

# CoreLogic QV May House Price Index: Nothing wrong with slow and steady



Kelvin Davidson

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The CoreLogic QV House Price Index showed that NZ average property values were flat in May and up by only 0.1% over the past three months. The annual growth rate slowed from 2.7% in April to 2.3% in May. With affordability still stretched in many parts of the country and sales volumes subdued, CoreLogic property economist Kelvin Davidson said, “It’s no surprise that the slowdown in values has continued.”

Average property values in Auckland dipped again in May, but only by a modest 0.3%. The annual growth rate fell from 1.5% to 2.1%, but the market in our biggest city isn’t as weak as this number might suggest. Davidson said, “That’s because values had a temporary spike higher in May last year, which artificially pushed down the latest annual comparison. Even so, with buyers cautious, lending still restricted, and listings at a high level (albeit now falling as they normally do at this time of year), it’s logical that property values in Auckland are soft.”

## Index results as at 31 May 2019

	Change in property values			Average Value
	Month	Quarter	Annual	
Auckland	-0.3%	-1.4%	-2.1%	\$1,030,439
Hamilton	-0.1%	0.8%	4.9%	\$585,155
Tauranga	0.2%	2.3%	5.9%	\$741,501
Wellington	0.1%	1.0%	7.8%	\$706,517
Christchurch	0.1%	0.7%	0.7%	\$498,801
Dunedin	-0.3%	1.6%	11.5%	\$456,183

### Highlights over the three months to May 2019

- ▶ Best performing main city: **Tauranga +2.3%**
- ▶ Weakest performing main city: **Auckland -1.4%**

Around the other main centres, it was also pretty much business as usual in May, with most markets rising or falling by only a small amount on the month. Over the longer annual comparison, Dunedin has seen a rise of 11.5% since last May, and Wellington 7.8% – the latter driven by a 14.7% rise in Upper Hutt. Whanganui, Hastings, and Palmerston North remain key areas of strength in the regional North Island, while Invercargill is still flying the flag for the South Island.

Davidson said “It’s largely been another steady-as-she-goes month for the property market in May. The cut in the official cash rate on the 8th of the month probably helped some buyers to offer a bit more than they otherwise could have afforded, while the effects of the scrapping of the capital gains tax proposals back in April will also be filtering their way into the market too”.

For investors, he said the economics of the game are still changing, due for example to the need to increase insulation standards and the looming tax ring-fence for rental property losses. “We’ve been warning that although the ring-fence isn’t law yet, it needs to be accounted for by investors as of now, so it’s reassuring to hear anecdotally that this is happening. Although the Reserve Bank didn’t change the loan-to-value (LVR) rules in the latest Financial Stability Report, there seems to be a good chance of more leeway for investors come November.”



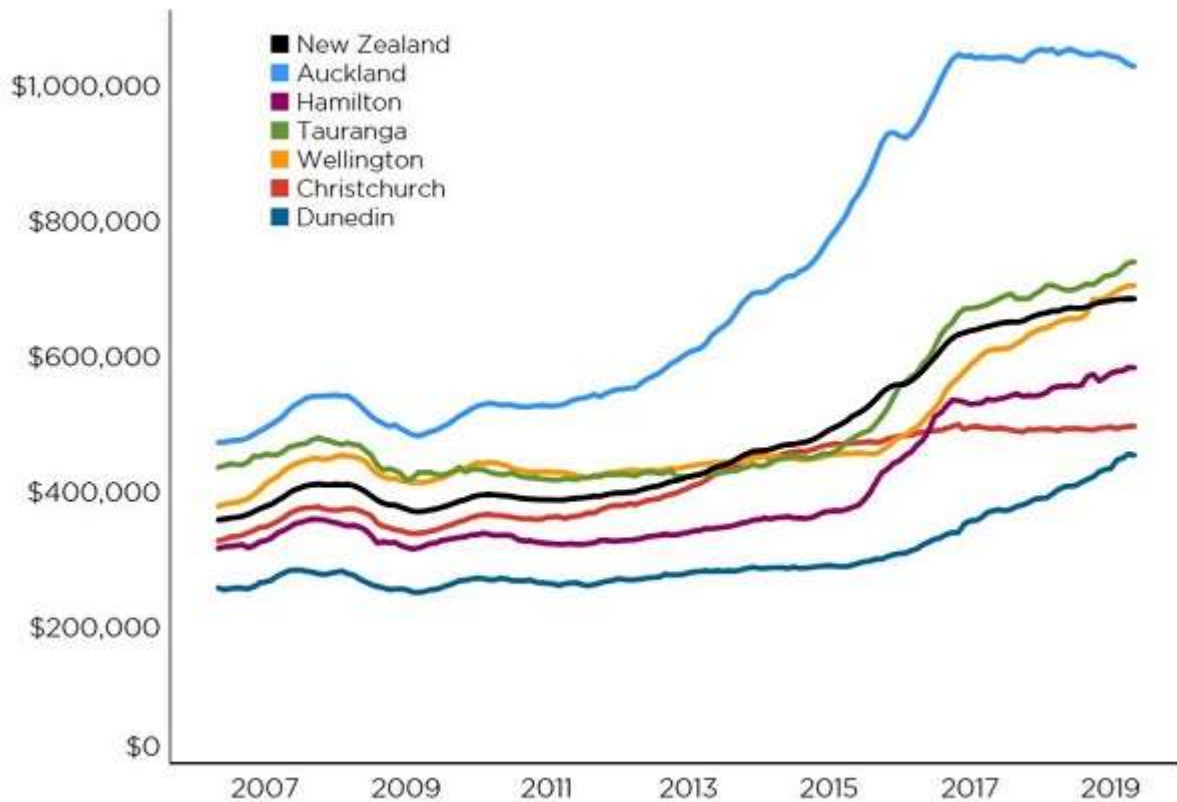
#### Rolling change in property values, national

Whanganui is leading the pack around the regional centres, with a rise in average property values of 16.9% in the year to May, ahead of next-best Hastings (14.0%), and Palmerston North (13.8%). Hastings has an average property value in excess of \$500,000, but Palmerston North and Whanganui are more affordable, especially Whanganui where average values are sub-\$300,000. The respectable performance of many of our main agricultural segments in the past year or two will be bolstering property in these areas.

