



March 2023

# A year of two halves?

Still challenges but some cause for optimism later in the year

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Chief Property Economist



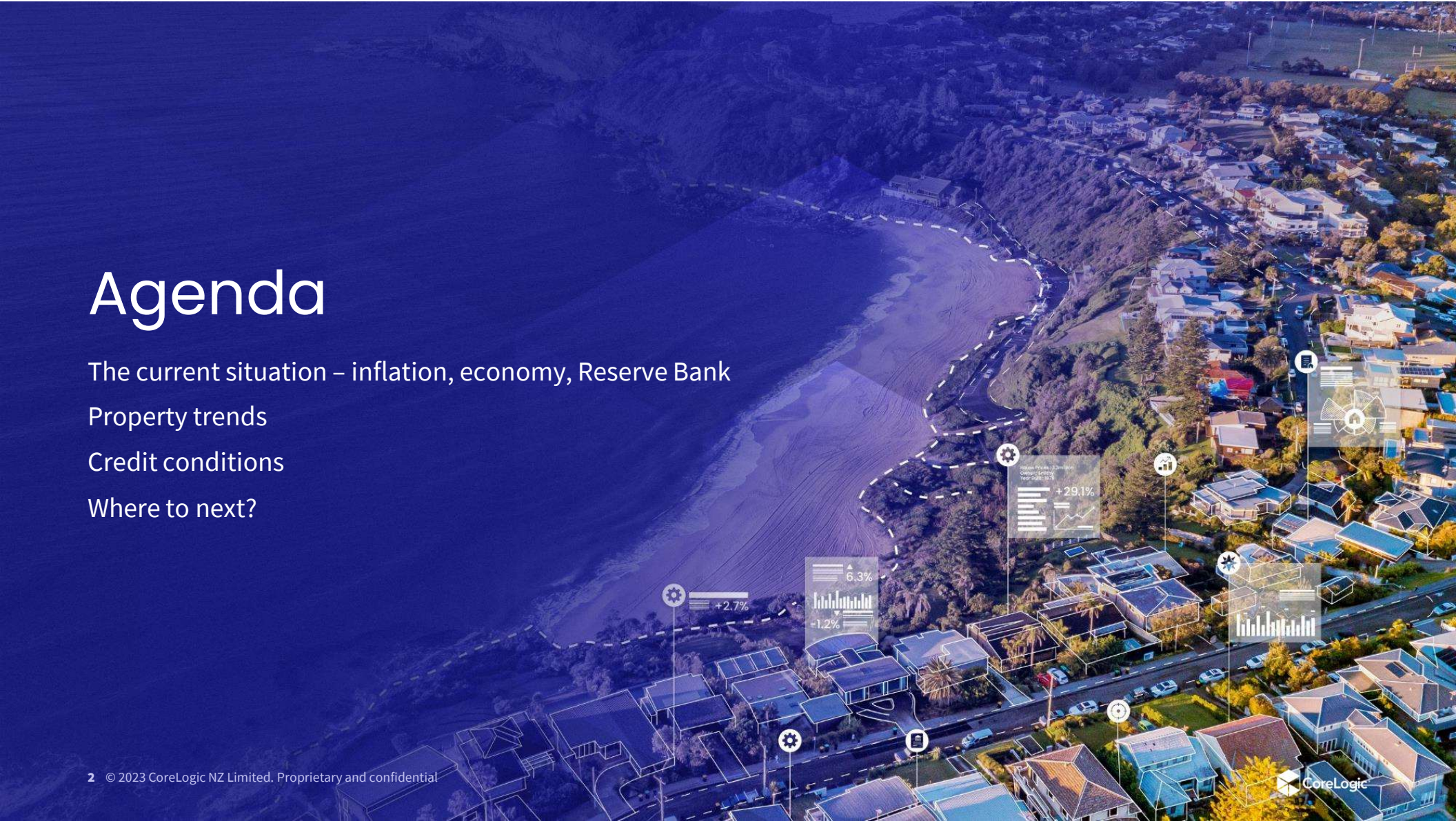
# Agenda

The current situation – inflation, economy, Reserve Bank

Property trends

Credit conditions

Where to next?



