Greg Ninness sees growing evidence Auckland's housing market could be at a major turning point as it heads into summer, and wonders if other regions would survive a slowdown

Posted in Property November 16, 2016 **Greg Ninness**

There are increasing signs that Auckland's residential property market could be at a major turning point as the speculative money that has been driving prices higher leaves the room.

The signs are easy enough to see.

The number of homes being sold in Auckland is tracking down at a time of year when they should be going up.

And while sales numbers are down, the number of homes coming on to the market is increasing.

That combination of lower sales numbers and more new listings is increasing the number of homes agencies have on their books and tipping the balance of supply and demand back towards buyers.

Consider the figures from Auckland's largest real estate agency, Barfoot & Thompson, which handles more than a third of all residential property sales in the Auckland region.

In October the company had 1905 new residential listings, up 24% compared to September and the highest number of new listings in any October month since 2013.

But while new listings were up, the number of homes Barfoot sold in October was down 26% compared to September, and the lowest it has been in the month of October since 2011.

Not surprisingly, Barfoot's inventory - the total number of homes it has available for sale on its books - shot up 21% in October compared to September, to be at the highest level it has been in the month of October since 2012.

Property website Realestate.co.nz has **also reported** a similar trend, with the number of Auckland homes being listed for sale on the website on the rise, while buyer activity on the site searching for Auckland homes is down.

The turn in the Auckland market is also showing up in **the auction rooms**, with clearance rates (the number of properties selling under the hammer) falling dramatically over the last few months.

And it is becoming increasingly common for homes that would have sold readily under the hammer a few months ago to be passed in without receiving a single bid.

Anecdotal reports from agents also suggest there is a widening gap between the price potential buyers are prepared to pay for Auckland properties and the price the vendors are hoping to achieve.

Consequently the negotiations between buyers and vendors, with the agents in the middle trying to close the deals, are becoming increasingly drawn out and difficult.

So what has caused this change in the Auckland market?

The obvious culprit is the new loan-to-valuation ratio (LVR) mortgage rule introduced by the Reserve Bank, which restricts new bank mortgages to 60% of a residential investment property's value.

However while the LVR restrictions have undoubtedly had an effect, I think bigger forces are also at work.

There have been two main groups of investors behind the rapid escalation of property prices in Auckland which has spread to the rest of the country.

Baby boomers who owned their family home with very little debt and may also have owned one or two investment properties, have been borrowing up large and buying more investment properties. The second group is recent migrants, particularly those from China, who need a house to live in but who also often buy additional properties as investments.

Something both groups have tended to have in common is that they have been chasing capital gains rather than rental yields, and have been prepared to pay what have in some cases been exceptionally high prices for properties that will be providing very low rental returns.

But over the last few months that has changed and both groups have been less active in the market.

There's more to it than the LVR restrictions

While the new LVR restrictions may have caused some investors to change their plans, they are not the main worry of most of the investors I have spoken with.

What is concerning them most is that they see interest rate starting rise and prices levelling off in Auckland and perhaps even declining, wiping out any possibility of capital gains.

And when your whole investment strategy is based around rising prices and capital gains, then suddenly you have no reason to keep buying.

The effect of that is most noticeable at the Auckland auctions, where Chinese migrants have, until recently, often completely dominated the bidding.

That is not surprising because you need to be able to bid unconditionally at auctions, and migrants arrive here cashed up, giving them an advantage over local buyers who will often have to sell their existing home before they are able to buy another one.

Often Chinese migrants were bidding against each other to secure a home or investment property and that tended to supercharge the bidding, resulting in some very high prices.

But lately that heat has gone out of the market as their view of it has changed.

Fewer are turning up at auctions and those that do are being much more cautious in their bidding.

That is showing up in sales figures on the North Shore which has been one of the most popular destinations for Chinese migrants, where **the REINZ's median house price** has declined for the last three months in a row, pushing the Shore off its top spot as the most expensive district in the country, to be replaced by Auckland's central suburbs.

With the likelihood of rising interest rates increasing by the day, the questions weighing on the minds of many investors at the moment are whether the current downturn in sales in Auckland will be sustained and if it is, will that also flow through to a fall in prices and if it does, whether that will then flow through to property markets in other regions?

An oversupply of properties for sale & a dearth of interest from buyers?

I don't pretend to know the answers, but I would offer the following observations based on past experience.

- A sustained drop in the number of homes being sold is usually followed by a fall in prices.
- Auckland usually leads the markets in the rest the country. Property trends in Auckland will eventually start to spread throughout the rest of New Zealand.

- Regardless of what happens with interest rates, there is an ongoing housing shortage in Auckland, with net migration gains at record levels and new building activity increasing at a mediocre pace. That should limit the effect of any price falls in Auckland. However in other regions that do not face the same demand side pressures, any price falls could be more dramatic.

There are now only a few weeks left until sales activity tails off for the summer break.

If current trends continue, there's a risk the market could face the start of the main selling season next year with a significant oversupply of properties for sale and a dearth of interest from potential buyers.

Any increase in interest rates between now and then will only add to those woes.