

Pain & Gain Report

New Zealand

Quarter 4, 2018



CoreLogic®



Contents

CoreLogic Solutions	3
Executive Summary	4
National Overview	5
Median Hold Period	6
Property Types	7
Main Centres	8
Type of Owner	10
Main Urban Areas	12
Upper North Island	12
Lower North Island	13
South Island	14
Outside the Main Urban Areas	15
About CoreLogic	16
About Us	16
Disclaimer	16

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CoreLogic Pain & Gain Report New Zealand Quarter 4, 2018 | 3

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 October 2018 and 31 December 2018) include:

1. The proportion of **all properties resold in Q4 2018** for more than the original purchase price (i.e. a gross profit, or "gain") was **96.3%**. That's a high figure and meant that "pain" was low, at 3.7%. In Q3 2018, the pain figure was 4.0%.
 

2. The strong likelihood that anybody reselling property recently will have made a **gross profit reflects the extended upswing in values across New Zealand** and the fact that long holding periods (typically about seven years) allow the gains to accrue. Similarly, low mortgage rates and few mortgage repayment problems have reduced any pressure to force through quick sales for low prices.
 

3. By property type, the **share of apartment resales made for a gross profit in Q4 was 89.8%**, lower than the figure for houses of 96.6%. Given that apartments are more likely to be owned by financially-minded investors (rather than emotionally-minded owner-occupiers), there is more scope for losses to sometimes just be accepted as a part of being in the property investment business.
 

4. It's no surprise to see that properties that have been renovated are held for longer and are more likely to turn a gross profit than those that haven't. In Q4, **99.7% of resales that had previously had a building consent issued against them were sold for more than the original purchase price.**


5. Wellington (99.1%) tops the charts for the incidence of resales being made for a gross profit, while Dunedin, Hamilton and Tauranga also remain strong. Consistent with other evidence of a softer Auckland property market, the proportion of resales being made for a gross loss went above 5% in Q4, for the first time since mid-2013. Away from the main centres, the Pain & Gain figures are still **showing strength in the lower North Island, but softer markets in Canterbury and the West Coast.**


6. The national median resale profit in **Q4 2018 was \$195,000**, up by \$10,000 from Q3's figure of \$185,000 – giving a total profit across the country of \$3.5bn. The median resale loss in the fourth quarter was \$25,000.
 

7. Overall, the property market is still **generating strong profits for resellers, with gross losses at low levels.** Some of that equity will have been withdrawn from the market, but often it's simply recycled back into the next purchase.
 

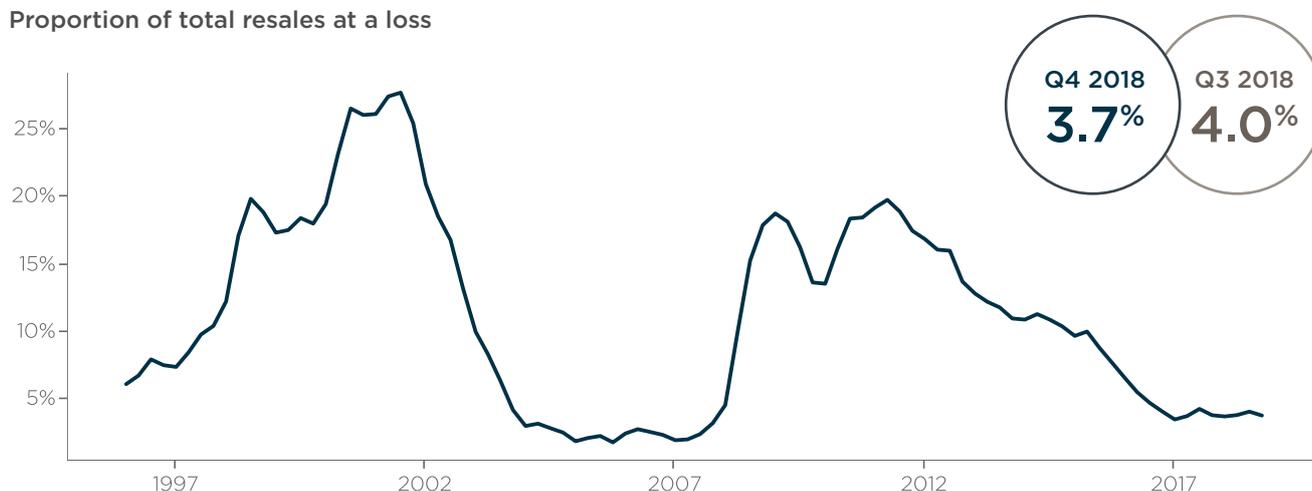
National Overview

Across New Zealand as a whole, the proportion of properties being resold for more than the original purchase price (i.e. a gross profit, or “gain”) in Q4 2018 was 96.3%. That was slightly higher than the figure of 96.0% in the previous quarter.

