Pain & Gain Report

New Zealand

Quarter 1, 2018

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Contents

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Executive Summary

The Pain and Gain report is an analysis of homes which were resold over the previous quarter. It compares the most recent sale price to the home's previous sale price, determining whether the property resold at a gross profit or gross loss. It provides a proxy for the performance of the housing market and highlights the magnitude of profit or loss the typical seller of a home makes in those regions analysed.

Key findings from this Pain and Gain Report **(for resales between 1 January 2018 and 31 March 2018)** include:

1. The proportion of all **properties resold at a loss in Q1 2018 was 3.8%**, representing **a small drop from 3.9% in Q4 2017**. The flipside is that **more than 96%** of resales across the country in **Q1** were made for a **gross profit** compared to the original price.

2. These figures are consistent with the **continued growth in property values across most parts of New Zealand** and show that relatively few people are concerned enough about the outlook to push through a quick sale for a low price.

3. By property type, the **share of apartment resales made at a gross loss increased from 8.7% to 11.2%**. By contrast, the **share of house resales at a loss edge down from 3.7% to 3.5%**.

4. By owner type, **5.1% of investor resales in Q1 were made at a loss**, **up from 4.7%** in the final three months of **2017**. A smaller share of owner-occupiers **sold for a loss in Q1**. Given that investors tend to be more prevalent in the apartment sector, these patterns in the pain and gain data do not come as a surprise.

5. Across the main centres, **Wellington and Dunedin stand out as the strongest markets.** Just **1.0%** of Dunedin's resales in **Q1 2018** were made below the **original purchase price**, with **Wellington only a touch higher at 1.2%**.

6. Those figures are also looking as we would expect them to be, given low levels of listings (especially in Wellington) and **strong upwards pressure on property values in both cities.**

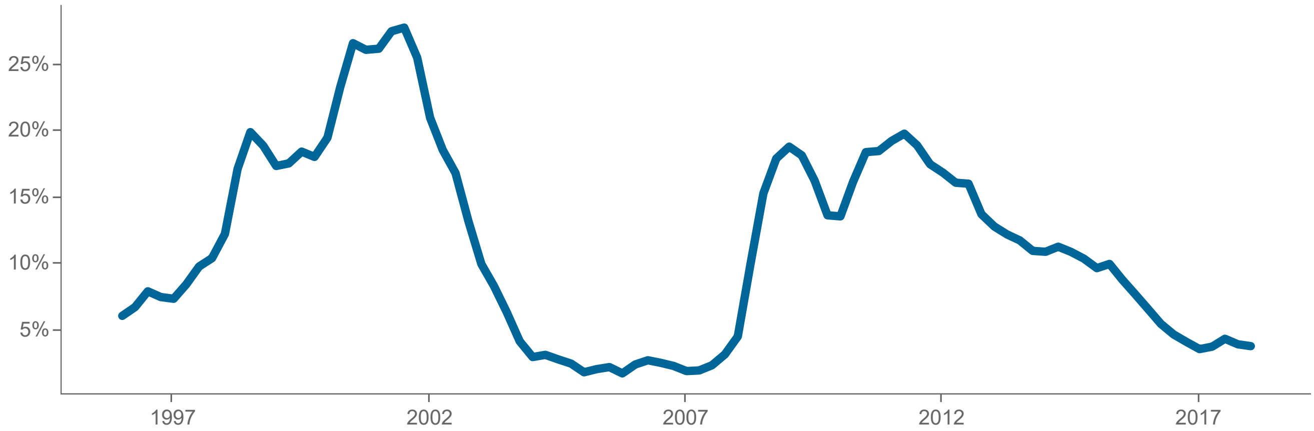
7. Across the country as a whole, the **total losses incurred were $27.2m**, far outweighed by the **resale gains of $3.1bn**.

National Overview

Across New Zealand as a whole, just 3.8% of all property resales in the March 2018 quarter were made below the original purchase price. That was down from 4.4% and 3.9% in Q3 and Q4 2017 respectively.

The big picture is that loss-making property resales remain at very low levels in a historical context, consistent with the broad-based strength in property values in recent years. Indeed, the flipside is that 96.2% of resales in Q1 2018 were made at a price above the original purchase value.

Proportion of total resales at a loss



Q1 2018	Q4 2017
3.8%	3.9%

Nationally the median resale loss was $20,000 in the first quarter of the year, a bit lower than the previous quarter's figure of $23,500. Meanwhile, the median resale profit also dipped a bit in Q1 2018 (but remained very high), from $185,000 in Q4 2017 to $175,000.

Fewer properties changed hands in the first three months of 2018 than the last three of 2017, so the total resale gains and losses were smaller. Total losses were around $27.2m in Q1 2018, down from $36.6m in Q4 2017. Gains were $3.1bn in Q1 2018, reduced from $4.3bn in Q4 2017.

