



July 2023

Downturn almost finished, so what happens next?

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Agenda

Recent property data - sales and prices still soft

But fundamentals are slowly shifting

What happens after floor is reached?

Recent property performance

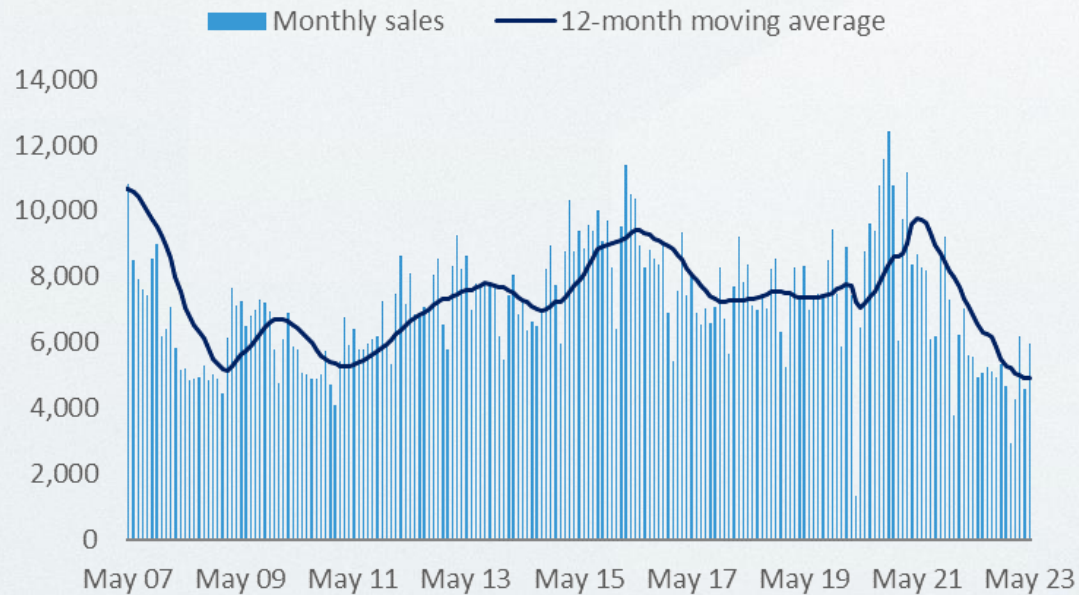


Market activity

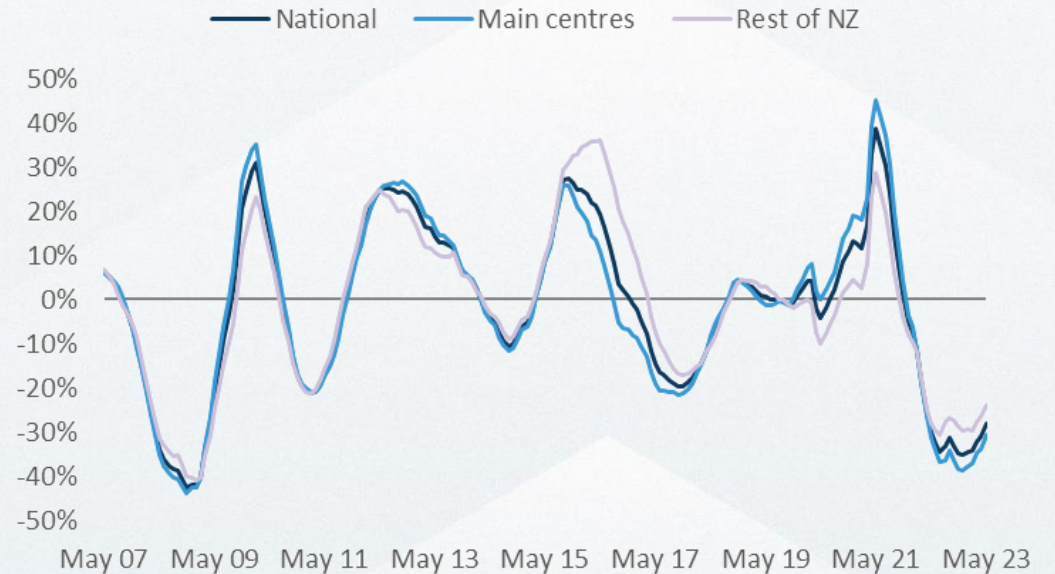
Sales volumes still on the floor

Buyers taking their time, but vendors can be patient too

National sales volumes



% change in sales over past 12 months compared to year earlier

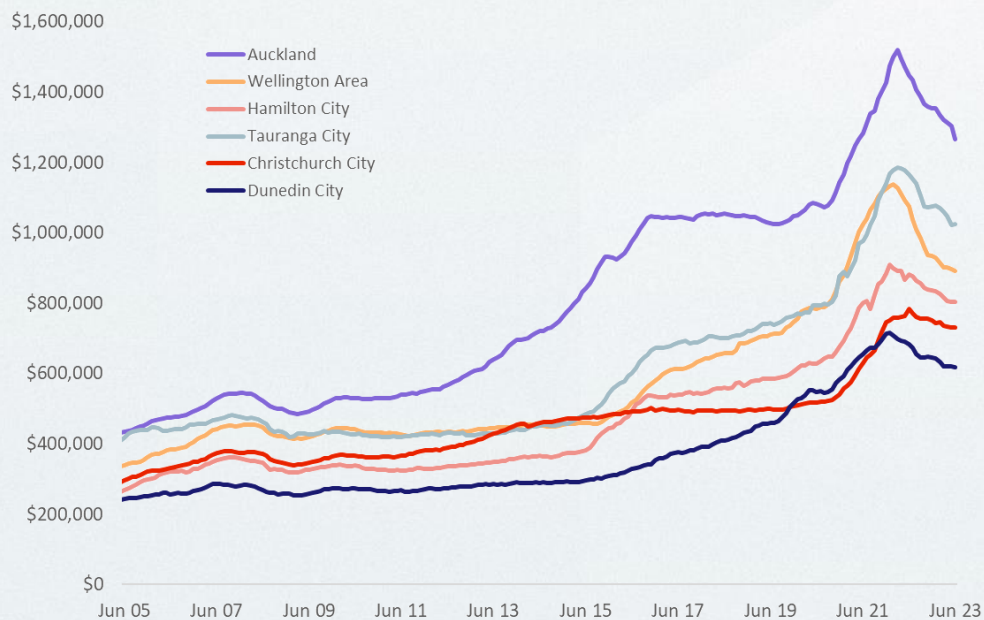


