

CoreLogic


PROPERTY MARKET UPDATE

An underwhelming upturn in 2024?

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JANUARY 2024





AGENDA

The recent stats

The key drivers

RBNZ and government rules

The outlook

THE RECENT STATS

Sales and values are rising, but patchiness remains a feature

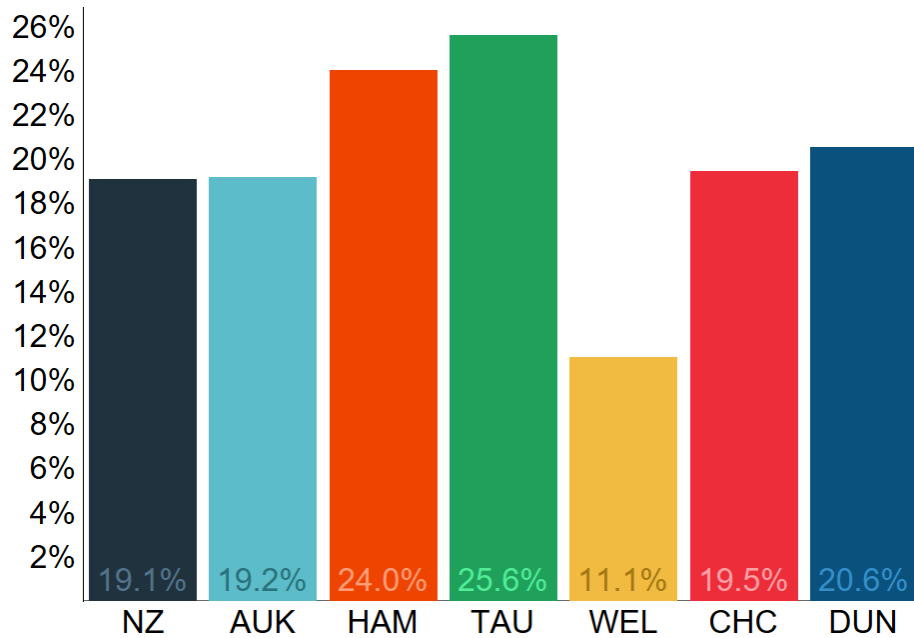


THE RECENT STATS

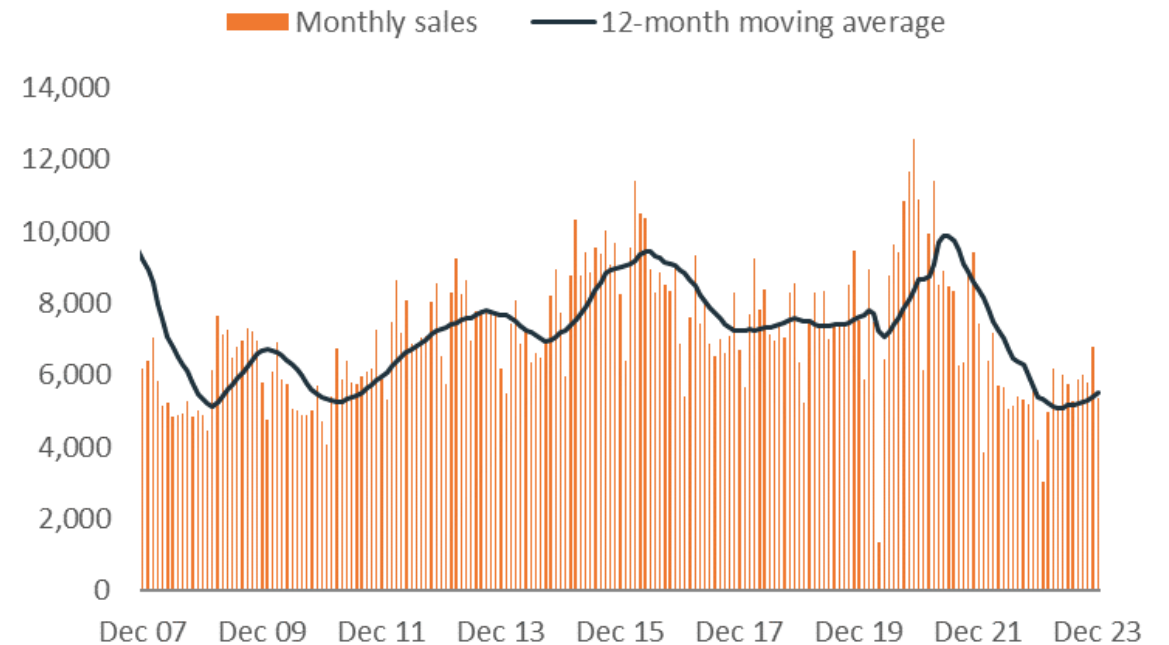
Sales are rising steadily – but from a low base