The gain proportion has been hovering at around these high levels of 96% for some time now and in fact has been more than 95% since the third quarter of 2016 – i.e. for the last two and a half years. This reflects the fact that property values prices have continued to rise across large parts of the country, and at worst have been flat in a handful of markets (most notably Christchurch and Auckland).

The flipside of high levels of gain, of course, is low levels of pain. The proportion of properties being resold for less than the original purchase price (i.e. a gross loss) has been below 5% since Q3 2016. Where a renovation has been carried out, the degree of “pain” is even smaller. In the fourth quarter, just 0.3% of resales that had previously had a building consent issued against them were sold for less than the original purchase price.

Proportion of total resales at a loss



Nationally the median resale profit in Q4 2018 was \$195,000, up by \$10,000 from Q3’s figure of \$185,000. This was the highest median resale profit in the history of this series, which goes back more than 20 years. Of course, when looking at the figures in nominal terms rather than real (i.e. inflation-adjusted), the general rise in prices over time means that a new record profit will tend to be set most quarters.

However, despite the high median gain, the total profit dropped in Q4 because the volumes of sales across the market have been sluggish. In Q4 2018, the total profit was \$3.5bn, still a strong result, but down from \$4.5bn a year ago.

Meanwhile, the median resale loss in the fourth quarter was \$25,000, a touch higher than the figure of \$20,000 in Q3.

Technically, Q4’s figure was the weakest since Q2 2009. But throughout all of that period the losses have been in a pretty tight range of \$15,000 to \$23,000, so Q4’s result was still more or less ‘normal’ compared with recent trends.

The total resale losses in the fourth quarter were \$31.2m, a bit smaller than Q3’s figure of \$31.8m (again reflecting a quieter market in terms of activity).

So overall, as has been the case for a few years now, property resellers have continued to make large gross profits in Q4, with only minimal losses. Some of that equity will have been withdrawn from the market, but often it’s simply recycled back into the next purchase.

	Median gross profit/loss	Gross profit/loss on resale
Pain	-\$25,000	-\$31,196,565
Gain	\$195,000	\$3,523,525,571

Median Hold Period

For New Zealand as a whole, properties that resold for a gross loss in the December quarter had been owned for a median period of 2.8 years. Hold periods for loss-making resales are currently hovering at their shortest durations for about nine years, indicating that when owners are starting to consider alternatives in the current market they aren't lingering over the decision. They're acting quickly and moving on.

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.

Hold periods for profit-making resales are also relatively short at present, coming in at 7.6 years in Q4 (up slightly from Q3's figure of 7.5 years). From 2013 to 2017, the hold periods for gains had been pretty consistently at eight years or above. Given that we've had a generally rising property market over the last decade or so, it stands to reason that gross profits are more likely (and larger) the longer a property has been held for.

Regardless of whether or not a building consent is attached to a property, hold periods are longer for profits than losses. But where a renovation has been carried out, the hold periods are longer for both pain (7.5 years) and gain (11.4 years) than for properties with no renovation (2.7 and 7.0 years respectively). In other words, renovated properties are held longer before resale, consistent with the idea that the building work allows the home to be more suitable for its current owners' needs for longer. Looking around the regions, median hold periods for resale gains tend to be around 7-8 years, with Hamilton (6.3) and Tauranga (5.9) a touch lower than that range in the fourth quarter. Christchurch's median hold period for a resale profit was also outside the norm in Q4, up at 10.8 years.

The median hold periods for resale losses are pretty similar at around two years in Auckland, Hamilton and Tauranga, and a little higher in Dunedin (3.1) and Christchurch (4.2). Wellington stands out on this measure, with loss-making resales in Q4 having been held for a median of 8.4 years.

Median Hold Period	Pain	Gain
New Zealand	2.8	7.6
Auckland	2.3	7.4
Hamilton	2.3	6.3
Tauranga	2.1	5.9
Wellington	8.4	8.6
Rest of NI	5.2	7.4
Christchurch	4.2	10.8
Dunedin	3.1	7.8
Rest of SI	3.9	7.2