House prices

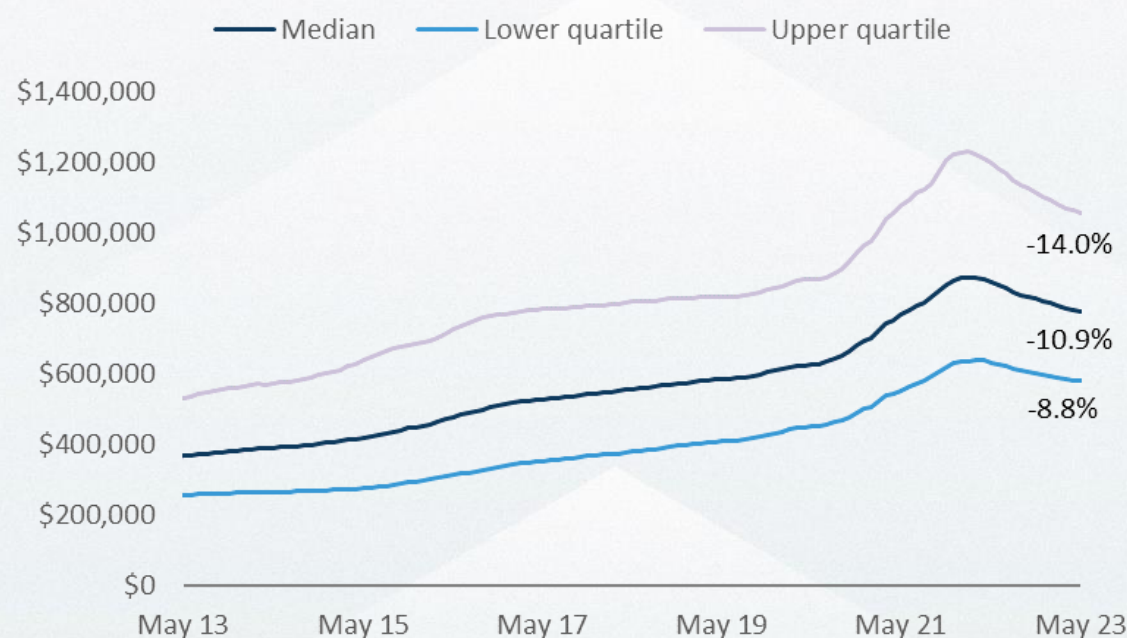
Property values falling further

National down 12% from peak, Wellington -21%, Christchurch -7%

Average property values



National values: median, and upper/lower quartiles



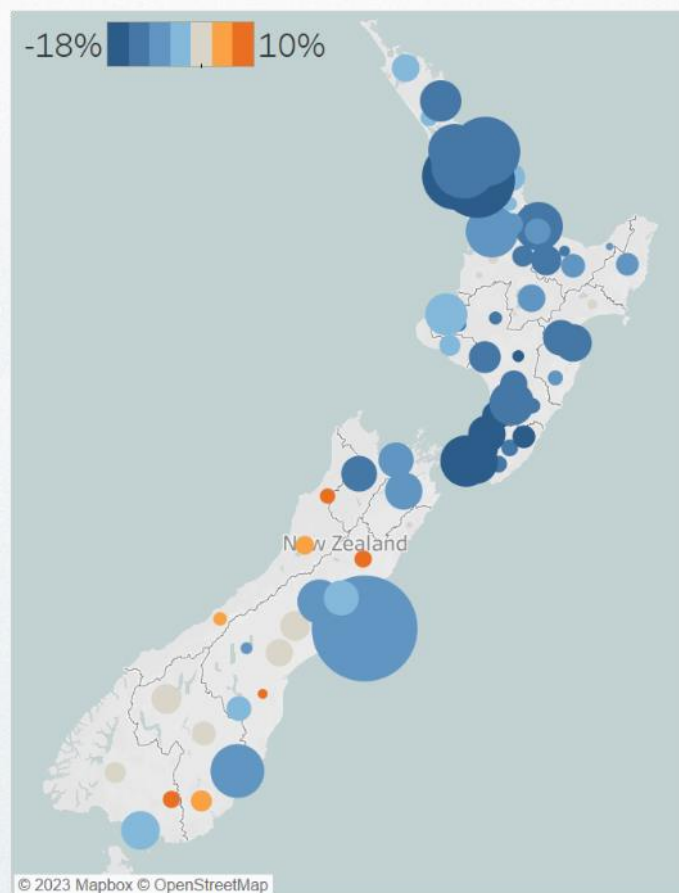
Values across NZ

North Island still subdued

Values down significantly in Wellington

- ▶ The larger towns/cities around the South Island have also seen value falls too
- ▶ But West Coast holding up, Ashburton/Timaru, parts of Otago and Southland too
- ▶ Queenstown is a notable 'resilient' area

