

Market rebound coming - Westpac

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The cancellation of a capital gains tax combined with lower mortgage rates will be game changing for the housing market, believes Westpac's chief economist.

While the market may have cooled considerably in recent times, with Auckland prices falling and regional price growth slowing, the latest Westpac *Home Truths* report states that's set to change.

The bank's chief economist, Dominick Stephens, says that they now expect nationwide house price inflation to lift from 2% at present to 7% over 2020.

There are several clear reasons for that: one is the Government's ditching of all capital gains tax proposals and the other is the sharp plunge in mortgage rates currently being seen.

They mean the the trajectory of the market is going to change accordingly – and immediately, Stephens says.

“The threat of CGT was previously hanging like a Sword of Damocles over the market, impacting sentiment and prices here and now.

“Now that the threat has gone, there will be an immediate improvement in market sentiment and a ‘relief rally’ in prices.”

Likewise, the post-OCR cut drop in interest rates reduces the cost of asset ownership and, in New Zealand, this reliably leads to higher house prices, he says.

The bank expects these two factors to outweigh the negative market influences of the extended bright line test, the new rules around the ringfencing of rental losses and the foreign buyers ban.

Along with improved house price growth nationwide, Auckland prices should flatline this year before rising by 5% next year.

At the same time, the premium gap between prices in Auckland and elsewhere in New Zealand is expected to narrow to about 30% above the 1992 level, as compared to the 80% it reached at the height of the boom.

However, Stephens says that while house prices should rebound in 2020, that rebound is set to be temporary.

“We expect construction activity to remain very high for some time, while net migration drops. In time, this will cause dwelling shortages to gradually diminish.

“This will put downward pressure on rents and house prices (although other factors such as interest rates and tax policy will remain more influential for house prices).”

The expected alleviation of housing shortages, along with rising mortgage rates and tighter credit conditions, are the reasons they expect house prices to stagnate or fall later in the 2020s, he adds.

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