

# CoreLogic's Jonno Ingerson says we should now expect property values in our largest city to hold a significant premium over smaller New Zealand cities

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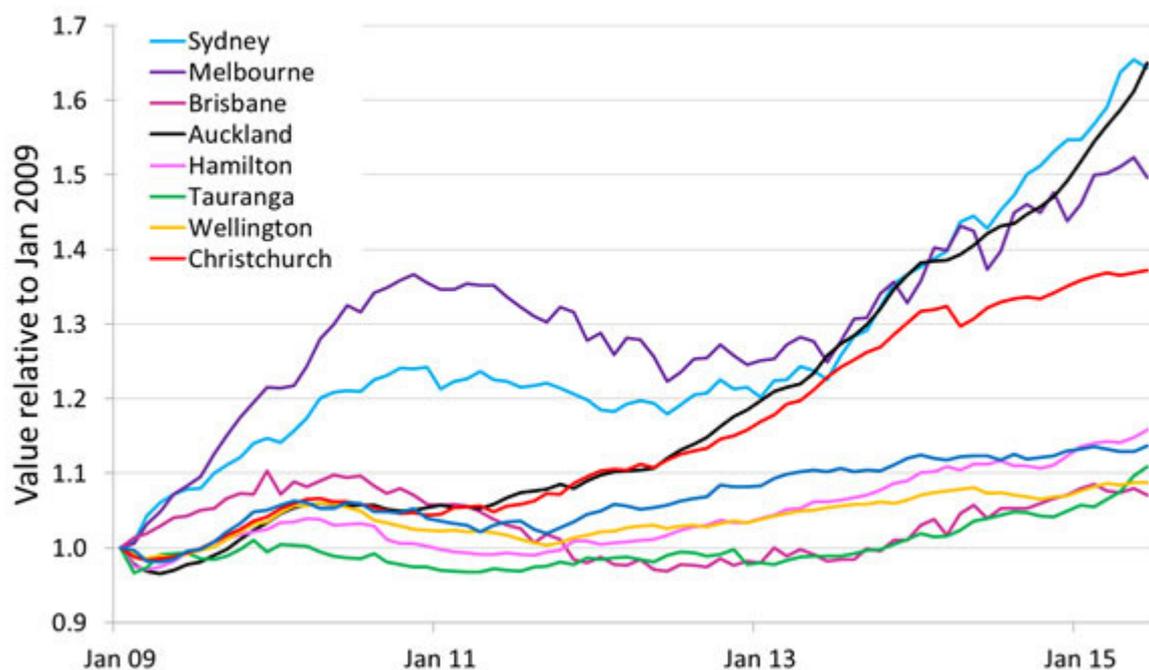
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**By Jonno Ingerson\***

During a tour of Asia with my research counterparts from CoreLogic Australia and the United States, when talking about our respective property markets the similarities between the Australian and New Zealand markets became increasingly clear.

The below graph shows a direct comparison between Australia and New Zealand house values by re-basing the 2 sets of house price index results. I started them at January 2009, the low point of the housing market following the global financial crisis of 2007/2008.

The results show a fascinating similarity between the 2 countries:



## **Auckland is far from unique**

We know that Auckland has increased more in value since 2009 than the other main cities in New Zealand, with the exception of post-earthquake Christchurch. Likewise, Sydney and Melbourne have increased much more in value since 2009 than the rest of the main Australian cities.

There is a difference between Australia and New Zealand between 2009 and 2013 when the Australian Government put in place measures to help stimulate the housing market, notably low interest rates and first home buyer grants. This led to a stronger than expected increase in values, so the stimuli were removed and the Australian market then corrected slightly.

However, since 2013 New Zealand and Australia have been moving in a similar way, with the largest cities increasing rapidly while the others remain relatively steady.

## **Same story, different names**

Since 2009 the overall increase in value in Sydney and Auckland is almost identical, up 65%, with Melbourne not far behind. The other cities are around 10% up.

What is also striking are the reasons given for the rise in values in Sydney and Melbourne; strong migration, investor activity, good consumer confidence, low interest rates, and a shortage in housing supply.

Sound familiar? It should, because that is exactly what we have been saying about Auckland for some time.

However there is one big difference between New Zealand and Australia.

In New Zealand there has been constant concern from many quarters about the unsustainable rise in Auckland values, with some labelling it a "bubble". The Government and the Reserve Bank have moved to slow things down with a range of measures.

There has been little of the same concern from across the Tasman. Instead, the Sydney and Melbourne markets have been seen as insulated from the mining downturn affecting the rest of Australia, and responding to their own local positive effects. It has really only been in the last few weeks that I am hearing more noise about the rise in Sydney values and the issues of affordability this is raising.

## **A foreign attraction**

While we were in China we met with a company who specialise in marketing to high net worth Chinese. They had carried out a survey asking respondents their most popular places to buy real estate. Topping the list was Los Angeles at 18%, but I was stunned to see New Zealand equal 9th on the list at 1.8% alongside Melbourne, Singapore, and the UK, with Sydney slightly higher at 2.2%.

