Auckland difficult to slow down

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Auckland values are rising again. Late last year there were new Government and Reserve Bank rules introduced to try and slow down investor activity in Auckland. They worked very briefly and values dropped less than 1%. In the past couple of months values are on the rise again, wiping away that small drop and rising past their previous high.

The investor groups I have spoken to confirm that after a couple of months to assess whether the market would react, they can now see that the market drivers of high demand and low supply still persist so have re-entered the market.

Furthermore we have seen a re-emergence of Chinese buyers. Many backed away from the market following the Chinese stock market collapse in August, plus to some extent the new requirement to have a NZ tax number linked to the country where you are a tax resident.

So the upward march of Auckland values continues, and housing becomes more unaffordable. But wage growth has been minimal so landlords can't raise rents to match the rising prices. As a result rental yields in Auckland have dropped to about 2%, which is extremely low by just about any measure. With the regulations to slow investor activity in Auckland in place late last year an almost inevitable outcome was Auckland investors looking to nearby areas. Our analysis shows that late last year Auckland investors

accounted for 18% of all sales in Hamilton. After all, Hamilton is not that far down the road and offered much more affordable housing amid a growing population and local economy. That combination of factors caused Hamilton values to surge, and the average value of the housing stock is up 25.3% on last year, a cool $95k increase. Investor activity in Hamilton has since eased as a result but it still stronger than most other areas near Auckland.

But it isn't just Auckland investors looking further afield but Auckland homeowners seeking a more affordable lifestyle elsewhere. Those evacuees from Auckland are moving north to Kaipara District and Whangarei, south into Waikato and across to Tauranga and surrounds.

Our analysis shows that the total impact of this Auckland money, either from investors or movers, accounts for around 20% of all sales in Whangarei, Hamilton and Tauranga. This Auckland money also stretches a little further to Rotorua but really not beyond. Stories of Aucklanders flooding the Hawkes Bay market are not founded in fact, with only around 7% of activity there attributable to Aucklanders. Likewise in the Wellington region where Aucklanders account for 3% of sales activity. The only real exception is Queenstown where there is a little more Auckland money popping up than anywhere else south of Taupo.

The increase in almost all of the rest of the country is therefore more of an organic increase following many years of market stagnation following the 2008 global financial crisis.

Christchurch appears to have overcooked post-earthquakes and is the only main centre showing virtually no value increase.

The flaring up of Auckland again and the increase in values elsewhere will be causing the Reserve Bank some headaches. But the options for how to slow the market down are limited, particularly if you don't want to affect other parts of the economy.

While investors of various sorts are very active participants in this market, making up 46% of Auckland purchases according to our latest buyer classification analysis, slowing them may have wider consequences. Many New Zealanders have their wealth tied up in investment property, regardless of what your personal view is on that. And wiping value from investor portfolios will wipe out wealth for many New Zealanders. Politically unpalatable is one way of describing that.

The Government and Reserve Bank will almost certainly want to act. I wouldn’t want to be in their shoes trying to work out what to do.