Reasonable % gains not yet translating into large *numbers* of sales

Year-on-year % change



National sales volumes

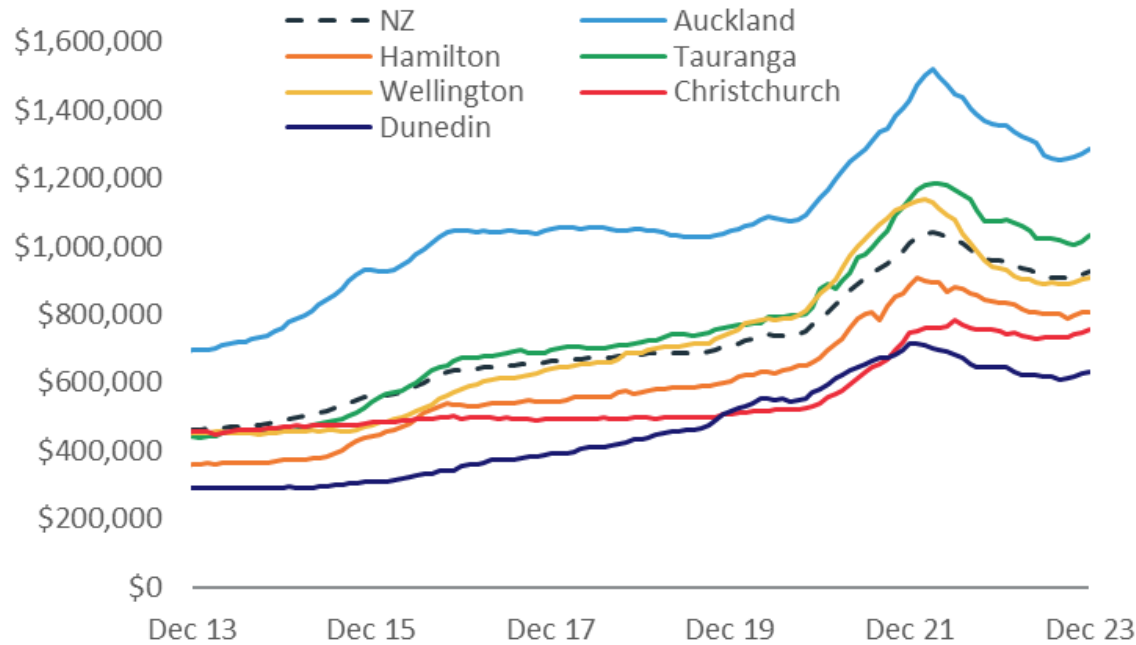


THE RECENT STATS

Value recovery is definitely underway

.... but they're not yet rising everywhere

Average property values



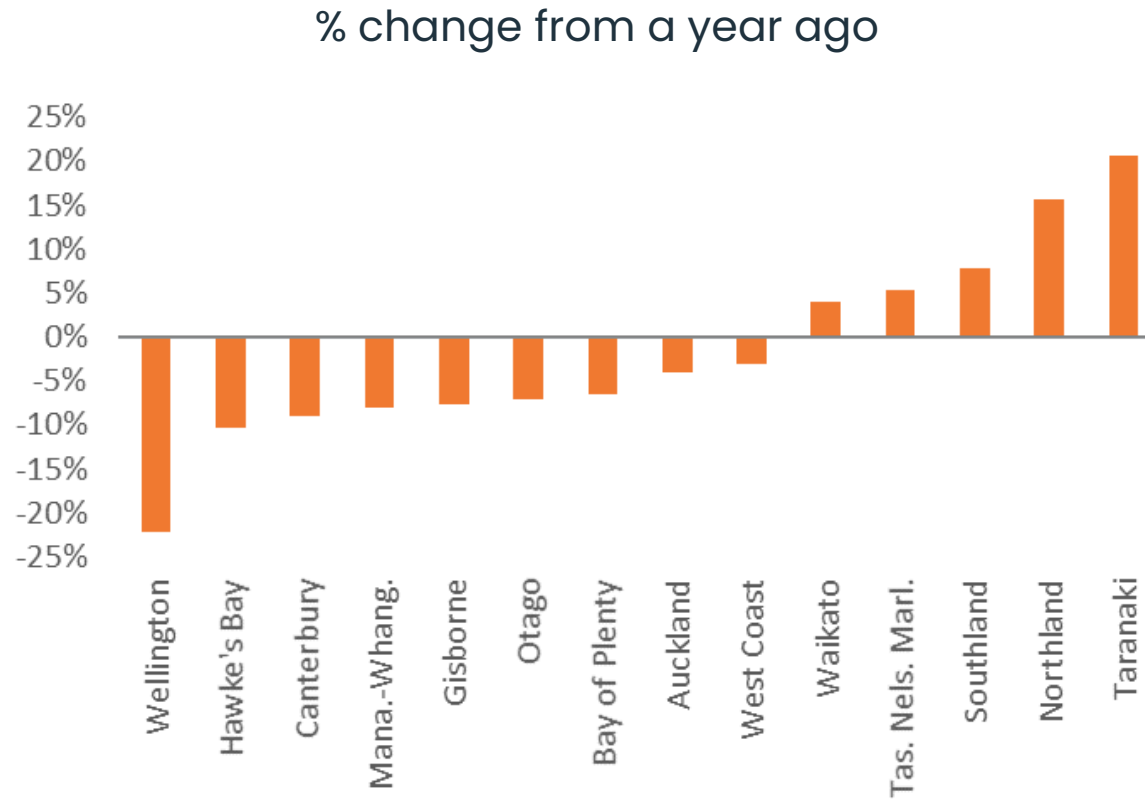
% 3-month change in values



THE RECENT STATS

Available listings are trending downwards ...