Annual % change in property values



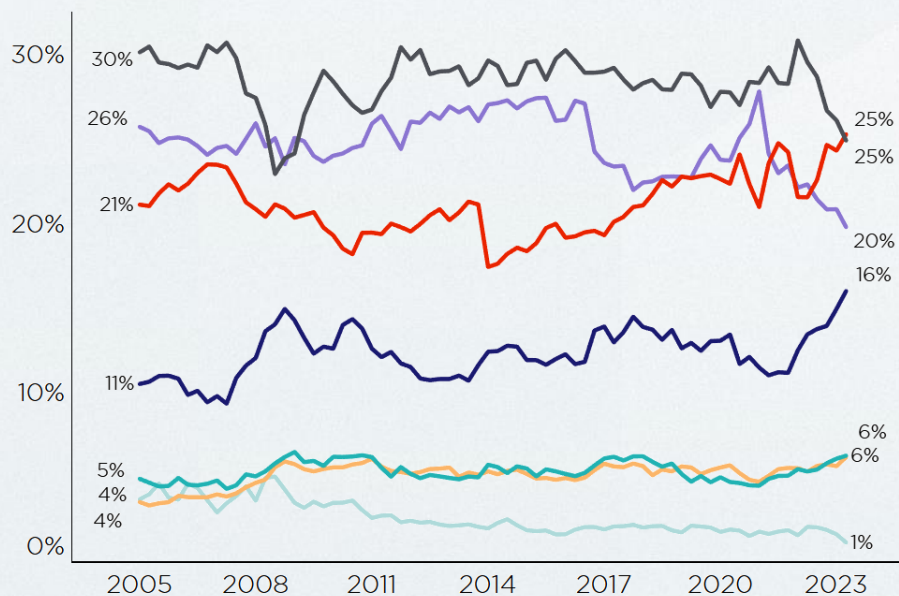
Source: CoreLogic

Buyer Classification

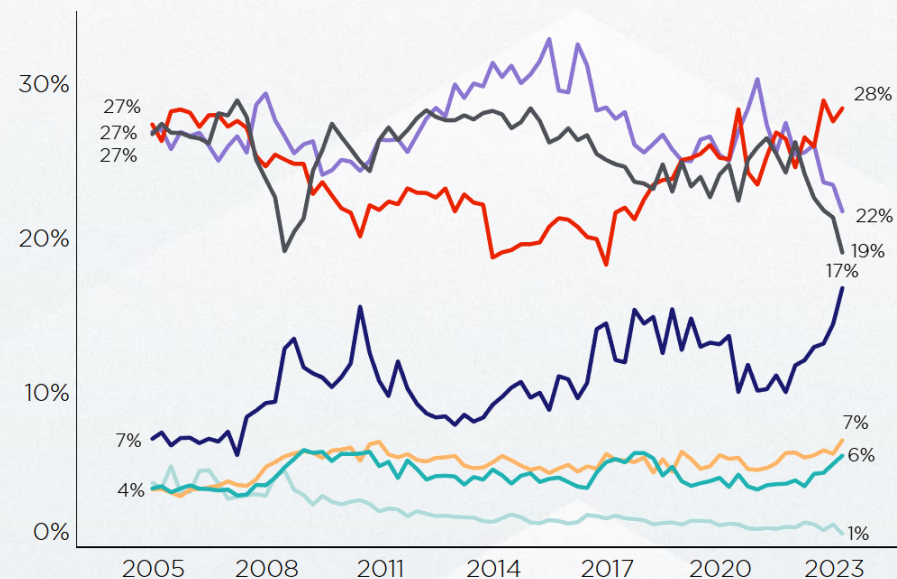
First home buyers still prominent

Mortgaged investors quiet – low yields, 40% deposits, no deductibility

NZ % share of all purchases



Auckland % share of all purchases



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

But some key
drivers are now
turning around

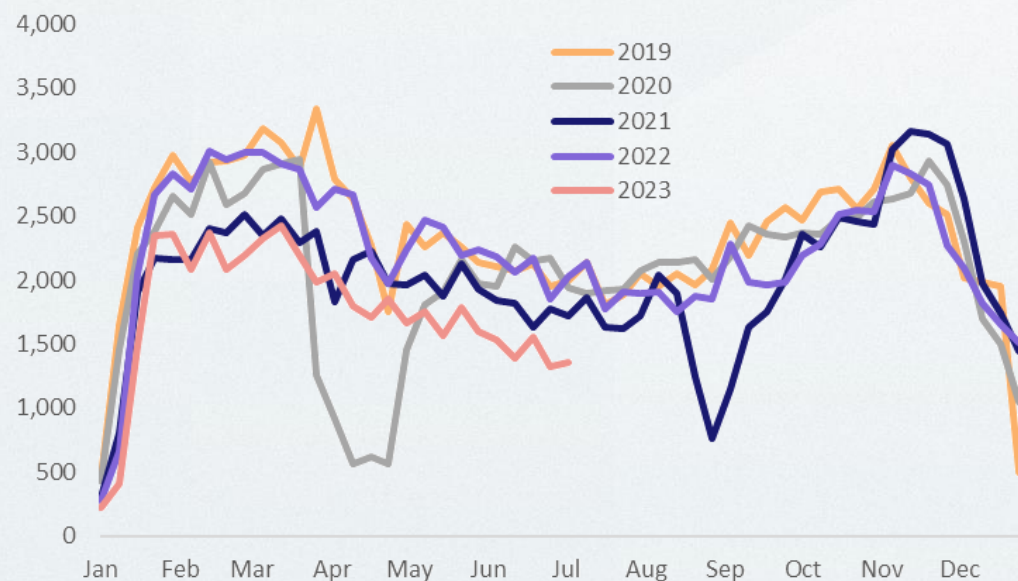


Listings

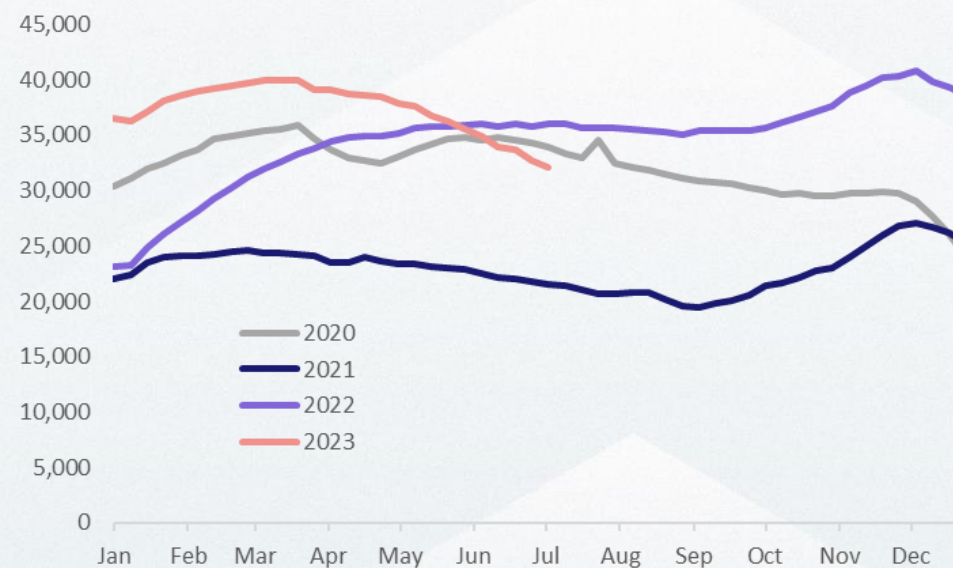
New listings low, and total stock edging down

Basically exits (sales/delists) are outweighing entries (new listings)

