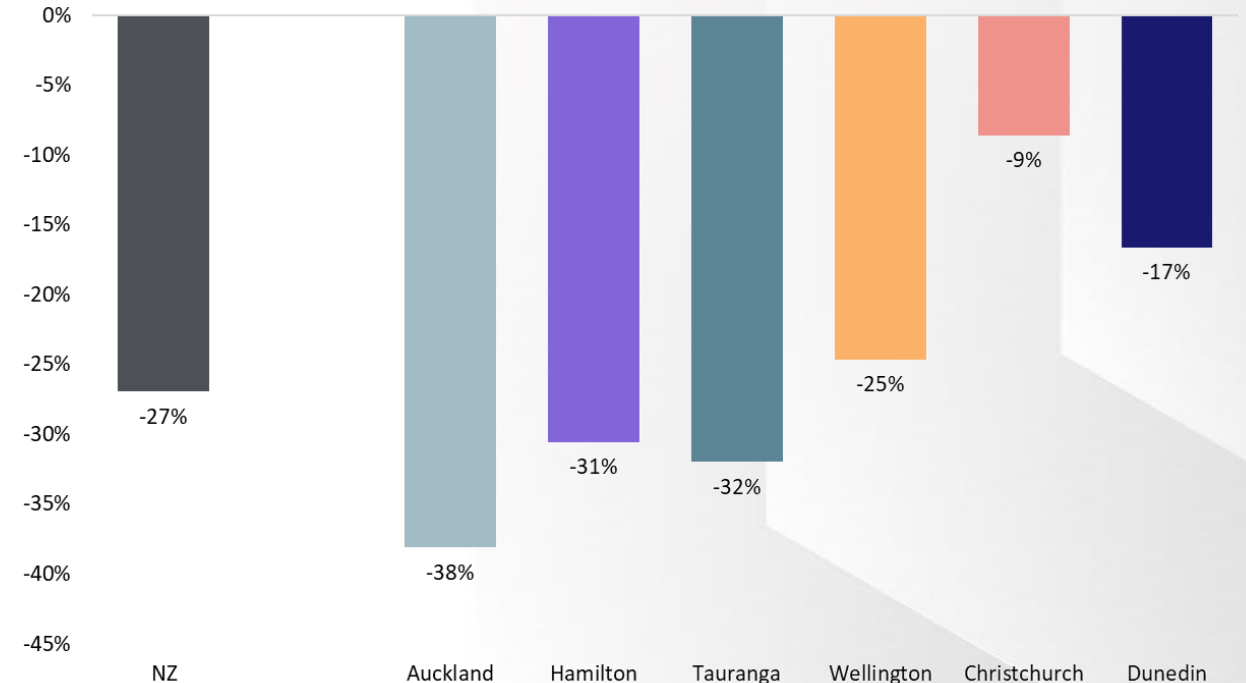
The sales slowdown has rolled on lately

And it's been broad-based with Auckland suffering the most

Monthly sales volumes – NZ



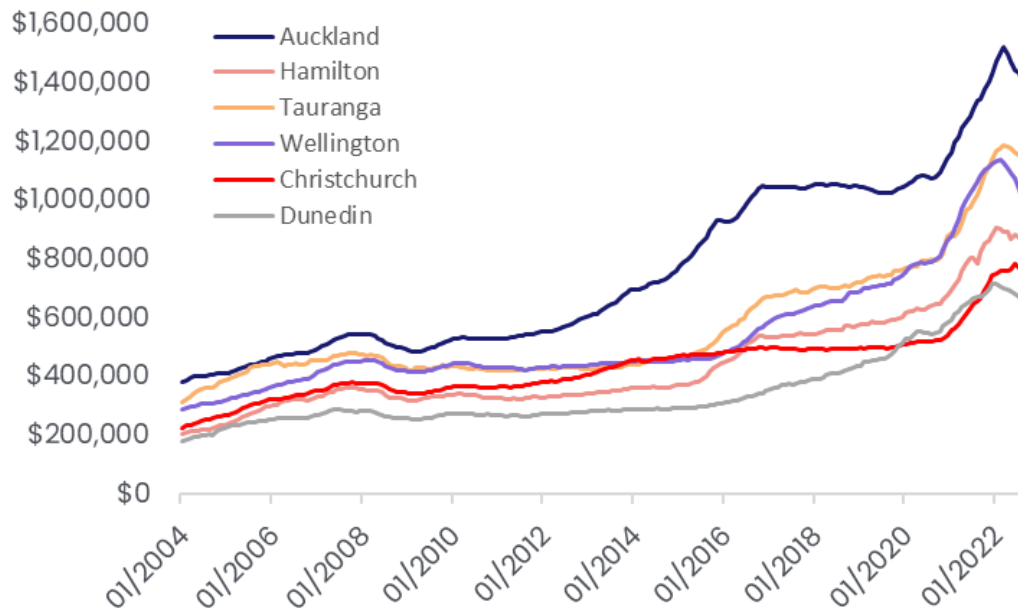
Sales Jun-Aug compared to long term average



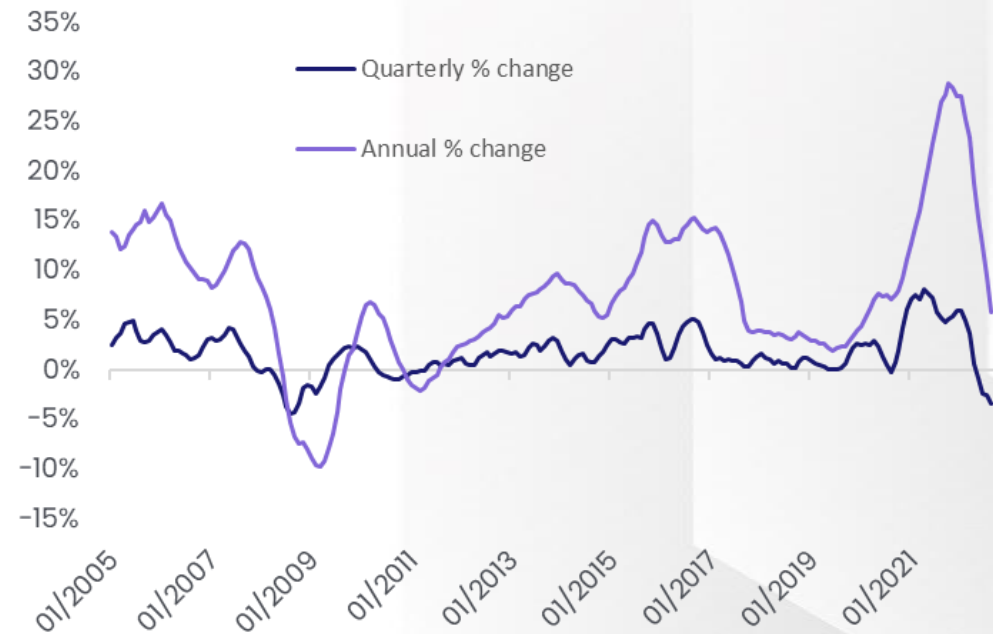
Property values have continued to drop

Albeit some areas holding up better – Christchurch still 'affordable'

