Pain & Gain Report

New Zealand

Quarter 2, 2018

CoreLogic

Contents

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Executive Summary

The Pain and Gain report is an analysis of homes which were resold over the previous quarter. It compares the most recent sale price to the home's previous sale price, determining whether the property resold at a gross profit or gross loss. It provides a proxy for the performance of the housing market and highlights the magnitude of profit or loss the typical seller of a home makes in those regions analysed.

Key findings from this Pain and Gain Report **(for resales between 1 April 2018 and 30 June 2018)** include:

1. The proportion of **all properties resold at a loss in Q2 2018** was **3.9%**, representing a **small rise from 3.8% in Q1 2018**. Those figures are still very low and the flipside is that **more than 96%** of all resales are still made for a gross profit.

2. These figures are consistent with the **continued growth in property values across most parts of New Zealand** (apart from stability in prices in Auckland and Christchurch) and show that relatively few people are concerned enough about the outlook to push through a quick sale for a low price.

3. By property type, the **share of apartment resales made for a gross profit held steady at 87% in Q2**, which is a good result by historical standards, albeit **lower than the figure for houses of more than 96%**.

4. By owner type, the share of both investors and owner occupiers experiencing gross profits remains high. **More than 95% of investor resellers made a gross profit** in Q2, while for owner occupiers it was **close to 97%**.

5. Across the main centres, as was the case last quarter, **Wellington and Dunedin have recorded the strongest results**. Even despite some volatility in property values in the past few months, Wellington in particular is buoyant, with just **1.0% of resales in the second quarter being made below the original sale price**.

6. So overall, whether you look at owner type, property type, or location, the latest pain and gain figures illustrate a **still-solid property market in New Zealand**.

7. Across the country as a whole, **total resale gains in the second quarter were $3.5bn**, with a **median of $181,000 per property**. The losses were much smaller, with a total of $23.4m and **a median per property of $20,000**.

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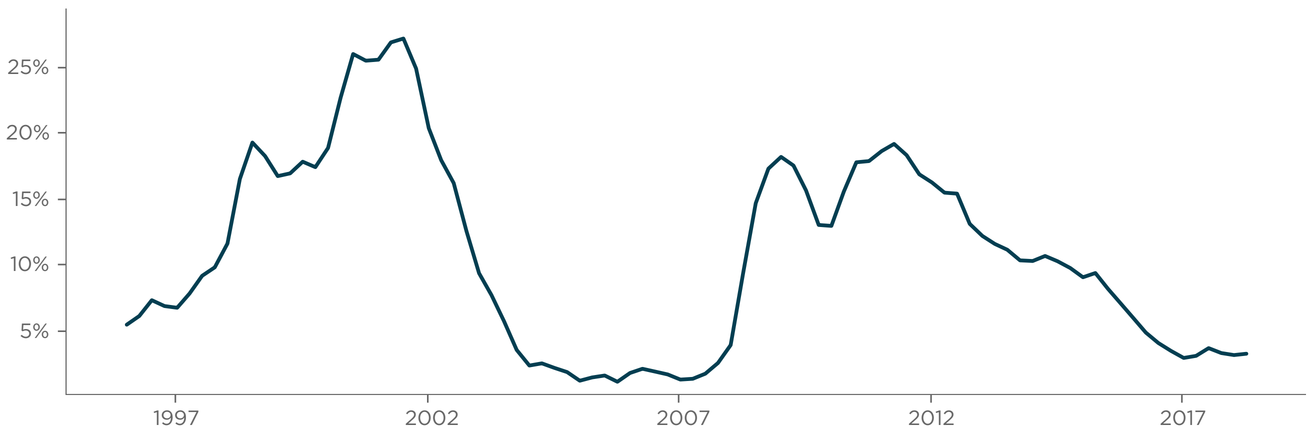
National Overview

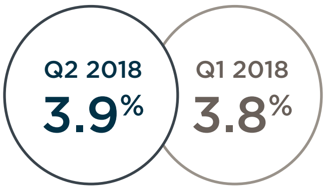
Across New Zealand as a whole, the proportion of property resales being made below the original purchase price (i.e. gross loss, or "pain") stayed below 4% in the June 2018 quarter. The latest figure was 3.9%, only slightly above the March quarter's 3.8%.

These levels of pain remain very low in an historical context, consistent with the large rises in values seen over the past five years or so – as well as the fact that even though they've slowed recently there haven't been falls.