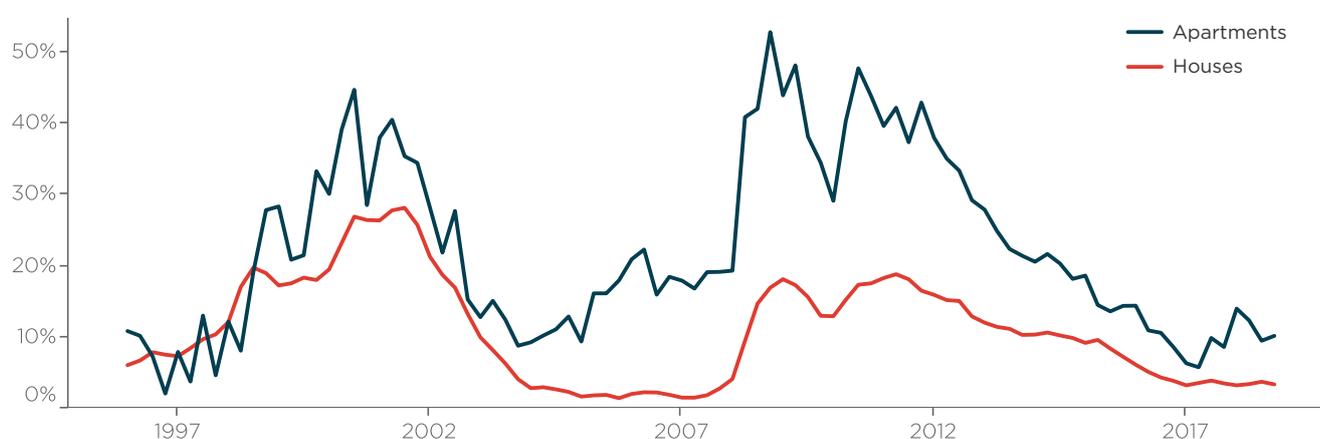
Property Types

The proportion of house resales made below the original purchase price remained very low in Q4, at 3.4% (therefore 96.6% were made for a gross resale profit). Gross loss proportions for house resales have been hovering at 3-4% for more than two years now.

Resale losses have been more common for apartments, at 10.2% in the fourth quarter, up a touch from 9.5% in Q3. This figure troughed at 5.8% in Q2 2017, but recent proportions have still been far lower than the peak of 52.9% in Q4 2008.

The key point is that apartments are still more likely to be sold for a resale loss than houses. This shows that any market fatigue is more of a factor in the apartment segment (although much less of an issue than it may have been in 2008), perhaps where buyers' approach is more financially-minded and they are prepared to exit as soon as the sums don't work.

Proportion of total resales at a loss



The total gains on house resales in Q4 2018 were \$3.1bn, with a median gross profit of \$192,000. For apartments, the total resale profits were \$73.4m, with a median gross profit of \$160,000. The higher values of houses mean that median resale gains are always likely to be larger than for apartments.

Median losses on apartments in Q4 were \$39,250, quite a bit higher than for houses (\$22,000), while total losses for the two segments were \$3.5m and \$22.6m respectively.

Profit/Loss (\$)	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Apartments	-\$39,250	-\$3,519,860	\$160,000	\$73,394,674
Houses	-\$22,000	-\$22,639,826	\$192,000	\$3,147,502,748

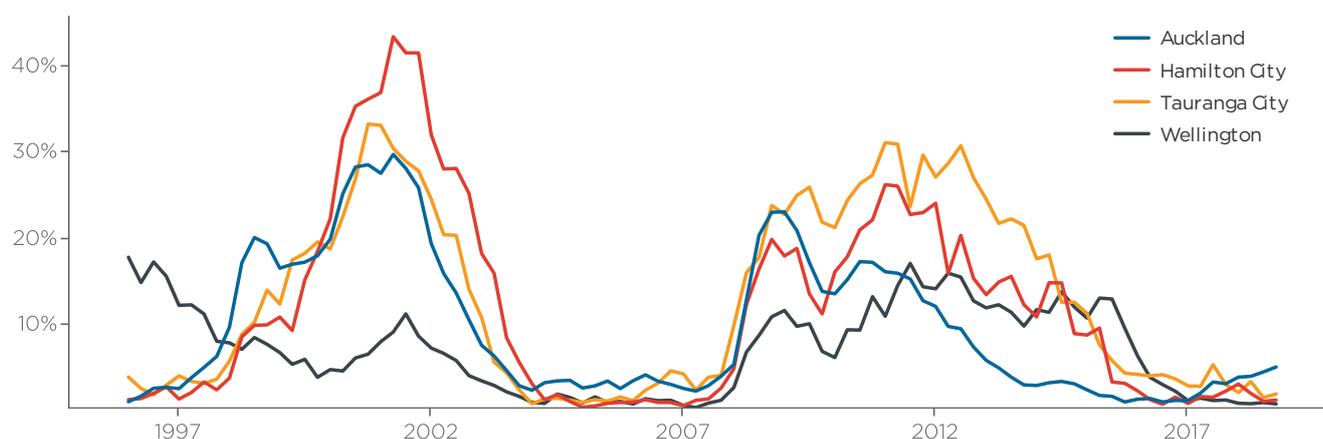
Main Centres

Most of the main centres saw the share of property resales being made for a gross profit stay high again in the fourth quarter, with little change in Hamilton, Tauranga, or Wellington. Wellington topped the charts, with more than 99% of resales for a profit in Q4.

Dunedin saw the share of resales at a gross profit dip slightly in Q4, from 99.0% in Q3 to 98.2% - however, that's still a very high level. Meanwhile, although resales in Christchurch remain less likely than the other main centres to be made for a gross profit (reflecting the problems with 'as is, where is' properties, albeit the 'loss' on paper is often topped up by an insurance payout), the figure at least rose from 88.5% in Q3 to 89.5% in Q4.

