# 2016: a year of uncertainty for the NZ property market

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2016 has provided us with a year full of uncertainty for the NZ property market.

Last month we wrote about why we were hanging up our fortune teller's hat. Since then, we've experienced significant earthquakes and their subsequent aftershocks and now, completely out of nowhere we're due a new Prime Minister. Government regulation and policy could become even more difficult to perfectly predict. It's also been a year of big international surprises, with Trump's US victory and the Brexit vote both causing doubt amongst even the most experienced economists about what it actually all means for individual countries and the global economy.

| | 12 month change | Average Value |
|---|---|---|
| 1. Whangarei | 22.3% | $456,969 |
| 2. Auckland Region | 12.8% | $1,051,387 |
| 3. Tauranga | 26.5% | $665,155 |
| 4. Hamilton | 23.1% | $536,565 |
| 5. Rotorua | 27.7% | $372,849 |
| 6. New Plymouth | 8.7% | $405,859 |
| 7. Napier | 20.5% | $408,509 |
| 8. Hastings | 18.1% | $375,175 |
| 9. Palmerston North | 13.7% | $339,678 |
| 10. Wellington Region | 20.6% | $565,631 |
| 11. Nelson | 15.4% | $489,338 |
| 12. Christchurch | 4.3% | $501,229 |
| 13. Queenstown Lakes | 32.2% | $1,000,205 |
| 14. Dunedin | 11.4% | $341,604 |
| 15. Invercargill | 8.6% | $233,326 |
| NEW ZEALAND | 12.4% | $624,675 |


Property prices in Auckland have gone through a significant period of growth for almost four years and serious questions are now being asked about whether housing in our largest city is overvalued. According to the QV House Price Index (released last week), annual growth has slowed to 12.8% after peaking at the end of 2015 at 24.4% but with an average property value of $1.05m, any growth from this point on could be seen as excessive, especially with wage growth not keeping pace.

Nevertheless, the slowdown is real with higher prices and tighter lending restrictions resulting in higher deposits being required for all borrowers: no doubt the biggest current barrier to entry considering that credit is still very accessible (although this is changing).

For areas outside of Auckland, 2016 has been a year of playing catch-up. While Auckland enjoyed consistently strong growth over the last four years, most other centres had experienced single digit growth up until mid-late 2015. That's when things really kicked into gear: lending policies were tightened for Auckland, loosened elsewhere and mortgage interest rates fell. All of a sudden it was game on!

Annual growth in Hamilton peaked at 31.5% in July 2016, while Tauranga's peak was a month later at 28.5%. Aucklanders increased their presence in these markets but local activity also led to increased competition for a quickly reducing stock and subsequent price rises. Both cities have since slowed, with Hamilton now at 23.1% annual growth and Tauranga at 26.5%.

Further south and Wellingtonians took a bit longer to get going but from May to September the annual growth rate grew from 10.2% to 21.2% - an exceptionally steep curve, especially for the winter months. Growth has since stagnated over the last 2 months, with November's annual growth at 20.6%. First home buyers have continued to make their presence felt across the Wellington market; accounting for 29% of sales in 2016, well above the nationwide 20%.

The picture in the South Island has been distinctly different. The property cycle in Christchurch was disturbed by the 2010/11 Earthquakes, with reduced stock and maintained demand through the rebuild leading to greater value growth until the end of 2013. Since then we've seen a far more modest growth rate (annual growth of 4.3% according to the latest QV index stats).

Dunedin has gone through a slow-and-steady growth phase for about 18 months - similar to, but less pronounced than the growth seen in Hamilton and Tauranga. This is a direct result of lower value property and easily available credit. Dunedin's growth has since slowed also, with the latest annual growth dropping to 11.4%, from 13.0% in October.

**As we approach Christmas then, where do we sit?**

There remains a feeling of 'surely this can't go on forever?' but influencing factors are strong for growth to continue throughout 2017. We're still seeing all-time record net-migration; interest rates are still at all-time lows and this combined with a continued lack of supply (nationwide listings as well as total stock levels in Auckland) means strong competition for limited properties and therefore rising prices. There are signs of all these factors turning around but none are fast moving. The pressure they're creating will therefore continue in our short term future.

Interest rates have started to increase, but with the OCR projected to remain at the current rate of 1.75% for at least two years, it is unlikely that mortgage rates will rise exponentially during that period.

These record low interest rates are effectively negating the problem of high and rising prices relative to income, due to the availability of large amounts of credit. Of course, the Reserve Bank of New Zealand (RBNZ) has a particular focus on this and they have implemented multiple iterations of Loan to Value Ratio (LVR) limits to reduce the risk of a possible downturn. Each iteration has had a small and short term impact (less than 6 months) and the latest round (which limits investor lending above 60% LVR and further restricting owner occupiers above 80% LVR), looks to be having a similar impact. Debt-to-income restrictions will remain a very possible alternative for the RBNZ, should they continue to see the housing market growth as a significant risk to the economy.

Potentially rising mortgage interest rates will have an impact on some potential buyers, but not so much for those who are already in the market. We live in a country where fixed interest mortgages are the norm and that provides certainty for home owners. When their fixed rates come up for review in a few years' time, their mortgage payments may go up, but as long as they haven't had a massive change in personal circumstances, it's unlikely the increase would force them to sell.

Looking to the future becomes more a job of understanding the wider economic factors. Business and consumer confidence is currently strong, employment is very strong and we're still seeing a net positive number of Kiwis choosing NZ over Australia. If people are positive about the future, both in terms of job security and the economy, then they will continue to invest in property if they can.

Beyond 2017 is anyone's guess. We could have a new government, Australia could be more appealing off the back of an improving economy there, mortgage interest rates will likely have increased further and we may well have a debt-to-income restriction implemented. These are all important factors when it comes to the property market and we will continue to pay close attention to them all.

New Zealand Regional Maps (click on these for links of information)

- Auckland
- Canterbury / Westland
- Christchurch
- Dunedin
- Hamilton
- Manawatu / Whanganui (Incld Wairarapa)
- North Island East Coast
- Marlborough - Tasman
- Northland
- Southland - Otago
- Taranaki
- Waikato & Bay of Plenty
- Wellington