At the other end of the spectrum, Whangarei (3.1% rise in the year to May) and New Plymouth (2.9%) are more sluggish, the latter seemingly affected by economic uncertainty surrounding the government's moves to curb the natural resources sector in Taranaki.

While it may be good for the area's snow tourists, Davidson said, "Queenstown's property market doesn't seem to have enjoyed the late autumn chill. In late 2016, average property values there were growing by more than 30% year-on-year, and even as recently as mid-2018, values were still rising at double-digit rates. Now, growth has slowed to just 0.8% annually, as demand has been dented by low affordability and the removal of most foreign buyers from the market. Indeed, in the first quarter of 2018, non-citizens/residents accounted for 9.7% of property purchases in Queenstown. A year later (and after October 2018's ban), that figure has now dropped to 2.7% - who will be either Australian, Singaporean, or other nationalities buying apartments in large-scale developments."





#### Average Property Values, Main Centres

Upper Hutt also stood out in May, with annual growth in average property values accelerating to 14.7%, the highest rate since October 2017. As would-be buyers find it tough to secure property in the more expensive Wellington City market, many are clearly still finding value away from the city. In the first quarter of the year, first home buyers accounted for 34% of purchases in Upper Hutt, their highest share for at least 15 years and also making them the biggest individual buyer group in this area.

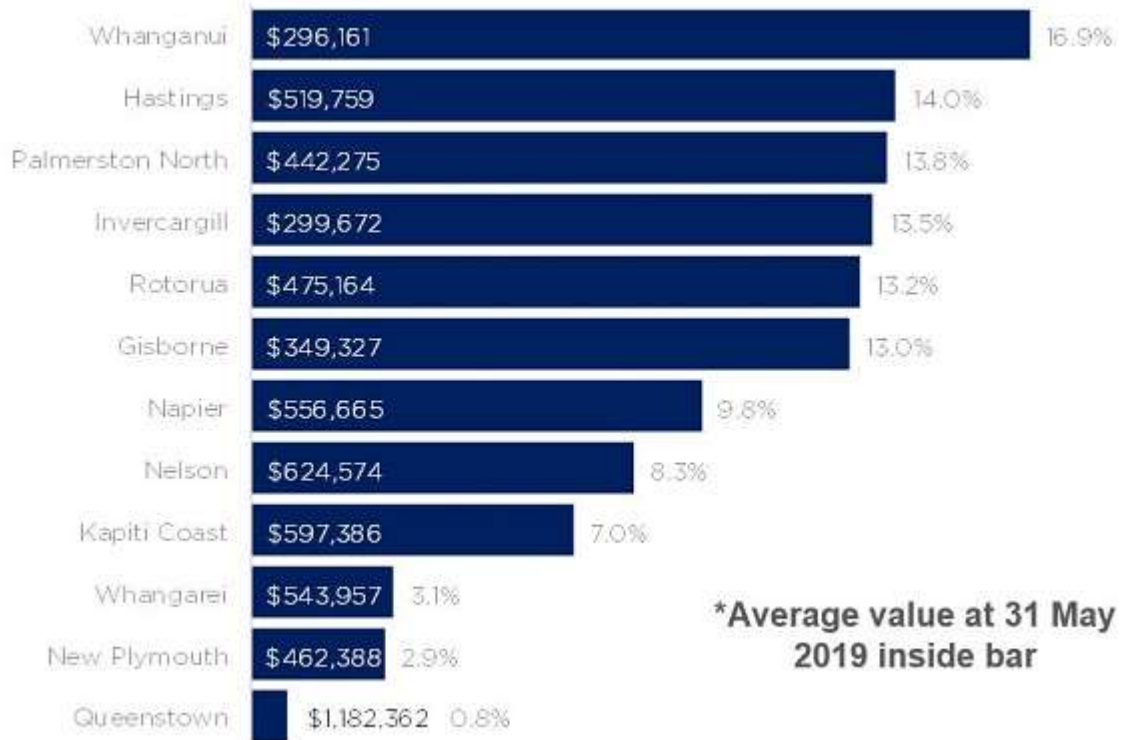
In summarising the current market and outlook, Davidson added: “although sales volumes are low and affordability is still stretched, the market continues to be supported by low unemployment and very favourable mortgage rates for borrowers. Sub-4% two-year fixed rate deals are now just par for the course from most banks.”

“The jury is still out on whether there’ll be another cut in the official cash rate this year, although it does seem fairly certain that if it isn’t this year, a cut will come early next year. That would be more good news for borrowers, although raising the deposit and satisfying the stringent income/expense and serviceability testing remains tough.”

“Last week’s Budget was a non-event for property, but the market will now look ahead to the second half of the year and the potential that the Reserve Bank loosens its credit restrictions, potentially lowering the deposit requirements for owner-occupiers and raising the speed limit for high LVR investor lending.”

“All in all, the latest property value data hasn’t revealed any major surprises. But slow and steady is probably a good thing, especially when you consider the problems that are being experienced in the Australian housing market at present.

Often in a subdued market, people feel that they need to sit tight and ride it out. But these conditions can also present great trade-up opportunities, so it'll be interesting to see how many home-owners take advantage over the coming months.”



Annual change in dwelling values Provincial Centres