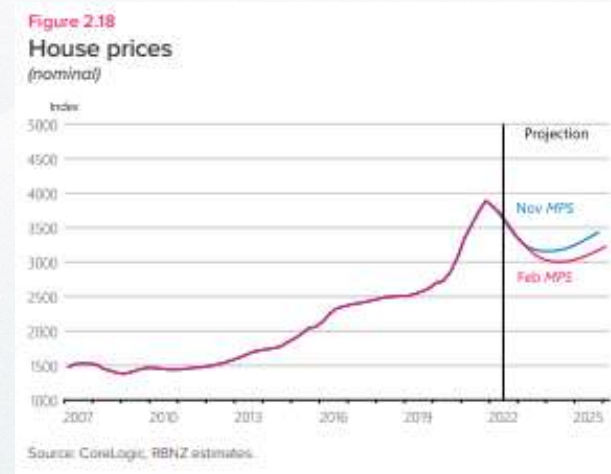


The Reserve Bank still in focus

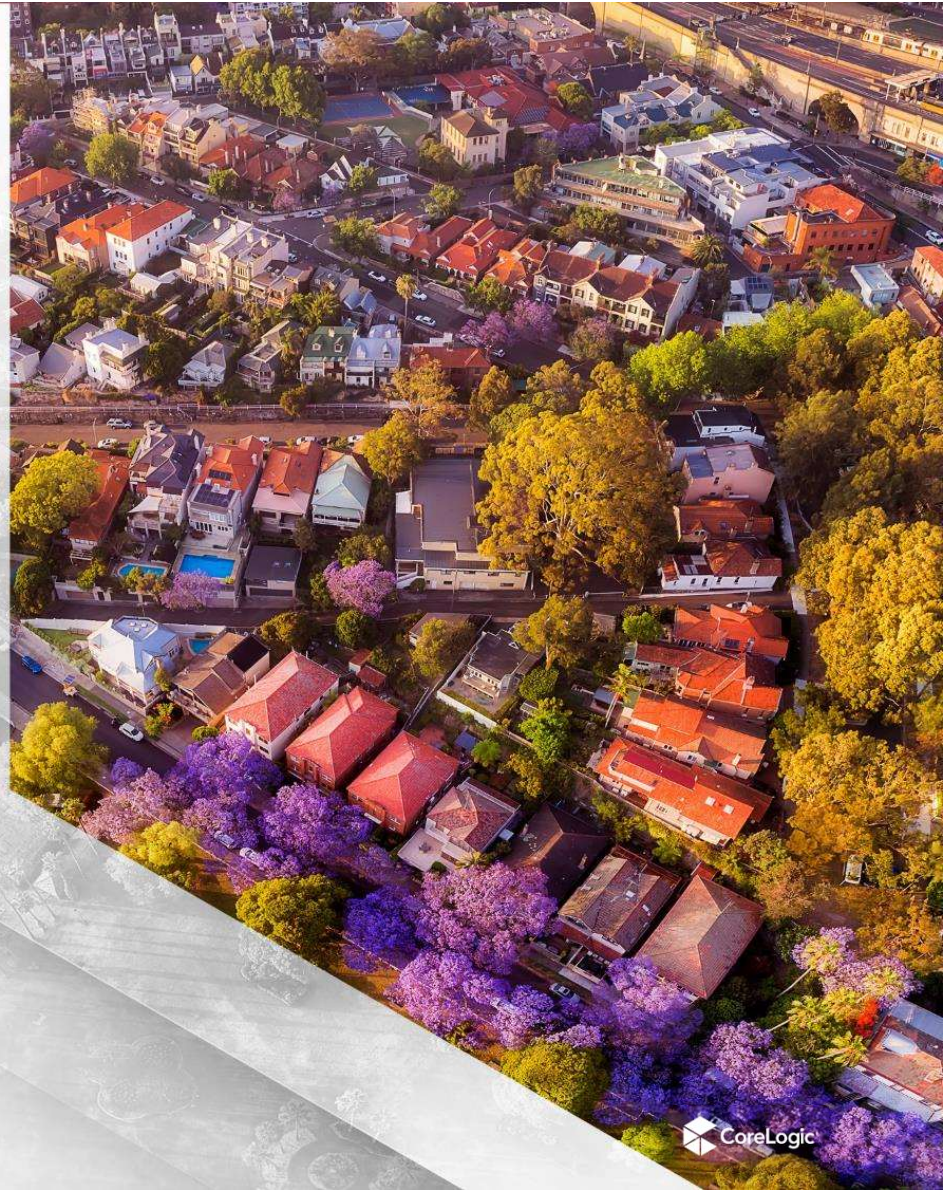
# 'Only' a 0.5% OCR rise

They're 'looking through' Gabrielle

- ▶ 'Too early' to accurately judge Gabrielle effects on the economy and inflation
- ▶ But inflation still a concern and the OCR projected to peak at 5.5% (three more 0.25% rises?)
- ▶ Recession looms, unemployment rate to rise, and house prices to fall further
- ▶ Even so, mortgage rates have probably reached a generalised peak
- ▶ But they may not come down soon either – (mild) OCR cuts not penciled in until second half of 2024
- ▶ And of course, still expensive for new borrowers and tough for existing borrowers who are repricing