NZ new listings flows per week



NZ total properties listed for sale

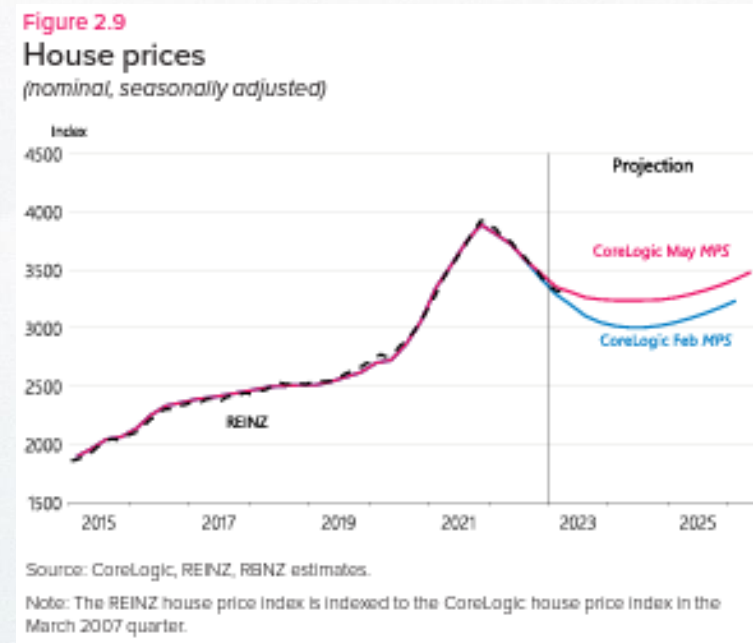


The Reserve Bank stayed the course

OCR increases finished for now

Time to play the waiting game

- ▶ OCR up by 5.25% from the trough – lagged effects still to come
- ▶ Inflation past peak, but set to remain stubborn (maybe second half of 2024 until it's back to 1-3% target range)
- ▶ Hence the OCR may not be cut anytime soon either
- ▶ Mortgage rates at a generalized peak – people can quantify 'worst case'
- ▶ But mortgage rates set to stay 'higher for longer'

