

QV

Defining the 'Auckland effect'

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The latest QV House Price Index stats and commentary suggests there are now clear signs of an 'Auckland effect' of spreading values.

With another month under our belts it now appears that values in several areas of the upper half of the North Island are on the increase.

We have already seen Tauranga values rising since last October at a much faster rate than they were previously. In the last three months we have also seen Hamilton pick up pace, increasing 2.2%. Apart from in December and January just gone, when values were recovering from a sluggish 2014, this current rate of increase is the fastest since the climb out of the recession in 2009.

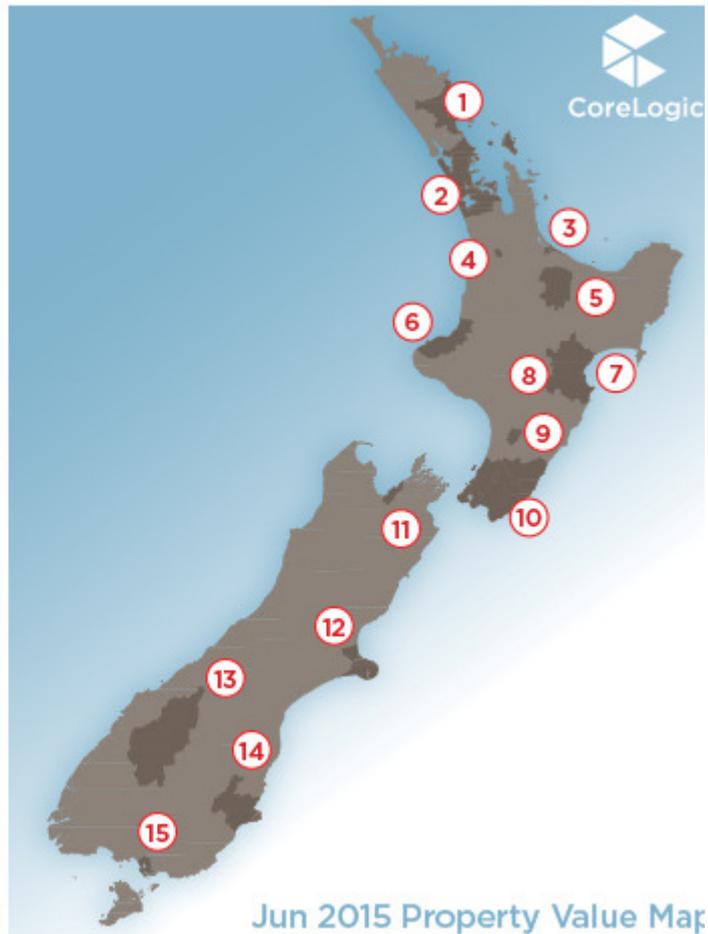
In Western Bay of Plenty the last two months in particular have seen values rising very strongly, which if they continued for a year, would see values up over 20%. That's a big 'if' of course, so we will need to see the values continue to rise over coming months before we can call it anything really significant.

There are some other areas that appear to be on the way up, but with the index a little variable in smaller areas I'm loath to call them genuine increases just yet.

There are also a large number of areas around the country where there is no sign of values increasing at all.

Let's look then at what the 'Auckland effect' actually means.

	12 month change	Average Value
1. Whangarei	4.6%	\$348,590
2. Auckland Region	17.0%	\$840,165
3. Tauranga	7.3%	\$485,561
4. Hamilton	4.4%	\$381,793
5. Rotorua	1.5%	\$272,508
6. New Plymouth	2.5%	\$359,696
7. Napier	1.6%	\$330,156
8. Hastings	3.1%	\$309,570
9. Palmerston North	2.2%	\$291,459
10. Wellington Region	1.5%	\$459,366
11. Nelson	3.2%	\$413,239
12. Christchurch	3.2%	\$474,269
13. Queenstown Lakes	8.3%	\$719,562
14. Dunedin	2.6%	\$296,048
15. Invercargill	-1.6%	\$208,191
NEW ZEALAND	9.3%	\$520,585



You might hear talk about how in previous property cycles the rest of New Zealand tends to follow Auckland. That is mostly true. But, in fact in some cycles, the rest of the country led and Auckland followed. But that's not the point. The point is that the whole country has tended to move similarly. But this time it's different. Most are picking that the current rise in Auckland values is not due simply to economic factors, but due instead to a rather large housing shortage. A shortage not shared elsewhere across the country.

So the 'Auckland effect' we are seeing is something different. Perhaps without precedent.

This time the rise in Auckland values will get to the point where local buyers and investors are priced out of the market and start to consider alternatives.

As I see it, these come in a few forms.

One is people reaching retiring age, cashing up their Auckland property (or properties), and moving somewhere more affordable. I'm picking this will help explain the influx of Aucklanders to Tauranga.

Then there are people with jobs in Auckland, who are now looking further afield with a longer commute. That has kicked Pukekohe along lately and may now be spreading into

Waikato District to places like Tuakau, Pokeno and even Huntly. Would people commute to Auckland from Hamilton in greater numbers and does that explain Hamilton's recent rise in value? Clearly some Hamiltonian's commute to Auckland, but is the increase in Aucklander purchases there a sign of a big increase in that? Could be, but I'm still doubtful....

Which brings us to people who are now moving out of Auckland for a new life elsewhere. That means finding a new job or maybe starting a new business in your new home town. I have heard stories of working age people moving to Tauranga and Hawkes Bay. However, I also suspect that people have been moving from large cities to 'lifestyle' areas for decades, so the trick is whether these anecdotes represent a big increase in people doing this.

Then you have investors, who will now seek to purchase outside Auckland. That could be either because of the new LVR speed limits that require investors in Auckland to have a 30% deposit, and/or because investors are looking outside Auckland for better rental yields.

I think it is very likely that Aucklanders are moving and investing outside of Auckland. But does this necessarily have to translate into rising prices? If they are adding more demand into local areas than supply, then the answer is yes. If they have cash from an Auckland house sale and are prepared to outbid locals to secure a property they like, then the answer is yes again. But if they are moving, doing their due diligence on properties and paying the local market rates, then the answer is no. Just because Aucklanders who move or buy outside of Auckland, does not automatically mean values will increase.

So when you hear about the 'Auckland effect' have a think about what it might really mean for your area, and whether it is more or less likely.

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