# Recent property performance

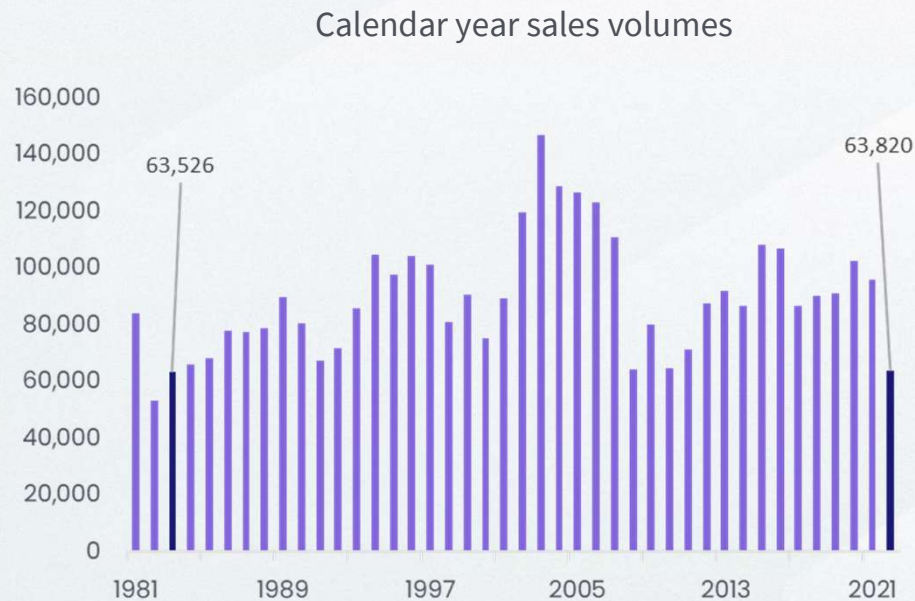




Market activity

# Sales volumes at rock-bottom levels

They'll tend to be out of necessity (e.g. job change) rather than choice



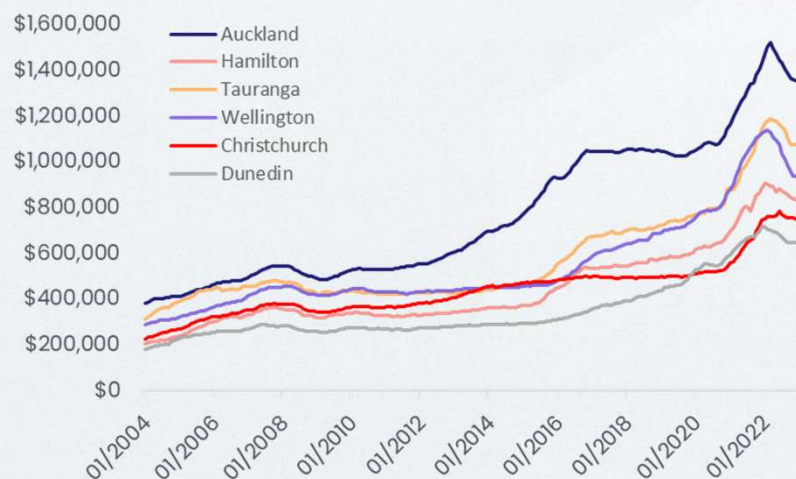
Source: CoreLogic

## House prices

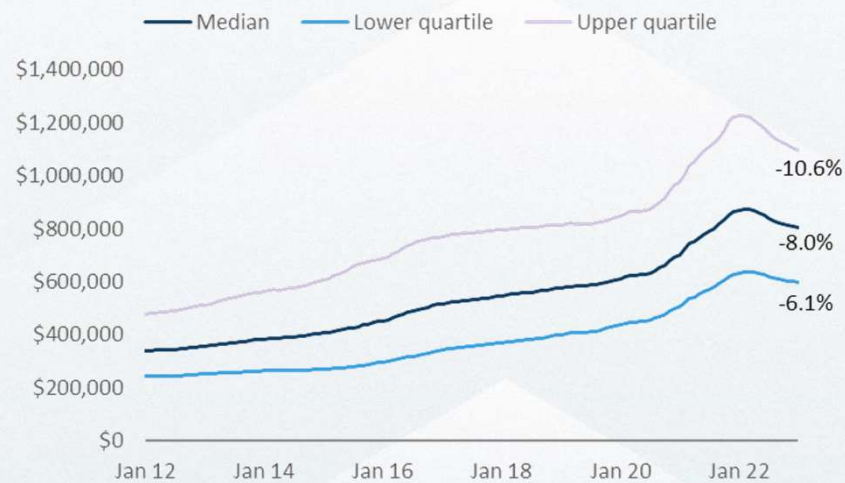
