Multitude of factors contribute to further slowing of the main centre housing markets

Date: 07 July 2017 Quotable Value (Corelogic)

Based on the latest QV House Price Index figures, the slowdown in property values has continued in Auckland and Hamilton, and is now much clearer in Wellington and Dunedin after they had previously shown some resistance. Tauranga is the only major city to buck the trend, although it's still too early to call it a revival with three month growth only 1.6%. Christchurch values continue their year long trend of remaining as flat as the Christchurch plains.

It's almost a year since the Reserve Bank of New Zealand's (RBNZ) latest round of loan-to-value ratio (LVR) restrictions were released to the market, which tightened the availability of mortgages for both investors and owner occupiers. Previous rounds of LVR restrictions had no more than a six month impact. We're way past that point now and there's no real sign of recovery, especially in Auckland. So what's different this time around?

Tougher limits (RBNZ)

Firstly I think it's fair to say the latest restrictions are heavier handed than previous iterations. The 40% deposit requirement for property investors was introduced nationwide - previously this figure was 30% in Auckland and 20% outside of Auckland. The 20% deposit requirement for owner occupiers was also more strictly enforced across the country, when previously banks had more flexibility to allow exceptions.

Tighter lending criteria from the banks

On top of this, and perhaps this is the most important factor: Retail banks have implemented tighter lending criteria for mortgages too. The direct impact of this is clear, with the number of purchases requiring mortgages in 2017 to date down 24% against the same period a year ago. Compare this to purchases without a mortgage, and they're only down 12%. So, the property market has slowed in general, but the mortgage market has slowed twice as much.

In Auckland this contrast is even more obvious - with mortgaged purchases down 27% compared to non-mortgaged purchases which are down only 3%.

Interest rate impact

Retail interest rates are also slightly higher now, after bottoming out in the middle of 2016 - so this means people can't borrow as much as they could previously. This is especially important when you're already stretching yourself for a high LVR loan - Aucklanders in particular will understand that higher prices have an exponential effect on repayments.

General Election

As always, this winter has produced a slowdown in property market activity. But as cold as it is, this isn't unique to 2017. What is unique to 2017 is the upcoming General Election and all that comes with it. Policy announcements, headlines and resulting discussions all create uncertainty for anyone in the property market. Especially when so many policies are connected to our housing market.

What's going to happen with tax laws such as Capital Gains Taxes or Negative Gearing? Will there be a rental warrant of fitness enforced? Will our immigration policy be modified? Can anyone improve the outlook for housing supply? The answers to these questions could have varying degrees of impact on the property market, so any level of uncertainty may deter major decision making by those considering a property transaction.

Given all the above, I’m surprised that values haven’t actually dropped more! My take on this is that prices are being held up by stubborn sellers. They’re likely harbouring high expectations given recent value growth. Provided they’re not desperate to sell, why would they accept a lower price than they wanted, especially if they know what the neighbour down the road sold for just six months ago?

Looking to the future is difficult, mainly because of the election. My short term outlook is that I don’t expect activity to pick up. CoreLogic has a unique measure of buyer demand, which shows me continued weakness across New Zealand, and seasonal patterns indicate that we’ll likely be waiting until late Spring or Summer at the earliest before we see any change.

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Date: 07 July 2017 8 0 44 52 Based on the latest QV House Price Index figures, the slowdown in property values has continued in Auckland and Hamilton, and is now much clearer in Wellington and Dunedin after they had previously shown some resistance. Tauranga is the only major city to buck the trend, although it’s still too early to call it a revival with three month growth only 1.6%. Christchurch values continue their year long trend of remaining as flat as the Christchurch plains. It’s almost a year since the Reserve Bank of New Zealand’s (RBNZ) latest round of loan-to-value ratio (LVR) restrictions were released to the market, which tightened the availability of mortgages for both investors and owner occupiers. Previous rounds of LVR restrictions had no more than a six month impact. We’re way past that point now and there’s no real sign of recovery, especially in Auckland. So what’s different this time around? Tougher limits (RBNZ) Firstly I think it’s fair to say the latest restrictions are heavier handed than previous iterations. The 40% deposit requirement for property investors was introduced nationwide - previously this figure was 30% in Auckland and 20% outside of Auckland. The 20% deposit requirement for owner occupiers was also more strictly enforced across the country, when previously banks had more flexibility to allow exceptions. Tighter lending criteria from the banks On top of this, and perhaps this is the most important factor: Retail banks have implemented tighter lending criteria for mortgages too. The direct impact of this is clear, with the number of purchases requiring mortgages in 2017 to date down 24% against the same period a year ago. Compare this to purchases without a mortgage, and they’re only down 12%. So, the property market has slowed in general, but the mortgage market has slowed twice as much. In Auckland this contrast is even more obvious - with mortgaged purchases down 27% compared to non-mortgaged purchases which are down only 3%. Interest rate impact Retail interest rates are also slightly higher now, after bottoming out in the middle of 2016 - so this means people can’t borrow as much as they could previously. This is especially important when you’re already stretching yourself for a high LVR loan - Aucklanders in particular will understand that higher prices have an exponential effect on repayments. General Election As always, this winter has produced a slowdown in property market activity. But as cold as it is, this isn’t unique to 2017. What is unique to 2017 is the upcoming General Election and all that comes with it. Policy announcements, headlines and resulting discussions all create uncertainty for anyone in the property market. Especially when so many policies are connected to our housing market. What’s going to happen with tax laws such as Capital Gains Taxes or Negative Gearing? Will there be a rental warrant of fitness enforced? Will our immigration policy be modified? Can anyone improve the outlook for housing supply? The answers to these questions could have varying degrees of impact on the property market, so any level of uncertainty may deter major decision making by those considering a property transaction. Given all the above, I’m surprised that values haven’t actually dropped more! My take on this is that prices are being held up by stubborn sellers. They’re likely harbouring high expectations given recent value growth. Provided they’re not desperate to sell, why would they accept a lower price than they wanted, especially if they know what the neighbour down the road sold for just six months ago? Looking to the future is difficult, mainly because of the election. My short term outlook is that I don’t expect activity to pick up. CoreLogic has a unique measure of buyer demand, which shows me continued weakness across New Zealand, and seasonal patterns indicate that we’ll likely be waiting until late Spring or Summer at the earliest before we see any change.