CoreLogic QV July House Price Index: Property market holds firm in July.

Date: 06 August 2019

Property values in NZ remained firm in July with the annual rate of change increasing slightly from 2.0% at the end of June to 2.2% at the end of July, according to the CoreLogic QV House Price Index.

According to CoreLogic NZ Head of Research Nick Goodall, the relatively neutral performance reflects a market which has been gradually slowing since the beginning of 2018, but remains supported by low inventory and mortgage interest rates.

He said, “Demand for property is constrained by the current credit environment,

which retains strict scrutiny on potential borrowers' income as well as expenses, and of course the RBNZ mandated LVR restrictions ensure that most borrowers have at least a 20% deposit. However, in regions where inventory is tight, prices continue to rise, albeit at generally slower rates than we've seen in the past three years."

Property values in Auckland continue to slip backwards (-2.6% annual change), however the recent decline (-2.9% behind peak value in March 2018) should be put into a longer term context of 42% total growth over the past 5 years.

Index results as at 1 August 2019

	Change in property values			Average Value
	Month	Quarter	Annual	
Auckland	-0.2%	-0.8%	-2.6%	$1,025,389
Hamilton	-0.1%	-0.1%	4.8%	$584,962
Tauranga	-0.8%	-0.3%	5.3%	$738,277
Wellington	0.4%	0.9%	8.5%	$712,681
Christchurch	-0.4%	0.0%	0.5%	$498,006
Dunedin	-0.3%	0.3%	11.7%	$458,974

Highlights over the three months to July 2019

- Best performing main city: **Wellington +0.9%**
- Weakest performing main city: **Auckland -0.8%**

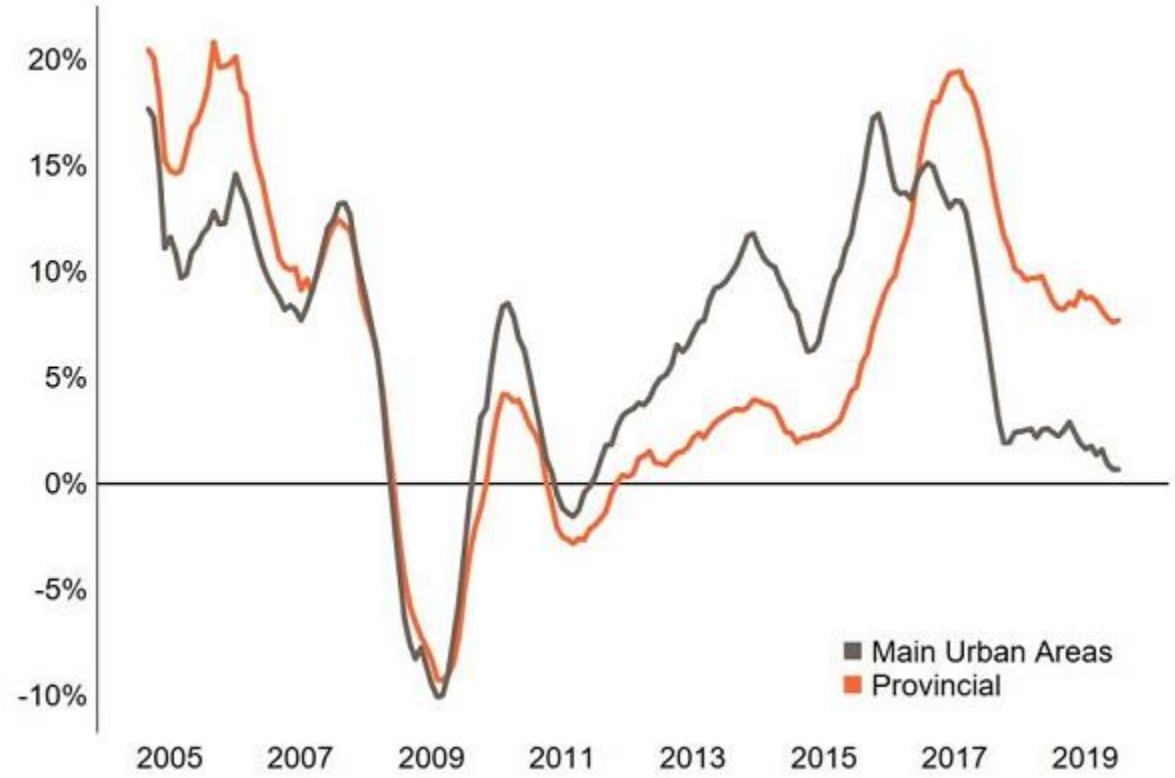
Unaffordability, as well as the removal of foreign buyers continues to impact the market in our largest, most expensive, city. This is particularly true of the North Shore, where values are -4.3% down in the last year and -5.2% down from the recent peak in February 2018.

The average number of days to sell a property in Auckland has continued to lengthen over the last few years as an increase in inventory, and a reduction in demand favours potential buyers.

While Auckland is the only major centre to see property values decreasing on an annual basis, the other main centres are experiencing less price pressure as unaffordability impacts the potential buyer pool. Property values in Tauranga for example, have decreased by -0.3% in the three months to the end of July.