Average values in main centres



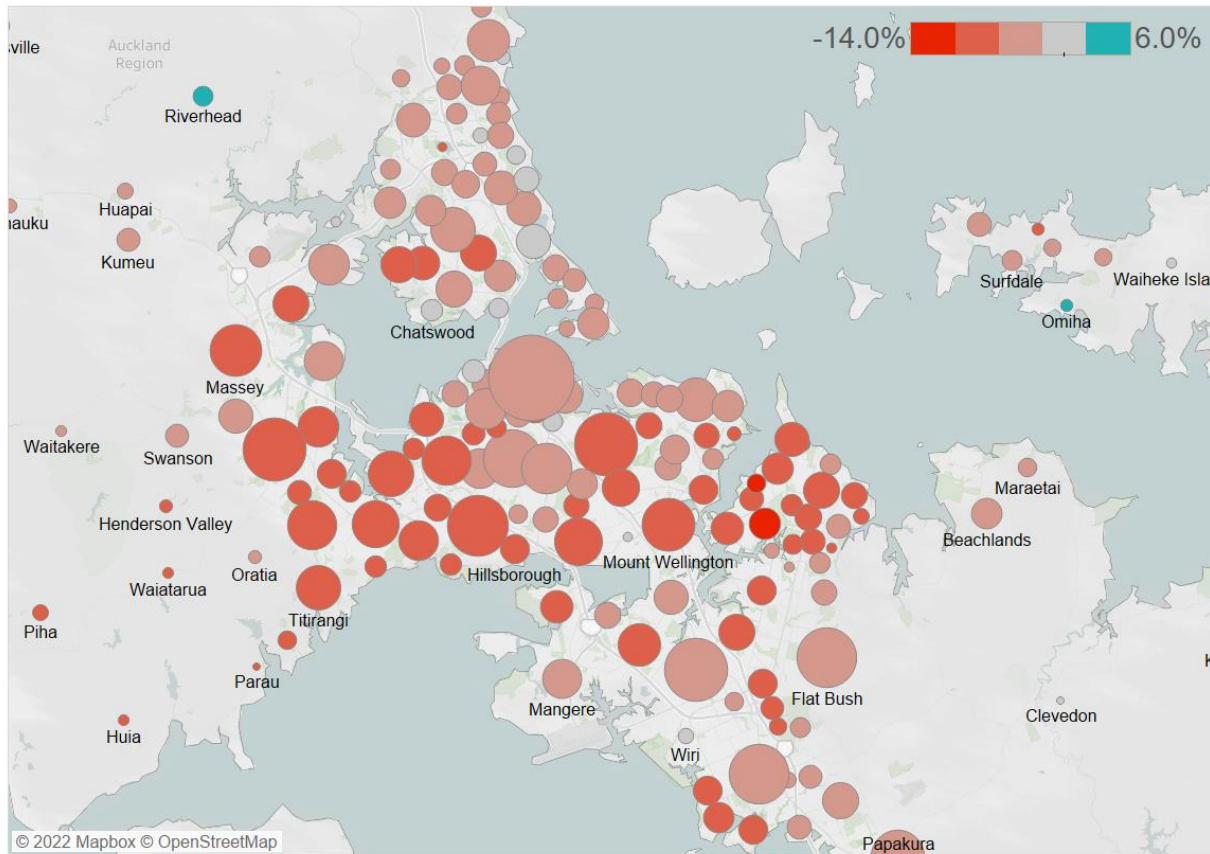
NZ quarterly and annual % change



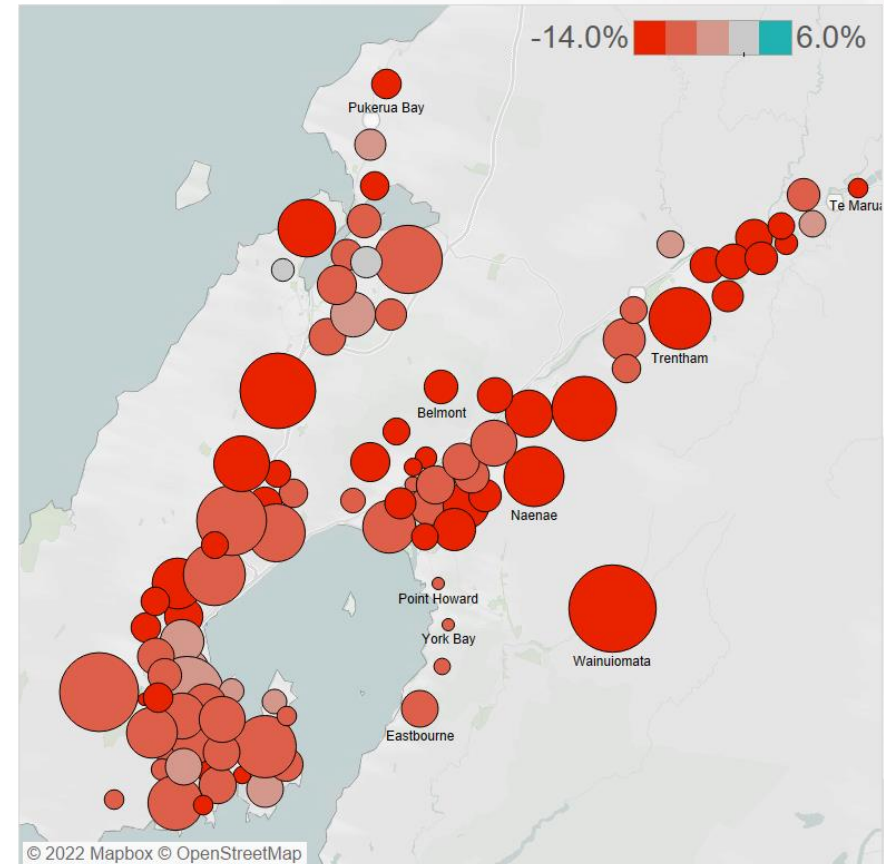
Suburbs in outer Wellington hurt the most

