Healthy job market and stronger economy will boost residential property sales

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The stronger employment figures last week convinced some players in the interest rate market that pricing-in absolutely no OCR increases in 2015 was probably not that smart.

Over coming months I expect continuing positive NZ economic data and a mild recovery in dairy export prices to convince a few more investors, borrowers and intermediaries in the NZ short-term interest rate market that two OCR increases of 0.25% next year is more than likely.

The residential property market always plays a pivotal role in the NZ economy and thus the application of monetary policy management.

The housing market levelled off somewhat through the middle part of this year due to LVR regulatory restrictions, mortgage rate increases from March to June and fears of capital gains taxes from a potential Labour coalition government in the lead-up to the September general election.

As we move into summer a number of drivers for residential property have changed again:

- Fixed rate mortgage interest rates are lower today than March when the RBNZ commenced their adjustment away from super loose monetary policy settings. Governor Wheeler cannot control the two to five year fixed rate swap interest rates that the banks price their cost of funds. Lower US Government Bond yields over recent months have produced the much lower term swap rates.

- There is an expectation that the RBNZ will adjust the LVR restrictions lower by increments over time. Some guidance on their plan will be provided later this week.

- Job security is arguably higher today as many sectors signal shortages of skilled and semi-skilled workers. Several industries are actively recruiting from overseas as the massive growth in work permits to foreign nationals testifies.

- The NZ dollar is at a lower entry point for Asian investment buyers of NZ real estate.

- Property, particularly commercial and industrial property, is seen as providing higher investment returns than bank deposit interest rates at 4% and NZ shares that have had a spectacular run up, but may be becoming fully priced.

- Local Government restrictions on fringe-city land availability is still a major factor in keeping land prices artificially high and thus largely out of reach of first home buyers who want to build a house.

The supply shortage of residential houses is being addressed at a rapid rate which will eventually correct the supply/demand imbalance in the market.

However, while credit is easily available and considered cheap the increases in property prices will continue.