Similarly, Wellington City values are down -0.5% over the same period, although the strength throughout the wider Wellington area means that the broader market, which includes Porirua and both Lower and Upper Hutt, continues to grow (+0.9% three

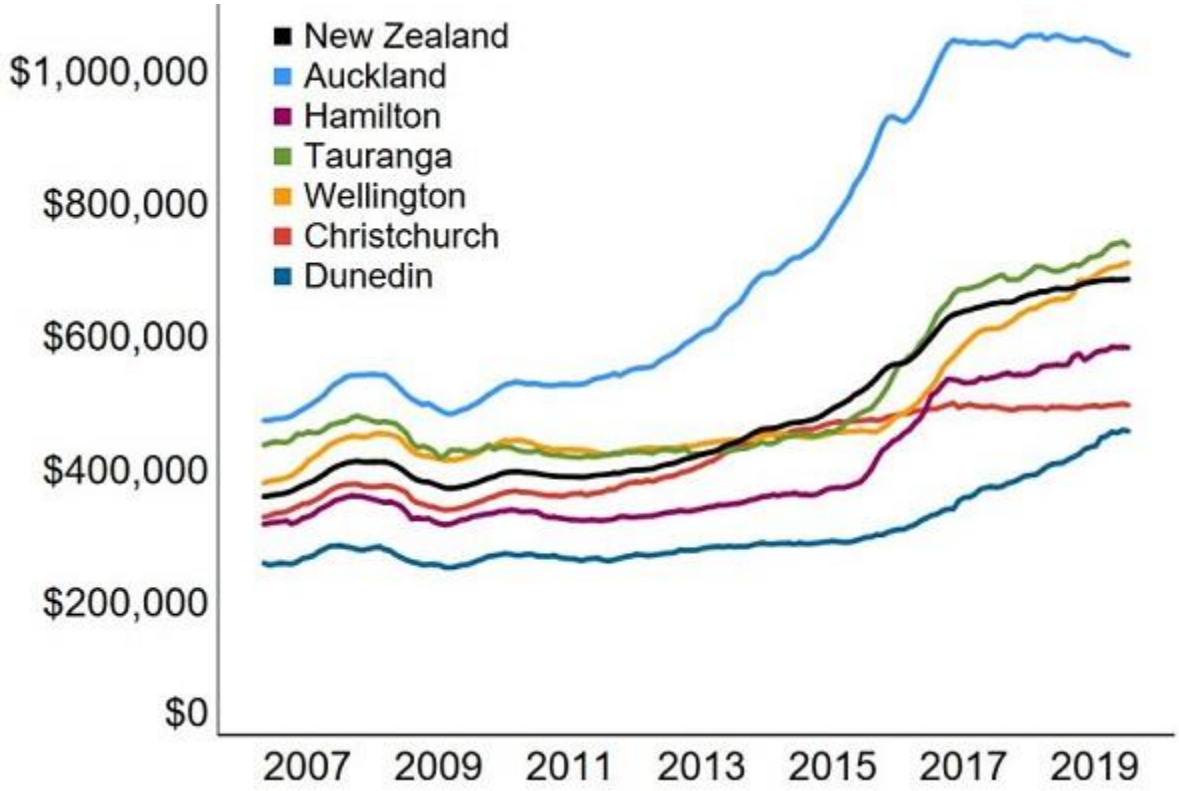
months, 8.5% p.a.)



Rolling annual change in property values

A recent investor resurgence (37% of sales in Q2 compared to 33% in Q1), particularly those with only one other property, has been evident across many parts of Wellington. This could be a reflection of a lift in confidence following the ruling out of a comprehensive capital gains tax back in April. Nick Goodall said, “It’s important to note first home buyers are still a key player in the wider Wellington market, in particular in Porirua where 36% of all sales were to this buyer group in the second quarter of the year.”

Outside the main centres, the cities with the lower average property values were the best performers over the past month. Whanganui (21.7% p.a.), Gisborne (16.1% p.a.) and Invercargill (13.6%) all experienced an increase in the annual rate of growth at the end of July and have an average value below $365,000.



Average Property Values, Main Centres

Meanwhile, those cities with an average value above $540k generally saw the annual growth rate fall away. The annual growth rate of 2.9% in Whanganui, where the average value is $547k, is the lowest rate for over four years.

Nick Goodall said, “As more responsible lending standards in banking are now well embedded in the industry, the areas requiring larger mortgages are seeing the greatest slow down. We’re also seeing the impact of equity-rich Aucklanders diminish. As recently as 2016, buyers from Auckland (either investors or movers) accounted for 23% of sales in Whangä?rei; that figure has dropped to 14% so far in 2019.”

