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Prospects good for Auckland property market In 2015

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The start of a new year is invariable a time when we reflect on what happened in the past 12 months and try to gauge what will happen in the year ahead.

For residential property, the big question is can prices continue to increase following two years of exceptional growth?

Our average sales price for the 2014 year was $717,000, an increase of 10% over that for 2013, which in turn was 11 ahead of the average price for 2012.

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Personally, I am not prepared to speculate about future prices. It's not that I'm a fence sitter, rather given that buying a house represents such a big financial and personal commitment to most people that short-term considerations around price should not be allowed to cloud one's judgment.

While price is always important, by far the key consideration for people who are buying a property in which they will live are the lifestyle benefits the home offers, the ability to meet ongoing mortgage and maintenance payments, and the property's medium to long term contribution to wealth accumulation.

These are different considerations to those buying property as an investment, who will be more focused on increases in value, rental potential and cash flow.

From my experience, a good indicator of what will happen in the market at any time is the current economic outlook, and past market trends.

Based on my reading of these two factors, 2015 has the potential to be another active year for the Auckland residential market.

The most positive news is that most economists and commentators are forecasting stable mortgage rates through most or all of 2015, the economy remaining sound with employment prospects being good.

The further good news for those proposing to sell is that there is little prospect of supply exceeding demand in 2015, which conversely is bad news for potential buyers. Shortage of supply is likely to remain, which will ensure that prices have a greater chance of increasing than falling.

There has been comment that the Government and Reserve Bank are considering options that could bring change to the current market situation, but that comment remains speculation and not intent. Perhaps the distortion brought to the market by the introduction of a LVR ratio of 20% last April is causing both to be extra cautious about further intervention.

A look at past trends shows that the last period of sustained rapid increases experienced by Auckland was between 2002 and 2007. The year-on-year average price increase each year for this period was 8%, 15%, 9%, 9%, 5% and 12%. That six-year run of price rises was brought to an end by the 2007 global financial crisis.

What is interesting is that following the onset of the global financial crisis prices did not 'crash'. While they fell from their 2007 peak by 4%, against the forecasts being made by many commentators at the rime, for the three years after 2008 the average price rose by 2% each year. By 2011 the average price had risen above 2007's previous high.

So even though the New Zealand economy went through the greatest economic downturn since WW2, the impact on house prices was relatively subdued.

Another trend worth noting is that Auckland is not alone in seeing its house prices rise faster than the national average. In Australia, Sydney and Melbourne are experiencing the same trend, as are London, Los Angeles, Miami and San Francisco.

In Auckland's case it is due to the combination of a growing population, in past years building insufficient new homes to meet growing demand, an economy that is performing well and stable, low mortgage interest rates.

Based on these environmental factors, I can see little changing within the Auckland residential market anytime soon.