

NZ Vs Australia: A property comparison

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With house prices now falling significantly in Australia, the inevitable question is beginning to arise: “will the downturn spread across to NZ?” We’re not convinced that it will, for three main reasons.

First, NZ does not generally have an oversupply of property of any type or in any region. Indeed, our largest city of Auckland has the opposite problem: a large shortfall of housing, which is propping up values even though property is relatively unaffordable in our biggest city. By contrast, it is widely accepted that there are too many apartments in Sydney and Melbourne, and this is dragging down prices. So-called settlement risk (where a buyer who purchased off the plans some time earlier suddenly walks away from the transaction) is a growing problem for some of these large-scale developments.

Second, NZ is yet to see the same increases to mortgage rates that other countries are seeing, including Australia. In fact, although there are now signs that it might be ending, the banks here have recently engaged in a “rate war” with borrowers enjoying some pretty sharp fixed-rate deals in recent weeks. On a related point, about 80% of mortgage debt is on fixed interest rates in NZ, giving borrowers time to adjust their finances in advance of an interest rate increase being pushed through to their mortgage. That is in stark contrast to Australia, where floating rates dominate.

Third, NZ’s regulators have arguably been much more proactive than Australia’s in curbing the riskiest lending practices. Interest-only lending is more controlled in NZ, and it’s also easy to forget that we’ve actually had the LVR restrictions (in one form or another) here for five years now. This has put our mortgage market on a surer footing than Australia’s.

To be fair, none of this precludes a housing market downturn here in NZ at some stage in the future. But for now, and with the labour market a huge support for property, we’re confident that Australia’s problems won’t be replicated in New Zealand for the foreseeable future.

Tags: NZ Property Market , NZ realestate