Wealthy NZ suburbs would be most at risk from an Aussie-level downturn

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Whilst a downwards correction in New Zealand's housing market is unlikely, new research identifies the suburbs most at risk if there were a sharp drop in prices – and those that are best placed to weather a prolonged slowdown.

Modelling by OneRoof and Valocity shows that an Australian-level fall in house values could see some Auckland home-owners owing the bank more than their property was worth within two years. In Wellington and Tauranga home owners would have just between three and three and a half years before hitting negative equity.

Across the whole country, a 10 percent drop in prices – such as seen in parts of Sydney and Melbourne – would take 3.65 years for households to reach zero-equity.

The OneRoof/Valocity data models the effect of various hypothetical market scenarios - drops of one, two, five and 10 percent – for new buyers and those who bought and financed five years ago.

OneRoof editor Owen Vaughan said: “No one credibly believes New Zealand’s housing market is headed for a crash, but with recent sales figures raising the possibility of a drop in values this year, OneRoof and Valocity decided to look at the figures to see where the risk lies.

"Unsurprisingly, Auckland is the most vulnerable to a slip into negative equity. But even at the highly unlikely Australian-level crash of 10 percent of house values, it would still take more than two years until owners who bought at current market values were left owing the bank more than their property was worth.

“The research also makes clear that a one to two percent downturn - well within the range of possibility - will not cause anywhere near the mayhem that many headlines suggest."

The modelling shows that homeowners within the country's wealthiest suburbs would be most at risk. In Auckland, current buyers in Herne Bay and Saint Marys Bay would have their equity wiped in 11 months if the market dropped 10 percent as it has in high-end parts of Sydney.

Negative equity would start to bite current buyers in nearby Westmere and Epsom in little more than 14 months, according to the OneRoof/Valocity modelling.

In a more likely scenario of a continued drop of one or two percent, negative equity would apply within nine years for buyers Herne Bay and St Marys Bay and within 12 years for those in Westmere and Epsom.

Auckland's high-value fringe suburbs are also exposed: Whitford, in south-east Auckland, is New Zealand most at-risk suburb, with the modelling showing current buyers would dip into negative equity in just nine months if the market dropped 10 percent, and 7.5 years if the market continued to drop one percent. Similarly, negative equity would hit within eight to 10 years in Coatesville and Dairy Flat, in Auckland's north.

No other parts of the country come close to Auckland's figures. In Wellington, the worst-case scenario (10 percent) would see Oriental Bay, Seatoun or Ohariu households reach negative equity in a year and a half, but milder drops of 1 percent would take 14 to 23 years to wipe out value. Even with a two percent drop, equity would hold up for seven to 11 years.

In Hamilton, Harrowfield, Huntington and Flagstaff are the most vulnerable parts of town if there were a dramatic 10 percent drop, although they’d have

nearly 30 years before an annual one percent drop would hurt equity. Tauriko in Tauranga, Christchurch's Kennedys Bush and North Tier, Dunedin would suffer the most in that downturn.

James Wilson, head of valuation and innovation at Valocity, adds: "This provides hypothetical 'what if' scenarios, not predictions of future market conditions. The likelihood of such consistent declines across the New Zealand market are slim. An undersupply of residential housing and strong demand actually support current values and future growth. And of course, we're looking at averages, not individual households.

"But modelling just how quickly a zero-equity position is reached does raise concerns about the potential implications of households if there were consistent housing value declines, especially in higher value areas where such percentage declines equate to significant dollar values.

He added "However, home owners in such areas generally fall into higher income brackets, meaning they are in a better position to afford repayments and are therefore less exposed under negative equity scenarios"

The modelling does show that homeowners who bought and financed five years ago are still pretty secure: a one percent decline in the market means it would take over 42 years to slide into negative equity. Even a five percent drop would mean cataclysm is a comfortable nine years off.

Christchurch was the sole exception: there, a two percent drop would hit those bought five years ago in 14 years, nine years ahead of those who are buying now.

A note on the research

To measure equity levels and determine the amount of principal that may have been repaid, OneRoof/ Valocity's model assumed:

- A deposit of 20 percent
- Fixed interest rates of 5 percent over a 30-year term
- Standard principal and interest repayments (not interest only)
- Linear, consistent value declines.
- Minimum mortgage repayment amounts only were added to the data

Only suburbs which had at least 100 property transactions in the period were included in the modelling.