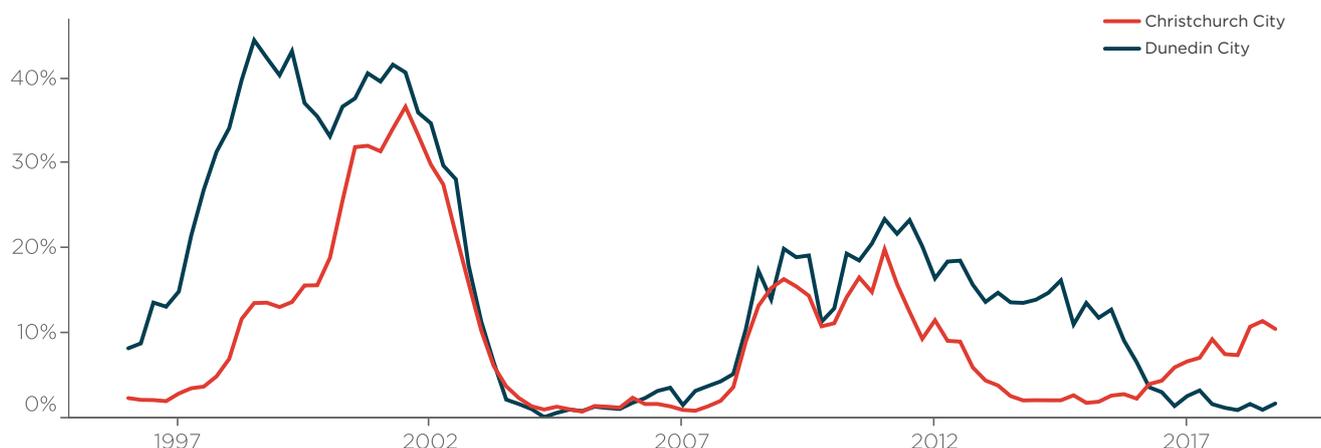
Auckland is moving into focus as a key area of interest. Yes, the share of properties being resold for a gross profit in Q4 was still high, at 94.9%. But reflecting the creeping sense that the market has softened lately on the back of factors such as high listings volumes and the effect on demand of the foreign buyer ban, the resale profit proportion has been slowly trending down from about 99% in early 2017.

Proportion of total resales at a loss



	Q4 2018	Q3 2018
Auckland	5.1%	4.6%
Hamilton City	1.3%	1.2%
Tauranga City	2.0%	1.6%
Wellington	0.9%	1.0%
Christchurch City	10.5%	11.5%
Dunedin City	1.8%	1.0%

Proportion of total resales at a loss



However, although it's becoming slightly less likely that resellers in Auckland will make a gross profit, the profits when they do achieve them are still high. In Q4, the median was \$355,000, up a touch from \$350,000 in Q3.

Across the rest of the main centres, the median resale profits in Q4 ranged from \$138,250 in Christchurch up to \$264,550 in Wellington. Dunedin's property market boom is reflected in the median resale profit - up from about \$60,000 in 2015 to almost \$170,000 now. Auckland's total resale profits were the largest (\$1.3bn), followed by Wellington (\$386m), Christchurch (\$206m), and the rest of the main centres around the \$100m mark.

Median resale losses were less than \$30,000 in Dunedin, Hamilton, Christchurch, and Tauranga. But they were higher at \$43,500 in Auckland and \$50,000 in Wellington. In Wellington, there were only 11 resale losses incurred in Q4, so the "pain" was concentrated amongst only a handful of sales. Again, total losses were highest in Auckland (\$15.1m), down to \$6.3m in Christchurch and \$1.5m or less elsewhere.

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	-\$43,500	-\$15,063,234	\$355,000	\$1,306,465,269
Hamilton City	-\$25,500	-\$164,750	\$217,000	\$101,584,146
Tauranga City	-\$8,500	-\$293,000	\$240,000	\$131,710,509
Wellington	-\$50,000	-\$1,500,280	\$264,550	\$386,050,968
Christchurch City	-\$21,000	-\$6,297,538	\$138,250	\$206,430,397
Dunedin City	-\$27,500	-\$366,500	\$168,500	\$112,488,948

