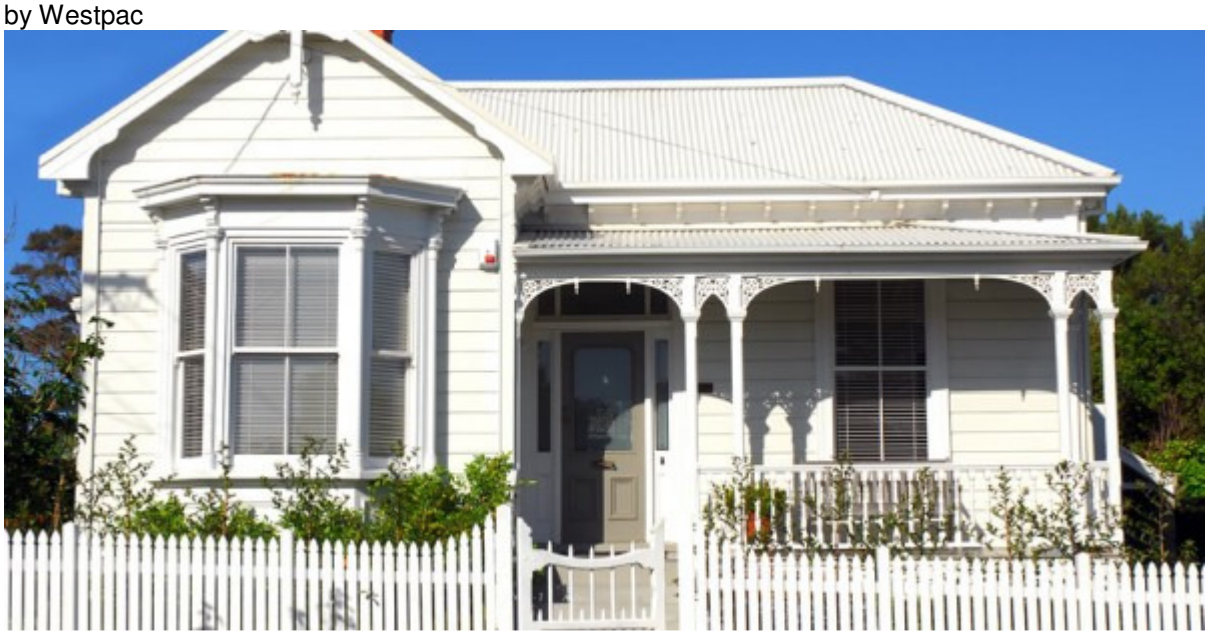
It’s still a good time to buy in Auckland

Peter Thompson, Managing Director, Barfoot & Thompson Posted 27 February 2015 Red Hot Press by Westpac



In early February, the NZ Herald in an editorial asked the blunt question, “Does anybody believe the warning from the Governor of the Reserve Bank that Auckland house prices could crash, or in economic jargon, suffer a sharp correction?”

The Herald posed this question following a major speech by Graeme Wheeler in which he talked about the Reserve Bank’s concerns around the threat housing inflation posed to “financial stability and the broader economy”.

In the language used by officialdom, the Governor never put the question in such blunt terms as the Herald editorial writer, but there was no doubting what the Reserve Bank was saying.

In its editorial the Herald’s answer to its question was an emphatic ‘no’.

The Herald’s is a viewpoint I share, and for precisely the same reasons.

The last time the Auckland housing market experienced a ‘price correction’ was between 2007 and 2011 during the global financial crisis, which has been described as the deepest financial downturn since the 1930s Great Depression.

Our records show that between 2007 and 2008, the average sales price of Auckland homes fell 5%, gained a little each year across 2009 and 2010, before climbing above the 2007 average price in 2011. The average price has risen every year since.

There will always be the possibility that Auckland house prices will fall. But to do so is likely to require a significant change in economic or supply conditions, and if the fall was only 5% in the greatest economic downturn since the Great Depression, why would values today suffer a ‘sharp correction’?

Based on sales activity since the start of the year, the buying public does not believe that values are about to fall. In the run in to Christmas, Auckland house prices reached an all-time high, and when activity restarted in early January, property prices held on to their pre-Christmas values. This is unusual, as there is normally a dip in January values as people gradually return to Auckland after the holiday break.

February trading has been extremely active.

Since that early February speech, the Reserve Bank has let it be known that it is ‘talking’ to the banks about residential housing lending, with the suggestion that it is seeking to curb investor access to funding.

It is doubtful any intervention will dampen the current situation which is essentially driven by a shortage of property to house the population.

The last intervention by the Reserve Bank to curb house price rises in the form of a 20% LVR has produced mixed results.

Initially, it locked a large number of first time buyers out of the market, as the deposits required to secure a loan were simply too high, but over time the influence of LVRs has declined.

Recent research we undertook shows that nearly half of all first time home buyers are taking the first step on the housing ladder thanks to gifts and loans from family members. This form of support has always existed, but it has risen sharply since the introduction of LVRs.

A growing awareness among the younger generation of money management has also seen the strengthening of other trends that undermine the LVR regime.

Our research shows that nearly a quarter of all first time home purchases are now made by individuals, as opposed to couples, while 10% of home buyers see their first property as an initial investment designed to get them into the market rather than a home in which to live.

In both instances this new form of home owner is likely to take in other couples or flatmates to help pay the mortgage. Another variation is for couples to join together in partnerships to get them over the hurdle of making the first purchase before ultimately going their separate ways.

Ambition around home ownership among many of the younger generation is as strong as those of their parents. However, many are prepared to take a different route to ending at the same destination.