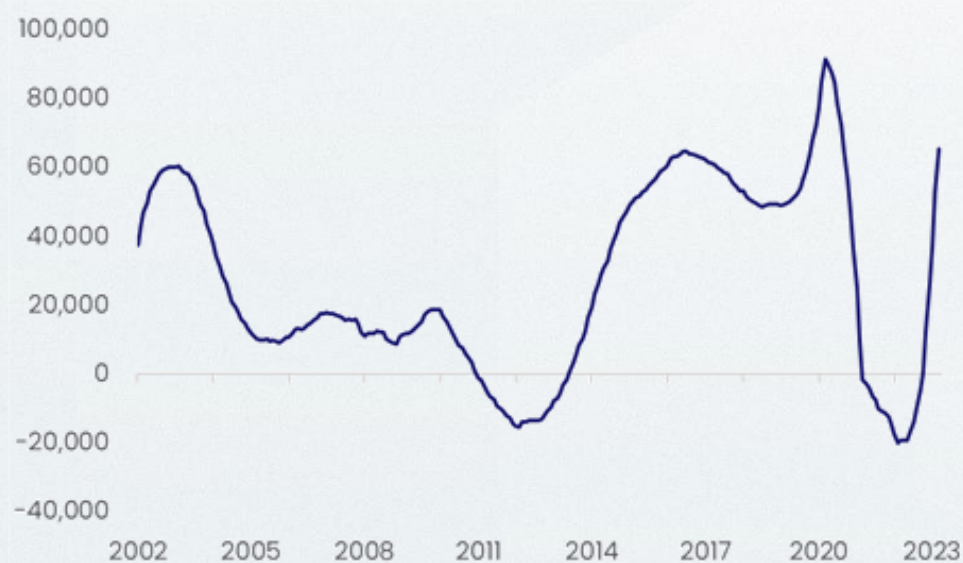


Population growth

Net migration has turned sharply

Whether people rent or buy, it's still extra property demand

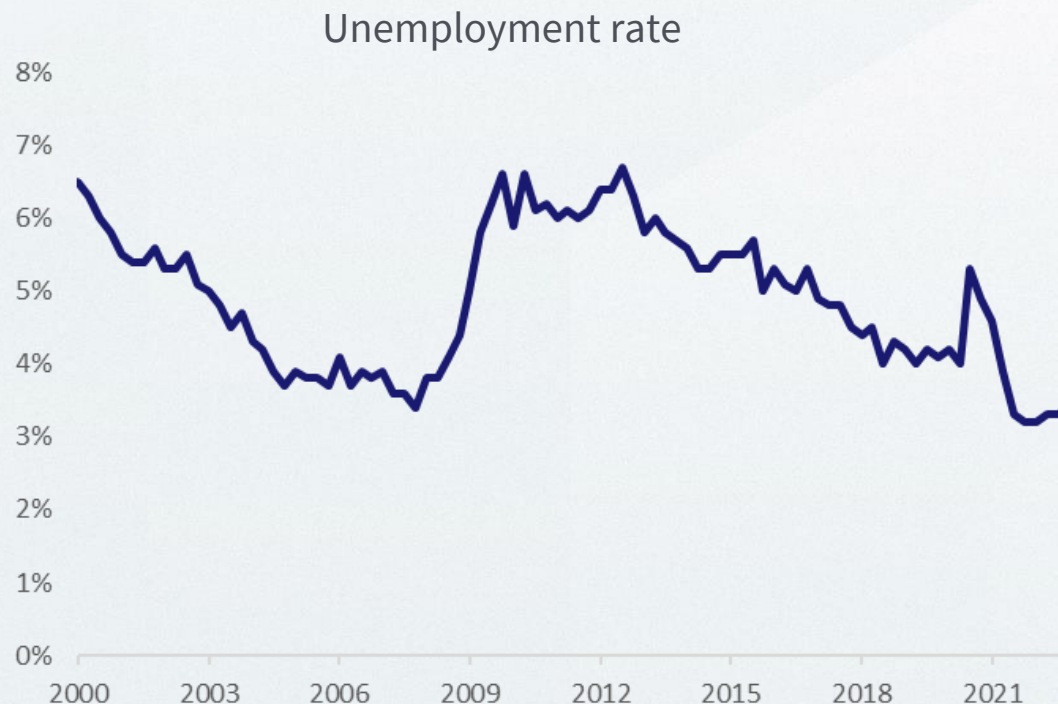
Annual net migration flow



- ▶ 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)
- ▶ Watch for rental growth to pick up later in 2023, and might play into the hands of Auckland, Wellington, Christchurch
- ▶ But even if they do mostly rent, somebody has to buy/own – so a price effect too

