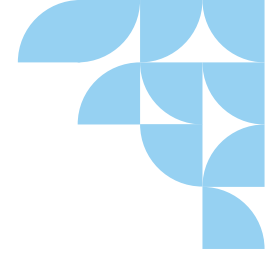


REINZ & TONY ALEXANDER REAL ESTATE SURVEY

June 2020



MARKET STRENGTH EVIDENT

Welcome to the first issue of the new REINZ & Tony Alexander Real Estate Survey. This survey gathers together the views of licensed real estate agents all over New Zealand regarding how they are seeing conditions in the residential property market in their areas at the moment. We ask them how activity levels are changing, what the views of first home buyers and investors are, and the factors which are affecting sentiment of those two large groups.

The first survey for this report was sent out last week and received a good 442 responses. Where relevant we will compare results with a similar survey undertaken late in May which garnered 236 responses.

This month's survey shows that while attendance at auctions is still relatively low, more people are attending Open Homes, there is greater market interest coming from investors, but more so from first home buyers. Price expectations are positive, though buyers have some concerns about them falling, along with concerns about their income and job security. Yet buyers also feel that listings are in relatively short supply – a situation supported by monthly data from realestate.co.nz recently showing nationwide listings at the end of May down by 19% from a year earlier.

Over time our survey will produce sufficient results for us to establish baselines regarding what are “normal” levels of readings for each topic we look at.

ARE PROPERTY APPRAISAL REQUESTS INCREASING OR DECREASING?

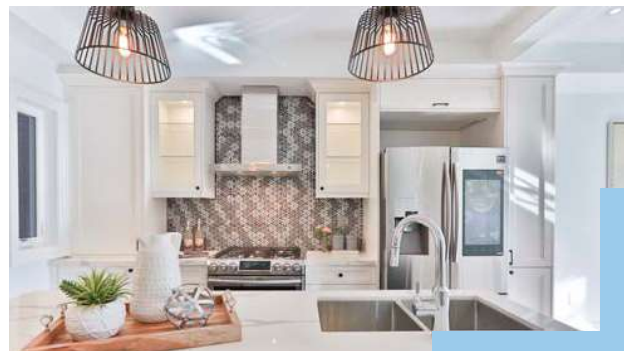
A net 7% of the 442 respondents say that requests for property appraisals are going up. This is a turnaround from the net 19% who a month ago felt that appraisals were

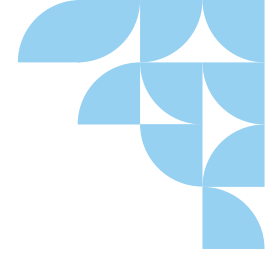
falling. On the face of it this would appear to be a good sign for buyers currently concerned about the continuing low levels of listings. However, at 7% the net positive response turnaround is actually quite low considering that few if any appraisals happened during Level 4 and Level 3 lockdowns.

Vendors are showing interest in bringing their properties to the market according to comments from agents. But few are financially pressed to do so and most appear content to simply sit and wait to see how things develop in the economy and housing markets over the remainder of this year.

ARE MORE OR FEWER PEOPLE SHOWING UP AT AUCTIONS?

A net 10% of agents report that there are fewer people showing up at auctions. This is essentially unchanged from the net 12% reporting fewer people in our May survey. These are still very early days in the post-lockdown period and the fact that some auction activity has shifted online means that interpreting this result may be harder than normal for a few months yet.





ARE MORE OR FEWER PEOPLE ATTENDING OPEN HOMES?

With the lockdown ending, it is entirely natural that this month a net 26% of responding agents report more people as attending Open Homes as compared with a net 14% who last month said fewer people are attending. Media reports over the past two weeks have made it clear that more people are out looking at properties, and in further questions below we get some insight into what is motivating people to continue with or start up their property search.

HOW DO YOU FEEL PRICES ARE GENERALLY CHANGING AT THE MOMENT?

Over time the above questions and others will give us good trending insight into underlying forces in the residential real estate markets around New Zealand. Ultimately however, it is pricing dynamics which virtually everyone is interested in, be they buyers, sellers, or people simply wanting a feel as to how the value of their biggest investment may be changing.

A net 18% of agents report that they feel prices are rising. What this means is that 30% of respondents felt that prices are rising, 12% think they are falling, and the other 58% think they are flat or do not have a view.