	Median gross profit/loss	Gross profit/loss on resale
Pain	-$20,000	-$27,167,670
Gain	$175,000	$3,135,138,513

Median Hold Period

Across the country as a whole, properties that resold at a loss in the March quarter had been owned for a median 4.0 years. That was down from 4.6 years in Q4 2017 and was also the lowest figure in seven years.

Our view is that the shorter hold period for loss-making resales is due to 'market fatigue'. Recent buyers who entered the market on the assumption of continued strong capital gains have now seen value growth slow, have suffered from increased uncertainty about the future, and have quickly headed for the exit – even if that has meant a (small) gross loss.

On the gain side of the equation, the hold period for properties resold for a profit was basically unchanged at 8.0 years in the first quarter. Hold periods for profit-making resales have been pretty stable between 8.0 and 8.5 years since the end of 2013.

The fact that profit-making resales are associated with longer hold periods is the natural result of a rising market over time, with capital gains accumulating as the years pass. With value growth having slowed in the past 12-18 months, the merits of longer hold periods are even more important.

At a regional level, market fatigue is easiest to see in the areas where growth has previously been amongst the strongest – median hold periods for loss-making resales were shortest in Tauranga (1.2 years), Hamilton (1.6) and Auckland (1.9). Hold periods for profit-making resales in these three cities were also similar, at medians of 6.5 to 7.5 years.

Wellington is an interesting case. There, the hold period for loss-making resales (median of 10.1 years) is actually lower than profit-makers (9.1 years). Upon further investigation it appears those (few) properties that are selling at a loss are mostly apartments or flats that were purchased at the previous peak of the market, around 2007.

In Christchurch and Dunedin, the hold periods for profit-making resales (medians of 9.9 and 8.9 years respectively) are longer than the national average. This reflects the generally slower property value growth that has been seen in those cities over 5-10 year horizons, meaning that profits take longer to build up.

Median Hold Period	Pain	Gain
New Zealand	4.0	8.0
Auckland	1.9	6.9
Hamilton	1.6	6.4
Tauranga	1.2	7.5
Wellington	10.1	9.1
Rest of NI	9.3	8.1
Christchurch	4.0	9.9
Dunedin	2.9	8.9
Rest of SI	4.7	7.7

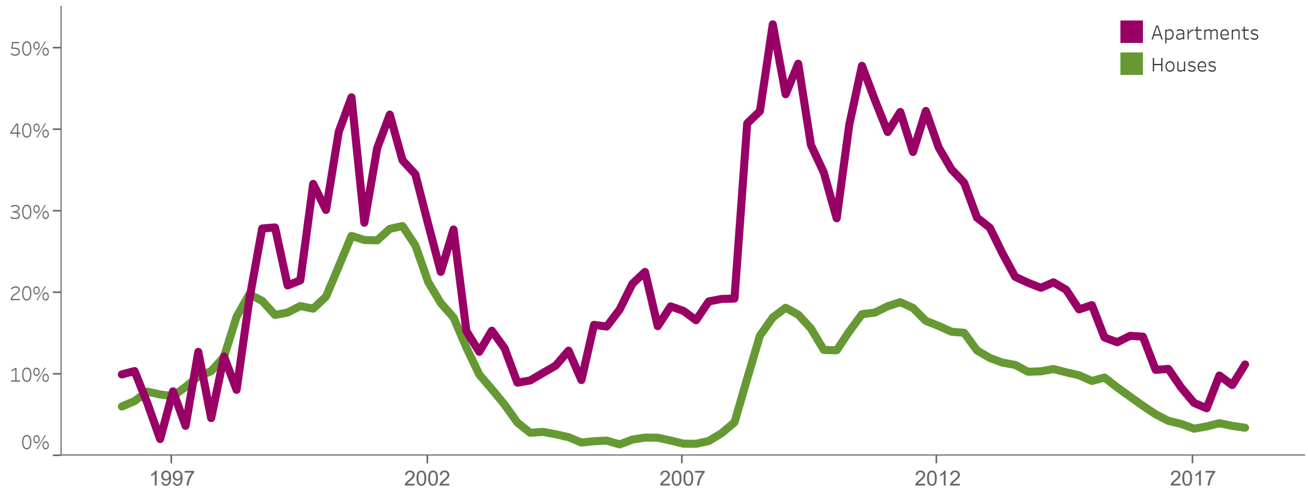
Property Types

The gap that has re-emerged between the performance of resales for houses versus apartments since the middle of last year continued to widen in the first three months of 2018. The share of apartments being resold at a price lower than originally paid rose from 8.7% in Q4 2017 to 11.2% in Q1 2018 – the highest figure in two years. By contrast, for houses, the share being resold at a loss edged down from 3.7% to 3.5%.

These figures show that any market fatigue is heightened in the apartment segment, perhaps where owners who tend to enter the market with a shorter hold period in mind are more prevalent. The figures also tie up with the shorter hold period for losses that were seen in Auckland for example in Q1 2018, where apartments are more common.

Even so, it's important to note that the shares of resales being made at a gross loss are still very low for both apartments and houses. In late 2008, for example, 53% of apartment resales were made at a price below the original price paid.

