There's still some heat left in the NZ property market, but not in Auckland

Nick Goodall Core Logic 7 Mar 2019

According to the CoreLogic QV February House Price Index results, property values in New Zealand have grown by 0.7% over the summer season, with the annual growth rate lifting very marginally from 2.9% in January to 3.0% last month.

Values in Auckland remain constrained as the index moved sideways in February, resulting in an annual drop of -0.9%. Head of Research, Nick Goodall says that *"Low affordability remains a significant handbrake on Auckland property values and while we have seen signs of vendors adjusting their expectations to get a sale, this approach is not citywide. Meanwhile, around the rest of the country there remains a shortage of properties listed for sale, which is ensuring that some price pressure remains."*

	Change in property values			Average Value
	Month	Quarter	Annual	
Auckland	-0.1%	-0.6%	-0.9%	$1,044,576
Hamilton	0.5%	2.5%	5.8%	$580,233
Tauranga	0.4%	1.6%	2.6%	$725,113
Wellington	0.8%	2.0%	8.6%	$699,183
Christchurch	-0.5%	-0.1%	0.1%	$495,089
Dunedin	2.9%	4.0%	14.3%	$449,023

Highlights over the three months to February 2019

- Best performing main city: **Dunedin +4.0%**
- Weakest performing main city: **Auckland -0.6%**

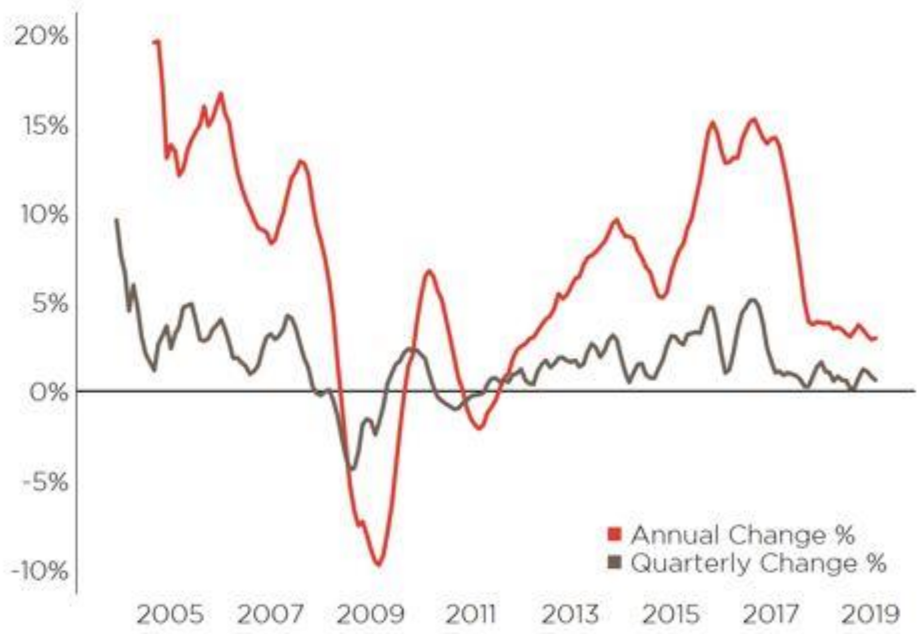
Index results as at 4 March 2019

The key topic of the moment is of course the Tax Working Group's final report, delivered at the end of February, and specifically, the report's recommendation to introduce a more comprehensive Capital Gains Tax (CGT). This would include residential investment property and while it would not be retrospective (any gains already made or made before the potential introduction on 1 April 2021 would not be taxed) it still has property investors questioning the future profitability of their assets.

We must recognise that the Government has yet to formally respond to the recommendations, which they will do next month. It faces a difficult conundrum of finding a way to implement a significant and polarising change to our tax system, while retaining the popular vote. The next 12-18 months in politics will, at the very least be intriguing!

For investors who have been in the market for at least two years, nothing much should change - they've likely enjoyed a large capital gain already (exempt from CGT if outside bright-line rules) and the rent is likely covering costs (given higher deposit requirements keeping loan sizes in check and low interest rates keeping payments manageable). This should mean there's no rush to the exit door for property investors.

But of course the CGT is not the only consideration for landlords – we've also had details about the healthy homes standards released, with private landlords given until 2024 to get all rental properties up to standard. And the looming ring-fencing of losses for tax purposes also means investors will be paying closer attention to their balance sheets.



Rolling change in property values, national

Within Auckland there remains variability of property value performance. The annual rate of change in the North Shore (-2.0%), and in particular the coastal area (-3.1%) illustrates some weakness at the higher end of Auckland's market, where demand will have been affected by the difficulty in securing funding for more expensive properties as well as the foreign buyer ban.

Modest growth has continued in both Hamilton and Tauranga with increases of 0.5% and 0.4% respectively in February.

In the Wellington region, Upper Hutt continues to experience strong growth at 13.9% over the past year but the other cities in the region are also seeing a continuation of decent growth, from 7.9% annual growth in Wellington City to 9.1% in Lower Hutt City.

Further afield from the capital, signs of a slowdown are appearing in both the Kapiti Coast District (6.9% annual growth) and also the Wairarapa region. High levels of annual growth area still being experienced at 10.1% in South Wairarapa and 11.9% in the Masterton District, but both results are down from 15% in November 2018).