On average between 2011 and 2014 when this same question was asked in a previous similar survey, a net 31% of agents responded that prices are rising.

DO YOU THINK FOMO IS IN PLAY FOR BUYERS?

FOMO = Fear of missing out

When prices of an asset are moving upward (shares, property, precious metals) some people become purchasers

because they worry that if they wait prices will go higher and they either miss out on a wealth gain or find they can no longer afford the asset. When FOMO is strong price pressure upward tends to be stronger than otherwise.

This month's survey showed that a net 31% of agents feel FOMO is present for buyers. This is a turnaround from a net 2% feeling it was absent in May and a development consistent with changing attitudes we can see worldwide regarding the negative impact of the Covid-19 crisis. Sharemarkets have rallied strongly, economic data are becoming less bad, and some, such as United States monthly employment numbers, have come in extremely better than had been expected.

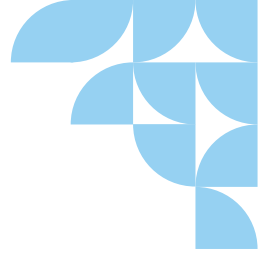
This relatively high reading of a net 31% positive does not necessarily mean prices will be rising firmly in the near future. Just because a person may feel some fear of missing out on a thing is not the same as saying that they will immediately take action to purchase it. But the result does show where things are likely to be trending with regard to demand from buyers.

ARE YOU NOTICING MORE OR FEWER FIRST HOME BUYERS IN THE MARKET?

We care about the ability of people to buy their first home and this is a key driver of many government policies in the housing space around the world. The answer to this question in the current environment may, in contrast to many of the other questions, give us a level of insight into current Covid-19 conditions of greater import than in "normal" times. What this means is that in spite of the weak economic conditions currently prevalent in NZ, will first home buyers wanting to get their feet on the property ladder pull back aggressively from making their first property purchase?

The answer appears to be a resounding No – something supported by the many anecdotal reports carried by media. A net 55% of responding agents report that they are noticing more first home buyers in the market. A month ago, this result was a net 4%.

Heading into the current economic downturn there were only 19,000 properties listed for sale around New Zealand. Heading into the 2008-09 Global Financial Crisis this number was 58,000. First home buyers know that property listings are in short supply, and clearly many are hoping that the current economic conditions may bring them an opportunity to make a purchase which was not apparent only four months ago.



ARE YOU NOTICING MORE OR FEWER INVESTORS IN THE MARKET?

A net 25% of agents report that they are noticing more investors in the market. This is a rise from a net 16% in May and the result seems unsurprising considering the low level of interest rates which investors in bank deposits are currently receiving, and the hopes many undoubtedly have to purchase something more cheaply than might have been the case four months ago.

IN WHAT PRICE RANGE ARE ALL TYPES OF BUYERS TENDING MOST TO BE INTERESTED?

70% of agents note that buyers are mainly interested in properties priced below the top-third of the range relevant for their location. At the moment, interpreting this result is difficult. But over time we will slowly gain a feel for what is normal and then we will be able to make comments regarding meaningful shifts in price preferences.

Top-third	8%
Mid-third	35%
Bottom third	35%
Don't know/evenly spread	22%

ARE YOU RECEIVING MORE OR FEWER ENQUIRIES FROM OFFSHORE?

A net 8% of agents report that more enquiries for NZ properties are coming from people offshore. This is not an overwhelmingly strong result and it does not support a view that the bulk of the near 1 million Kiwis living offshore are about to head home! But it is in line with the anecdotal evidence of some people pulling forward in time their long-term plans to relocate back to New Zealand.

Again, over time this question will hopefully yield some interesting insights.

WHAT ARE THE MAIN CONCERNS OF BUYERS?

Agents can choose as many responses as they view relevant to this question and 50% said that one of the main concerns which buyers have is that there are insufficient listings available. The buyers do not perceive that properties are available as they might have been hoping over the past four months.

37% feel buyers are concerned about getting finance, and the anecdotal evidence so far is that banks have become more cautious in their lending and have yet to pass through the Reserve Bank's removal of Loan to Value Ratio



regulations.

55% of buyers are concerned that they might make a purchase only to see prices fall. It is likely that during "normal" times this proportion will be much lower than 55% and the current level is understandable in light of the many predictions that prices will in fact ease. Yet clearly, going by the responses to earlier questions, these concerns are not holding buyers back.