% change in median values in past six months

Auckland



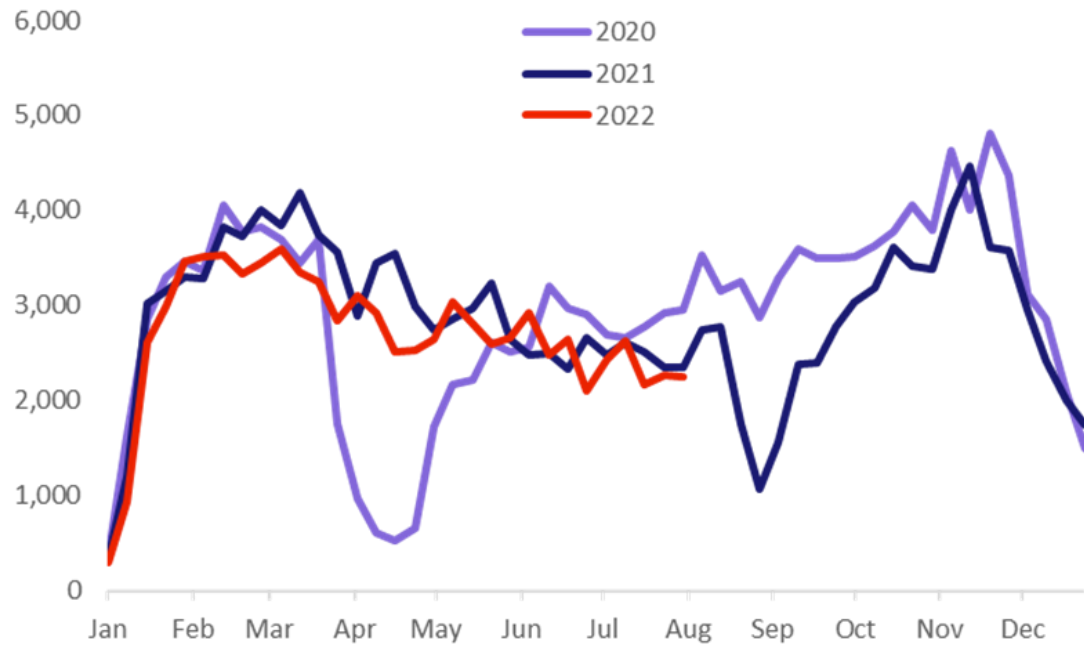
Wellington



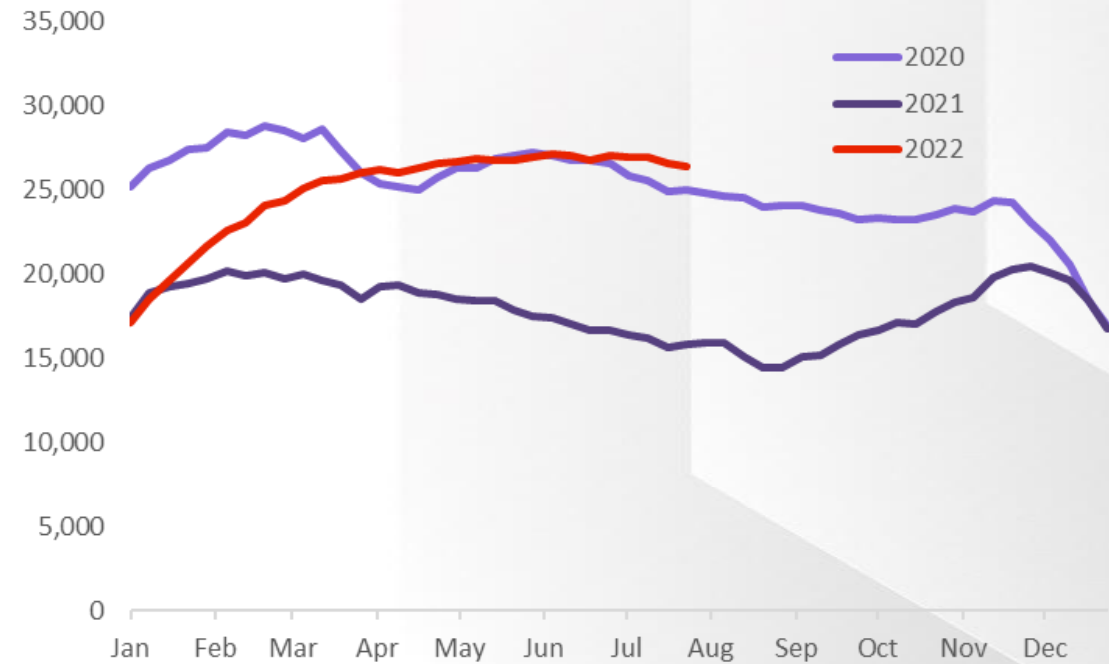
New listings 'normal', sales down = more choice