... but again, not everywhere

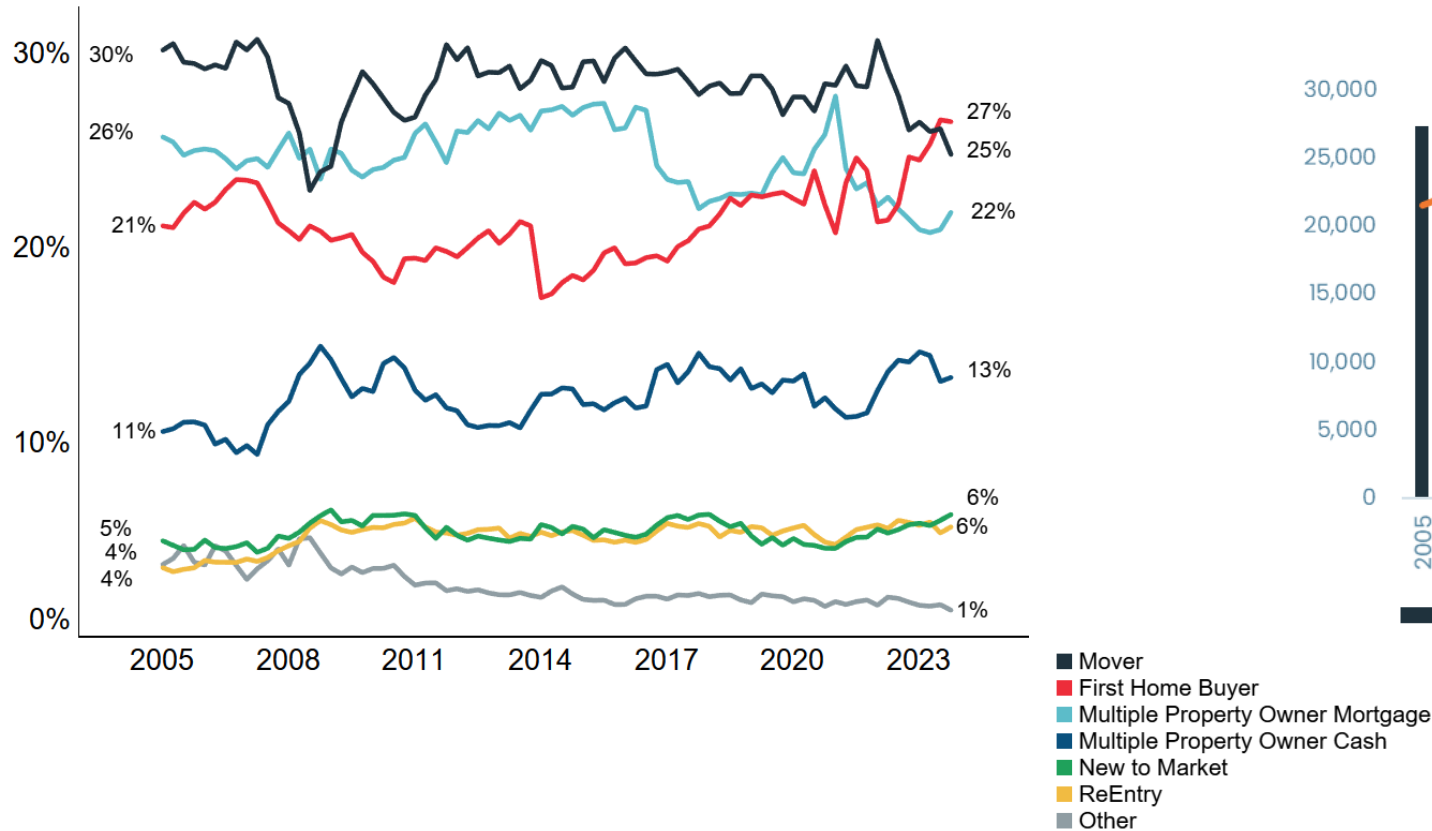


THE RECENT STATS

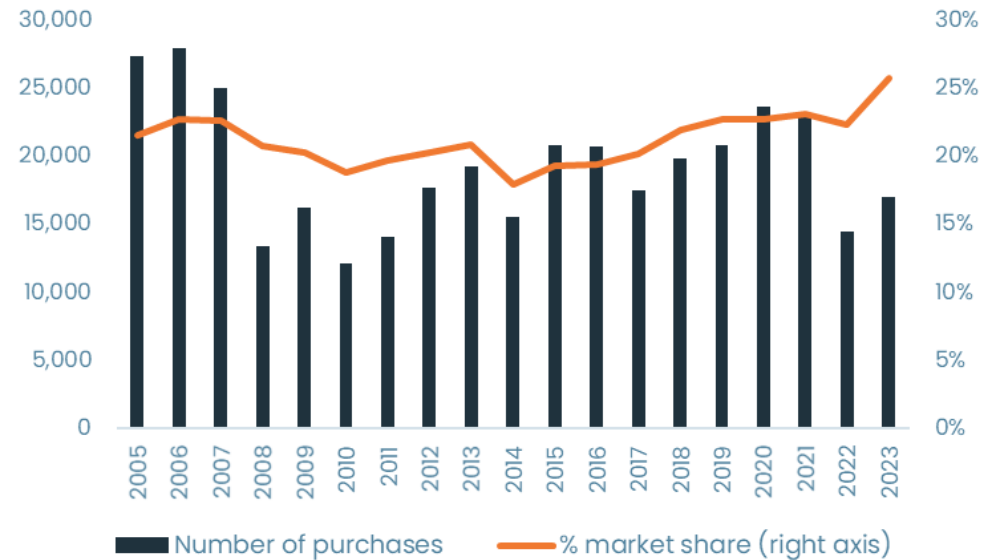
The success story of 2023 – first home buyers!