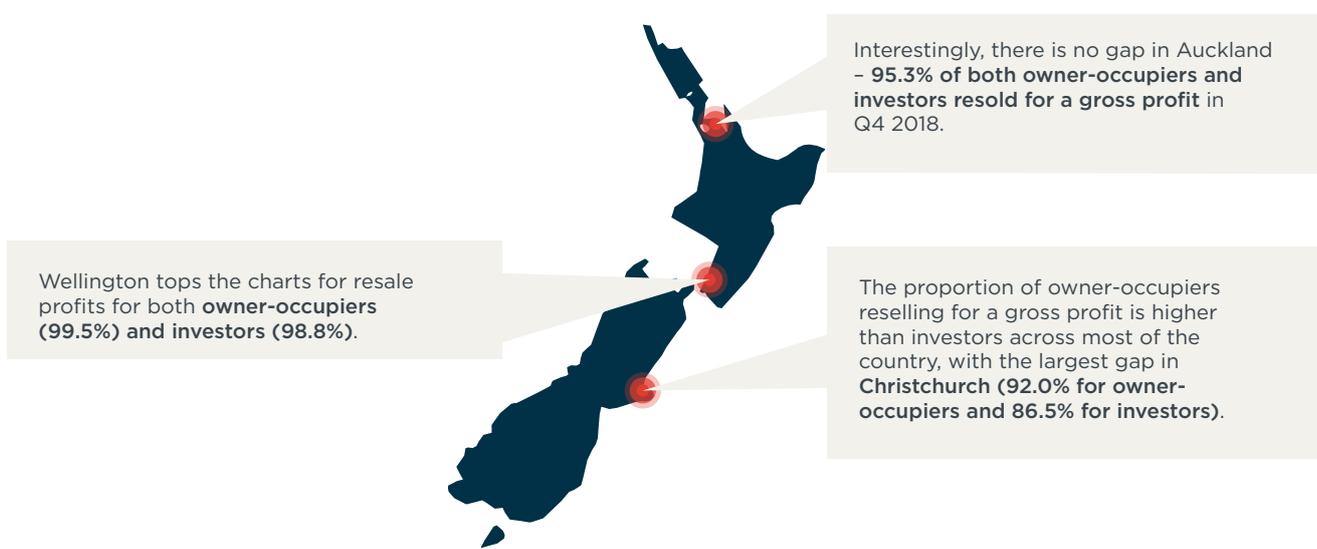
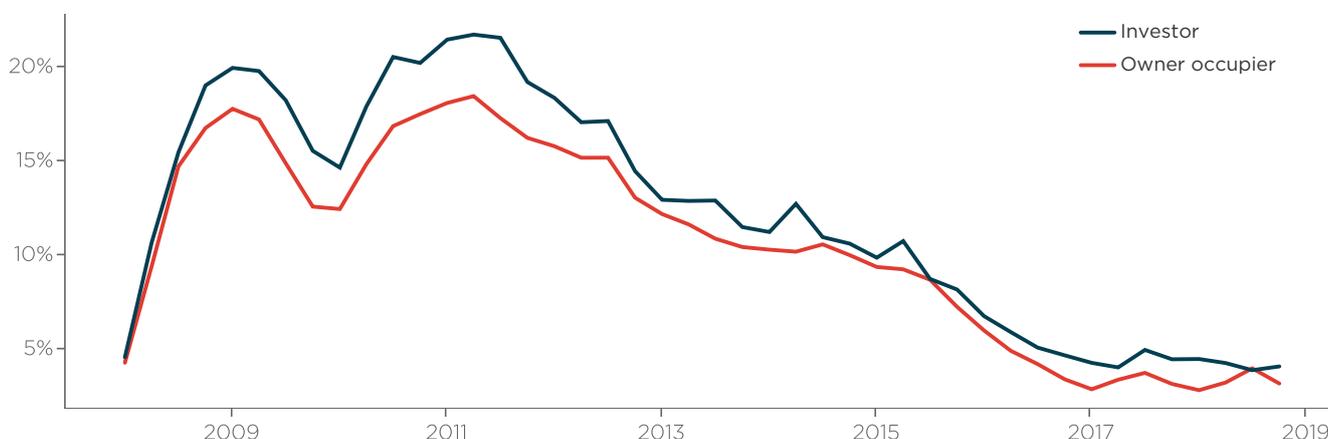
Type of Owner

By both types of reseller, profit-making resales remained high in Q4. For investors, the figure was stable at around 96% and for owner-occupiers it actually improved from 96% in Q3 to 97% in Q4. More generally, all of these figures have been broadly stable going right back into 2016.

As is the more general story too, gross profits occur more commonly (or gross losses less often) for both investors and owner-occupiers when the property being resold has previously had a building consent issued. For both owner types, more than 98% of resales in Q4 that had a building consent attached made a gross profit.

Although the gap isn't large, there is a slightly higher likelihood that investors will sell for a loss than owner-occupiers. That will reflect their greater tendency to own apartments, as well as their more financially-minded decisions. Although our data, alongside anecdotal reports, shows that for now investors are not abandoning the market due to extra costs and government regulations, it'll be interesting to see how the Pain & Gain data shape up for investors over the coming quarters.