High prices are cited as a deterrent by only 12% of the 442 responding agents – thus illustrating that much as there may be angst on the part of buyers that prices in NZ are high by international norms, this is not a serious deterrent.

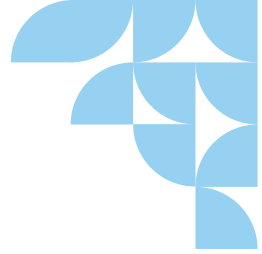
ARE INVESTORS BRINGING MORE OR FEWER PROPERTIES TO THE MARKET TO SELL THAN THREE MONTHS AGO?

In some quarters there is a view that either because of legislative changes around ring-fencing, Healthy Homes, the temporary rent and eviction freezes, or rent discounting, investors must surely want to quit the market. But a net 20% of agents report that investors are in fact bringing fewer properties to the market.

Why might this be? Perhaps because of the record low levels for both mortgage and term deposit rates, and awareness of persistent housing shortages in many parts of the country.

WHAT FACTORS APPEAR TO BE MOTIVATING INVESTOR DEMAND?

Looking at the other side of the investor equation, those looking to buy, what is it that is motivating these people? Low interest rates are cited by 64% of responding agents. However, 60% also note that investors are hopeful of finding a bargain. In other words, economic uncertainty is



not acting as a deterrent to investors, and few are actually expecting that they will enjoy price rises (presumably in the near future) from any purchase they might make.

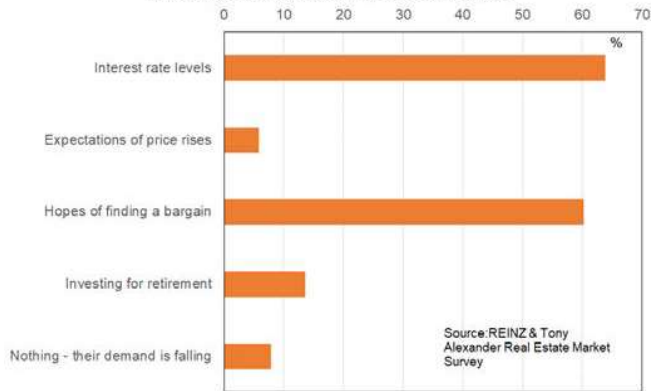
REGIONAL RESULTS

The table below breaks down answers to the numerical questions above by region. No results are presented for regions with fewer than 8 responses as the sample size is too small for good statistical validity of results. Even for regions with responses between 8 and 20, caution needs to be applied as results may prove quite volatile from one month to the next.

Key points one might note from the regional results are these.

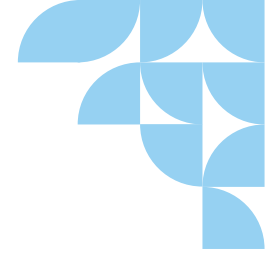
- Prices (Column E) are generally seen as rising everywhere, except Central Otago Lakes – Queenstown and Wanaka principally
- Only a net 2% of agents see prices as rising in Auckland compared with a nationwide reading of a net 18%
- First home buyers (Column G) are seen as active almost everywhere, especially in the Waikato, Taranaki, and Canterbury
- Investors (Column H) are also seen as active almost everywhere, especially in the Bay of Plenty
- Investors are bringing properties to the market in Central Otago Lakes.

FACTORS MOTIVATING INVESTOR DEMAND



- A. # of responses
- B. Are property appraisal requests increasing or decreasing?
- C. Are more or fewer people showing up at auctions?
- D. Are more or fewer people attending open homes?
- E. How do you feel prices are generally changing at the moment?
- F. Do you think FOMO is in play for buyers?
- G. Are you noticing more or fewer first home buyers in the market?
- H. Are you noticing more or fewer investors in the market?
- I. Are you receiving more or fewer enquiries from offshore?
- J. Are investors bringing more or fewer properties to the market to sell than three months ago?