Indeed, the mirror-image of low levels of pain is high levels of gain. To be sure, 96.1% of resales in the June 2018 quarter achieved a price higher than originally paid.

Proportion of total resales at a loss





Nationally the median resale profit in Q2 2018 was $181,000, almost identical to the figure of $182,000 in the first quarter of the year. Slightly lower levels of market activity in Q2 2018 meant that the total gross profits of $3.5bn were a touch lower than in Q1.

Meanwhile, the median resale loss of $20,000 in Q2 was exactly the same as Q1's figure. Again, on the back of lower activity, the total losses were down in Q2, to $23m.

The key point is that property owners are still banking large capital gains (albeit these have to be recycled into the next property, if they are staying in owner-occupation). The total profit in Q2 of $3.5bn swamps the losses of $23m.

	Median gross profit/loss	Gross profit/loss on resale
Pain	-$20,000	-$23,394,287
Gain	$181,000	$3,504,640,478

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Median Hold Period

Across the country as a whole, properties that resold at a loss in the June quarter had been owned for a median period of 3.1 years. That was down from 3.7 years in the March quarter and was the lowest reading since mid-2010.

In other words, the figures suggest that if and when doubts creep into a property owner's mind, they aren't currently clinging on for as long as they have done in the past. The shorter hold period for loss-making resales could be thought of as 'market fatigue' – once assumptions about continued capital gains in the future start to come into question, some owners are prepared to head for the exit quickly, even if that means a small gross loss.

By contrast, properties that resold for a gross profit in the second quarter had been held for 7.7 years, not much different than 7.9 years in Q1 2018. Hold periods for profit-making resales have consistently been around 7.5-8.5 years for the past 5-6 years.

Profit-making resales being associated with longer hold periods is hardly surprising – in a rising market over time, capital gains naturally accumulate as the years pass. In the current sluggish market, hold periods could even lengthen, as owners sit tight and wait, while they hope for capital growth to re-emerge.

Looking around the regions, median hold periods for resale gains range from around seven to 10 years. The shortest hold periods are in Auckland, Hamilton and Tauranga – which are all markets that have seen very strong growth over the past five years or so, and hence where owners have seen profits accumulate the fastest. Slower capital gains around other parts of the country – especially in Christchurch – show up in longer hold periods before owners have resold for a gross profit.

On the flipside, faster growth in the upswing inevitably gives way to rapid slowdown and the potential for greater market fatigue. So in Auckland, Hamilton and Tauranga, hold periods for loss-making resales are also the shortest (at two years or less). Pain hold periods are higher around the rest of the country, although not by much in Dunedin.

Median Hold Period	Pain	Gain
New Zealand	3.1	7.7
Auckland	2.0	6.9
Hamilton	1.8	6.5
Tauranga	1.8	6.8
Wellington	9.0	8.9
Rest of NI	7.9	8.0
Christchurch	4.1	10.7
Dunedin	2.3	7.8
Rest of SI	5.1	7.1

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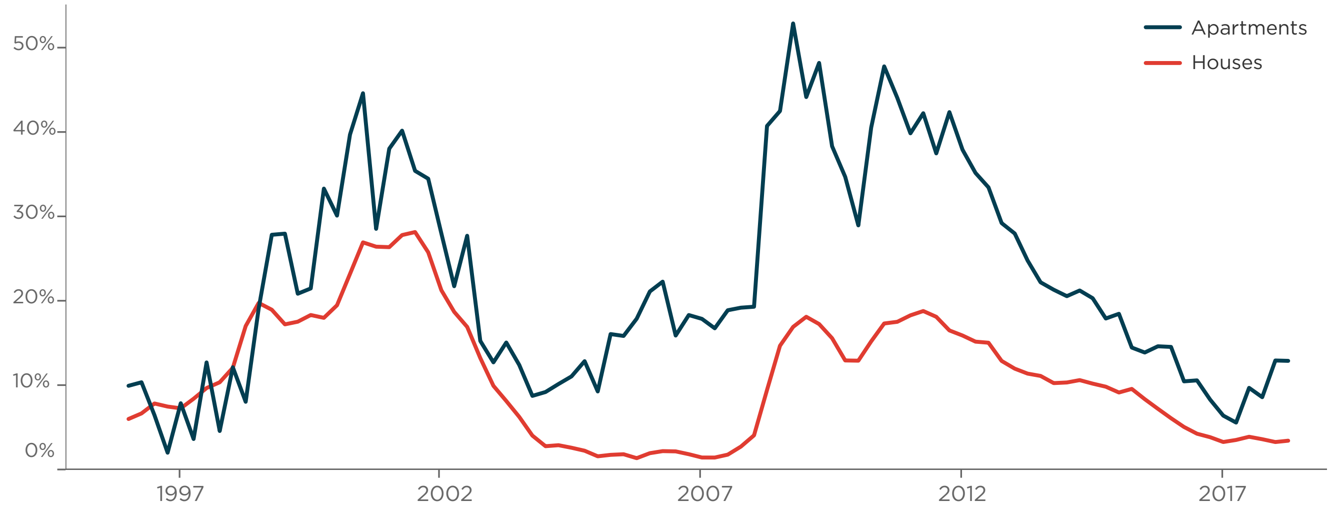
Property Types