Higher unemployment may not be due to job losses

RBNZ forecasts envisage unemployment being about a larger labour force

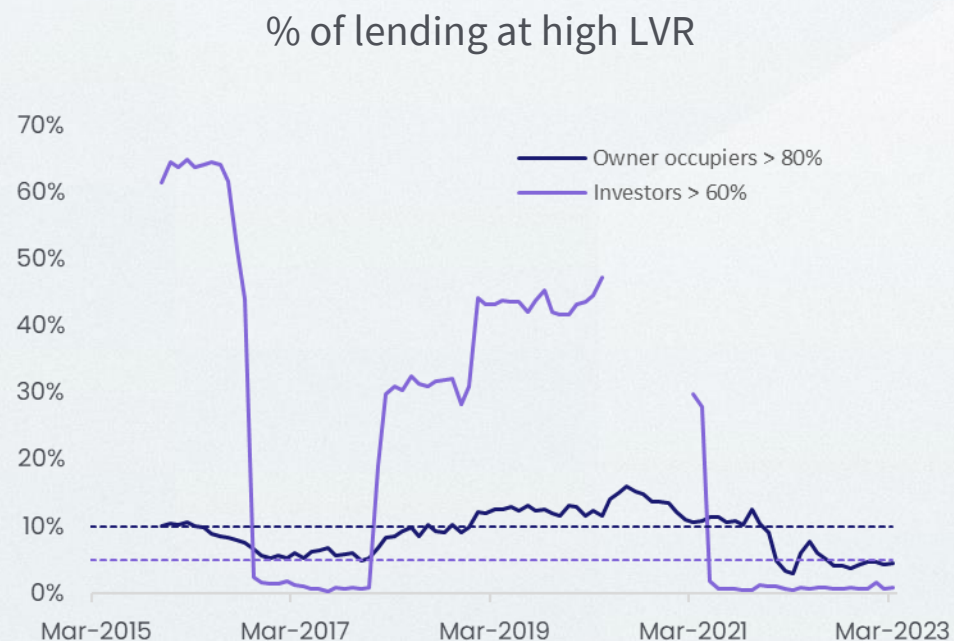


- ▶ It's true that we've seen some job losses
- ▶ But on some forecasts (e.g. RBNZ), unemployment rate goes up mostly because more people join labour force – e.g. net migration - but find it tricky to get a job as firms slow their new hiring
- ▶ Sustained high employment implies that existing borrowers have some insulation, but potential new lending activity may be subdued

Lending conditions

CCCFA looser, LVRs have eased too

Banks already had headroom at old LVR speed limits



- ▶ Owner occupiers' speed up from 10% to 15%, and investors' deposits down from 40% to 35%
- ▶ Probably not transformational on their own (especially given continued high mortgage rates)
- ▶ But nevertheless still adds to the list of factors pointing to an end to house price falls
- ▶ Maybe CCCFA has largest impact?

End of downturn
isn't the same as
start of upturn

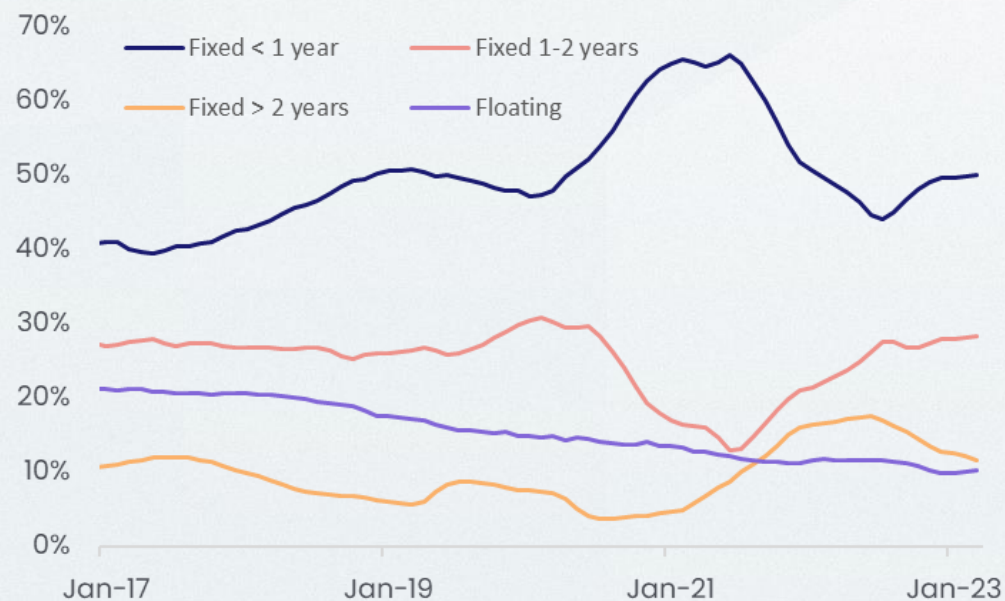


Repricing wave

Rates peak close, but repricing still an issue

Especially for those tested at rates below current market levels

% of existing mortgages on various terms



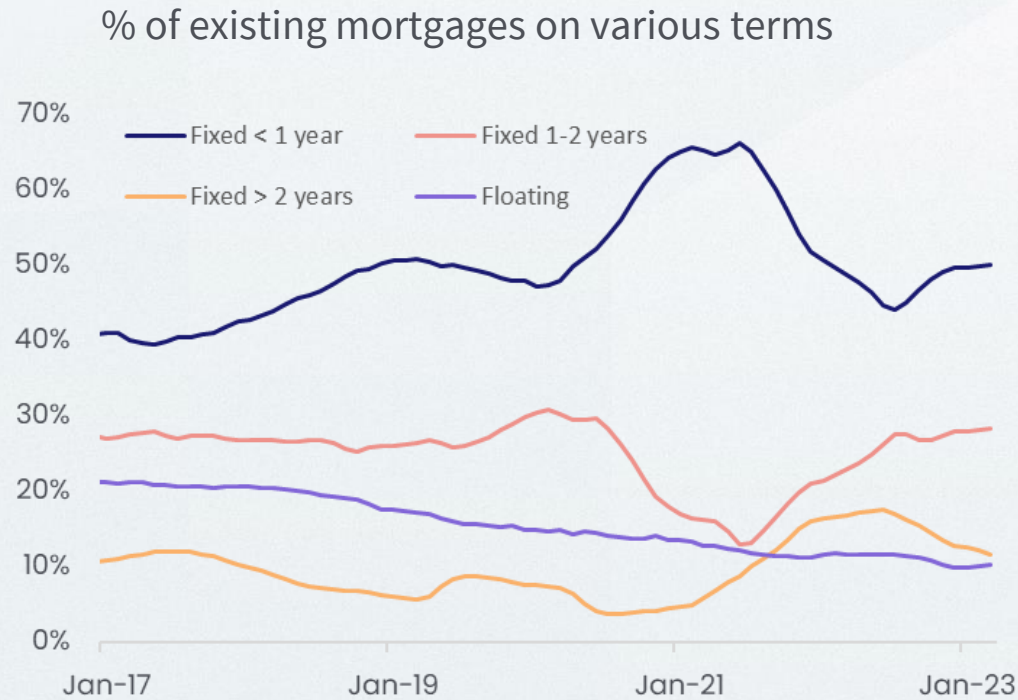
One year change in one year special fixed rates (%-points)