Proportion of total resales at a loss



	Houses Q1 2018	Houses Q4 2017	Apartments Q1 2018	Apartments Q4 2017
	3.5%	3.7%	11.2%	8.7%

The total losses on all apartment resales was $2.5m in the first three months of 2018, which was spread across 45 transactions. The median loss for apartments resold below their original purchase price was $33,000. The total loss on house resales was $19.0m in Q1 2018 (across 434 sales), with the median loss per property at $19,000.

The total gains made on property resales in Q1 2018 significantly outweighed the losses. The median resale profit for an apartment was $151,500, with the total gain at $71.2m. For houses, the median resale profit was $173,000, for a total across all house resales of $2.8bn.

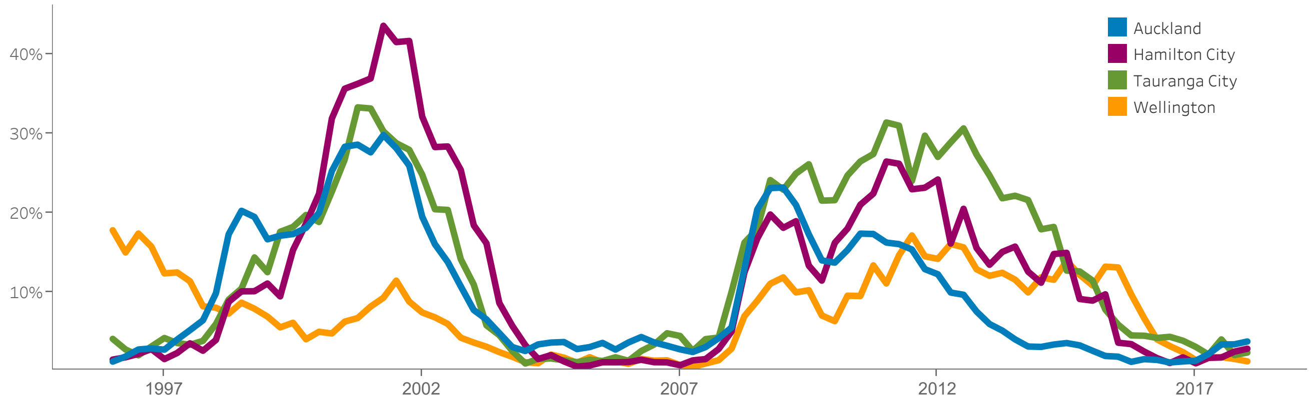
Given that houses tend to be higher value (e.g. because they're larger) than apartments, the relatively modest difference between the median resale profit for an apartment versus a house illustrates how apartments can be a lucrative option in the right circumstances.

	Pain		Gain	
	Median gross profit/loss	'Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Apartments	-$33,000	-$2,544,750	$151,500	$71,186,865
Houses	-$19,000	-$18,988,808	$173,000	$2,844,850,327

Main Centres

The main centres were a mixed bag in terms of their change in the share of loss-making resales from Q4 2017 to Q1 2018. In Auckland, the share rose from 3.3% to 3.7%, while Hamilton and Tauranga also saw increases (from low bases). In Wellington, the recent strong gains in property values meant it was no surprise to see the share of resales made below the previous purchase price drop from 1.5% in Q4 2017 to 1.2% in Q1 2018.

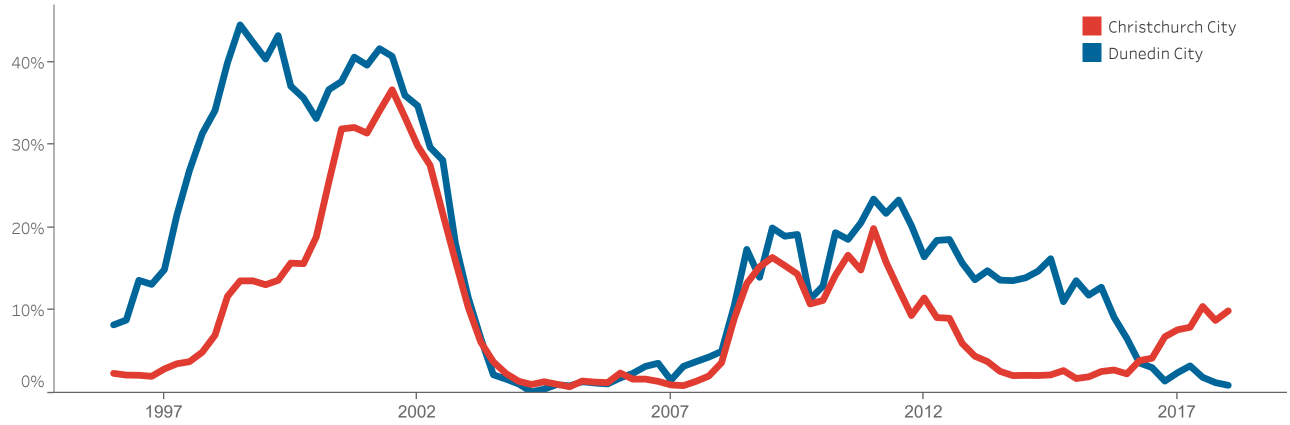
Proportion of total resales at a loss



	Q1 2018	Q4 2017
Auckland	3.7%	3.3%
Hamilton City	2.8%	2.4%
Tauranga City	2.3%	2.0%
Wellington	1.2%	1.5%
Christchurch City	9.9%	8.8%
Dunedin City	1.0%	1.4%