Trends for pain and gain for houses versus apartments didn’t really change in the second quarter. Just 3.5% of house resales in Q2 were sold below their original purchase price (which meant that 96.5% for resold for a profit), barely changed from 3.4% in Q1. And the proportion of apartments being resold for a loss was unchanged at 13.0%, meaning 87.0% of apartment resales were at a gross profit.

But although the figures didn’t change much, the gap between apartments and houses is still larger than it has been for about three years. This shows that any market fatigue is more of a factor in the apartment segment, perhaps where buyers’ approach is more financially-minded and they are prepared to exit as soon as the sums don’t add up anymore.

Of course, we also need to put the figures into a longer-term context. In 2008, more than 50% of apartment resales were made at a price below the original purchase figure, so we’re still in a far stronger position than back then.

Proportion of total resales at a loss



HOMES

Q2 2018 **3.5%**

Q1 2018 **3.4%**

APARTMENTS

Q2 2018 **13.0%**

Q1 2018 **13.0%**

The total gains on house resales in Q2 2018 were $3.2bn, with a median gross profit of $180,000. For apartments, resellers banked total gains of $74.7m, with a median of a touch less than $137,000.

Median losses on apartments ($26,000) in Q2 were slightly higher than houses ($20,000), while total losses for the two segments were $2.1m and $18.4m respectively.

Profit/Loss ($)	Pain		Gain	
	Median gross profit/loss	‘Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Apartments	-$26,000	-$2,101,000	$136,846	$74,741,669
Houses	-$20,000	-$18,381,983	$180,000	$3,173,326,632

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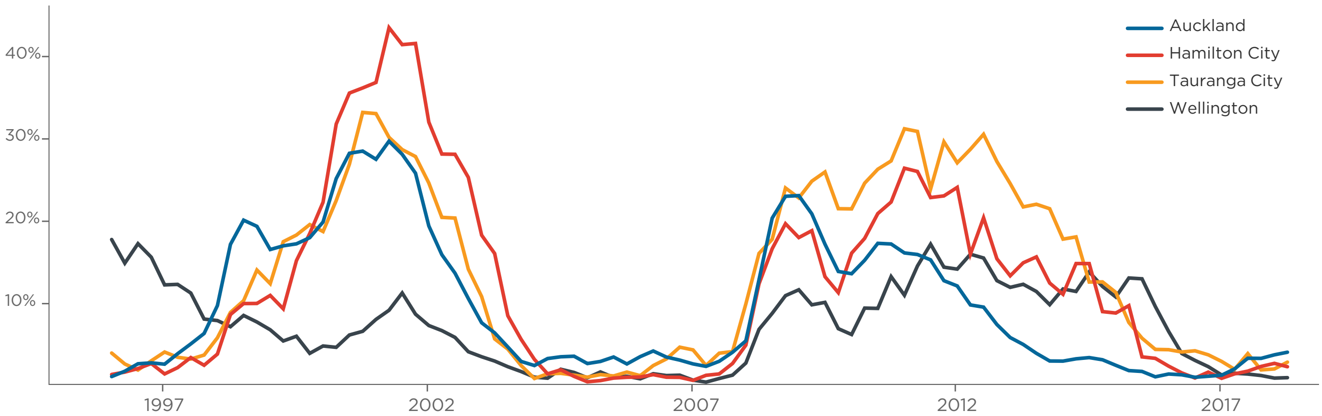
Main Centres

Most of the main centres saw the share of property resales being made for a gross profit stay pretty high and stable in the second quarter, with a concentration between 96% (Auckland) up to 99% (Wellington). The mirror image was the proportion of loss-making resales stay low and flat, at between 1% and 4%.