Proportion of total resales at a loss



Proportion of resales

	Investor		Owner Occupier	
	Pain	Gain	Pain	Gain
Auckland	4.7%	95.3%	4.7%	95.3%
Hamilton	0.8%	99.2%	2.3%	97.7%
Tauranga	1.7%	98.3%	2.2%	97.8%
Wellington	0.5%	99.5%	1.2%	98.8%
Rest of NI	1.4%	98.6%	2.2%	97.8%
Christchurch	8.0%	92.0%	13.5%	86.5%
Dunedin	0.9%	99.1%	3.5%	96.5%
Rest of SI	4.7%	95.3%	4.8%	95.2%

Taking NZ as a whole, the figures on the actual gains and losses made are not too dissimilar across owner-occupiers and investors. In Q4, investors made a median resale loss of \$30,000 and a gain of \$201,500 – versus \$22,000 and \$190,000 respectively for owner-occupiers.

In total, owner-occupiers made \$1.9bn of gains in Q4 and \$13.0m of losses. The figures for investors were \$1.2bn and \$12.6m.

		Investor	Owner Occupier
Pain	Median gross profit/loss	-\$30,000	-\$22,000
	Gross profit/loss on resale	-\$12,622,558	-\$13,024,721
Gain	Median gross profit/loss	\$201,500	\$190,000
	Gross profit/loss on resale	\$1,239,771,651	\$1,911,839,288

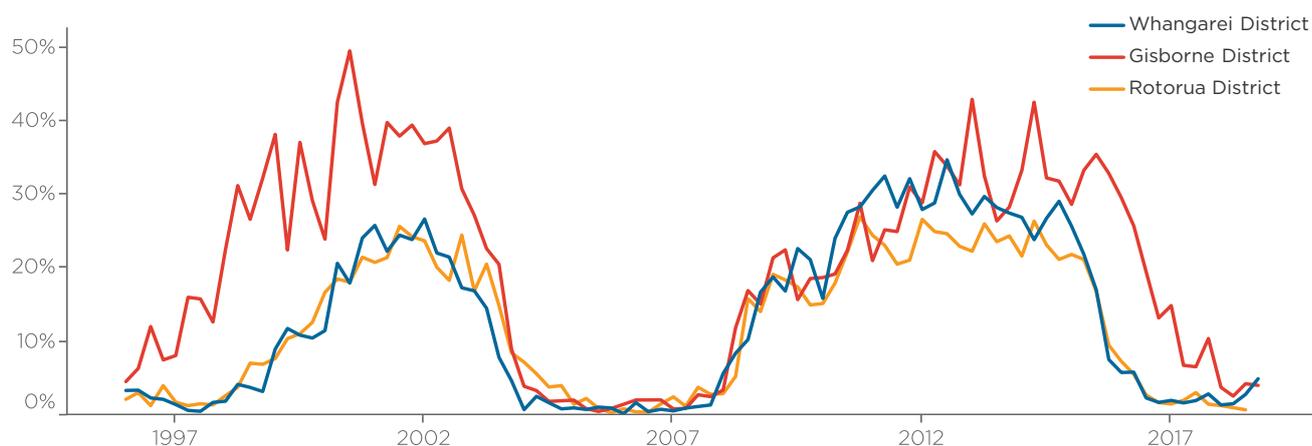
Main Urban Areas

Upper North Island

Whangarei saw the proportion of resales made below the original purchase price rise from 2.9% in Q3 to 5.0% in Q4 – despite the rise, still a very low level. On the flipside, 95.0% of resales were made for a profit.

Gisborne was pretty steady in Q4, with the proportion of resales made for a gross loss edging down only a small amount from 4.3% in Q3 to 4.1%. Meanwhile, Rotorua had no resales made at a loss in Q4, down from an already-low 0.8% in Q3.

Proportion of total resales at a loss



	Q4 2018	Q3 2018
Gisborne District	4.1%	4.3%
Rotorua District	-	0.8%
Whangarei District	5.0%	2.9%

In terms of the dollar amounts, Rotorua's median resale profit was \$195,000 in Q4, slightly below Whangarei's figure of \$198,530, but both areas exceeded Gisborne's \$111,000. The total profits exceeded \$50m in both Whangarei and Rotorua, but were \$22.4m in Gisborne.

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Whangarei District	-\$49,843	-\$917,678	\$198,530	\$53,098,762
Gisborne District	\$0	-\$145,000	\$111,000	\$22,427,687
Rotorua District			\$195,000	\$50,756,301