In the South Island, Dunedin's buoyant property market saw resale losses dip, but Christchurch's sluggishness meant that the share of resales made at a gross loss edged up from 8.8% to 9.9%. It is important to bear in mind, however, that some of those resales may be 'as is, where is' with the insurance payout lessening the hit to the owner's pocket of a low sale price.

Proportion of total resales at a loss



Alongside a low share of resales being made at a loss, Dunedin's median loss on each of those resales is also low, at $15,000 in the first three months of 2018. That was below the national figure of $20,000. Although Christchurch had a reasonably high share of resales being made below the original purchase price, the median loss on those sales was $28,000 – not too much higher than the national average.

Tauranga and Wellington saw larger median losses on the property resales in Q1 2018, at $52,000 and $80,000 respectively. However, the flipside for Tauranga and Wellington is that they were also near the top of the rankings for median gains on resale. At $236,500 and $227,400 respectively, both cities easily surpassed the national average of $175,000 (and were only beaten by Auckland with $352,000).

In all of the main centres, median gains for properties resold in Q1 2018 were at least $125,000. Dunedin and Christchurch were at the lower end.

	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Auckland	-$30,000	-$7,001,941	$352,000	$1,195,041,082
Hamilton City	-$15,500	-$441,500	$195,000	$122,714,397
Tauranga City	-$52,000	-$1,478,797	$236,500	$136,030,422
Wellington	-$80,000	-$1,689,000	$227,400	$325,847,313
Christchurch City	-$28,000	-$5,903,792	$135,000	$163,564,723
Dunedin City	-$15,000	-$80,000	$127,500	$83,545,319