KiwiSaver, using LVRs, compromising, less competition from other groups

% share of property purchases per quarter



First home buyer calendar year purchases and % share

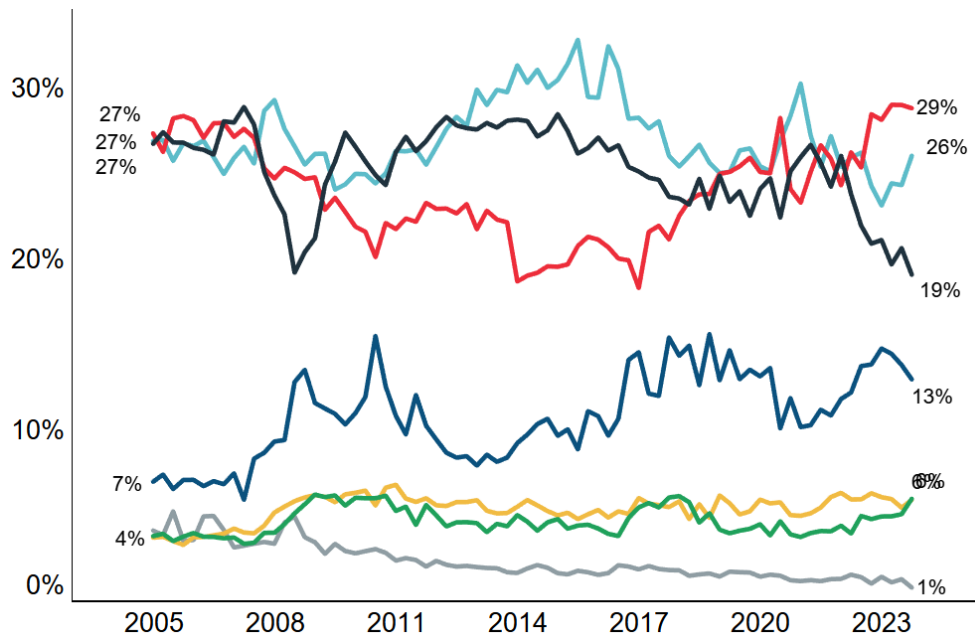


THE RECENT STATS

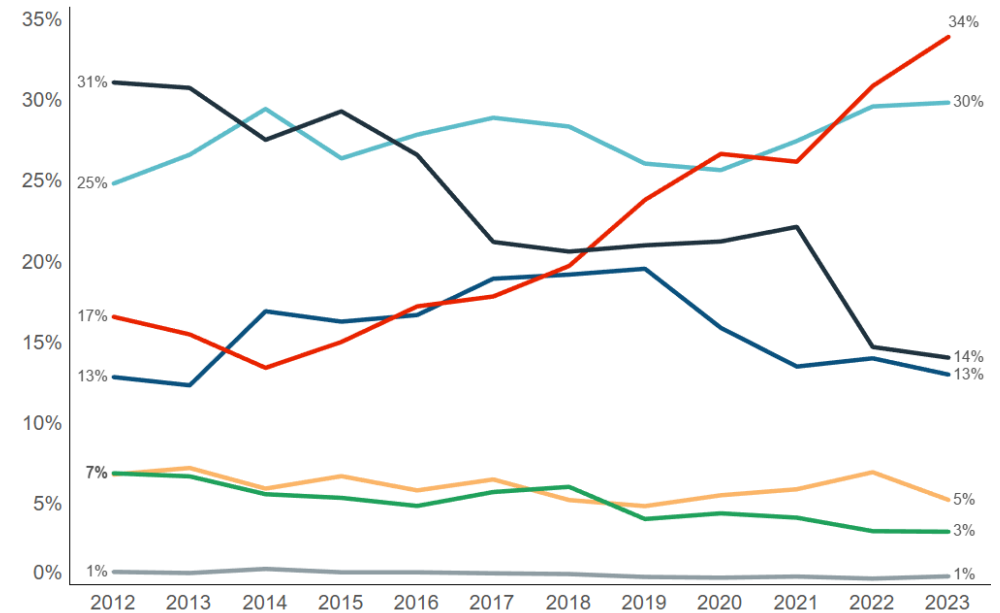
New-builds a key target in Auckland

Changing interest deductibility rules will lessen new-build appeal for investors

Auckland % share of property purchases



Auckland % share of new-build purchases



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

THE KEY DRIVERS

How do the
fundamentals
currently look?

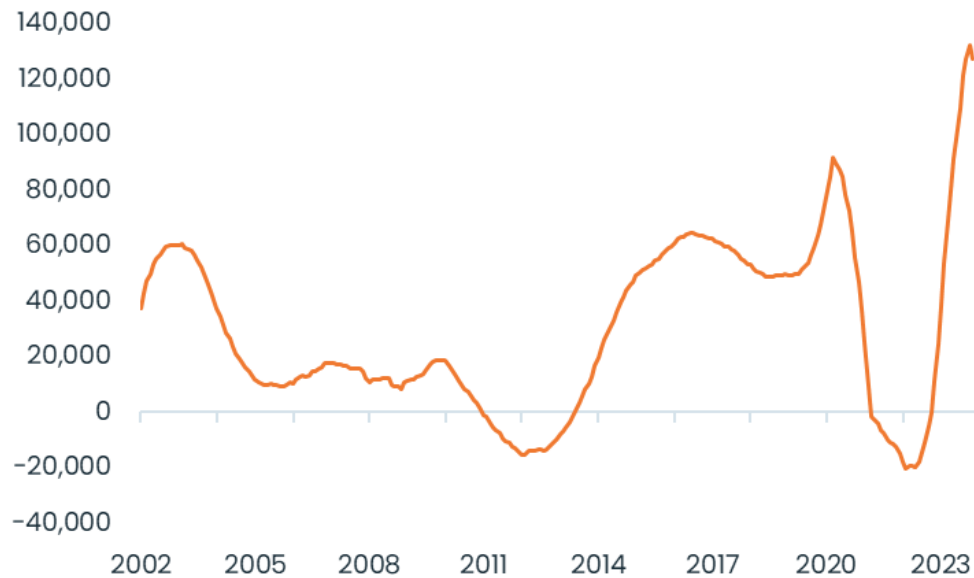


THE KEY DRIVERS

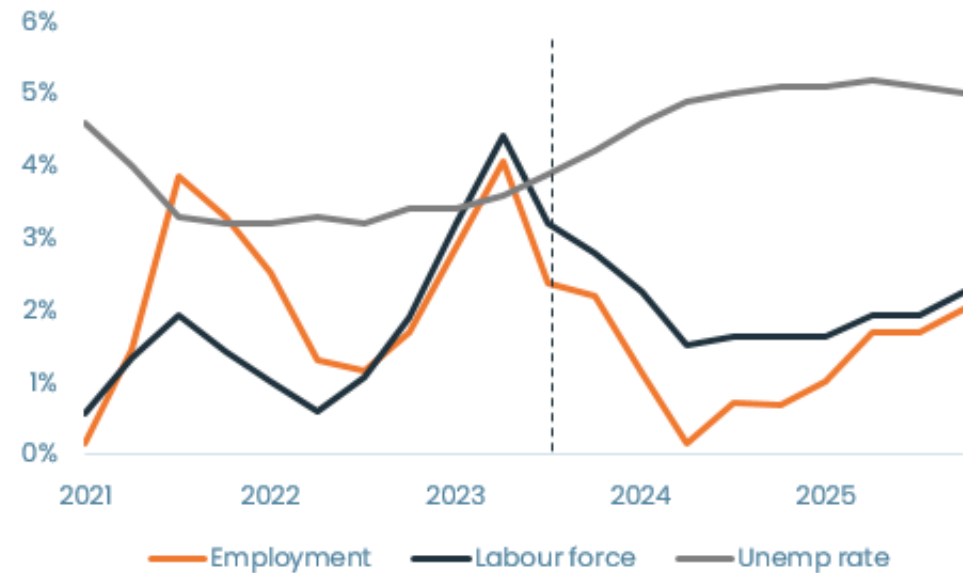
Migration and labour market still key housing supports

