

Auckland remains a patchy market

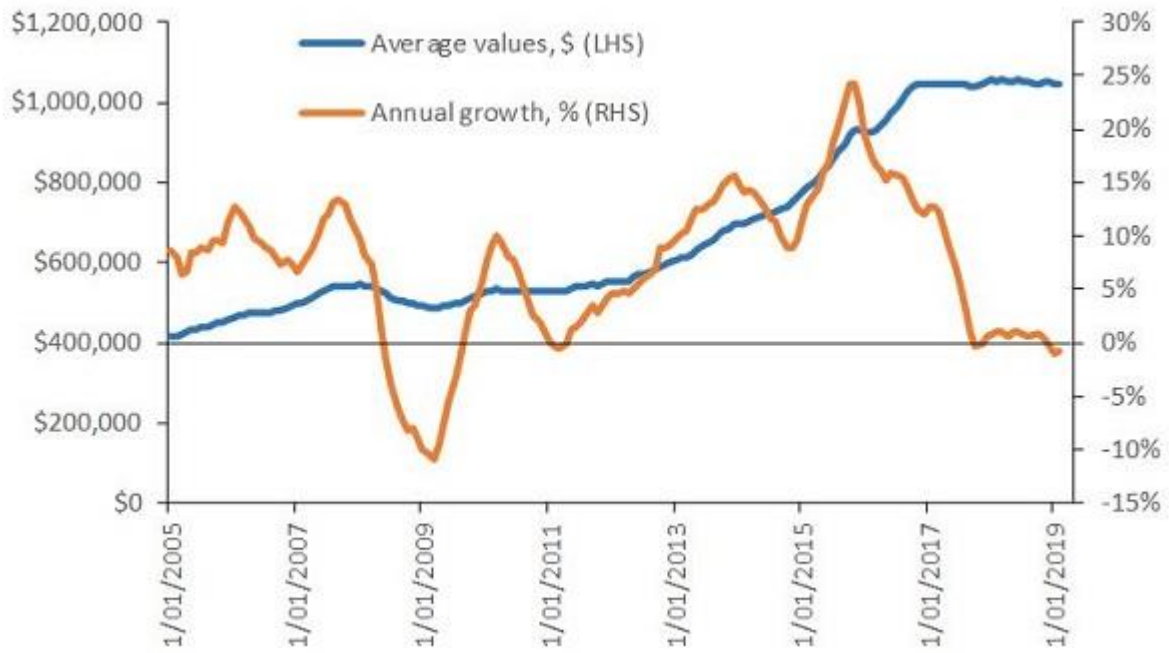


7 Mar 2019

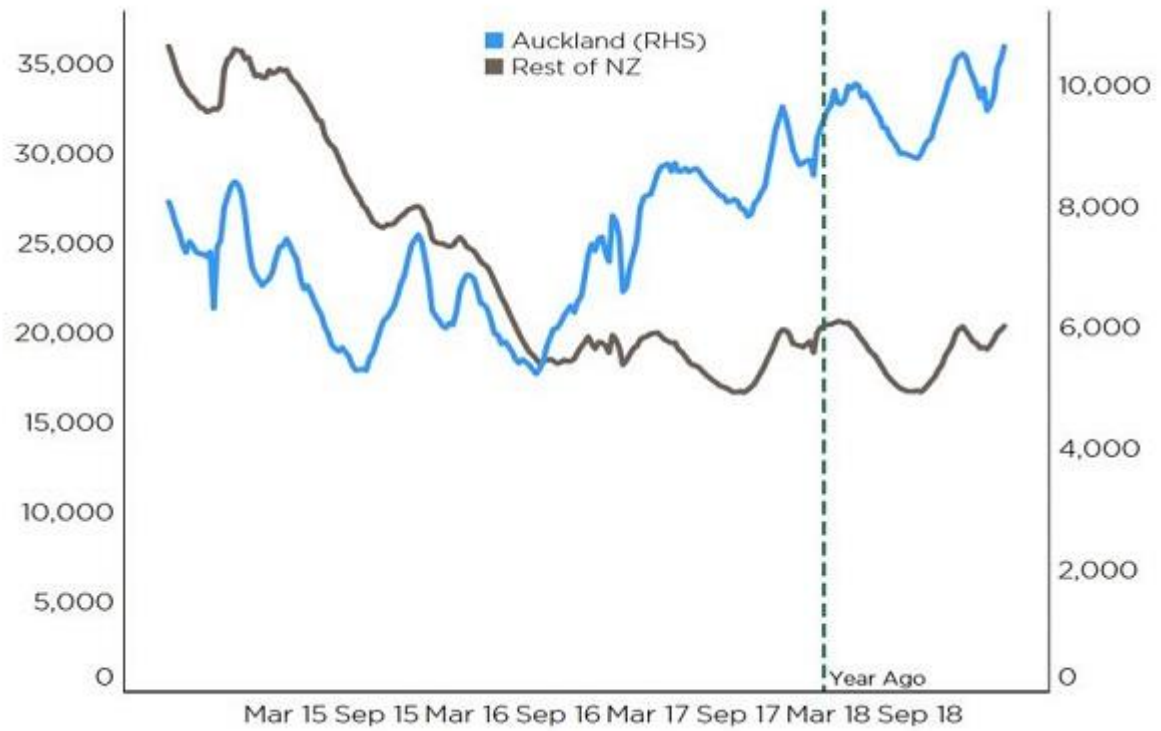
Taken as a whole, Auckland's property market is soft and it's easy to see this continuing in 2019. There are exceptions to this outlook, but to find them you need to be looking in the generally cheaper parts of the city/region (e.g. Otara), where values are still increasing. By contrast, declining values in areas such as Murrays Bay illustrate the ongoing affordability problems.