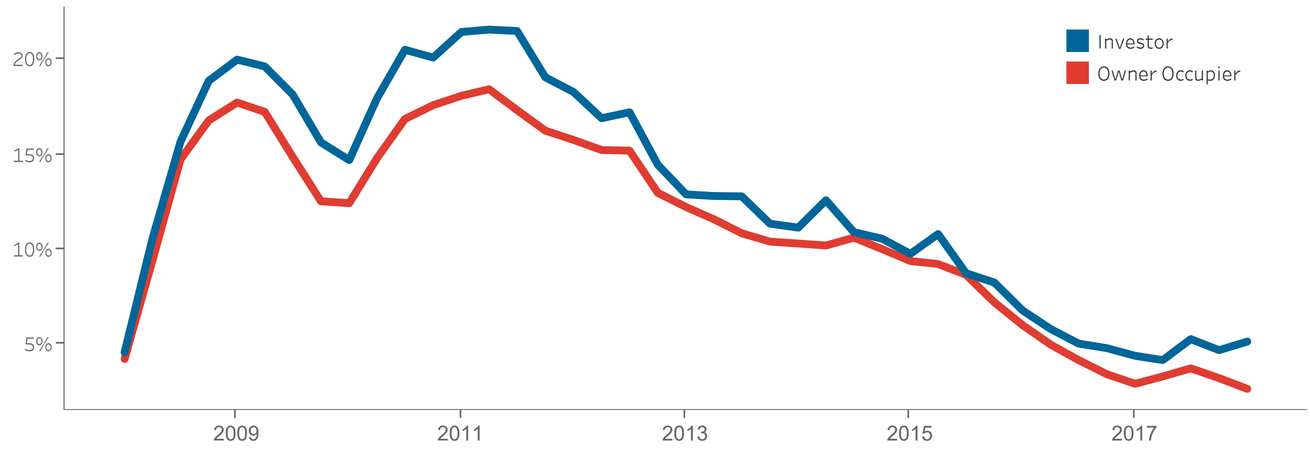
Type of Owner

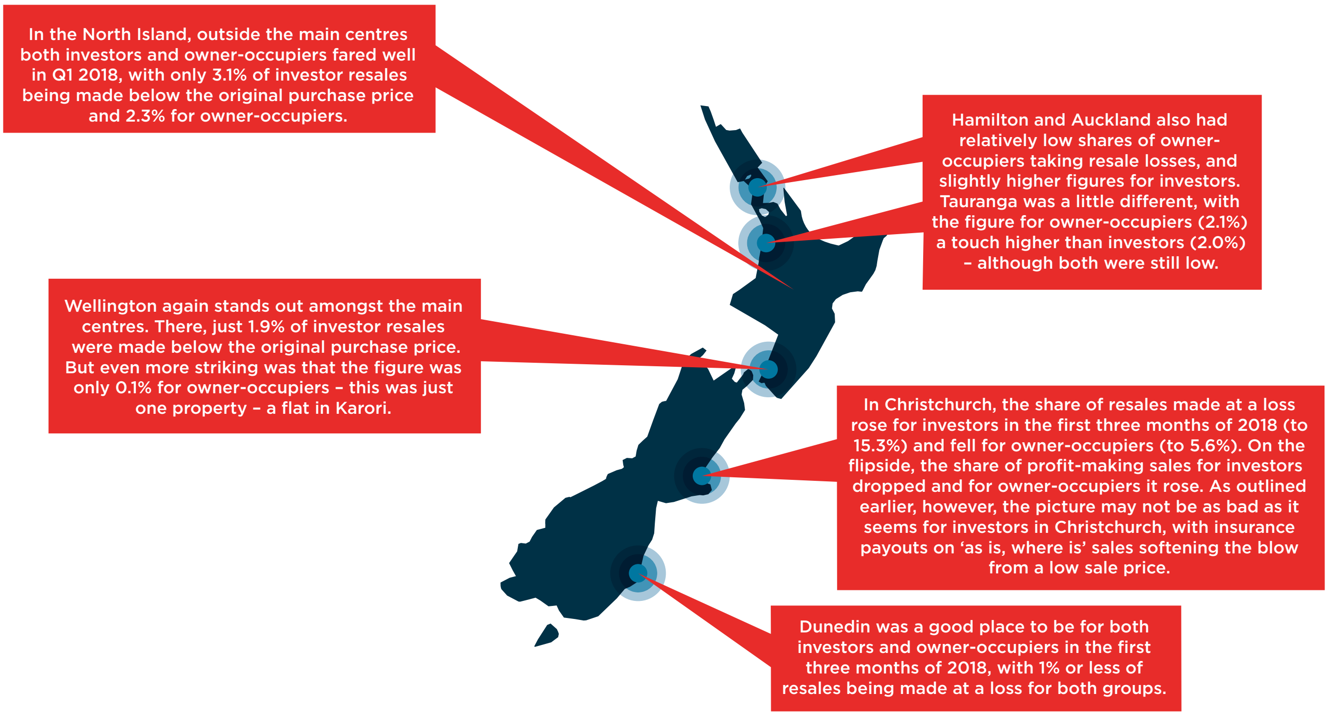
Loss-making resales remained low for both investors and owner-occupiers in the first three months of the year, although higher for investors than owner-occupiers.

For investors, the share of resales in Q1 that were made below the original purchase price ticked up from 4.7% to 5.1%. For owner-occupiers, the figure went the other way, falling from 3.2% in Q4 2017 to 2.6% in Q1 2018.

Some might say that the rise in resale losses from investors is the start of a new, weaker trend. However, to us, it's still too early to reach that conclusion – after all, even after the latest small rise, the loss-making resales for investors remain low. Any signs that investors are starting to sell out of the market will be a factor to watch in the coming months though, given the increased regulatory and cost pressures that they are facing (e.g. limitation of negative gearing tax advantages).

Proportion of total resales at a loss





Proportion of resales

	Owner Occupier		Investor	
	Pain	Gain	Pain	Gain
Auckland	2.4%	97.6%	5.3%	94.7%
Hamilton	1.8%	98.2%	4.3%	95.7%
Tauranga	2.1%	97.9%	2.0%	98.0%
Wellington	0.1%	99.9%	1.9%	98.1%
Rest of NI	2.3%	97.7%	3.1%	96.9%
Christchurch	5.6%	94.4%	15.3%	84.7%
Dunedin	0.7%	99.3%	1.1%	98.9%
Rest of SI	4.5%	95.5%	7.8%	92.2%

For loss-making resales in the first quarter of 2018, investors made a median loss (nationally) of $25,000, which was $10,000 more than the figure for owner-occupiers of $15,000.

For both types of seller, the median gains on resale were much bigger than the losses. For investors, it was $180,000 in the first three months of 2018, slightly higher than the figure for owner-occupiers of $173,000.

About $1.1bn of gains accrued to investors who resold in Q1, with $1.8bn going to owner-occupiers.

		Investor	Owner Occupier
Pain	Median gross profit/loss	-$25,000	-$15,000
Pain	Gross profit/ loss on resale	-$13,678,352	-$8,526,068
Gain	Median gross profit/loss	$180,000	$173,000
Gain	Gross profit/ loss on resale	$1,091,548,425	$1,751,220,377

*Note – this table previously covered the main centres and only houses & apartments. It has now been expanded to cover all of New Zealand and all property types.