The story in Christchurch and surrounding areas remains one of continued balance, with values tracking sideways over the summer months (-0.1% change) and minor growth over the same period in both Waimakiriri District (0.8%) and Selwyn District (0.5%).

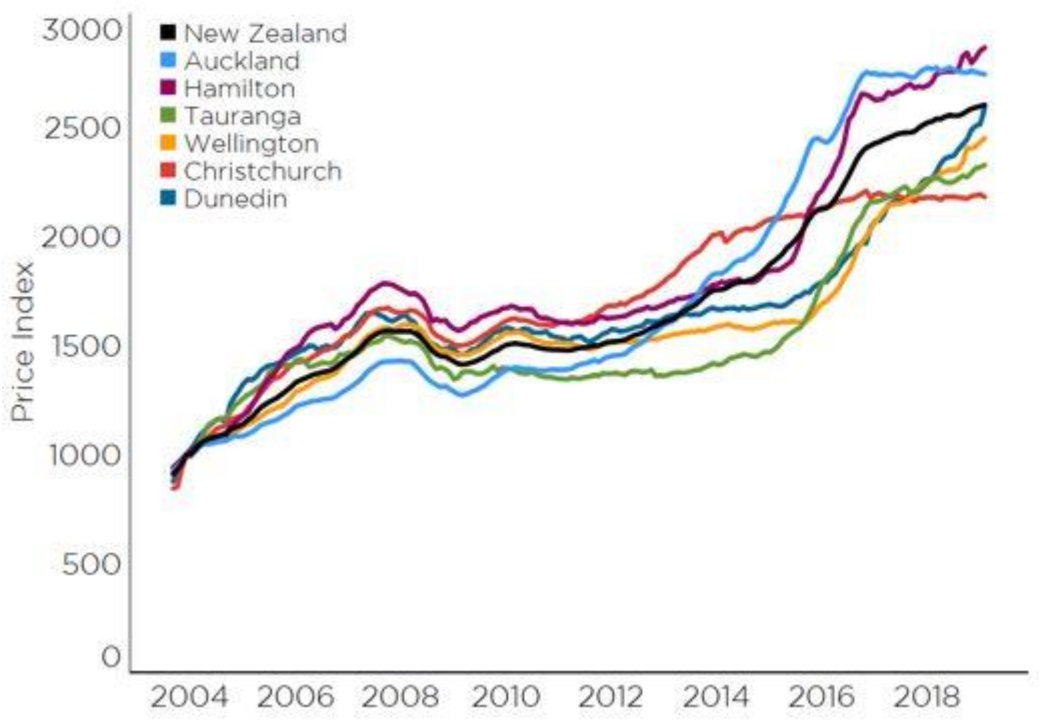
Property values in Dunedin meanwhile continue to head upwards, with the annual growth rate of 14.3% the fastest since June 2017. Landlords in the student city now have further details regarding the Healthy Homes standards required for rental properties, enabling better assessment of their portfolio requirements. Property values hadn't previously been impacted by the standard's impending arrival though, with annual growth around the University (Dunedin Central and North) hitting 13.6% at the end of February. Taieri has seen the greatest growth across the city however, at 15.0% annually.

Elsewhere, the growth in Whanganui property values have stalled: although at a high level of growth (14.3% annually), the last three months actually saw values drop by 1.7%. Similarly values in Whangarei have dropped this year, reversing most of the gains made at the end of 2018 to leave annual growth to the end of February at 6.1%.

Many other North Island cities continue to see property values accelerate, most notably in Palmerston North (14.2% annual growth) and the Hawke's Bay, where Napier values are up 12.5% over the last twelve months and 13.2% in Hastings. Both Gisborne and Rotorua saw a late summer bump in values too, which took their annual growth rates to 10.5% and 9.4% respectively.

In summarising the current market and outlook, Goodall said: *"We continue to pay close attention to property investor activity, with Government policy remaining n important influencer of potential profit for this segment. We believe that with robust fundamentals (strong - if slowing- population growth, low interest rates and a lack of supply, despite encouraging new build consent figures) the market outlook is solid, which should guard against any mass investor sell-offs. Significant value drops are therefore less likely.*

The Reserve Bank are also a key organisation to monitor. Persistent messages of their focus on discipline, transparency and disclosure within the market will undoubtedly flow through to the banks, at the very least in the increased capital requirements.



House Price Index, Main Centres Relative to December 2003

In a recent speech the Governor Adrian Orr reiterated the Reserve Banks' position of protecting the financial system from future uncertainties, using the metaphor of "putting the roof on the hay barn while the sun shines" to drive home the point.

This may also indicate that the current loan-to-value ratio (LVR) limits will go unchanged for at least the rest of the year. We saw a slight lift in high LVR lending from January's data as banks embraced the new limits. Given the LVR limits are rightfully credited with enabling the market to ease, rather than drop (as they did in Australia) it would make sense for the LVR *limits to remain in place to keep the books in order.*

The other lever the Reserve Bank has is the official cash rate (OCR). A possible cut to the current rate of 1.75% was indicated in the February Monetary Policy Statement, dependent of course on the future local economic growth. This could be hindered by the recent slowdown in the global economy but a cut would support the property market, which already has a solid footing."

Annual change in dwelling values Provincial Centres