Housing market steaming ahead faster than before the LVR restrictions were introduced

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The total value of New Zealand's housing stock is now rising at a faster pace than it was when the Reserve Bank (RBNZ) introduced restrictions on banks' high loan-to-value ratio (LVR) residential mortgage lending, while the growth in mortgage debt levels isn't too far behind.

The RBNZ's housing value and mortgage debt figures show that both the growth in the total value of this country's housing stock and the growth in the total amount of mortgage debt, slowed after the restrictions were introduced, but have since bounced back up.

In the September quarter of 2013, just before the LVR restrictions were introduced on October 1, the increase in the total value of this country's housing stock was $66 billion versus the September quarter of 2012, the ninth consecutive quarterly rise.

But once the LVR restrictions took effect in the December quarter, the annual increase in housing values dropped back to $63.3 billion and continued to decline over the following three quarters, hitting $36.8 billion a year in the September quarter of last year.

But since then they have started going back up again, with annual increases of $49.3 billion in the December quarter of last year and $66.5 billion in the first quarter of this year.

This means the total value of housing stock has started increasing at a greater rate than it was in the December quarter of 2013 when the LVR restrictions were introduced.

The increase in total mortgage debt has followed a similar trajectory, although with a quarterly lag compared to total housing value.

Brief speed bump then normal service resumed

The annual increase in total mortgage debt was $10.4 billion in the December 2013 quarter, which was the eighth consecutive quarter to post a rise.

But in the March 2014 quarter, the annual increase in total mortgage debt dropped back to $10.1 billion and continued declining until it hit $8.6 billion in the December quarter of last year.

Effectively working in tandem with the LVR restrictions, the RBNZ increased the Official Cash Rate four times between March and July 2014 before a rising interest rate environment dramatically turned into expectations of cuts from late 2014. Many economists now expect last year's 100 basis points increase to the OCR to be completely unwound by the end of 2015, taking the OCR back to 2.5%. It's currently at 3.25%.

Against this backdrop total mortgage debt shot up sharply in the first quarter of this year to $9.4 billion, which is heading back towards the $10.4 billion annual increase that was occurring when the LVR restrictions were introduced.

The figures suggest the housing market slowed down by a few kilometers an hour in the 12 months after the so-called LVR speed bumps were introduced, bit since then the market's foot has been back on the accelerator.

And with house prices continuing to rise and mortgage interest rates falling, it's likely that the market is now charging along at a faster clip than it was before the LVR restrictions were introduced.

However while rising property values and increasing mortgage debt are a concern, the news isn't all bad.

The figures also show that total housing value has been rising at almost twice the pace of total mortgage debt.

The total value of New Zealand's housing stock was $791.2 billion in the March quarter, according to the RBNZ.

That's an increase of $66.5 billion (9.2%) compared to the March quarter of 2014.

Over the same period, residential mortgage debt has risen from $190.3 billion in the March quarter of last year to $199.7 billion in the March quarter of this year, an increase of $9.4 billion, (4.9%).

The figures also show that total mortgage debt has been rising at slower pace than it was a year earlier.

Total mortgage debt was rising at an annual rate of $10.1 billion a year in the March quarter of 2014 and had also risen at an annual rate of more than $10 billion for the previous two quarters.

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NZ Inc LVR declines

But the annual increase in mortgage debt dropped back to under $10 billion a year in the June quarter of last year and has remained there ever since.

That means that total mortgage debt as a percentage of total housing value - effectively the national LVR - has declined for the last four consecutive quarters.

In the March 2014 quarter, the total value of housing stock was $724.665 billion, while the total mortgage debt was $190.293 billion, giving a national LVR of 26.3%.

In the March quarter of this year, the total value of housing stock was $791.166 billion while total mortgage debt was $199.693 billion, giving a national LVR of 25.2%, which is the lowest it's been since the December 2007 quarter when it was 25.1%.

Since the RBNZ began publishing total mortgage debt figures in 1998, the national LVR has ranged from a low of 23.8% in December 2005 to a high of 28.4% in September 2001.

The figures also show that total housing values and mortgage debt levels are both rising at a slower rate than they were in the last housing boom in the early 2000s.

The annual growth in the value of this country's housing stock peaked at $89 billion a year in the March quarter of 2004, while the growth in mortgage debt peaked at $18.4 billion a year in the June quarter of 2007.

Which suggests that the current housing boom may have some way to run before it hits the levels achieved in the last one.

The figures also dispel the myth that is perpetuated by property spruikers and others with a vested interest in talking up the market, that property values only ever go up, not down.

The figures show that the annual change in total housing value declined over five consecutive quarters from the June 2008 quarter to the June 2009 quarter and then again over the three quarters from December 2010 to June 2011.

However it might be correct to say that mortgage debt only ever goes up, because while total housing values have have gone through periods of decline since 1998, total mortgage debt has steadily increased without a single quarterly decline.

Since the growth in total housing value hit its peak in the March 2004 quarter, the value of the country's houses has increased by 104%, while the total mortgage debt has increased by 115%.

Unfortunately the figures may be of limited value, because they only provide the nationwide numbers, while the reality is that we have a two speed housing market, with Auckland running flat out and the rest of the country coasting along in neutral and some provincial centres shifting into reverse.

Two fingered salute?

The next big test for the market will be the introduction of new measures such as a tightening of the tax rules around capital gains, 30% deposit requirements for Auckland property investors, and new reporting requirements (IRD numbers and NZ bank accounts) for overseas buyers, which are due to come into effect on October 1.

But based on the effectiveness of the last round of LVR restrictions, they may have as much effect as a traffic cop yelling at a car load of drunken youths to slow down.

There's a reasonable chance the market could respond with a two fingered salute as it hurtles towards the next blind bend.