CoreLogic property economist Kelvin Davidson writes:

Yesterday's CoreLogic QV House Price Index showed that the property market warmed up a bit in February, although Auckland remained soft, with flat average values for the month, leaving the level down by a relatively minor 0.9% from a year earlier (see the first chart). The reasons are pretty obvious, including high prices and low affordability, the hit to demand from the foreign buyer ban, and the high level of listings (see the second chart) which is providing buyers with options and probably leading some vendors to adjust pricing to get their sale across the line.

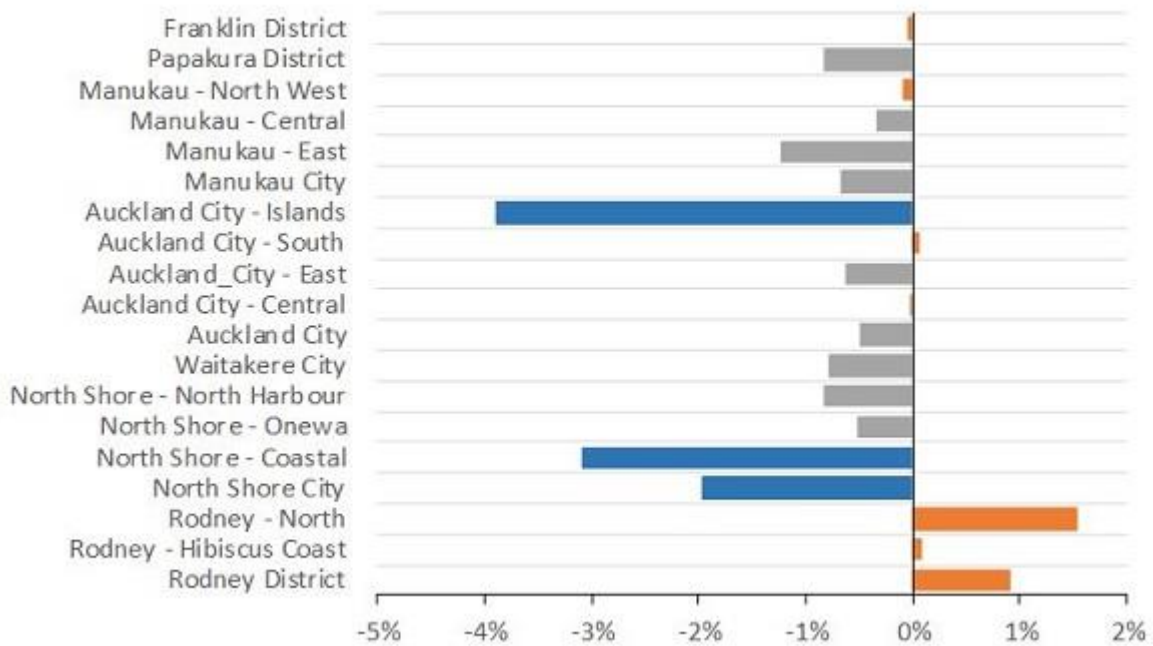


Auckland property values (Source: CoreLogic)