Proportion of total resales at a loss



	Q2 2018	Q1 2018
Auckland	4.1%	3.8%
Hamilton City	2.3%	2.7%
Tauranga City	2.9%	2.0%
Wellington	1.0%	0.9%
Christchurch City	12.0%	8.9%
Dunedin City	2.2%	0.8%

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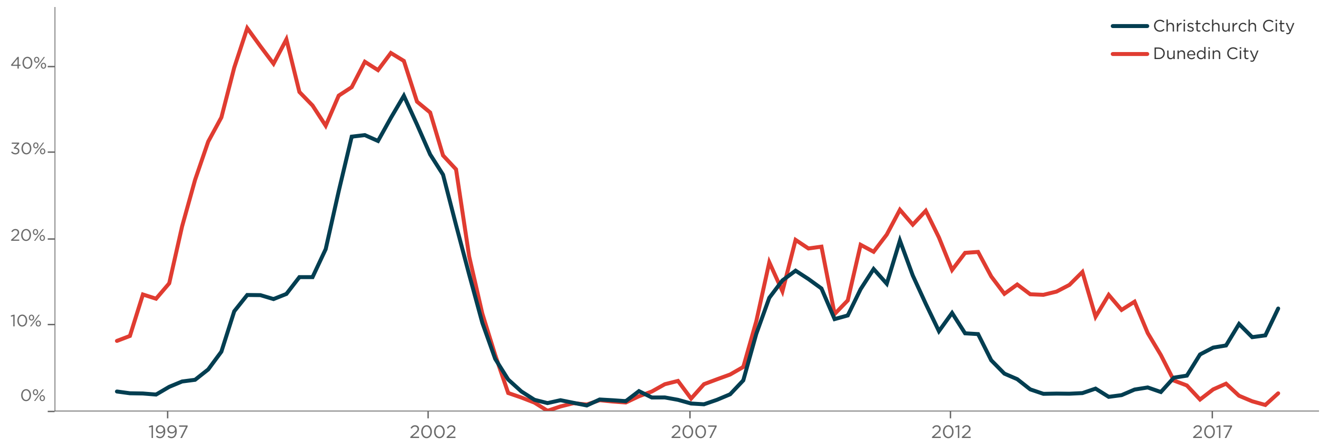
The exception was Christchurch, where the proportion of profit-making resales fell from 91% in Q1 2018 to 88% in Q2 (or losses rose from 9% to 12%). Given that average values in the city have been flat for the past few years, this dip in profit-making resales doesn't seem to be due to a falling market. Instead, it's likely to reflect 'as is, where is' sales in some cases, with the price looking like a gross loss on paper, but the true position being remedied by an insurance payout.

Proportion of total resales at a loss



Median resale profits in the second quarter across the main centres ranged from around $355,000 in Auckland down to $137,000 in Christchurch and Dunedin. Given the respective sizes and value of their markets, it was no surprise to see total profits in Auckland of $1.5bn, down to $73m in Dunedin.

Looking at gross resales losses, the medians ranged from $29,000 in Auckland to $15,000 in Hamilton. Given it's the biggest market, total resale losses were also the biggest in Auckland, at $7.5m. Of course, that's very small compared to the gains of $1.5bn.

Overall, the message at the national level also applies around the main centres – although there are some small signs of weakness and market fatigue (as you would expect in a generally sluggish market), the property market is still generating strong profits for resellers, with gross losses at low levels.

Profit/Loss ($)	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Auckland	-$29,000	-$7,476,555	$355,250	$1,492,453,065
Hamilton City	-$15,000	-$248,610	$208,250	$121,340,317
Tauranga City	-$21,000	-$826,500	$235,000	$130,543,600
Wellington	-$19,000	-$415,000	$222,500	$328,980,899
Christchurch City	-$28,000	-$6,985,612	$137,000	$198,006,397
Dunedin City	-$18,000	-$289,200	$136,750	$72,789,455