Spring lift for new listings set to start, but other vendors de-listing

NZ weekly flow of new listings



NZ total properties listed for sale

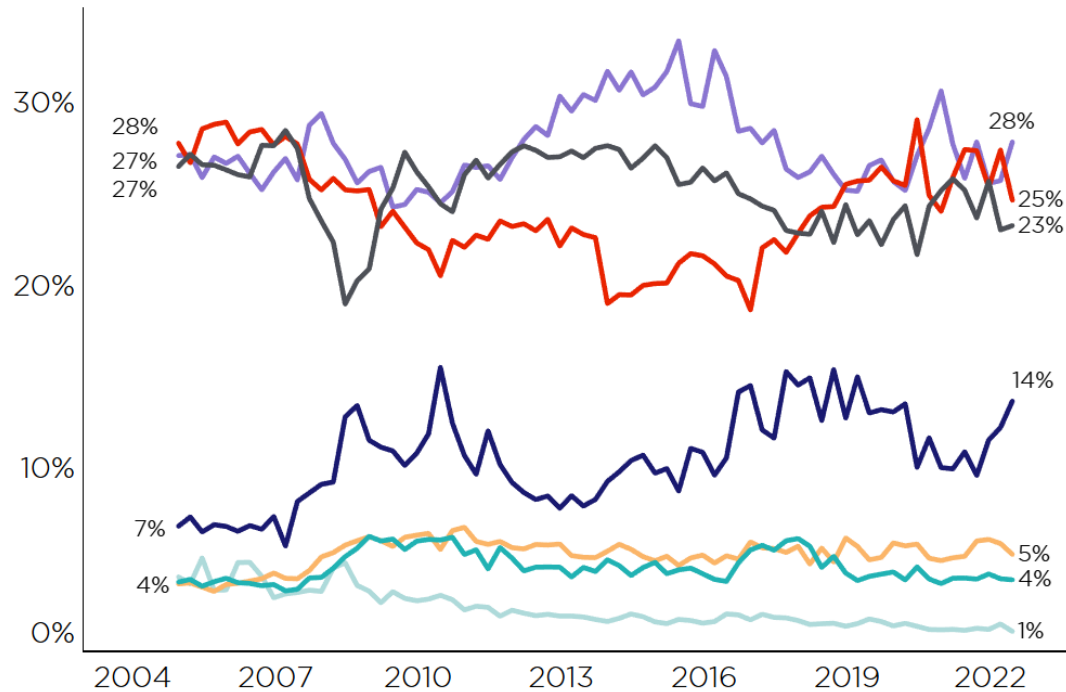


Source: CoreLogic

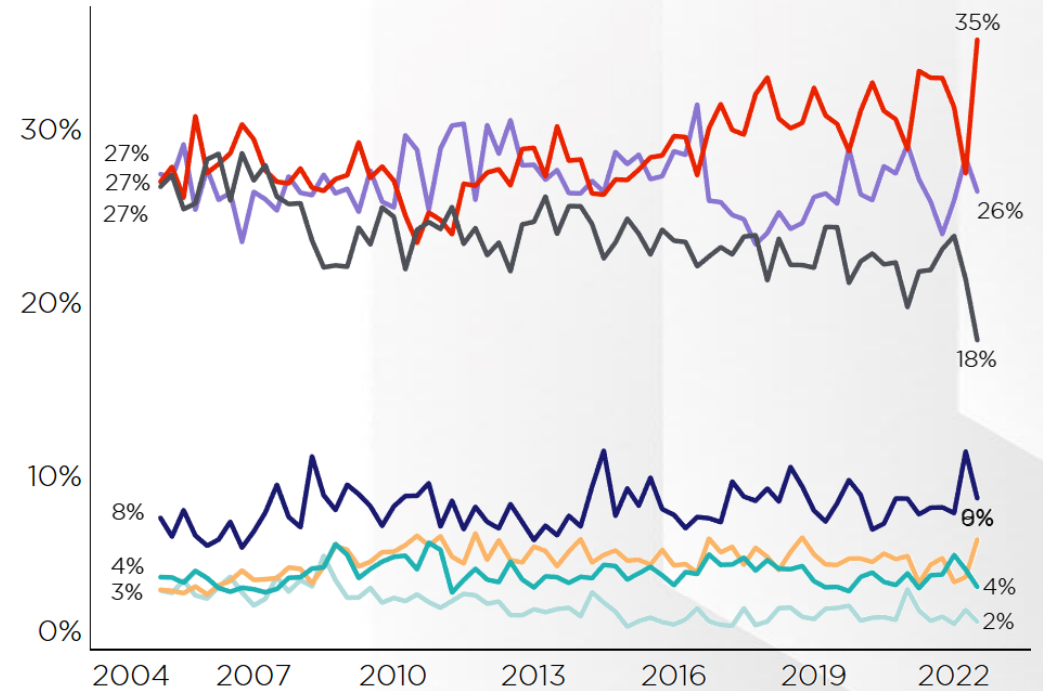
First home buyers quietly returning

But mortgaged investors finding it harder to make the sums stack up

Auckland % 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

Source: CoreLogic

Rental growth is slowing too

Negative net migration seems to be undermining demand

Rental index and annual % change



Annual net migration flow



Source: Stats NZ

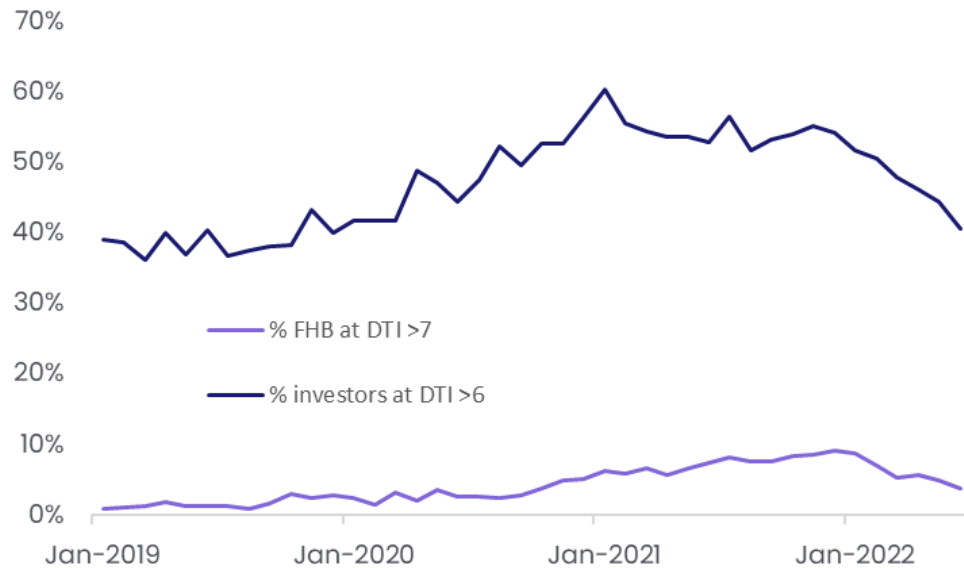
Hot topic #1

Lending conditions

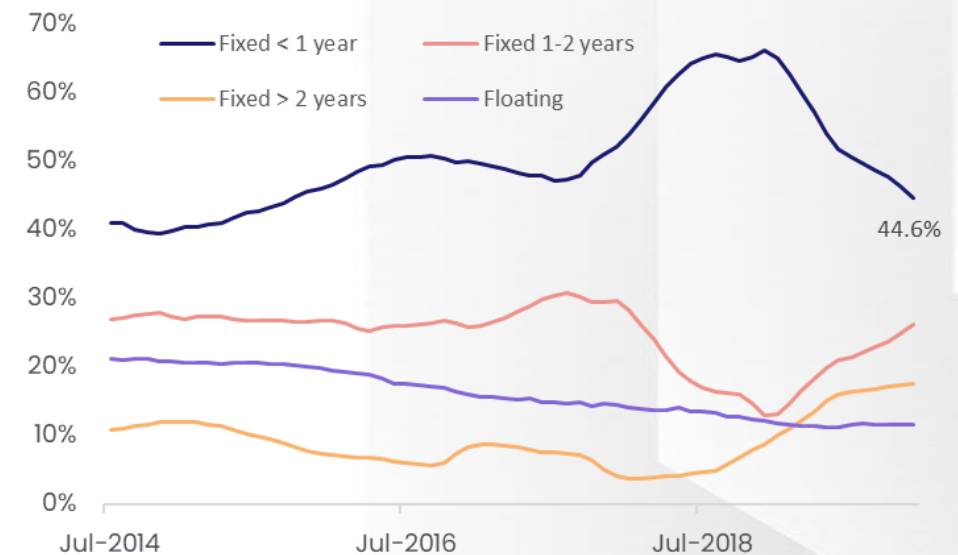
Positives and negatives

LVR tight, DTI getting tighter, mortgage rates up again. But refi profile less of an issue.