# Property values falling further

Bigger falls for upper quartile, but still a broad-based downturn

Average property values



National values: median, and upper/lower quartiles





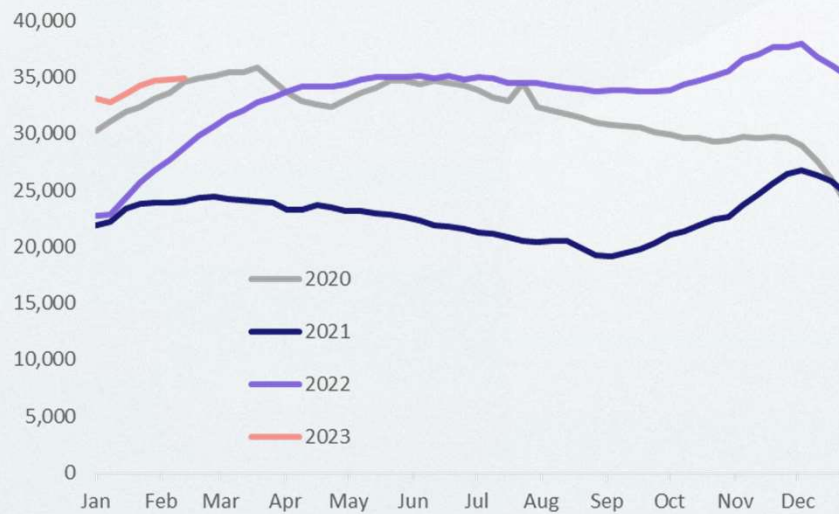


## Listings

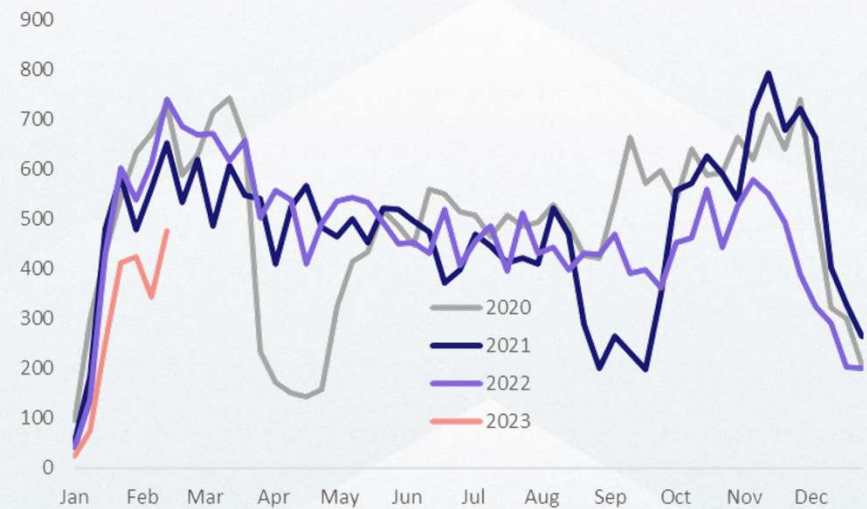
# New listings subdued, but NZ available stock is up