This told me that wealthy Chinese consider buying property in New Zealand equally to Melbourne and only slightly below Sydney. I was amazed. I expected us to hardly rate a mention.

But let's think about this a little more.

If you're a wealthy Chinese person looking to buy property, then New Zealand it is going to look pretty attractive. Up until the recent announcements from the Reserve Bank and Government, there have been few restrictions on foreign buyers purchasing residential property, and little in the way of tax on capital gains.

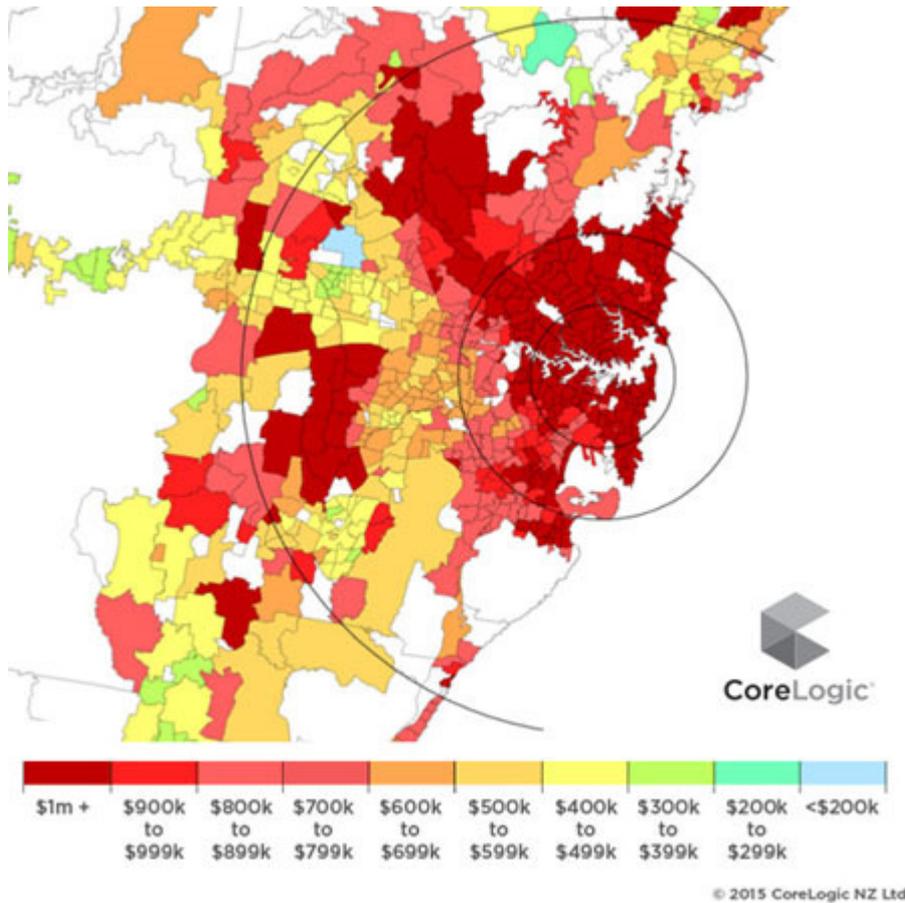
Compare that to Australia where non-residents have to buy new property, and those staying for a short time have to sell when they leave. Plus there is a capital gains tax and stamp duty.

## Getting best value for money

Now let's consider value. Here is our map of the average value of Auckland suburbs. There are 52 suburbs with an average value of more than \$1m and just this month we had our first suburb – Herne Bay – crack the \$2m mark.



Contrast that to Sydney where most of the suburbs within 20km of the CBD have an average value of over A\$1m and suburbs close to the CBD have values between A\$3m and A\$5m.



For a Chinese buyer looking to purchase a house close to the central city and in a good school zone then Auckland is going to look very cheap compared to Sydney or Melbourne.

In fact, most of our premium Auckland suburbs are very cheap internationally.

### The tip of the iceberg

The other thing that became very clear from our Asian tour was the sheer scale of Chinese wealth, and the clear message was that we have only just seen the tip of the iceberg.

My pick is that there is a lot more foreign money still yet to flow into our market, and it will continue to drive up demand for some time yet.

I am now thinking of Auckland as becoming a genuine international city. As such we should expect values to hold a significant premium over smaller New Zealand cities. And there will be more changes in Auckland's character in the years and decades to come.

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\*Jonno Ingerson is **Director of Research at CoreLogic**, and regularly provides the latest data and analytical insight on the property market throughout the country. CoreLogic is a leading property information, analytics and services provider in New Zealand, and provides clients with innovative, technology-based services as well as access to rich data and analytics. This opinion piece was **first published in Westpac's Rednews**. It is here with permission.