Lending on high debt to income ratios



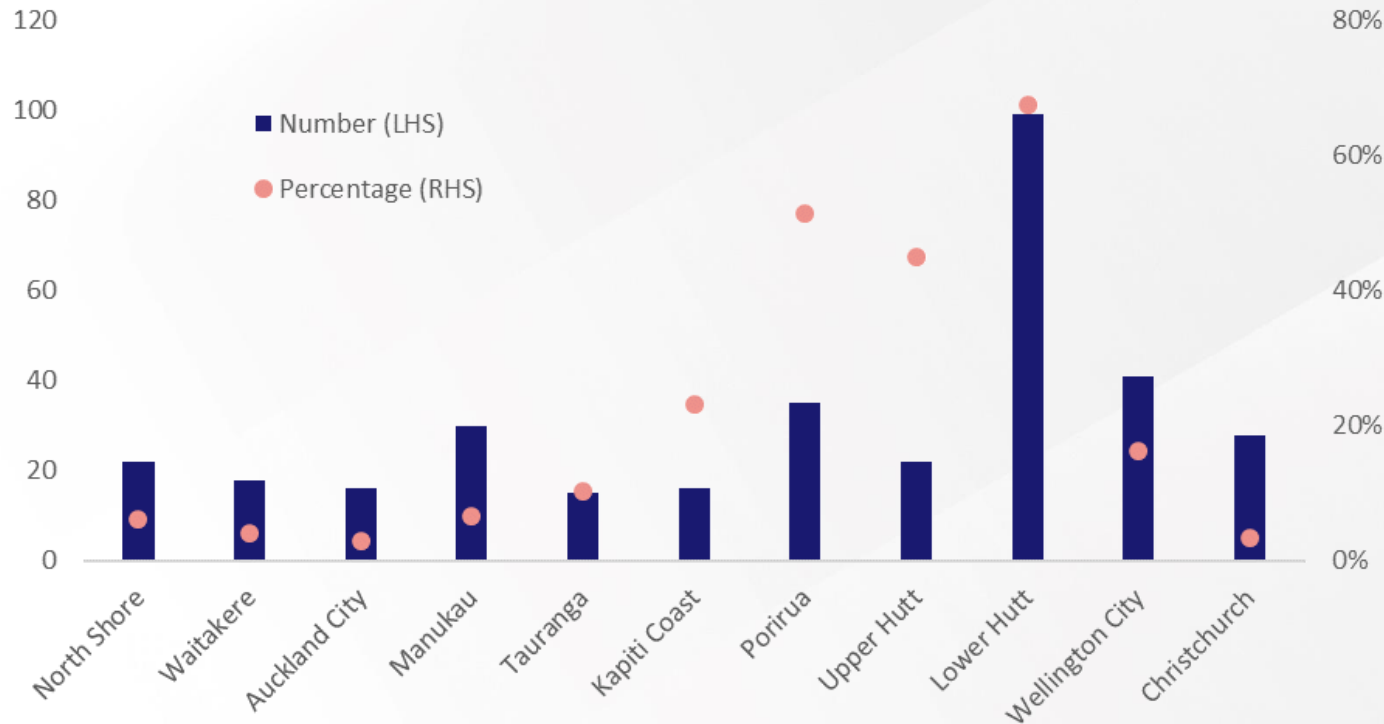
% of existing mortgages on various terms



The discussion of negative equity has arrived

But likely to be a relatively small section of the market – 465 total nationwide

First home buyers who bought at peak,
at risk of negative equity



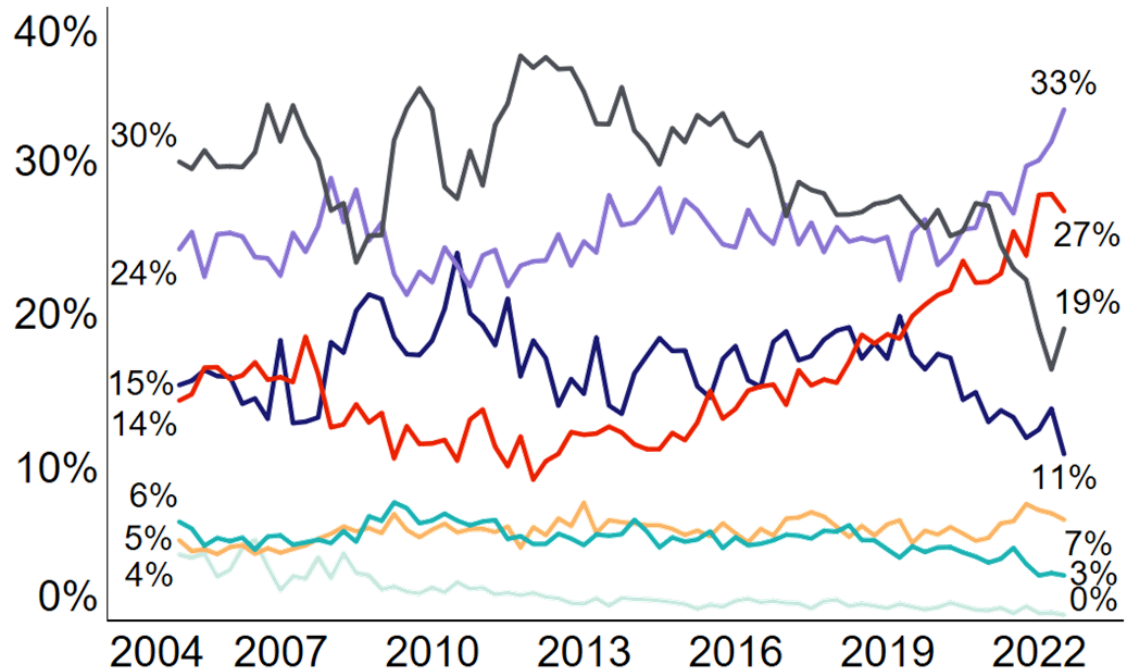
- Assumes a 20% deposit
- No principle paid down
- First home buyers only, who purchased 'at peak' in Q4 2021.
- Compared to current value, according to CoreLogic Automated Valuation Model (AVM)