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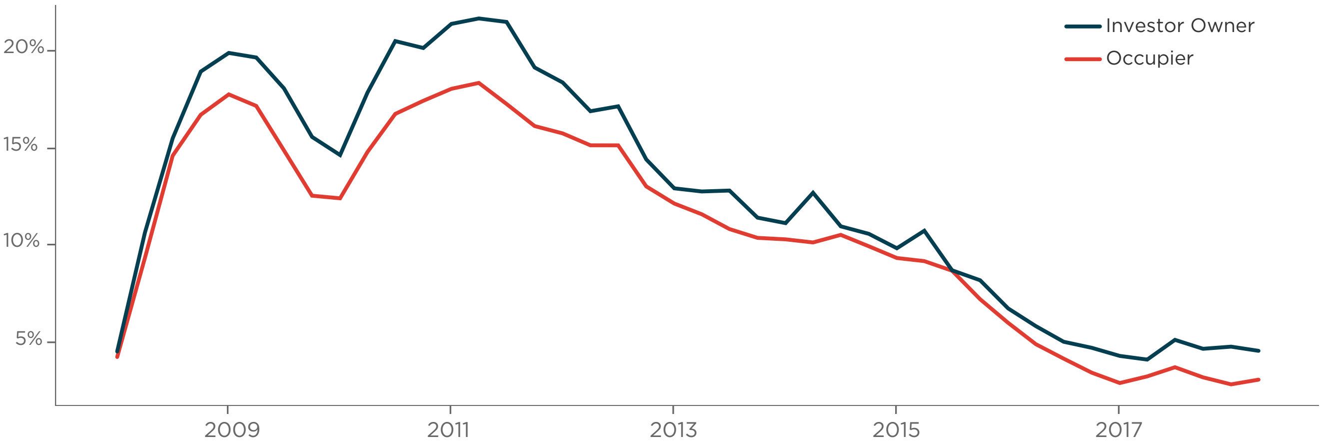
Type of Owner

By both types of reseller, profit-making resales remained very high in the second quarter. For owner-occupiers, the proportion making a resale profit held up at 96.9% (so the resale loss share was 3.1%), while for investors it was 95.4% (or losses of 4.6%). All of these figures are basically unchanged from the first three months of the year.

The gain figures are at historical highs for both owner-occupiers and investors, or the flipside is that pain is at historical lows. The fact that investors' resales are slightly more likely to be at a loss will tend to reflect their more financially-minded decisions (less emotion) and their greater tendency to buy apartments, where the pain figures are also a little higher than houses.

It's reassuring that investors are showing no signs yet of abandoning their portfolios at fire-sale prices. However, as the full effects of the Brightline test, foreign buyer ban and removal of negative gearing come through over the next 6-12 months, investors' behaviour will be a key factor to keep an eye on.

Proportion of total resales at a loss



The proportion of owner occupiers reselling for a gross profit is **higher than investors across much of the country**, with Tauranga a notable exception in the second quarter. However, given that the figures for both buyer types are more than 97%, we wouldn't read too much into this result.

For owner occupiers, the highest proportion of resale gains are to be found in **Wellington (99.6%)** and **Dunedin (99.2%)**. Given the recent strength of property values in these two cities (notwithstanding some volatility in Wellington in the past 3-4 months), it's no surprise that resellers have been locking in strong profits.

Around the rest of the North Island, the gain figures remain strong, while in the South Island Christchurch is lagging a little behind – there, **90.4% of owner occupiers booked a resale gain** in Q2, and **85.9% for investors**. Again, however, given the distortions that still apply in that market, we wouldn't be too anxious about those figures.

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Proportion of resales

	Investor		Owner Occupier	
	Pain	Gain	Pain	Gain
Auckland	4.6%	95.4%	2.9%	97.1%
Hamilton	2.4%	97.6%	2.0%	98.0%
Tauranga	1.2%	98.8%	2.3%	97.7%
Wellington	2.1%	97.9%	0.4%	99.6%
Rest of NI	2.5%	97.5%	1.9%	98.1%
Christchurch	14.1%	85.9%	9.6%	90.4%
Dunedin	4.3%	95.7%	0.8%	99.2%
Rest of SI	5.9%	94.1%	4.6%	95.4%

For profit-making resales in the second quarter of 2018, owner occupiers saw a median gain of $180,000 and investors did a little better with $191,000. In total, owner occupiers made gains of a touch more than $2.0bn and investors $1.2bn.

However, investors also saw larger median resale losses than owner occupiers in the second quarter – $25,000 and just short of $18,000 respectively. Total resales losses for investors were $10.1m and for owner occupiers it was $9.0m.