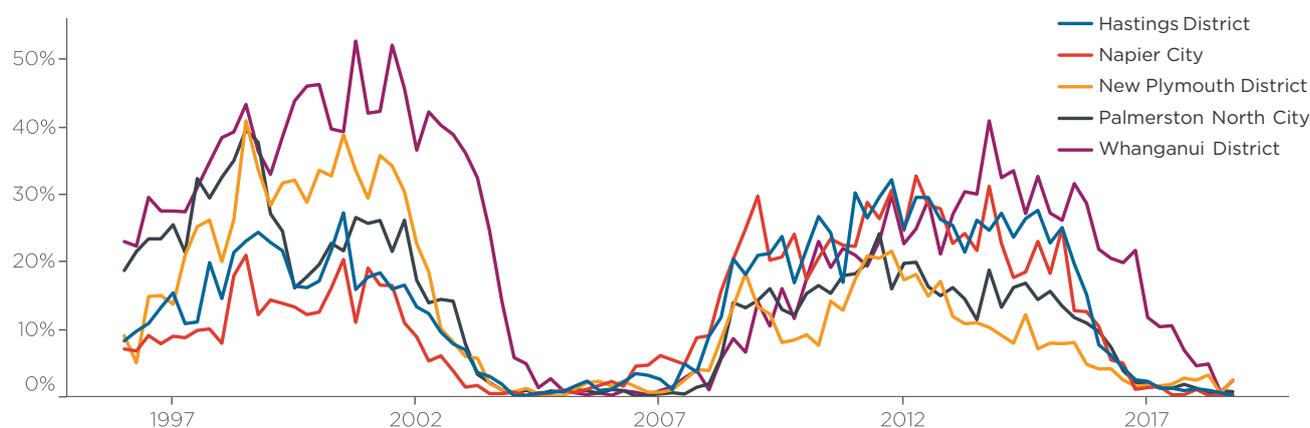
*The reason why the median gross loss for Gisborne shows in the table as \$0 yet the total is \$145,000 is that, of the seven sales covered, six were sold at the same price as originally paid – therefore the median (or fourth reading) is \$0. The remaining sale (31st Oct. 2018) was for \$240,000, which was \$145,000 below the purchase price (15th Nov. 2007).

Lower North Island

Given the general strength of the property market across much of the lower North Island, it's no surprise to see that "pain" is low. Hastings and Napier are seeing almost no resale losses at all – indeed the figures of 0.3% and 0.4% respectively comprised of just one property resold for a loss in each area in Q4.

Palmerston North held below 1% in terms of its share of resales being made below the original purchase price, although New Plymouth (up from 0.6% to 2.6%) and Whanganui (0.8% to 2.5%) saw increases. Despite those rises, however, the level of pain is still very low in both New Plymouth and Whanganui.

Proportion of total resales at a loss



	Q4 2018	Q3 2018
Hastings District	0.3%	0.7%
Napier City	0.4%	0.4%
New Plymouth District	2.6%	0.6%
Palmerston North City	0.9%	1.0%
Whanganui District	2.5%	0.8%

Given the low likelihood of making a resale loss, the totals around each of these areas were all about \$550,000 or less. The flipside of course is strong profits, which in median terms ranged from \$209,500 in Napier in Q4 down to \$108,500 in Whanganui. Most of the totals were between \$50m and \$60m, with only Whanganui coming in a bit lower (\$23.4m).

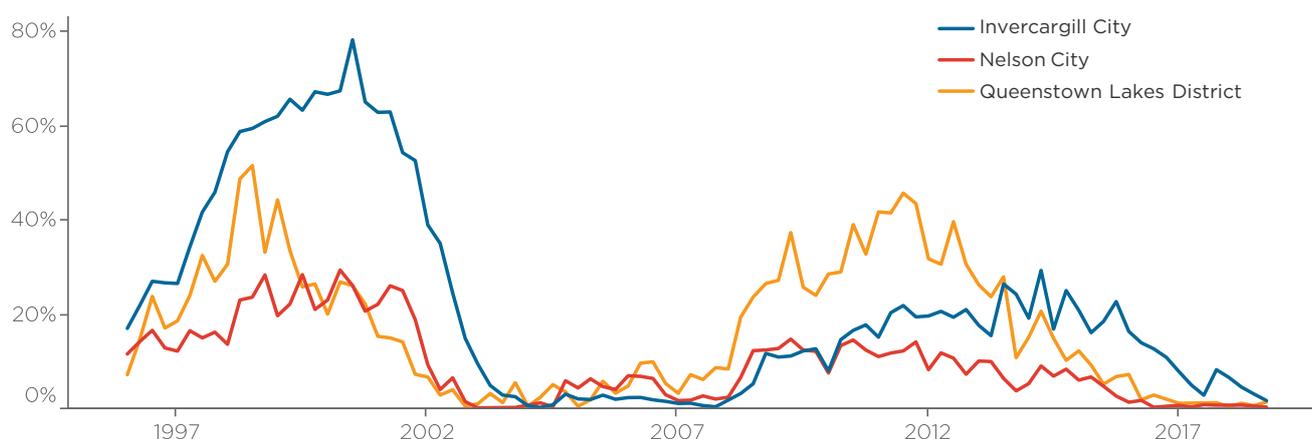
	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Hastings District	-\$25,000	-\$25,000	\$163,750	\$59,203,623
Napier City	\$0	\$0	\$209,500	\$52,604,078
New Plymouth District	-\$24,000	-\$553,545	\$130,625	\$60,306,480
Palmerston North City	-\$30,000	-\$125,000	\$140,500	\$57,060,881
Whanganui District	-\$39,000	-\$144,000	\$108,500	\$23,367,824

South Island

In the South Island, the common theme applies – low proportions of loss-making resales and strong profits. In Q4, the proportion of resales made below the original purchase price was less than 2% in each of Invercargill, Nelson, and Queenstown.