Hot topic #2 Construction

First home buyers still settling new builds

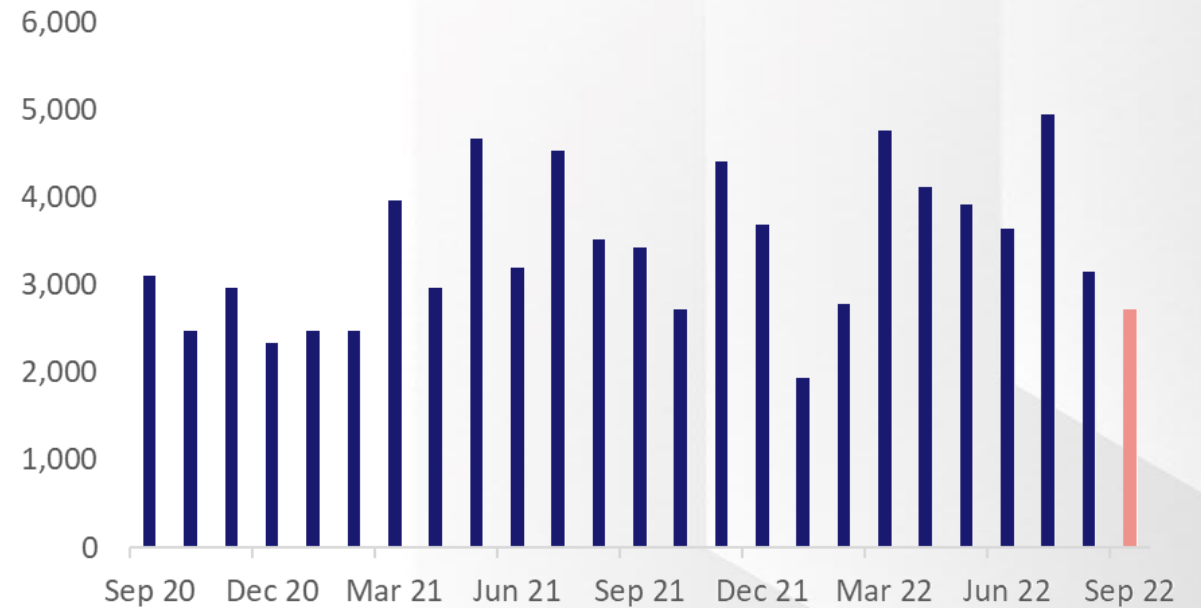
And Greenfields are still being created

NZ % share of new-build purchases



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

Greenfield creation

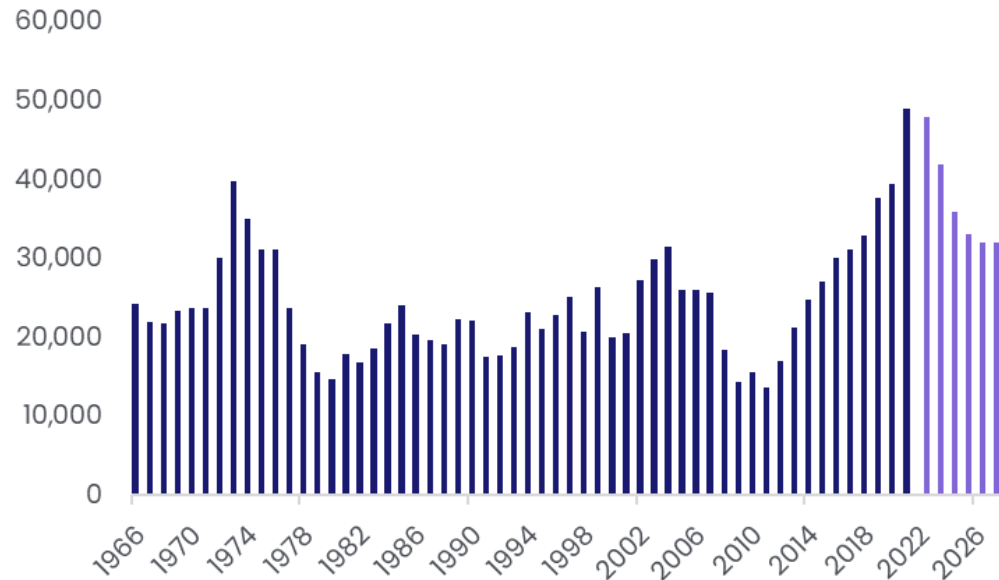


* Sep 22 part month

Pipeline to slow, but from high highs

Looming consent slowdown widely accepted, but doesn't need to be a bust

Annual new dwelling consents – history & projected



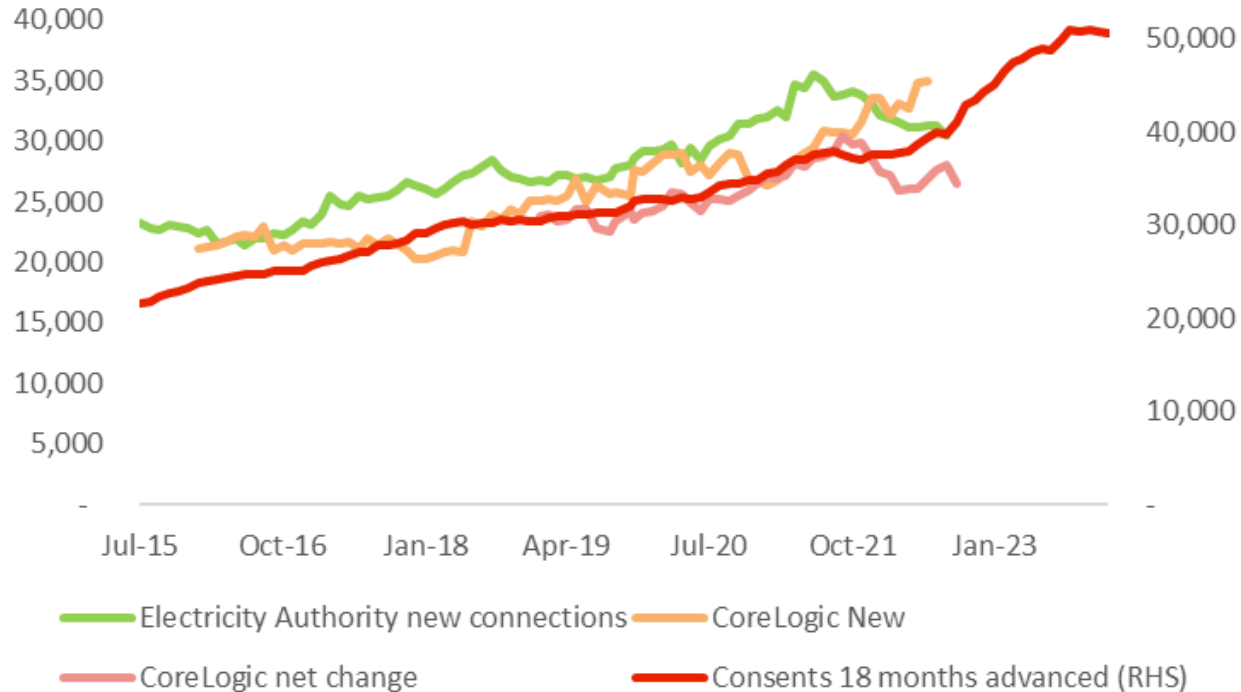
- The mood at recent Registered Master Builders Association Conference was ‘cautiously positive’
- On the ground, there’s a feeling that we’ll still have housing shortages for a while yet – even if that needs to be defined in terms of certain property types
- Raising of KiwiBuild price caps and the Build-Ready Development Pathway welcomed
- Key focus for builders is keeping staff as work slows – this was key impediment to recovery after GFC