		Investor	Owner Occupier
Pain	Median gross profit/loss	-$25,000	-$17,805
	Gross profit/ loss on resale	-$10,120,998	-$9,040,633
Gain	Median gross profit/loss	$191,000	$180,000
	Gross profit/ loss on resale	$1,230,100,362	$2,002,469,640

*Note – Up until Q4 2017, this table covered the main centres and only houses & apartments. It has now been expanded to cover all of New Zealand and all property types.

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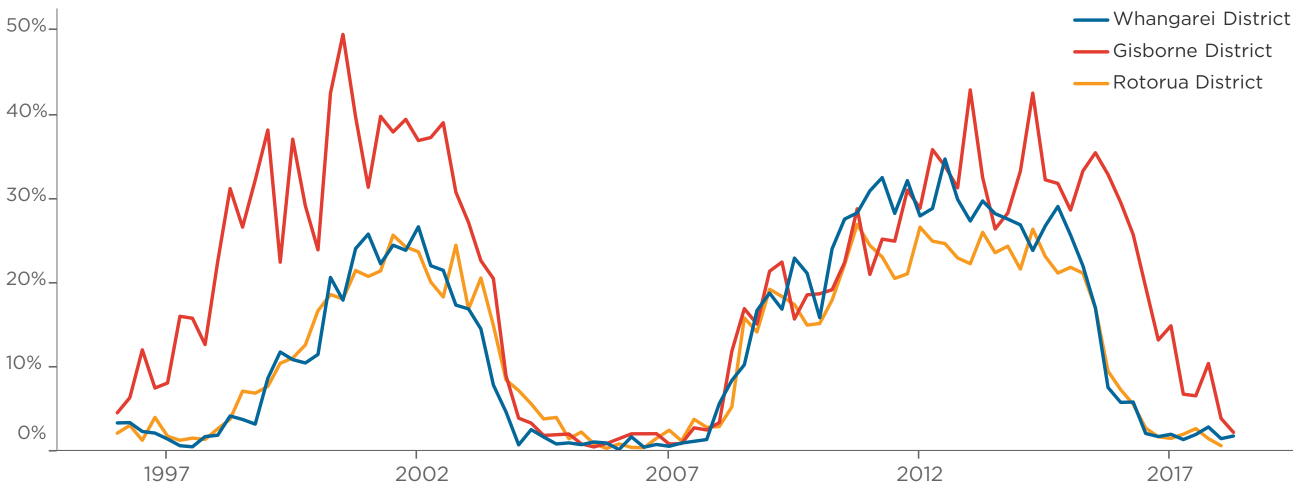
Main Urban Areas

Upper North Island

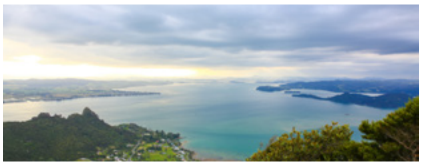
With value growth having slowed recently in Gisborne, there are signs that more sellers are viewing this as the time to start to cash-in their gains – and are doing so profitably. The proportion of resales being made below the original purchase price fell from 3.9% in the first quarter of 2018 to 2.3% in the second quarter. The flipside is a higher proportion of gross profits on resale.

Rotorua had no properties resold for a gross loss in Q2, while Whangarei's proportion ticked up from 1.5% to 1.8% – but that's still low.

Proportion of total resales at a loss



	Q2 2018	Q1 2018
Gisborne District	2.30%	3.90%
Rotorua District	-	0.70%
Whangarei District	1.80%	1.50%



Total profits ranged from **$21.1m** in Gisborne **up to $61.4m** in Whangarei.

The converse of low levels of resale losses around key centres in the Upper North Island was strong resale profits. In Gisborne, the median gain was **$100,000**, with Rotorua and Whangarei both seeing median gains around **$169,000**.

	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Whangarei District	-$27,500	-$536,000	$169,000	$61,353,890
Gisborne District	-$3,750	-$19,300	$100,000	$21,125,944
Rotorua District	-	-	$168,500	$47,718,545