After an upwards blip in the final quarter of 2017, Invercargill's pain percentage has fallen away throughout 2018.

Proportion of total resales at a loss



	Q4 2018	Q3 2018
Invercargill City	1.80%	3.2%
Nelson City	0.5%	-
Queenstown Lakes District	1.5%	0.8%

With resale losses not really an issue around the South Island, more interest is in the resale gains. In Queenstown, the median resale profit in Q4 was more than \$387,000, for a total in the area of \$68.5m. Nelson's median gain was \$206,000 for a total of \$52.2m, and Invercargill saw figures of \$83,000 and \$36.2m respectively.

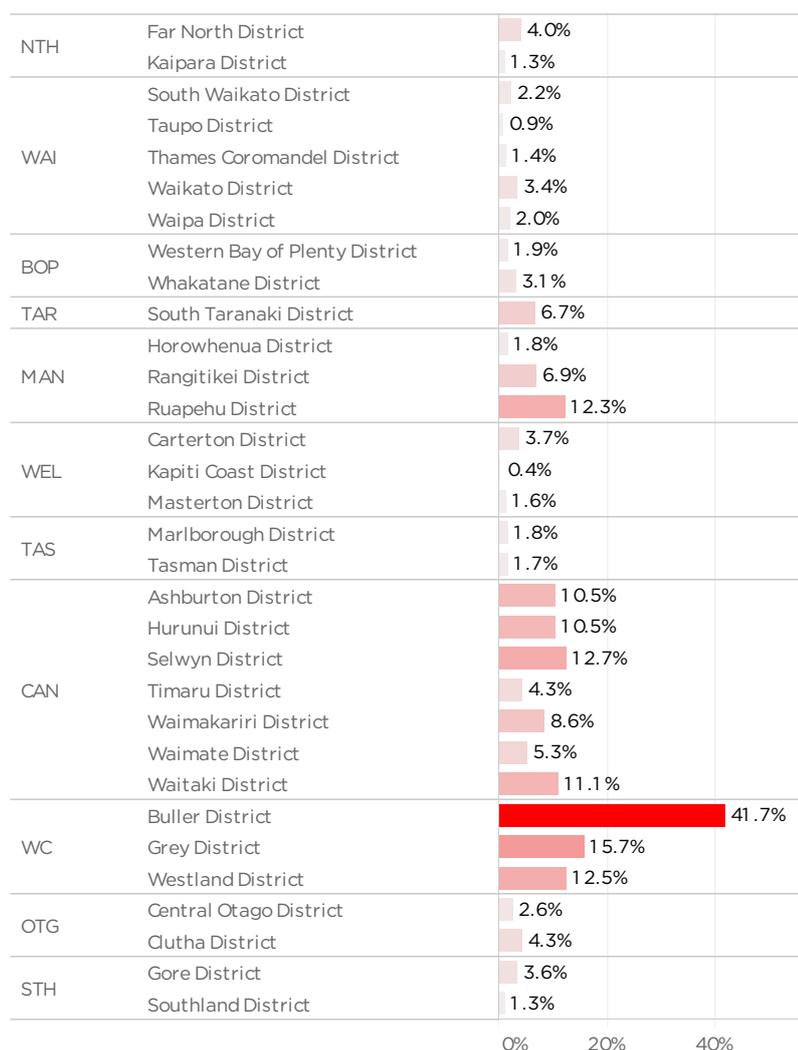
	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Queenstown Lakes District	-\$102,000	-\$204,000	\$387,407	\$68,455,510
Invercargill City	-\$21,500	-\$128,000	\$83,000	\$36,207,331
Nelson City	-\$20,000	-\$20,000	\$206,000	\$52,217,574

Outside the Main Urban Areas

Generally speaking, property markets around regional NZ are also faring pretty well, with profit-making resales common. There are, however, some areas of weakness, centred around the West Coast and Canterbury.

Proportion of total resales at a loss

Minor regions



Lowest proportion of loss making resales in Q4 2018:

- ▶ Essentially all of the North Island, except for some slightly weaker figures in Ruapehu, Rangitikei, and South Taranaki.
- ▶ The top and bottom of the South Island – Tasman District, Otago, and Southland.

Largest proportion of loss making resales in Q4 2018:

- ▶ The West Coast – Buller in particular had 41.7% of resales (15 properties) in Q4 at a price lower than originally paid.
- ▶ Parts of Canterbury – Waimakariri, Selwyn, and Ashburton all had double-digit loss percentages in Q4 spread across a reasonable sample size of properties. Stable property values in these areas are clearly making it more common for some resellers to struggle to achieve the same sale price as what they paid.

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