Source: MBIE/BRANZ

Of course, consents don't always mean houses

Gap opened up between new consents and measures of completed houses

Various measures of housing stock change



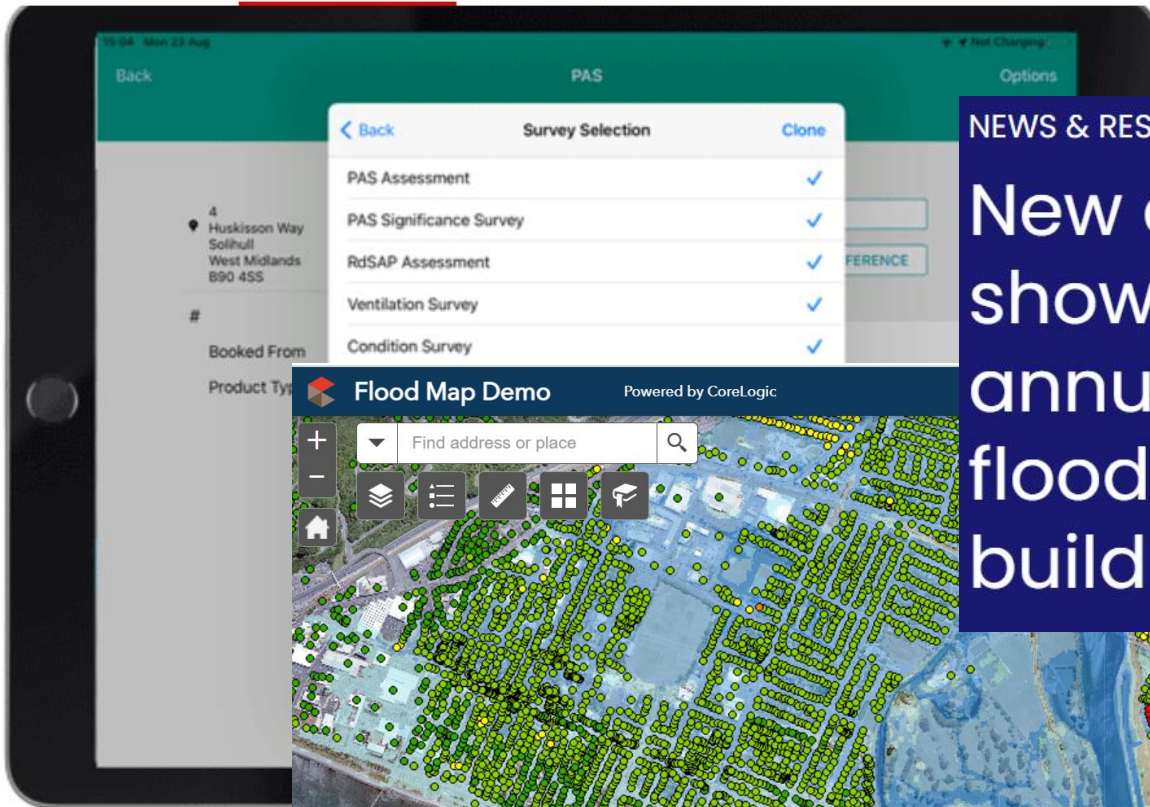
- Note that circa 50k consents lately have translated into fewer *net* new houses on the ground
- Some consents naturally don't see the light of day (e.g. developers getting consent to make land more value to sell on again)
- Demolitions are a factor too
- Industry capacity reached at about 35k?

Sources: CoreLogic, Stats NZ, EA

Hot topic #3 Climate change and energy efficiency



Information coming to the forefront

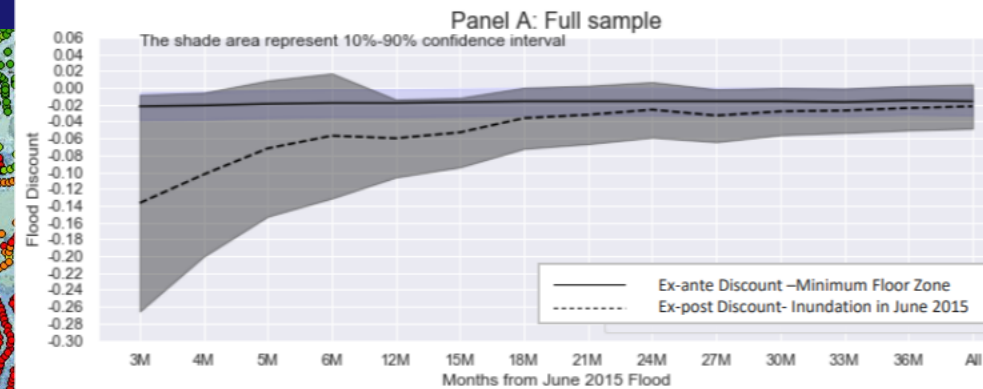


NEWS & RESEARCH

New climate risk analysis shows \$100M average annual cost of river flooding to residential buildings



Figure 3 –The diminished effects of June 2015 Flood over time



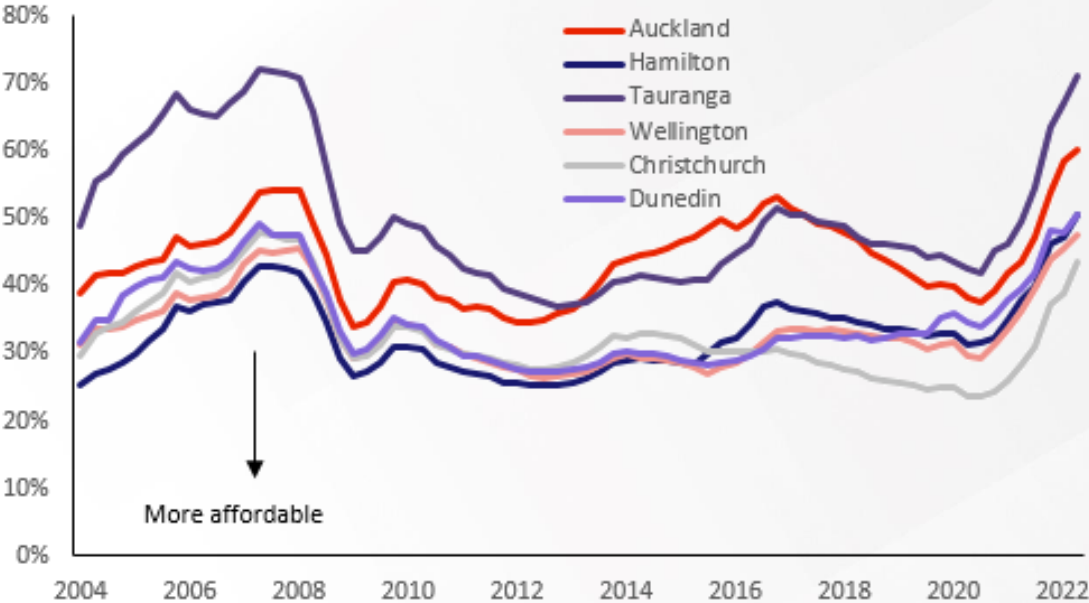
Some tough
times yet, but also
some buffers