Auckland still a little tighter than national

NZ total properties listed for sale



Auckland new properties listed per week

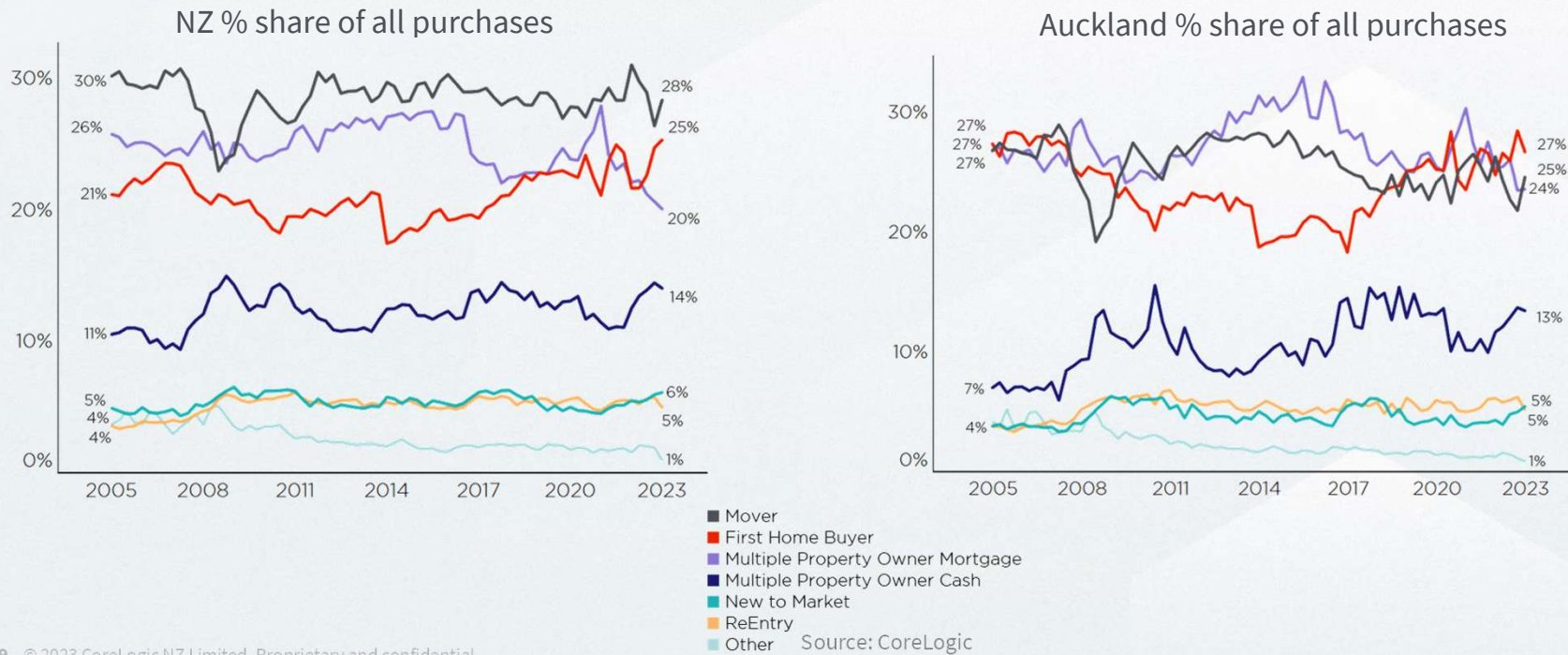




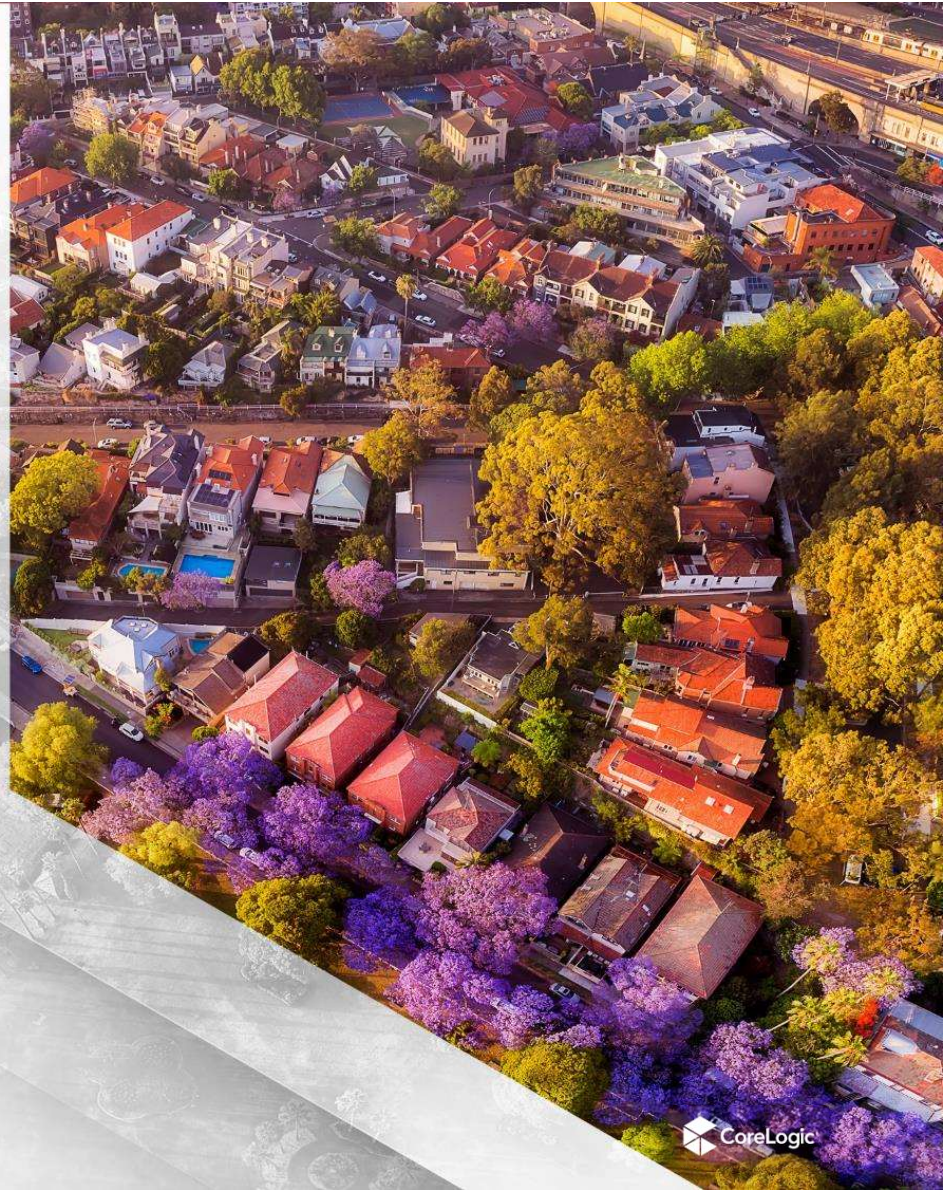
Buyer Classification

# First home buyers still prominent

Mortgaged investors not buying as often, but cash investors keen



# Credit conditions still a key factor

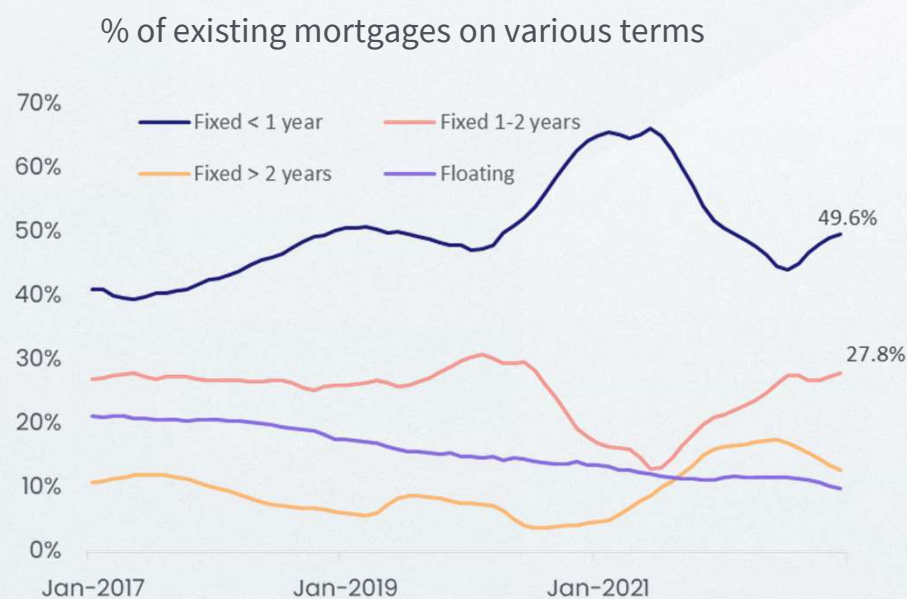




