National property values showed very little growth in April

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According to the QV House Price Index, utilising data by CoreLogic, national property values showed very little growth of 0.2% in April 2018, with Dunedin the sole main centre to see any material value growth in the month, up 1.6%. The April result follows strong growth in March, where values rose 1.3% in the University City.

Property value growth remains constrained with five of the six main centres seeing a minor loss in average value through the month of April 2018. This is the first time since September 2010 that at least 5 of the 6 main centres saw value falls in the same month.

Trends over the three months ending April illustrate the slight drop in April values for most of the main centres has not been consistent, with four of the six centres recording a rise in

values while Auckland (-0.3%) and Christchurch (-0.2%) were the only main centres to see values drop over the most recent rolling quarter.

The highest capital gains can be found across the regional markets, however there are signs of weakness ahead: CoreLogic head of research Nick Goodall said, "We're starting to see population growth slow in these regional centres, and with extended value growth not matched by wage growth, property is becoming less affordable, especially given a tightening of lending credit policies".

Focusing on the main centres, annual rates of growth remain below 9%, with Dunedin (8.8%) and Wellington (6.6%) the only areas with any consistent period of growth over the past twelve months.

Mr Goodall said, "The inconsistent and constrained growth across the main centres is most evident in Auckland (0.8%) and Christchurch (-0.5%), where, aside from minor monthly fluctuations values have been flat for about 18 months now."

Across the other Main Urban Areas, the strongest performing city is Napier, where property values have grown 17.6% in the last year. Movers, both from outside the area and internally are a primary driver of housing demand, as jobs remain available and the lifestyle appeals to a broad cross section of the market. Investors, particularly those not requiring finance also remain undeterred by an otherwise slowing market nationwide. Nearby Hastings has also had strong property value growth of 12.5% over the past year.

The wider Hawke's Bay property market has been underpinned by a robust economy, with tourism and the horticulture/wine sectors strong. Higher property values have themselves triggered new construction, which is also supporting additional jobs, income, and consumer spending.
Further south Kapiti Coast continues to benefit from improved commuting times into Wellington as values have increased 13.4% in the last year.

At the other end of the scale is New Plymouth, where values are up a lower 6.3% over the year, although it's worth noting this is still greater than most of the main centres. It's too early for the lower rate of growth to have been influenced by the Government's announcement not to grant any new deep-sea oil and gas exploration permits in the region, however it's likely this will restrict growth over the coming months.

Overall, Mr Goodall said that the New Zealand property market is currently showing a prolonged period of soft conditions as stricter mortgage serviceability criteria continues to limit the ability of potential buyers to borrow the money required to buy and transact in the market.

A heavily scrutinised property investment sector is also weighing on the minds of some investors. He said, "With the extension of the bright line test to five years, as well as the Healthy Homes Guarantees Act changes coming into force later this year and the ring-

fencing of losses applicable for negative gearing, some investors will be questioning the profitability of extending their property portfolio."

"So far we haven't seen a noticeable lift in investors listing their properties for sale, but we are keeping a close eye on activity taking place in this sector, given the more challenging investment conditions and potentially weaker prospects for capital gains."

Also, we cannot underestimate the role of lenders and credit policy.

While mortgage interest rates have been dropping again recently, lenders remain risk averse, limiting interest only loans and testing serviceability at over 7%, meaning that despite the minor relaxation of the LVR limits from 1 January 2018, there hasn't been a wave of newly-eligible buyers hit the market.

Despite news last week that the first KiwiBuild homes are now under construction, there is a long way to go before housing supply meets demand, especially considering the high rate if net migration.. A high rate of population growth will help to support housing demand and ensure the slow-down remains a relatively placid one.

In closing Mr Goodall said, "Property transactions are likely to remain constrained for at least the rest of the year as finance remains harder to acquire. However, with strong fundamentals underpinning the market, we're unlikely to see a significant drop in either volumes or values across our main centres."