Peter Thompson: Banking sector can live with current house prices

Peter Thompson, Managing Director, Barfoot & Thompson Posted 27 February 2018

Residential house prices are likely to increase modestly in 2018, according to Standard & Poors.

This forecast is contained within the rating agency's Global Ratings Report released in late February that focused on the risks local house prices and credit growth have for the country's banking sector.

The report's conclusions included such comments as that the economic risk from these factors was 'likely to have passed its peak' and that 'in 2018 we see… house price inflation consolidating around current levels… thereafter we expect relatively measured house price and credit growth'.

For me, the point of difference about S&P's report is that its focus is on the strength and stability of the banking sector, and its conclusion about house prices was the end product of that analysis.

Rather than looking at house prices in isolation it was saying the banking sector can live with where prices are at currently.

That sentiment showed up in the first round of sales data for the year when we released our January sales information in early February.

Our average price in January was up 1.5% over that for the previous three months while our median sales price was down 1.6 percent over that for the previous three months.

Our sales numbers were low at 593, but this number represented half of all the homes sold in Auckland during the month.

By far the majority will welcome such a stable ending to the cycle of rising house prices.

Significant swings in the selling price of homes can undermine people's sense of economic stability, and the S&P report will give greater confidence to those who want to move forward with making decisions in relation to their housing needs and investment opportunities.

Reserve Bank and LVR restrictions

The report also makes the point that the case is building for the Reserve Bank to 'partially unwind' its loan-to-value restrictions.

This would be a welcome move as the broad-brush approach to the restrictions can have particularly harsh implications for individuals, particularly first time buyers and those on modest incomes. The restrictions can also hinder people who might want temporary bridging finance or interest only loans to support buying their next home before selling their present one.

What S&P's report underlines is that the Reserve Bank restrictions, coupled with trading bank initiatives, have tamed rising house prices. The mechanisms in place now have achieved the desired result and that some flexibility on a case-by-case basis should be sanctioned.

The current situation also undermines the arguments of those that insist tighter restrictions are necessary to control the future price of residential property.

Restrictions such as banning non New Zealand and Australian residents from buying residential property, extending the bright line test to 5 years and potentially a capital gains tax on investment property in the future all have the potential to undermine the current stable market.

If such restrictions are to be introduced, they should not be brought in under the cover of 'it's the only way to stop prices rising'.

While the banning of foreign buyers from the market might have popular support, a number of organisations are flagging to the Government the downside of cutting off overseas capital entering the market, particularly the apartment market.

There might also been some unintended consequences of extending the bright line test from 2 to 5 years.

A number of first time buyers have been meeting the challenge of achieving the deposit requirement through the helping hand of family members with the intention that over time the family members will withdraw from the transaction.

The potential exposure to capital gains tax if the withdrawal takes place before 5 years is likely to require a rethink as to how such partnership arrangements might need to be constructed.

On a personal note, I'm proud to record that Barfoot & Thompson was voted the 'best in the world' by our peers at the recent International Property Awards in London. We achieved it in the property management category.

In the regional Asia Pacific awards earlier in the year we were voted the 'best' in the Real Estate and Property Management categories, and for having the 'best' marketing campaign and website.