## Repricing wave

# Rates peak close, but repricing still an issue

50% to reprice in next 12 months, and rates increase still significant



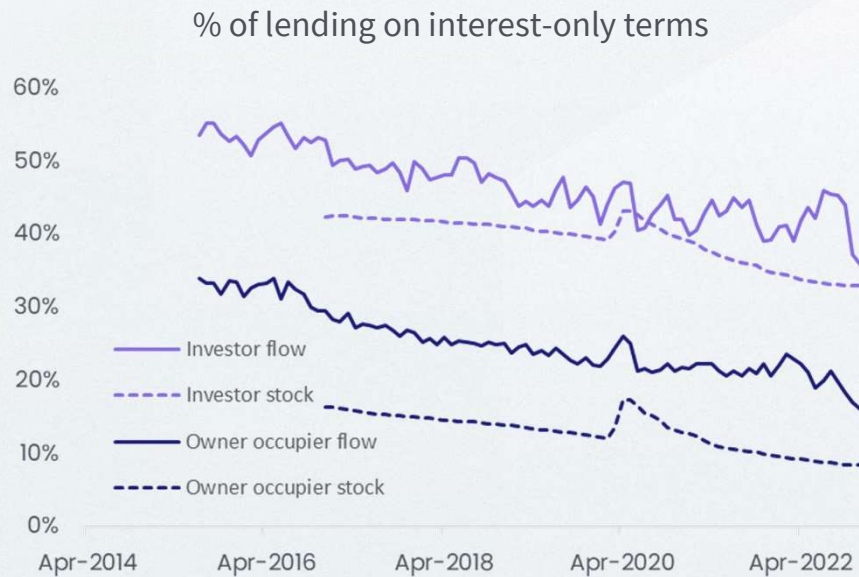
One year change in one year special fixed rates (%-points)



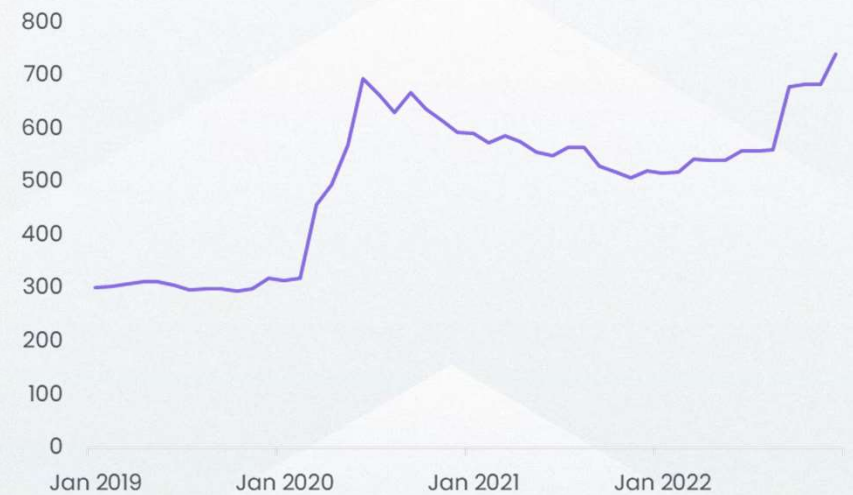
## Lending conditions

# LVRs tight, interest-only 'controlled'

Non-performing loans also low, but bad debts poised to rise?