Unemployment rate might rise in 2024 – but due to more people, not mass job losses

Annual rolling total net migration



RBNZ forecasts % change – employment, labour force, unemployment rate

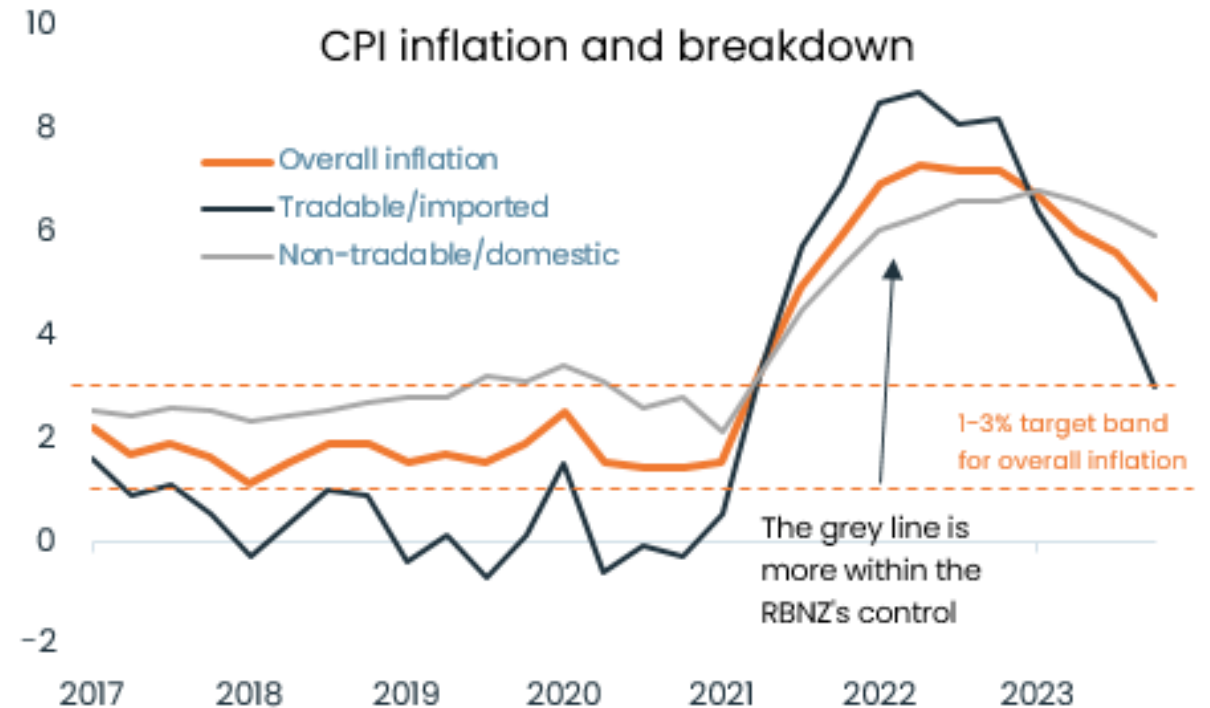


THE KEY DRIVERS

Inflation and OCR: state of play

'Deny, dent, cut' – mortgage rates to drift down later

- Headline inflation is trending downwards, set to reach 1-3% target band by H2 2024
- That will help anchor inflation *expectations* and set the scene for an OCR cut later in the year
- But let's not be hasty – RBNZ still concerned about domestic/non-tradable inflation (e.g. rents, rates)
- And they can't signal any OCR cut too early either, as the markets will quickly react
- Hence, expect the RBNZ to talk tough and then suddenly cut
- Overall, mortgage rates to drift lower – longer end reflecting offshore factors, shorter end the OCR
- Note that still around 70% of new loans are fixing short (<2 years)



