

Auckland continues its slide

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Auckland values have dropped for the second month in a row according to the latest QV House Price Index. Meanwhile values across most of the rest of the country continue to increase.

Auckland values dropped a further 0.4% over the past month and are now down 0.8% from December 2015. Hardly massive decreases but definitely a change from what we have been used to.

While the drops are more marked in central and West Auckland, the heat is now coming out of the edges of Auckland too. While Rodney has not yet dropped in value, it has slowed, likewise Franklin in the South. Papakura meanwhile has dropped for the first time this month.

Has the cooling in Auckland spread out to the surrounding areas? You wouldn't really expect it to; given the rule changes and lending restrictions are in part Auckland specific. North of Auckland values continue to rise at around 5% per quarter in Whangarei and Kaipara. Meanwhile to the South of Auckland there are just hints that the rate of increase may have eased a little. Across the Waikato and out to Bay of Plenty values were increasing faster towards the end of 2015 and have just slowed a little. For example, Hamilton was increasing at 10% per quarter in September and October and that is now back to around 5% per quarter.

It's not just the areas surrounding Auckland that are increasing in value, we are now seeing values rising in most parts of the North Island. In most areas this comes after an extended period following the Global Financial Crisis of little or no value increases.

Wellington values began accelerating towards the end of last year and are up nearly 5% over the past three months. First home buyers are particularly active in the Wellington market and the lack of listings is making for a very seller friendly market and helping push up prices.

The South Island remains a lot patchier. Values have picked up in Nelson and Marlborough and are now increasing at over 3% per quarter, considerably faster than we saw last year. Central Otago and Queenstown Lakes have also accelerated with the latter now increasing at 6.1% over the past quarter, the fastest of anywhere in the South Island.

There has been a slight pick-up in the pace of increase in Dunedin, but only to 1.5% over the past three months, so nothing like the increases we are seeing further north.

Confidence is also returning to the Christchurch market, with sentiment largely positive, and undented by the latest quake. However values are not accelerating there yet, still increasing at less than 2% per quarter.

That's what values have been doing over the past few months. But we have been watching other signs of market activity closely to see if the trends of late 2015 would carry through into this year. Would Auckland keep slowing? Will the surrounding areas remain hot? Would values increase across the rest of the country?

One of the best measures we have of market activity is based on demand from potential buyers. We measure this every week based on the number of valuations run by front line bank staff through the CoreLogic Valuation Ordering Service. The number of these valuations closely matches

the number of sales that will subsequently occur. It is therefore a fantastic early measure of what market activity is about to occur.

Since last August this valuation activity in Auckland has been steadily dropping away, and we have subsequently seen how this turned into a slowdown in sales activity in Auckland. Meanwhile valuation activity in late 2015 was very strong in Northland, Waikato, Hamilton, and the Bay of Plenty and we now know this led to an increase in sales activity. Activity then drops over the Christmas break, so it isn't really until February that we get a flavour of market sentiment.

By mid-February two things jumped out at us. The first was the dramatic increase in valuation activity across the Wellington area. The second was real weakness in the top half of the North Island. Not just Auckland, but the surrounding areas that were so strong pre-Christmas. It was beginning to look like the heat had come out of those markets too.

But then in the last two weeks of February there was a sudden lift in activity in the North. For two weeks in a row valuations were back to the peak levels from pre-Christmas. This coincides with word on the street in Auckland that activity has suddenly picked up, and intriguingly there are reports of Chinese buyers being back at the open homes in the North Shore after being largely absent since August.

There is a strong historical link between the number of sales and changes in value. When the number of sales drops, values drop a month or three later. When the number of sales increases, so too do values.

Valuation activity dropped in Auckland, then sales dropped, then values. So a sudden increase in valuation activity suggests an increase in sales, and therefore an increase in value. Of course this is only two weeks of data, but the turnaround is dramatic. Have we nearly seen the end of price drops in Auckland already?

It remains our view that Auckland values will not drop far and not for long. There remains high demand, driven by record high net migration. And contrary to what you might hear this migration is not 'foreigners' that the Government should stop. The biggest contributor to our high net migration is the relative weakness of the Australian economy. We normally lose tens of thousands of kiwis across the ditch. We are currently seeing a net gain as far fewer kiwis are moving to Australia, and high numbers are coming home. The last time we saw a net gain from Australia was in 1991 when the Australian economy was last in recession.

Over half of all migrants end up in Auckland where there is still a housing shortage. And the rate of house construction is not keeping pace with population increase. High demand with low supply means upward price pressure.

A price drop in Auckland of a just a few percent is more likely. Then the underlying drivers kick back in and prices start rising again, just not as quickly as they were before.

Meanwhile we would expect values to keep rising across most of the rest of the country, particularly in Wellington, where supply is well behind demand.

Bear in mind that since 1981 March has been the busiest or second busiest sales month of the year far more than any other month. We therefore expect market activity to be strong at this time of the year, usually right through until May. A lack of listings, evident across much of the country, is likely to help push prices up for some time yet.