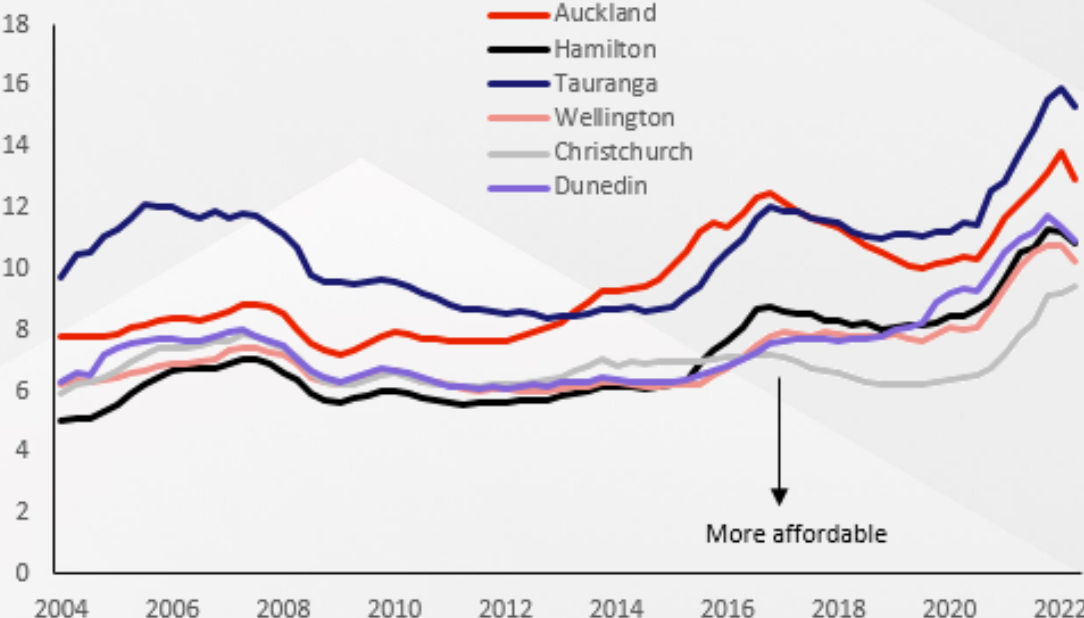
Affordability has only improved slightly

Could delay start of next upswing and cause regional differences

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



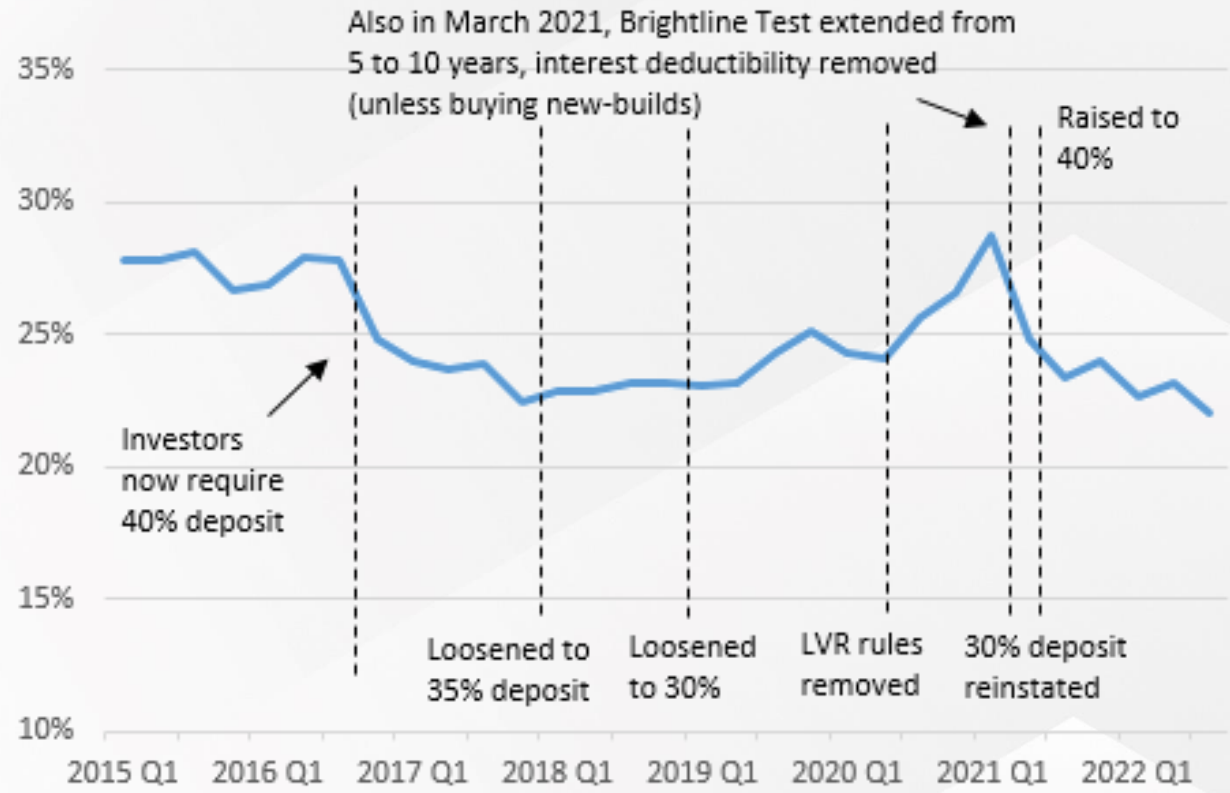
Main centres years to save a deposit



The game is certainly tougher for investors

Existing investors not selling, but new investors looking at their sums

% share of property purchases going to mortgaged multiple property owners



CoreLogic Vulnerability Indicator

Scrutinise markets to the left

- **This is a relative indicator**, which assesses factors such as credit arrears, the economy, active property demand, affordability, and recent investor presence
- It's not intended to be an absolute guide to possible change in property values, just an indicator of where the risks might be greatest and hence an increased need for due diligence
- For example, even though Canterbury features to the least vulnerable/right-hand end, still might see price falls
- The main centres tend to look a bit safer than smaller provincial areas, but Upper Hutt and Lower Hutt worth noting
- Wellington City, Porirua, Auckland all 'mid range'



The economy and labour market remain key

How long will the RBNZ risk recession/housing downturn in order to tame inflation?

Unemployment rate



- The LVR rules have built a buffer into the system
- Mortgage serviceability tested at much higher rates too
- Many people ahead on their repayments
- Nobody at this stage really forecasting outright job losses – higher unemployment due to more people in labour force

Source: Stats NZ

Where to next?

'Orderly correction' not slump ... just be wary that pessimism can overshoot reality

- ▶ There are obviously challenges – e.g. sharp mortgage rate rises already seen, poor affordability
- ▶ But pass-through from more OCR increases to mortgage rates may only be partial – bank competition for borrowers
- ▶ And unemployment is still low, LVRs are a buffer, as are serviceability tests
- ▶ CCCFA to loosen too, and some potentially seeing a National victory and reversal of property tax changes
- ▶ So downturn not over yet, but some shards of light emerging
- ▶ Central scenario is value falls of 15% by H1 2023, then a flat patch (as per post-GFC experience), before mortgage rate falls see house prices start to rise again – into 2024?
- ▶ Recent Housing Working Group analysis that prices driven up by 3 key factors – lower interest rates, tax system (e.g. no broad capital gains), restrictions on supply of urban land
- ▶ In the long-run future, reduced house price growth? Tax still up for grabs. But interest rates higher. And planning changes underway.

Source: CoreLogic

Thank you – Q&A

Kelvin Davidson

kelvin.davidson@corelogic.co.nz