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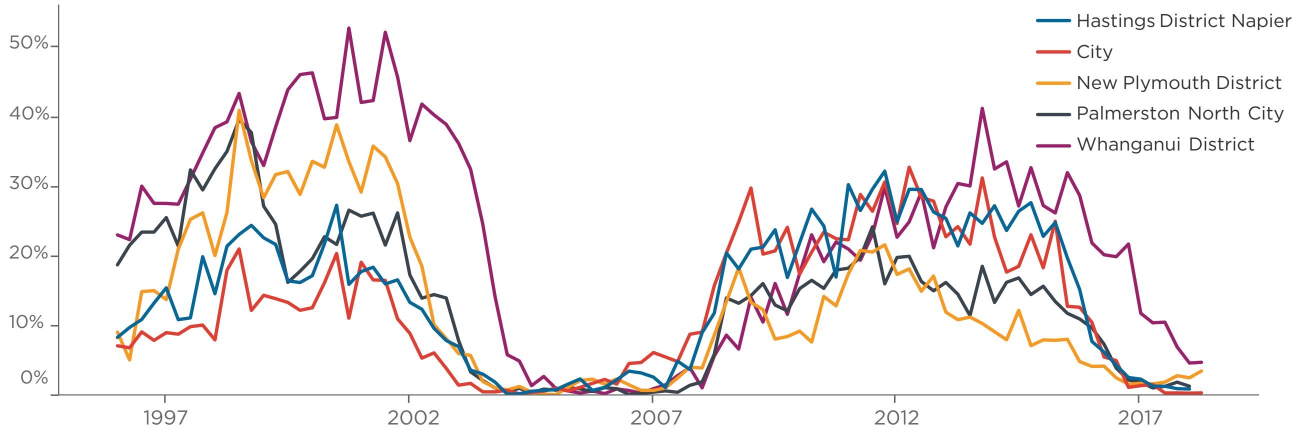
Lower North Island

The pain and gain trends also remain pretty settled in the lower North Island. Hastings and Palmerston North saw no properties being resold below the original purchase price in Q2 2018, down from already-low proportions in the first quarter.

Whanganui and Napier saw their pain proportions hold broadly steady, and stay particularly low in Napier (0.4%). New Plymouth did see a rise, but an increase from 2.6% to just 3.6% of resales for a gross loss is hardly a disaster. Over the longer term, it will be worth watching New Plymouth for any signs that the ban on new offshore resource exploration is starting to impact the city's property market.

Proportion of total resales at a loss



	Q2 2018	Q1 2018
Hastings District	-	1.00%
Napier City	0.40%	0.40%
New Plymouth District	3.60%	2.60%
Palmerston North City	-	1.40%
Whanganui District	4.70%	4.70%

Given the very low levels of loss-making resales around the lower North Island, the figures to focus on here are the resale gains. The median gains in the second quarter of the year ranged from almost $193,000 in Napier down to $85,000 in Whanganui. The strong median gains reflect the growth in wider property values in all of these markets in recent years. Total resale gains ranged from $65.0m in Hastings, down to a still-healthy $28.0m in Whanganui.

Note -
Napier's median loss figure for Q2 was zero. However, there was one property that in the city that changed hands in less than a year, sold at the same price originally paid.

	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Hastings District	-	-	$168,300	$64,969,551
Napier City	$0	$0	$192,650	$49,062,713
New Plymouth District	-$15,000	-$622,535	$125,000	$46,517,857
Palmerston North City	-	-	$131,000	$45,592,035
Whanganui District	-$3,000	-$94,500	$85,000	$27,984,680

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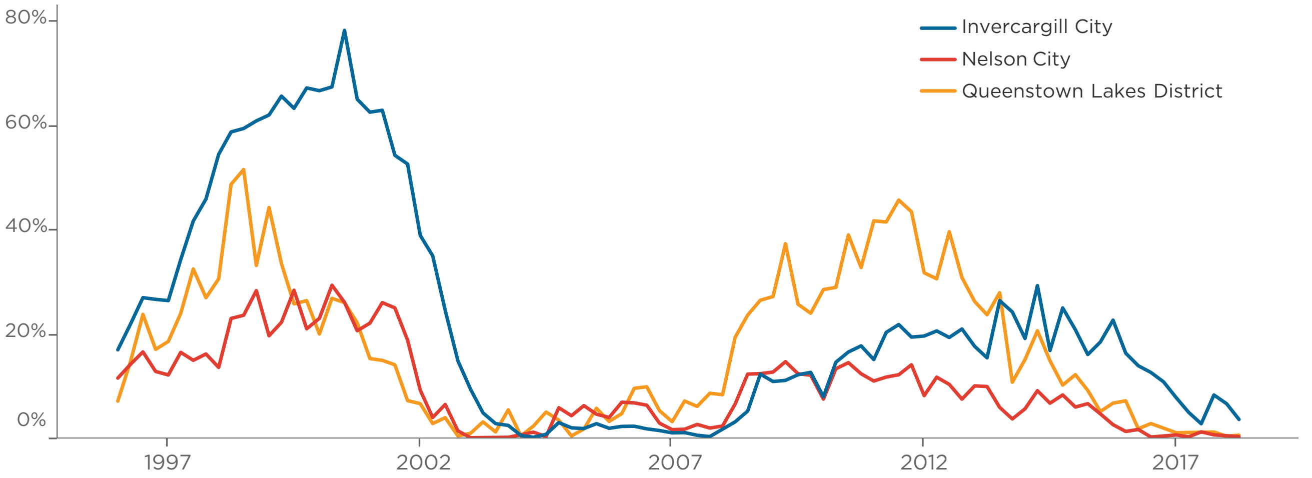
South Island