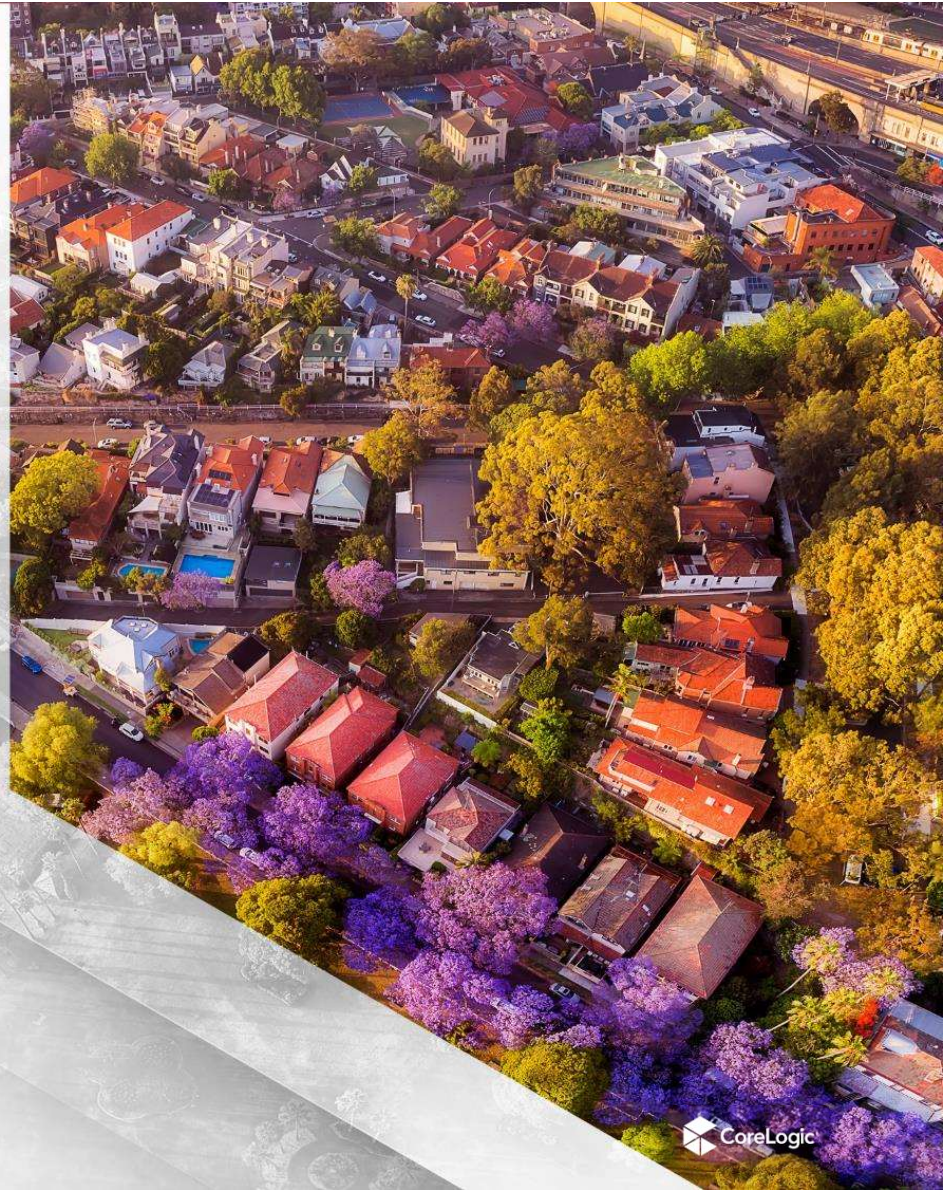


Banks' collective provisions for 'bad' housing loans (\$m)