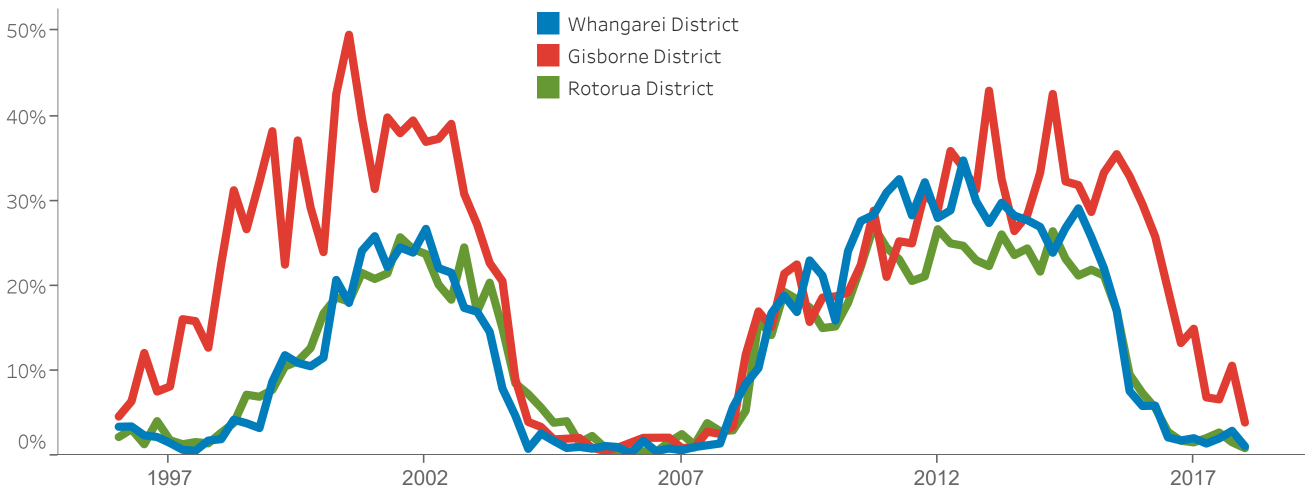
Main Urban Areas

Upper North Island

Gisborne's proportion of resales made below purchase price dropped sharply from 10.6% in Q4 2017 to 3.9% in Q1 2018. However, it remained above the figures for the other two main centres in the Upper North Island – 1.1% for Whangarei and 0.9% for Rotorua.

The smaller upswing in property values in Gisborne in recent years has resulted in it being less likely that any individual seller will make a profit on resale.

Proportion of total resales at a loss



	Q1 2018	Q4 2017
Gisborne District	3.90%	10.60%
Rotorua District	0.90%	1.60%
Whangarei District	1.10%	2.90%

Total resale profits in **Whangarei** came in at a healthy **$52m** in the first three months of the year.

In **Gisborne**, the median resale gains were **$96,000**, with the figures rising to about **$154,000** in **Rotorua** and **$165,000** in **Whangarei**.

Median losses on resale were **$20,000** in **Gisborne** and **$30,000** in **Rotorua**, with the bigger story being around the median resale gains.

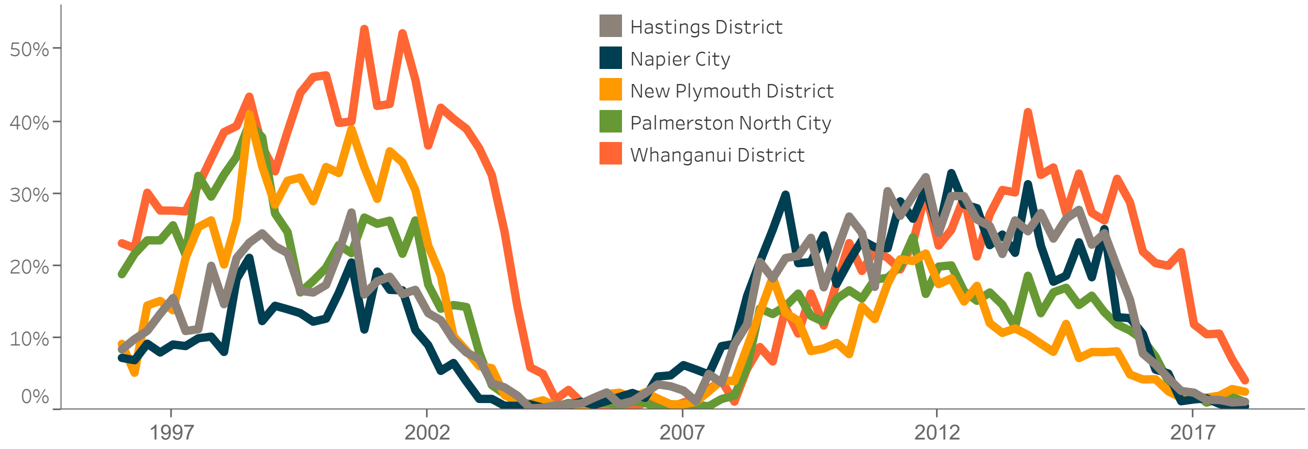
	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Whangarei District	-$136,500	-$433,500	$165,050	$52,010,904
Gisborne District	-$20,000	-$165,000	$96,000	$18,710,650
Rotorua District	-$30,000	-$60,000	$154,425	$39,614,075

Lower North Island

Around the lower North Island, there are no signs of panic or people being forced to sell out at disappointing prices. In Hastings, Napier and Palmerston North, the share of resales made at less than the original purchase price in Q1 2018 was 1.2% or less. New Plymouth's figures were a touch higher at 2.5% (albeit down from 2.9% three months earlier).