In the South Island, the pain and gain data highlights the strength of Nelson and Queenstown. The proportion of resales being made for a gross profit was more than 99% in both markets in the second quarter of the year, or the proportion for losses less than 1%.

Invercargill's figures weren't quite as strong, but they moved in a positive direction. Loss-making resales dropped from 6.8% in Q1 to 3.8% in Q2, meaning that in the three months to June more than 96% of resales in Invercargill were made for a gross profit.

Proportion of total resales at a loss



	Q2 2018	Q1 2018
Invercargill City	3.80%	6.80%
Nelson City	0.50%	-
Queenstown Lakes District	0.80%	0.60%

Again, with resale losses not really an issue around the South Island, more interest is in the resale gains. In Queenstown, the median resale profit was $365,000, with Nelson at $186,100 and Invercargill $65,500. Total profits were up at more than $68m in Queenstown, with Nelson at around $46.5m and Invercargill $27.2m.

As with Napier, Queenstown's median loss figure for Q2 was zero. However, there was one property that was held for less than 18 months which was sold in Q2, and at the same price as originally paid.

	Pain		Gain	
	Median gross profit/loss	Gross profit/ loss on resale	Median gross profit/loss	Gross profit/ loss on resale
Queenstown Lakes District	$0	$0	$365,000	$68,692,423
Invercargill City	-$16,629	-$215,757	$65,500	$27,240,406
Nelson City	-$10,000	-$10,000	$186,100	$46,466,453

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Outside the Main Urban Areas

The health of the primary sector in NZ – e.g. dairy, beef, sheep, horticulture, and forestry – has underpinned property markets outside the main urban areas and boosted the scope for profit-making resales.

Proportion of total resales at a loss

Region	District	Proportion
NTH	Far North District	7.0%
	Kaipara District	4.1%
WAI	Hauraki District	1.4%
	Otorohanga District	4.3%
	South Waikato	2.7%
	Taupo District	4.1%
	Thames Coromandel District	2.3%
	Waikato District	2.5%
	Waipa District	0·6%
BOP	Western Bay of Plenty District	2.2%
	Whakatane District	4.0%
TAR	South Taranaki District	8.0%
	Stratford District	2.4%
HB	Central Hawkes Bay District	2.9%
	Wairoa District	4.8%
MAN	Horowhenua District	0.6%
	Manawatu District	2.0%
	Rangitikei District	4.2%
	Ruapehu District	5.5%
	Tararua District	3.7%
WEL	Kapiti Coast District	0.9%
	Masterton District	0.9%
TAS	Marlborough District	1.5%
	Tasman District	0.7%
CAN	Ashburton District	12.4%
	Hurunui District	6.5%
	Kaikoura District	21.4%
	Selwyn District	13.4%
	Timaru District	2.2%
	Waimakariri District	6.8%
	Waimate District	2.9%
WC	Buller District	39.5%
	Grey District	28.2%
	Westland District	8.3%
OTG	Clutha District	5.8%
	Waitaki District	1.8%
STH	Gore District	5.4%
	Southland District	1.2%

0% 20% 40%

Lowest proportion of loss making resales:

- Essentially all of the North Island – especially around Wellington, parts of Manawatu (e.g. Horowhenua), parts of Waikato (e.g. Waipa).
- The top and bottom of the South Island – Tasman District, Waitaki, and Southland.

Largest proportion of loss making resales:

- Parts of Canterbury – as was the case last quarter, weaker spots include Kaikoura and Selwyn, with Ashburton softer in Q2 too.
- The West Coast – Buller and Grey districts in particular.

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