Near-term challenges, but late 2023 could look a bit better

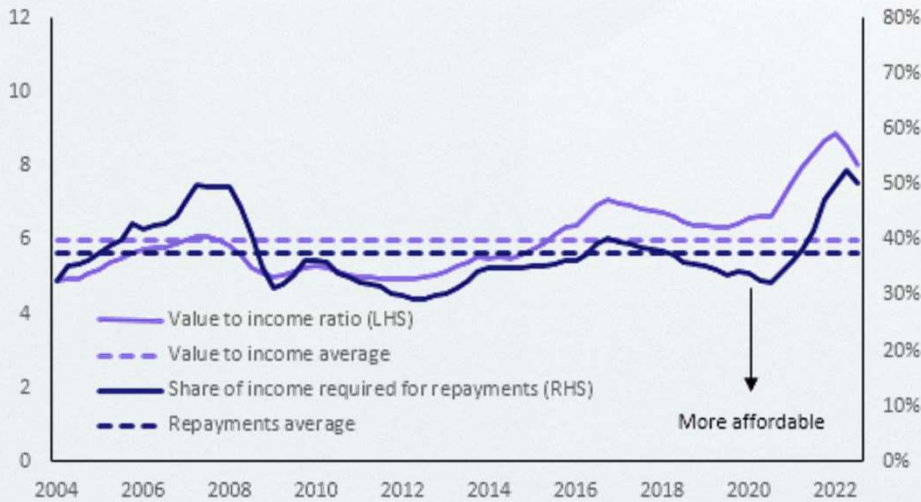


Affordability

# Only a small improvement so far

Probably keeps the 'cycle' flatter than in the past

National affordability measures



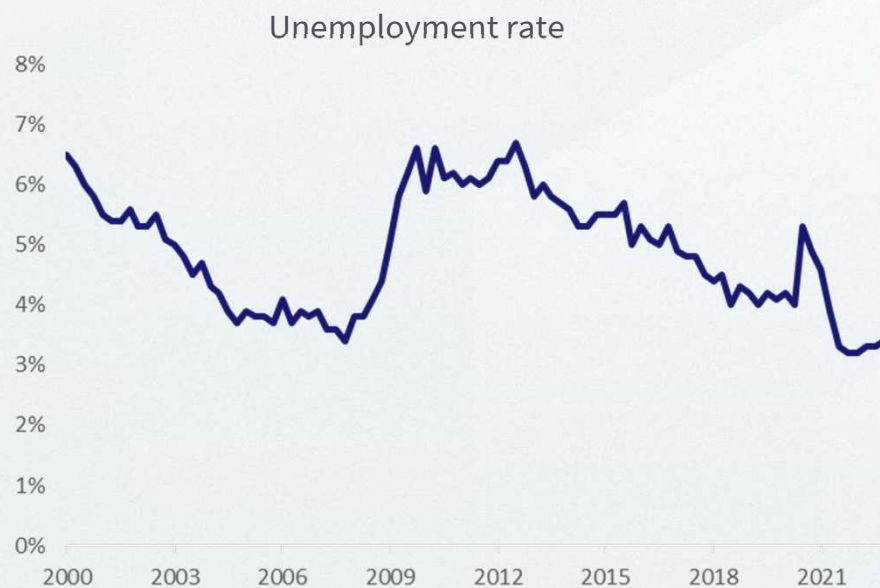
Main centres % of gross average household income to service a mortgage





# Unemployment could become #1 issue

But note that it's not really due to job losses

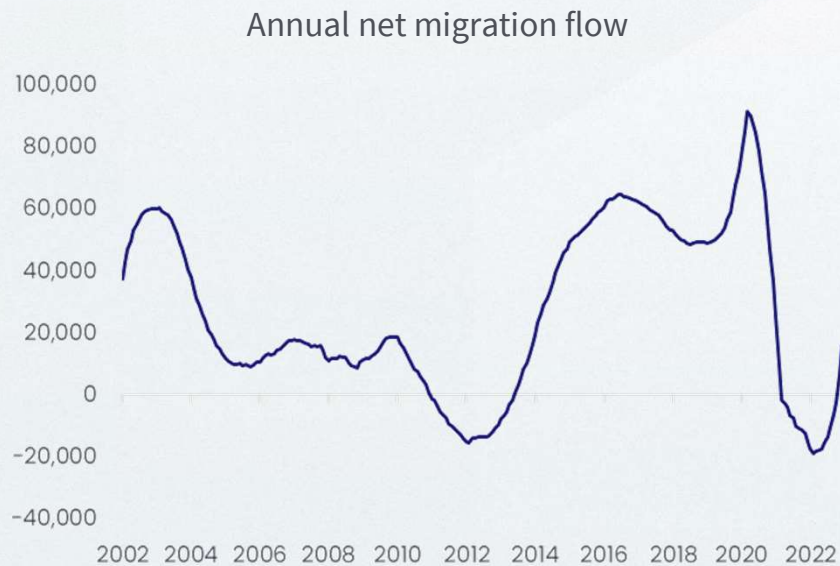


- ▶ **However, very important to note that RBNZ doesn't really envisage any material job losses**
- ▶ So the unemployment rate goes up because more people join the labour force but find it tricky to get a job
- ▶ Implies that existing employees/borrowers have some insulation, but potential new lending activity may be subdued

Net migration

# But net migration has turned sharply

Don't overstate its near-term role, but still keep an eye on it



- ▶ It's been driven by a spike in new arrivals (net) which is outweighing kiwi departures (net)
- ▶ New arrivals would tend to go to main centres first (and potentially rent)
- ▶ Might play into hands of Auckland, Wellington, Christchurch



# Look for the downturn to end late-2023

Gabrielle effects need to be monitored though



## Property outlook

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Sales set to stay low for next 3-6 months, but maybe signs of life H2.

Prices fall further, but flatten out towards the end of the year.

Affordability, credit conditions, and recession all have an influence.



## Brighter factors?

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Mortgage rates peak means people can now quantify 'worst case'.

Rising net migration.

Investors might pre-empt Election (deductibility reversal?) and debt to income ratio caps.



## Other considerations

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Sharper/earlier falls may set the scene for Auckland and Wellington 'bouncing back' first as well.

But don't expect 2024 to be a boom – mortgage rates still high, affordability stretched, land supply reform.

# Thank you and Q&A



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EYEBROW HEADING

# Four column layout



## Lorem Ipsum

Donec eu faucibus est  
lass aptent taciti lorem  
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