What's happening at the lower end of the market?

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There has been some talk that the LVR speed limits have caused a dramatic drop in sales at the lower end of the market. It seemed to me that in the current rising market the actual number of properties worth less than say $400k would be decreasing, so it should be no surprise that the number of sales would also drop.

Based on our E-Valuer, which gives an estimate of current market value for every property, we can see that a year ago there were 714,000 residential properties nationwide worth less than $400k. Now, with nationwide values rising over the past year, it would stand to reason that the number of properties worth that much would have declined. Sure enough there are now 656,500 of them, a drop of 8% over the past year. So definitely a drop, but nothing spectacular. Looking back a little further and we can see 805,000 properties in 2007 and 973,000 in 2004.

Auckland has been the focus of much of this discussion around the number of low value sales, so let's now look at that. There are currently just over 62,000 houses, flats, and apartments in greater Auckland worth less than $400k. A year ago there were 91,000. That's a drop of 32% in just 12 months. The drop is most significant in North Shore and Waitakere where the number of properties worth less than $400k has dropped 55% in the past year. At that lower end there are currently less than 1,800 properties in North Shore (the vast majority of which are apartments) and 8,500 in Waitakere, whereas last year there were 3,900 and 19,000 respectively. Looking back a little further and at the previous market peak in 2007 and there were nearly nine times as many low end properties in North Shore and four times as many in Waitakere.

When looking at how many sub $400k properties have sold, sure enough Auckland has dropped, with just over 1,000 in the first three months of this year compared to 1,700 a year ago and 4,300 in 2007. In North Shore there were only 45 sales in the first three months of this year, compared to 476 in 2007.

In cases such as this where the base stock is changing a better measure is percentage turnover. That is, the percentage of properties in an area selling during a given time period. In the first quarter of this year 1.7% of low end (< $400k) properties sold in greater Auckland. That's only slightly down from 1.9% a year ago, but well below 3.0% at the previous 2007 market peak. Interestingly, during the 2009 recession turnover dropped to 1.2%.

What does all that mean? Clearly the number of properties worth less than $400k has dropped, and in Auckland quite dramatically. But a corresponding drop in the number of sales does not mean that the bottom end of the market has fallen away, just that there are fewer to buy. It does of course raise affordability questions, but let's leave that for now.

A better way to look at the bottom end of the market is to consider the lowest 10% of properties, independent of arbitrary dollar value ranges. In greater Auckland, the lowest 10% of properties currently have a median value of $430k. A year ago the lowest 10% were worth $375k, in 2007 it was $330k and ten years ago $222k. Just to scare you a bit, the lowest 10% of North Shore properties are currently worth $545k!

To see if the bottom end of the market is in fact less active we looked at what percentage of all sales came from that lowest 10% of properties. In the first three months of this year 11.7% of all sales in greater Auckland were from that lowest 10% of properties. A year ago it was 10.1%, and around the time of the LVR speed limits there was a slight surge up to 12.1% as people rushed to get in before the limits came into force. The picture is similar across parts of Auckland.

So rather than the bottom end of the market plummeting since the LVR speed limits came on, activity has actually stayed stronger than long term average and above the same time last year.