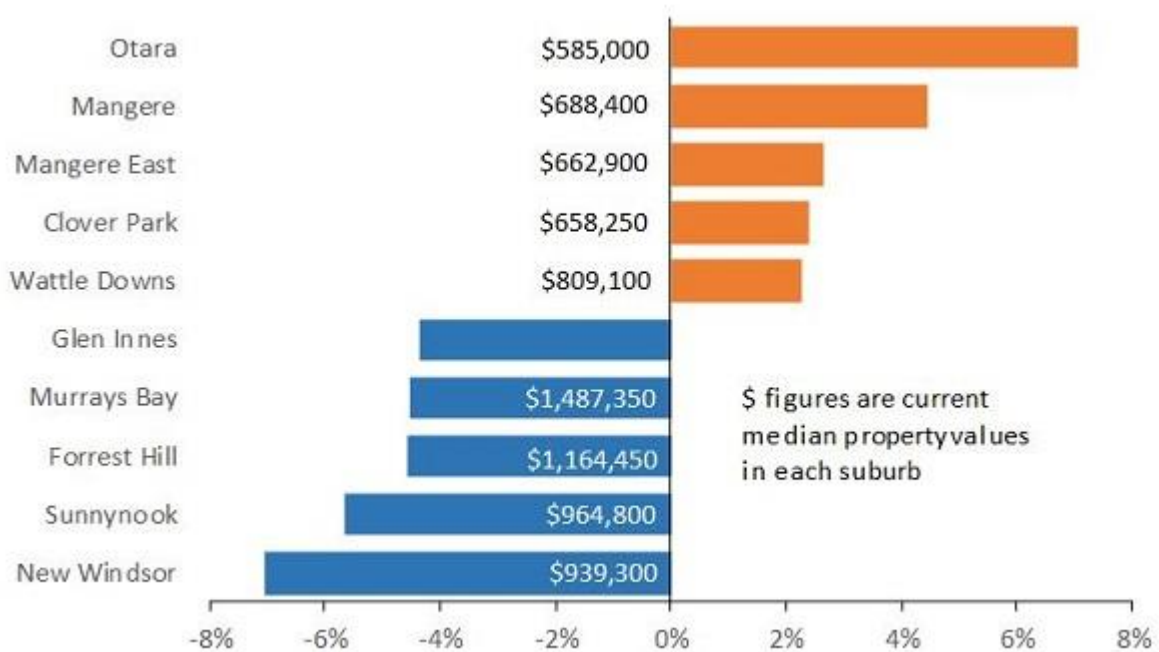
Total listings (Source: CoreLogic)

There are exceptions to Auckland's market softness and these are evident within sub-areas. Average property values are actually still rising modestly (or are at worst flat) in Rodney, Franklin, parts of Manukau (North West) and also in Auckland City (South and Central). But as the third chart also shows, there are weaker trends clearly evident in other parts of Auckland City (Islands) and the North Shore (Coastal and City).



Annual % change in average property values, Feb. 2019 (Source: CoreLogic)

The suburb-level data also illustrates the inconsistent nature of growth across Auckland. Compared with February last year, median* property values have risen by a solid 7.1% in Otara but they've fallen by the same amount in New Windsor. Of the top five Auckland 'risers' and 'fallers' over the past year (shown in the fourth chart; minimum of 1,000 dwellings in each suburb), it's generally the cheaper areas that have outperformed in terms of value change. Indeed, the maximum value for the 'risers' shown is \$809,100 in Wattle Downs but the minimum value for the 'fallers' is \$939,300 in New Windsor. This just reinforces the point that affordability is still a major issue in many parts of Auckland.



Annual % change in median property values, Feb. 2019 (Source: CoreLogic)

High prices also seem to be restraining demand and turnover. About six per cent of NZ's properties change hands every year. But in Auckland, we analysed 127 suburbs with at least 1,000 dwellings and found only 14 had a turnover rate in the past year above the national average. Granted, sales can be held down because of a lack of property listed on the market. But given the overall picture for Auckland listings, a shortage is unlikely to currently apply in many individual suburbs.

So what lies ahead? First, outright pessimism is not justified. There are still supportive market factors in play: the removal of foreign buyers for example may help some pent-up local demand to come out of the woodwork. Unemployment and mortgage rates are still low, so mortgagee sales aren't a strong risk, and neither is negative equity (given that the LVRs have forced more people to save bigger deposits).

However, setting those more encouraging factors alongside the softer drivers noted above leaves a pretty delicate balance. It's not hard to imagine that more vendors may start to adjust their expectations in the coming months and that the emerging 'buyer's market' in Auckland will continue. Values look set to be flat at best.

** We use median (rather than average) values at the suburb level, because this is more effective at removing the outliers that can arise as sample sizes get smaller.*