Westpac economists say the moves to free-up Auckland's housing supply regulations are actually helping to drive land prices higher and they now predict 10% house price inflation for NZ this year

Posted in Property May 11, 2015 - 01:16pm, David Hargreaves

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By David Hargreaves

Westpac economists have upped their forecast of NZ house price inflation this year to 10% from 7.5% and they say moves to liberalise housing supply regulations in Auckland are actually helping to drive up the prices of land in the country's largest city.

"At first glance, this idea sounds counterintuitive, but it is actually quite simple," the economists say in the bank's **latest quarterly economic overview**.

They say that "in line with the global trend towards greater centralisation of economic activity", Statistics NZ projections indicate Auckland's population is set to grow by around 740,000 people over the coming 30 years (an increase of close to 50%).

This is expected to create unprecedented demand for dwellings located within striking distance of a major Auckland centre of employment, most notably the CBD. At present, much of the relevant area is occupied by single dwellings on relatively large plots of land.

"In the past, zoning restrictions and building regulations made it difficult or expensive to intensify the use of that land," the economists say.

"But recent regulatory changes are opening an easier and cheaper path to intensification.

"And consequently the value of the land has gone up. What this means is that the value of today's house-plus-land packages is shooting up.

"If all goes to plan over time land will be subdivided and the swathe of more affordable housing that Auckland needs will be built. But if a young couple wants to buy into today's market, they first have to outbid a developer or speculator who understands the concepts we have outlined."

The economists say that the latest housing data gives no hint of Auckland house prices slowing their upward march, "and we have upgraded our forecast of nationwide house price inflation this year to 10%".

They now don't see any interest rate rises in the "current economic cycle", and believe that the next movement in official rates will be down.

However, they don't agree with **other economists** that the Official Cash Rate could be cut as early as this year.

"That is certainly a possibility – we'd give it 40% odds," they say.

"But the strong economy and low inflation really do leave the Reserve Bank between a rock and a hard place. We find it more likely that the Reserve Bank will wait until the rampant housing market has cooled and the economy has slowed before cutting the OCR. That could be years away."

The economists say with low inflation keeping OCR hikes off the table, the RBNZ is instead "likely to dip into its macro-prudential tool kit to lean against housing market pressures".

"We expect that some form of lending restriction will be introduced in the second half of this year targeting residential property investors. However, while such restrictions may take some of the steam out of the housing market, we don't think house price inflation will materially slow until the economy turns."

The economists are expecting that the economy will start to slow in 2017, but they note that it will have a a 'two-speed' look about it with strength expected to remain underpinned by domestic demand in the main urban centres, while at the same time, conditions in rural regions and among some exporters will be more challenging.