	A	B	C	D	E	F	G	H	I	J
	#obs	Appraisals	Auction	Open H.	Prices	FOMO	FHBs	Invest.	O/seas	Inv. selling
Northland	19	21	-11	11	11	11	37	11	11	-43
Auckland	161	-2	-1	16	2	24	58	29	14	-28
Waikato	51	29	-49	39	31	37	71	29	0	25
Bay of Plenty	46	26	0	43	35	39	35	37	11	-69
Gisborne	0									
Hawke's Bay	9	33	-22	0	33	33	44	22	33	-33
Taranaki	8	25	-25	0	50	88	75	13	25	-100
Manawatu-Wanganui	14	21	0	36	36	64	50	14	-36	-33
Wellington	35	-11	-26	14	43	6	40	23	3	0
Tasman	8	13	0	38	38	-25	38	-13	25	-100
Nelson	3									
Marlborough	2									
West Coast	0									
Canterbury	60	-5	7	50	32	63	67	22	3	-4
Central Otago Lakes16	0	-31	25	-44	19	56	6	25	50	
Otago	6									
Southland	2									
New Zealand	442	7	-10	26	18	31	55	25	8	-20



EXAMINING THE DEMAND AND SUPPLY SIDES OF REAL ESTATE

When you're running a business, it is not very often that you close down because the demand for what you produce and sell has completely disappeared. Sometimes demand can be absent for a while, such as for tourism operators who were only servicing foreign tourists. Often, customer demand will temporarily fall away because of a change in economic conditions. That is what most sectors in the economy are currently experiencing.

As an economist I can write about these things and invariably will tell you that if demand falls by such and such a percentage, then subject to price adjustments your sales will decline by a certain percentage as well.

But there is one extremely large caveat to take into account when making these calculations. Specifically, to what extent was demand, or in this case turnover, constrained by a lack of capacity? Usually we interpret this to mean that ability to build something like houses is constrained by a shortage of land or builders, council inspectors or materials.

If this is relevant to an industry, then if something comes along to boost demand, it won't lead to any actual increase in output (number of houses built) until more resources are available. How is this relevant to the residential real estate sector?

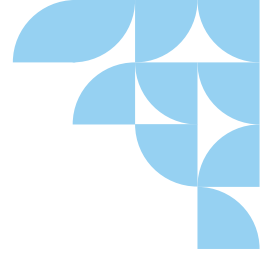
Heading into the Global Financial Crisis of 2008–09, there were 58,000 properties listed for sale on www.realestate.co.nz. Heading into the current downturn listings were only 19,000 in February. Turnover was constrained not by a lack of buyers, but by a lack of stock – of sellers.

As we have gone down through the Alert levels, we have seen buyers re-enter the market, but in some quarters, there have still been predictions of big price falls. But what these pundits have failed to take into account is two key things.

First, few sellers are pressed to bring their property to the market because of pressure on household cash flows. The majority of people losing their jobs during this downturn are in low wage sectors such as tourism, hospitality, and retail, and many are on migrant visas. Few are home owners – but some are. In addition, mortgage interest rates have fallen to record lows, and mortgage deferral assistance is being offered by lenders.

Second, buyers remember the shortage of listings and the numerous calculations and discussion of shortages of stock in our main centres. There has built up over the past few years a queue of frustrated buyers hoping that something would come along and give them greater opportunity to make a purchase. Because they have been looking for so long, they are generally in a good financial position.





These buyers are still there, and increasingly, they are revealing themselves in the market after stepping back for 2–4 months to see how the Covid-19 crisis would affect things. What they are seeing is that our economy has moved down through the Alert levels at a far faster pace than anyone imagined.

They are seeing sharemarkets rally almost back to where they were before the crisis. They are seeing job numbers go back up again much, much sooner than anyone anticipated in the United States and Canada these past few days. They are revealing themselves to be feeling more confident, and through two surveys at least, are telling us they are back in the real estate market.

My monthly Spending Plans Survey last week revealed that nationwide a net 8% of 4,000 respondents plan spending more on investment properties over the next 3–6 months. A net 2% plan spending more on a property for their own occupancy.

The new REINZ & Tony Alexander Real Estate Survey reveals that licensed real estate agents can see this strength as well. A net 55% of agents say that they are seeing more first home buyers in the market. A net 25% say that they are seeing more investors.

The upshot of examining both the demand and supply sides of the real estate turnover equation is this. Demand is still there, with more investors and first home buyers hoping to make a purchase in the near future, offsetting the backing away of some people whose income positions mean they have had to put purchase plans on hold.

On the supply side, numerous factors tell us listings will not surge, but experience during the GFC tells us they will not collapse.

In the end, the chances are now looking very low that residential real estate turnover will fall by anywhere near the 40% we were thinking was possible when the virus shock first hit – principally because the buyers are still there.



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This publication is written by Tony Alexander, independent economist. To subscribe [click here](#)

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