Repricing wave

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Especially for those tested at rates below current market levels



Modelled profile for aggregate fixed mortgage repayments for existing borrowers who are repricing (\$m of payments)

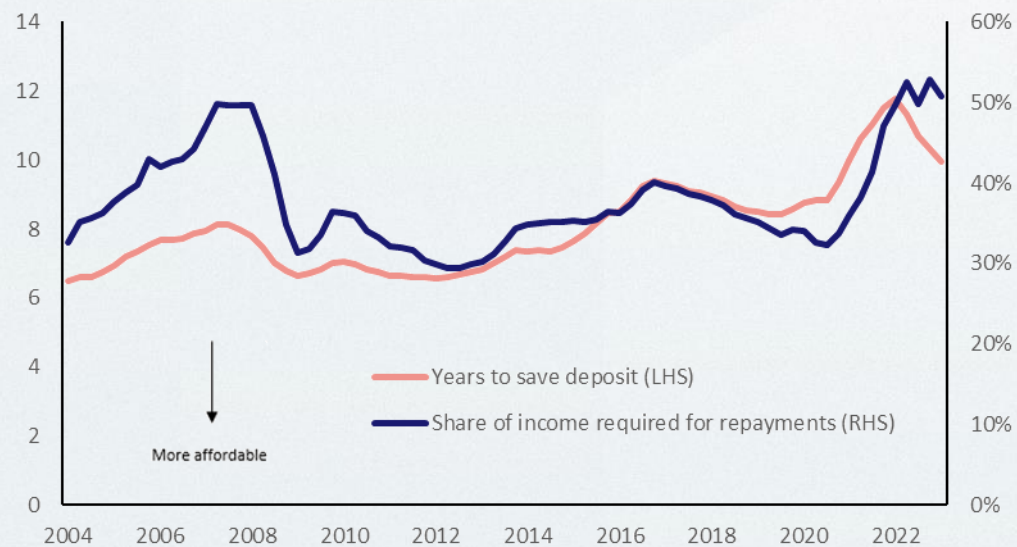


Affordability

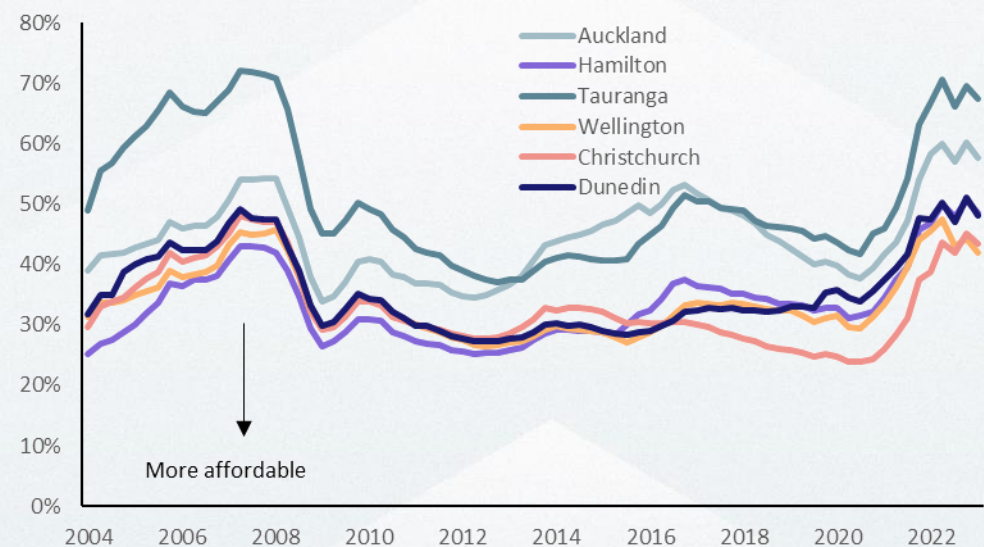
Housing is still expensive

Probably keeps the 'cycle' flatter than in the past

National affordability measures



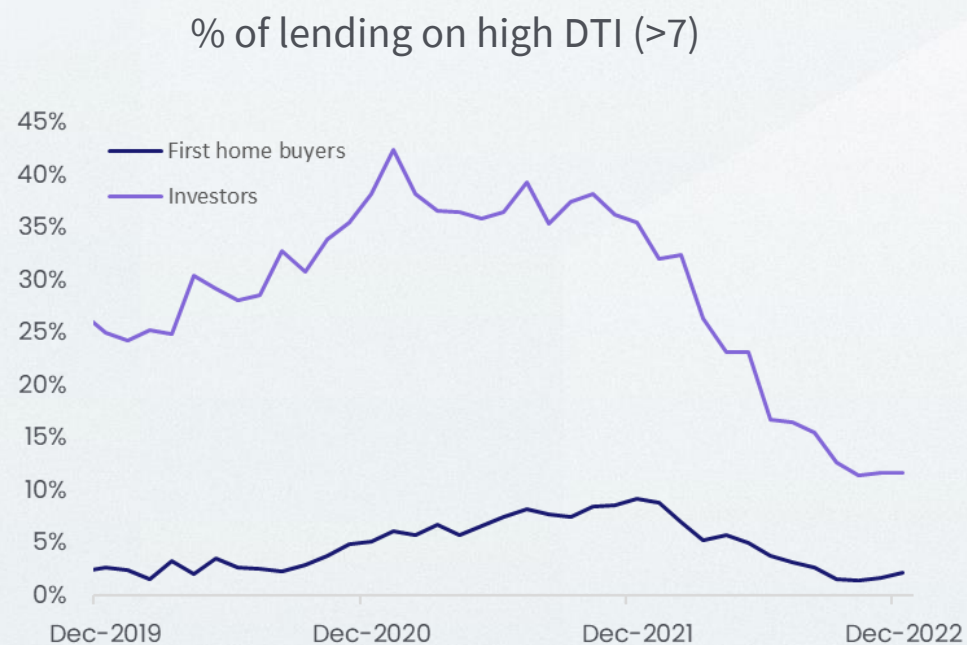
Main centres % of gross average household income to service a mortgage



Lending conditions

Debt to income ratios coming next year

But they're more about controlling the 'next cycle'



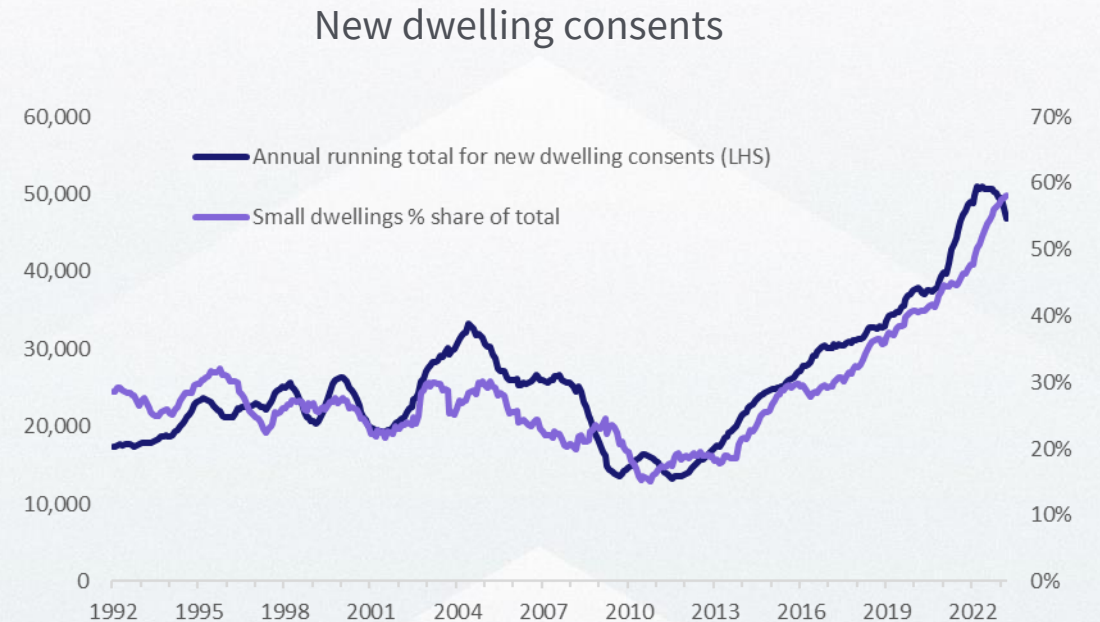
- ▶ We *don't* know the final plan yet – e.g. DTI of 7, new-build exemption, speed limit system??
- ▶ We *do* know the target is Mar/Apr 2024, they'll cover all debt (existing too) and income (extra rent from next property), and non-bank lenders exempt
- ▶ But DTIs have already come down, as house prices have fallen, incomes have risen, and higher mortgage rates naturally limit loan size anyway
- ▶ So new rules about limiting the potential for the next boom, tying house prices more closely to income, and restraining the size of portfolios
- ▶ RBNZ modelling suggests that adding another property could take 5-7 years, as income needs time to build up

Other restraints

Acceptance of lower house prices?

Has society's view changed? Never-ending price rises not 'good'?

- ▶ Current 'older' generation of property owners now seeing their children struggle to buy
- ▶ Tax/regulatory system may stay more weighted against property than in the past
- ▶ Market is also better balanced in terms of physical property supply/demand than before
- ▶ Future land supply reform on the cards too



The 'year of two' halves remains on track

But don't bank on a sudden/strong upturn either



Still some challenges

Existing borrowers yet to fully reprice

Affordability still stretched

Risk of protracted recession



But 'supports' are emerging

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

Rising net migration

Falling stock of listings

Still-high employment

Investors pre-empting Election and DTIs?



On balance

Sales activity on track to start rising in H2

Property values to fall a bit further yet, but find a floor this year – for better or worse

As per post-GFC, could be a quiet few years over 2024-25 – the 'bath tub'

Volatility around a broadly flat trend can't be ruled out either

Thank you and Q&A



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