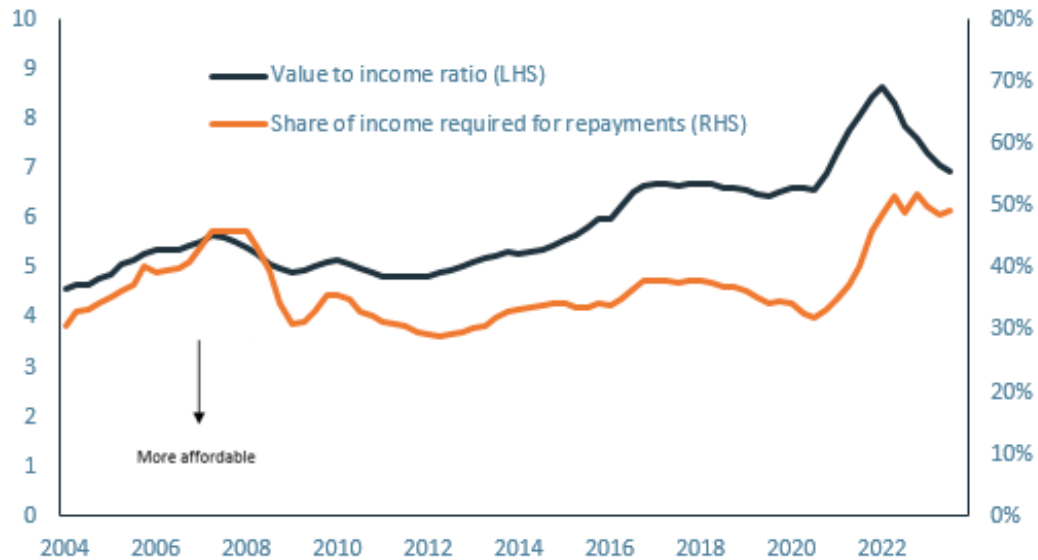
Source: Stats NZ

THE KEY DRIVERS

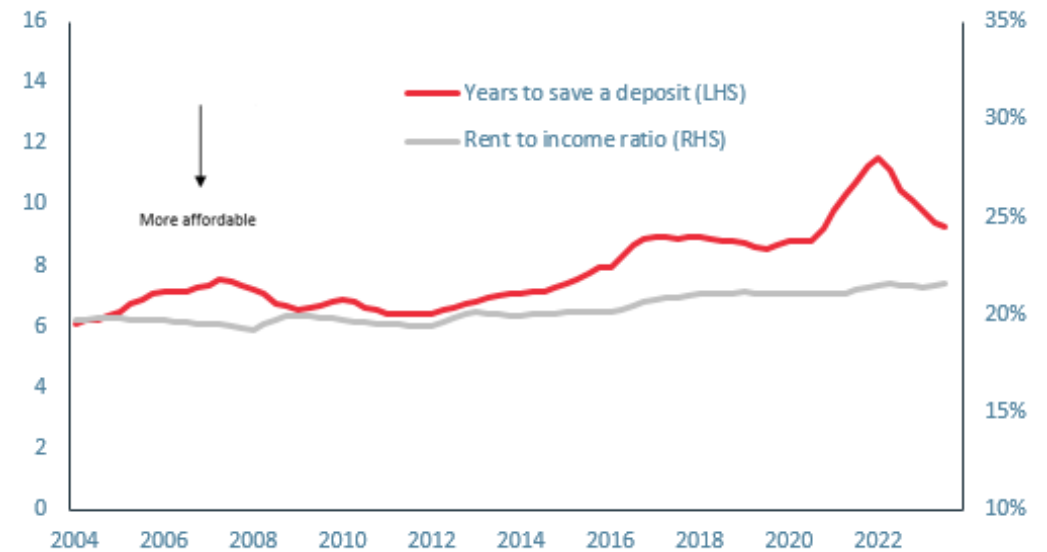
But servicing the mortgage is still tricky

That's a natural handbrake on the speed of sales/prices recovery

Value to income ratio and mortgage servicing



Years to save a deposit and rents % of income

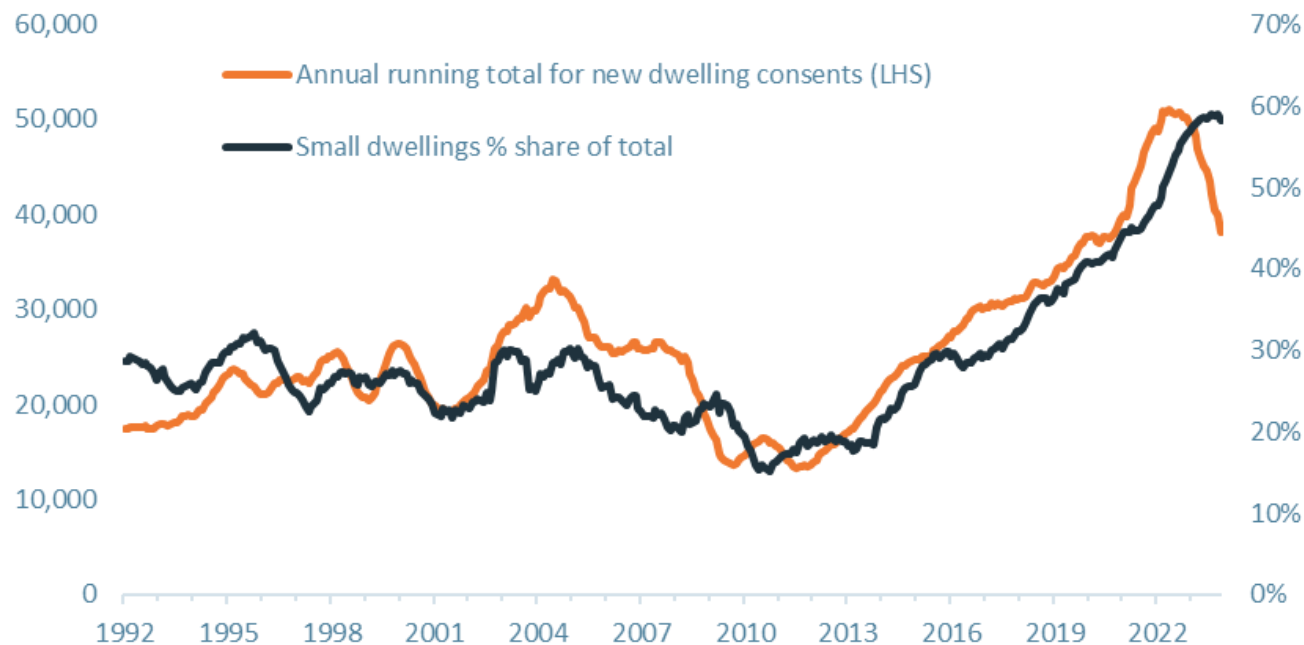


THE KEY DRIVERS

Less risk of supply shortages than in the past

Construction is cooling, but the pre-GFC troughs are unlikely

New dwelling consents



- Consents per 1,000 people still above average
- We've built 'better', in terms of smaller/intensified properties
- Anecdotally, 'phones are ringing'
- Granted, new-builds cost more – median price of about \$810,000 vs existing of \$750,000
- But at least construction costs have levelled off – a bit more certainty for households/demand

