Where are we going?

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And the results are actually pretty good. Not perfect, granted, but pretty good.

The good thing is that where the predicted model diverges from actual sales, it’s generally explainable. The single biggest occasion is in 2012, which happens to be following the Christchurch Earthquake and is also the early part of the most recent growth phase in Auckland. My feeling on why the model missed the increased turnover in Auckland is that it’s because the exceptional lift in sales volumes at this time was heavily credit driven (not interest rate driven) which we didn’t, and couldn’t capture.

The model also misses the significance of the most recent slowdown, since 2016. Again this has been impacted by credit policy (outside of interest rates) and also the stricter LVR limits implemented at the end of 2016.

Understanding the blind spots of the model is crucial to being able to apply some form of manual adjustment to the final projections, based on all the other market influencers we're aware of.

First though, the actual model results.

Based on forecasts by RBNZ and MBIE regarding the outlook for GDP growth and interest rates being stable, wage growth anticipated to improve slowly and migration to drop slowly, we get to a rather unglorified prediction of sales volumes staying at about the same rate they're currently at. Super boring, when we know extreme opinions sell, but that's what the model tells us.

The end result? Roughly 83,500 sales this year and 82,500 next. For context this is down from 85,000 in 2017 and 106,000 sales in 2016.

But now we apply our 'adjustments', or alternative scenarios. The overwhelming potential pressure here is downwards, with a number of measures reducing demand, either intentionally or otherwise.

We have:

- The foreign buyer 'ban',
- Healthy homes guarantee act,
- Ring-fencing of tax-losses,
- LVR limits,
- The extension of the Bright-line test,
- And maybe even debt-to-income ratios at some stage.

There are a few things which may increase demand, including the possibility of shared equity schemes to help first home buyers and even the potential relaxation of the LVR limits, but it's unlikely these will do enough to counter the downward impact of those listed earlier.

So with so much downward pressure, the question moves to whether we could see a more significant drop in sales volumes (and consequently values). But the good news for those in the industry is that a lack of supply, still high migration (despite it reducing), still historically low interest rates and an ingrained mentality of property investment being the best, all provide a very solid floor underneath the market (both volume and value wise).

We can hypothesise different scenarios though. For example, we estimate that a gradual lift of 1%-point in mortgage interest rates by the end of next year could see a further reduction in volumes of roughly 7,000 – to 75,000 in 2019. This would be lower than anything we've seen in the past 20-odd years, and then probably be accompanied by further intervention to push things the other direction (or at least hold things up).

In the end, the reality is that almost every day there's a new announcement or piece of information which could influence the property market, and a lot of people have a stake. Having solid data to help us sift through the conjecture and potential bias is crucial, and our sales projection model (version 1) provides a great head-start.

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