Whanganui stands out a little more, with 4.1% of resales in Q1 2018 being made for a gross loss. But even there, this was down pretty sharply from 7.0% in the final three months of 2017, and is consistent with rising property values in that market.

Proportion of total resales at a loss



	Q1 2018	Q4 2017
Hastings District	1.20%	1.10%
Napier City	0.50%	0.40%
New Plymouth District	2.50%	2.90%
Palmerston North City	1.10%	1.80%
Whanganui District	4.10%	7.00%

Median resale losses in Q1 2018 were reasonably small in most parts of the Lower North Island, including only $1,000 in Palmerston North, $11,000 in Whanganui and $15,000 in Hastings. However the figure of $295,000 in Napier is an exceptional outlier – it relates to a single sale of a house in Bluff Hill which was originally bought for close to a million dollars ten years ago.

Reflecting the rising property markets in all of these areas, median resale gains were strong across the board, ranging from $75,000 in Whanganui up to $175,000 in Napier. Total profits for all resales were the highest in New Plymouth, at $48.2m. Palmerston North and Hastings also clocked profits of more than $40m, with Napier very close to that mark.

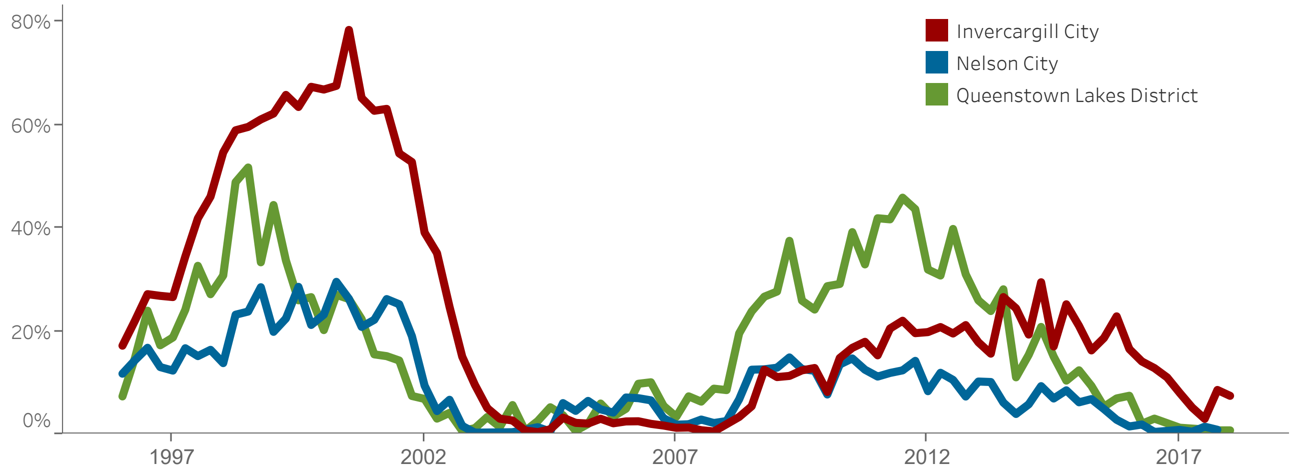
	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Hastings District	-$15,000	-$82,500	$143,000	$44,803,266
Napier City	-$295,000	-$295,000	$175,000	$39,914,789
New Plymouth District	-$32,500	-$669,500	$111,000	$48,174,784
Palmerston North City	-$1,000	-$107,000	$110,750	$46,482,267
Whanganui District	-$11,000	-$261,900	$75,000	$21,183,076

South Island

In the South Island, the pain and gain data also highlight the strength of the Queenstown and Nelson property markets. Queenstown's share of resales at a loss in Q1 was just 0.7% (unchanged from Q4 2017), and Nelson's figure dipped from 0.9% in Q4 2017 to zero in Q1 2018.

Conditions in Invercargill are slightly different, with 7.4% of resales in the first quarter being made below the original purchase price. However, that was still down from 8.6% in Q4 2017 and is a pretty good result. For context, in the middle of 2014, almost 30% of resales in Invercargill were incurring losses.