RBNZ AND GOVERNMENT RULES

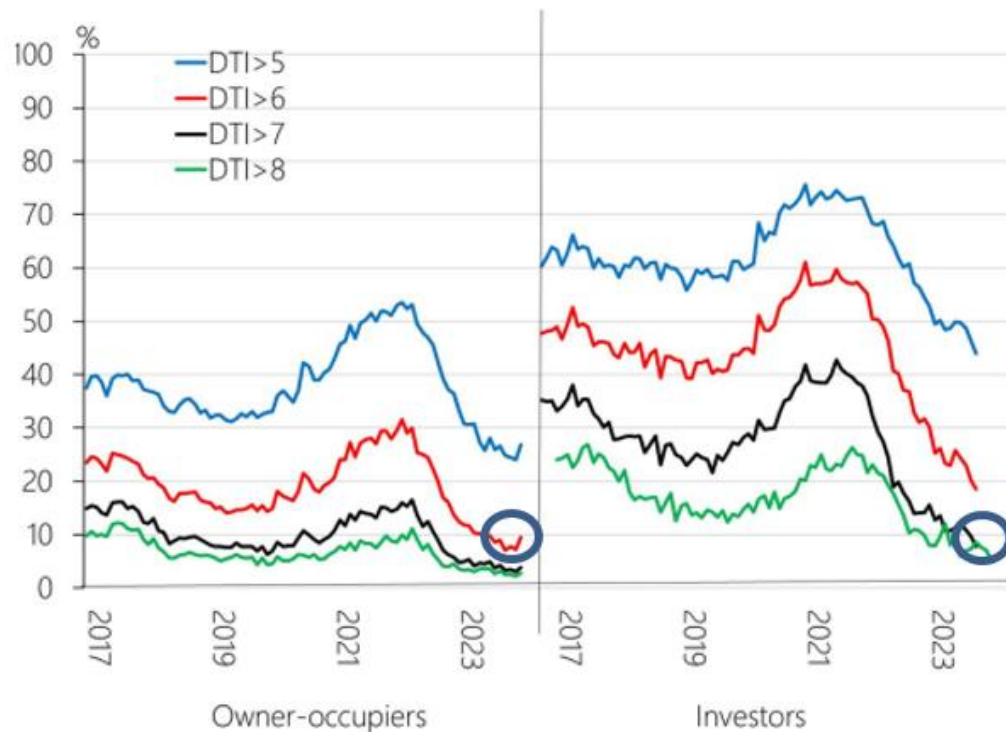
Many changes ... but
mortgage rates still the
bigger issue



Lots to watch – net boost to the market

And new-builds still have favourable treatment

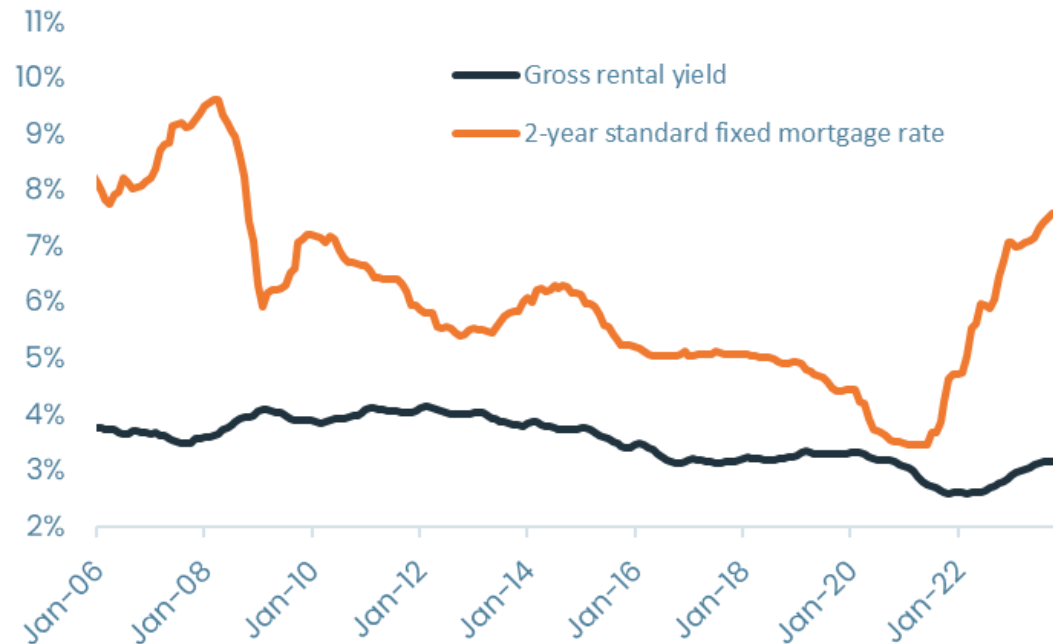
Figure 2: High-DTI lending by borrower type (as a percentage of total lending to each borrower type)¹⁵



- Brightline Test back to two years from July – but more of an investor selling effect than buying?
- 80% interest deductibility from 1st April (as we understand it)
- Proposed to raise owner occupier LVR speed limit to 20% (from 15%) and reduce investor deposit requirement from 35% to 30%
- DTIs a 20% speed limit for owner-occupiers >6 and investors >7
- DTIs and LVRs working together, but DTIs unlikely to bind immediately!
- So looser LVRs probably drive a net boost to the market from mid-year

Investors sniffing again, but may not flood the market

Gross rental yields and mortgage rates



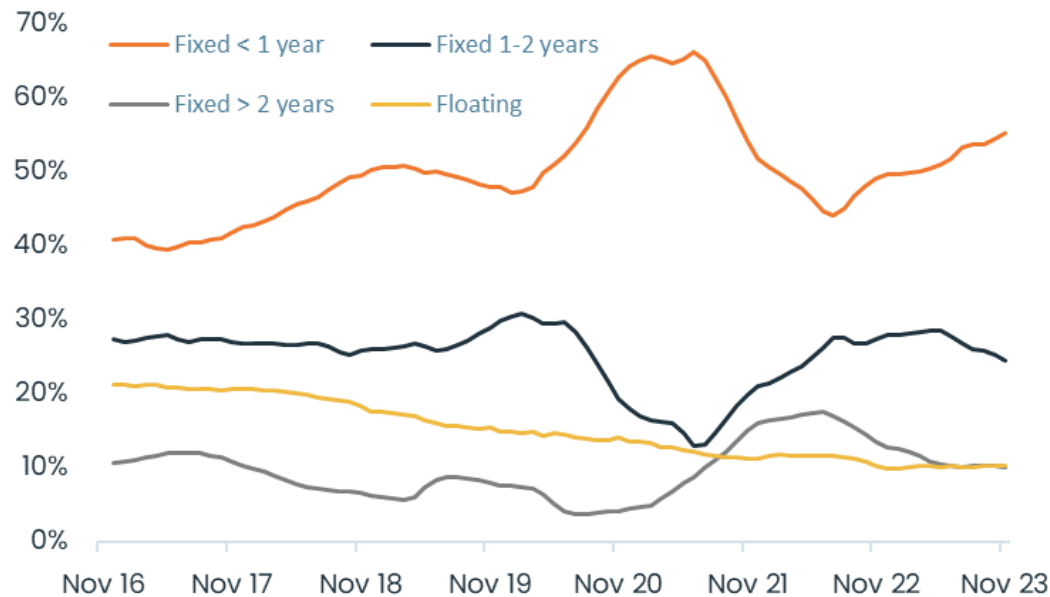
- Rents are rising
- Interest deductibility back
- 40% deposits have been an 'on/off' switch in the past – so 30% seems much more manageable
- And mortgage rates probably tending to drift lower
- But the gap between rental yields and mortgage rates is still very high – large top-ups required (e.g. \$300-\$400 per week) on a typical investment purchase

Source: MBIE, RBNZ, CoreLogic

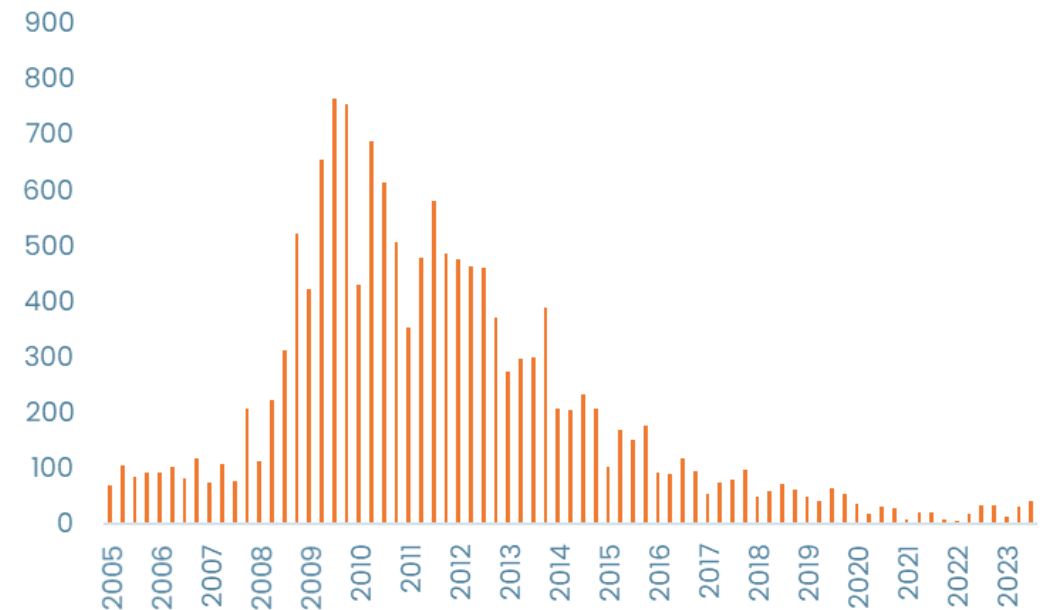
Still more debt repricing to go too

Many could still see another 1-1.5% rise in mortgage rate, but few mortgagee sales to date

Breakdown of existing mortgages by time to next repricing



Mortgagee sales by quarter



Source: RBNZ, CoreLogic

THE OUTLOOK

Recovery to
continue ... slowly

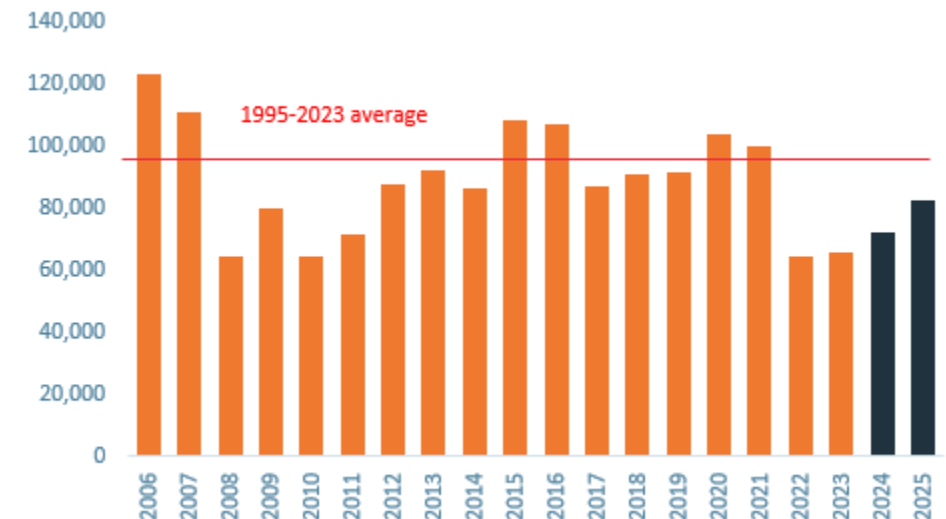


THE OUTLOOK

2024 could be the year of the underwhelming upturn

- Affordability still an issue and mortgage rates not set to fall much just yet
- Migration won't be this high forever either
- But key drivers are nevertheless turning around, so sales to rise circa 10% in 2024 and 2025
- Property values to increase too (~5% in 2024)
- First home buyers likely to remain a force
- But watching investors too
- Still a mortgage repricing vulnerability for perhaps first half of 2024

Past and predicted sales volumes





Thank you

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