Proportion of total resales at a loss



	Q1 2018	Q4 2017
Invercargill City	7.40%	8.60%
Nelson City	0.00%	0.90%
Queenstown Lakes District	0.70%	0.70%

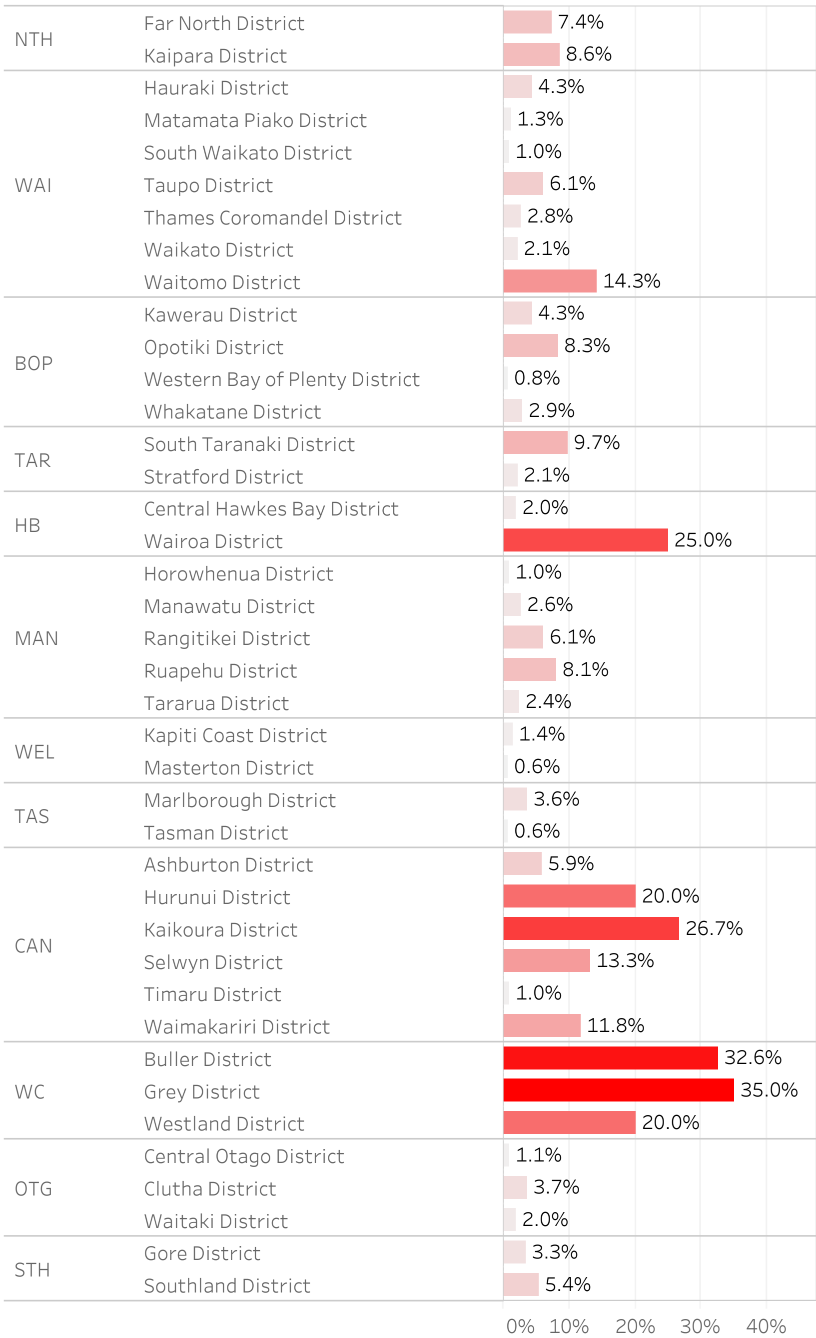
Median resale losses were generally small around the South Island, with more interest centred on the resale gains. In Invercargill, the median resale gain in Q1 2018 was $63,000, with Nelson clocking up $180,000 and Queenstown $337,000. Total resale profits in Invercargill came in at about $24m, with the figures for Nelson and Queenstown both in excess of $50m.

	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Queenstown Lakes District	-$75,000	-$75,000	$337,000	$59,907,471
Invercargill City	-$12,500	-$443,400	$63,000	$23,943,369
Nelson City	$0	$0	$180,000	$52,186,522

Outside the Main Urban Areas

As New Zealand's regional economies improve on the back of higher dairy pay-outs and solid population growth, many smaller centres have also seen recent growth in their residential property markets which has reduced the amount of loss-making sales.

Proportion of total resales at a loss



Lowest proportion of loss making resales:

- The areas surrounding Auckland – predominantly Northland, most parts of Waikato (excluding Waitomo), and Bay of Plenty. The Western Bay of Plenty District stood out, with just 0.8% of resales in Q1 taking a loss.
- Central New Zealand – Manawatu, north of Wellington (e.g. Kapiti), and Marlborough/Tasman. The Tasman and Masterton Districts both had only 0.6% of resales in Q1 taking a loss.
- Lower South Island – Central Otago, Waitaki, and Gore all had reasonably low levels of loss-making resales in Q1.

Largest proportion of loss making resales:

- Parts of Canterbury – Kaikoura, Hurunui, Selwyn and Waimakariri all suffered from relatively high levels of resale losses in Q1. This was probably a combination of subdued property demand (Kaikoura and Hurunui) as well as reasonable levels of supply (e.g. Selwyn).
- The West Coast – as was the case last quarter, resales in this part of the country were often taking losses in Q1. In Grey and Buller, the share making a loss was more than 30%.

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Published date: May 2018

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