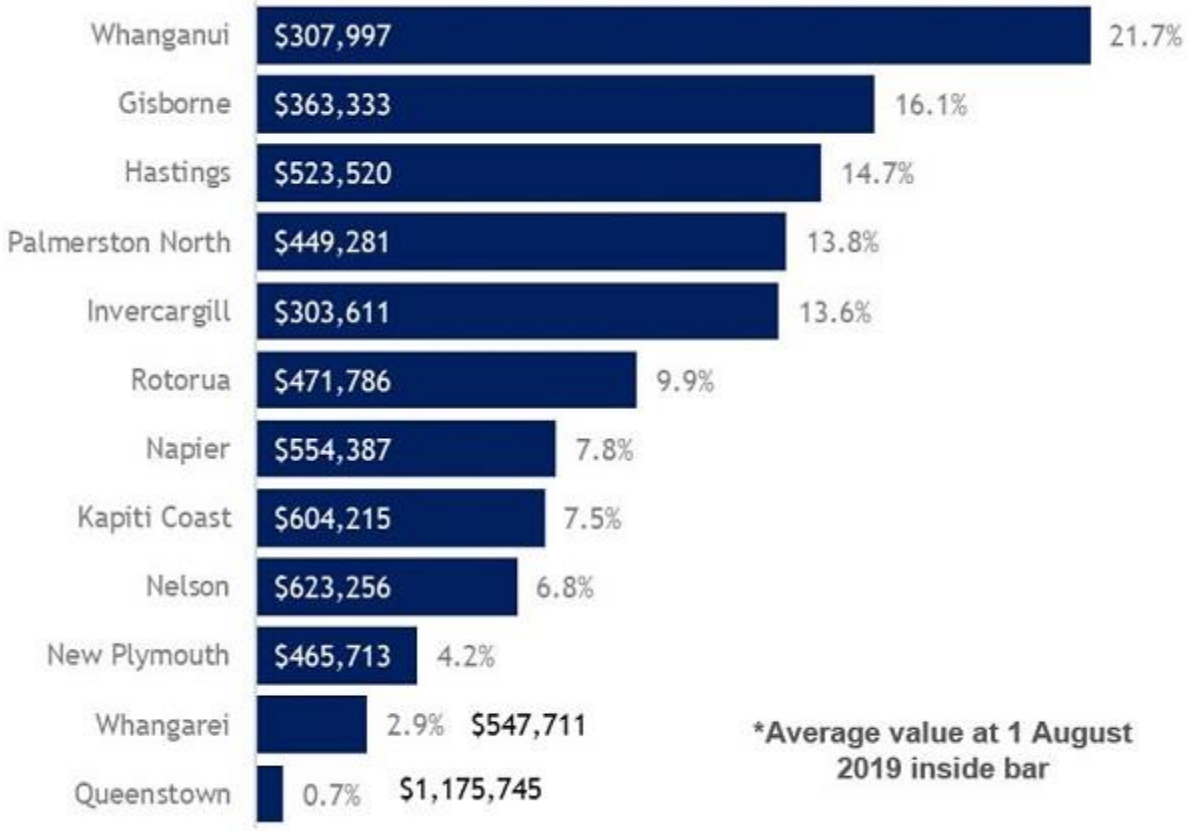
“As expected, growth in some of the regional areas are running out of steam, after a strong growth phase of almost four years. Rotorua, Whanganui, Hastings, Napier, Queenstown and Gisborne have all seen property values increase by more than 60% over that time.”

In summarising the current market and outlook, Goodall added “While the economy is continuing to slow down and many forecasts are for this to continue, from a property perspective the outlook is slightly more optimistic. Net migration remains high, unemployment low and mortgage interest rates are forecasted to stay low for longer.”

“In the immediate future, the RBNZ cash rate decision tomorrow (Wed 7 August) is almost certain to be a 0.25% cut to 1.25%, but we’re not expecting this to translate to an equal drop in mortgage interest rates (mostly due to the cut already being priced into rates) and therefore a rate cut probably won’t have too much of an impact on

property values.

Goodall believes that part of the reason for this is that current mortgage interest rates aren't necessarily the most significant barrier to entry into the property market at the moment. He said, "Serviceability tests, using a greater than 7% mortgage interest rate, along with the deposit requirement (in conjunction with higher property values) are restricting demand, hence our expectation that one or both of these could see a change later in the year."



Annual change in dwelling values Provincial Centres

In addition, he said, "The LVR restrictions could be loosened by the RBNZ in November when they release their next Financial Stability Report, as they did at the end of both 2018 and 2017. As long as they believe that housing lending risks have continued to reduce, they may adjust the restriction on the amount of lending (from 5% to 10%) the banks can do above the high LVR limit (70%) for investors. With owner occupied lending not as constrained as investor lending, there's less likelihood of a change to the owner occupier limits."

"Less discussion in the market around any changes to the serviceability rate (of greater than 7%) is interesting, considering the recent change in Australia where the Australian Prudential Regulation Authority (APRA) removed the floor of testing repayments at 7% and introduced a 2.5% buffer (from actual secured interest rate) instead."

"Once again, we'll read with interest the Reserve Bank's Monetary Policy Statement

tomorrow (Wed 7 August) for any possible hints, but for now it seems the lending environment in NZ will remain as is for the time being (aside from the lower OCR)."

Note to editors: The CoreLogic QV House Price Index is the most comprehensive long term measure of house prices as it includes agent and non-agent sales. It also includes some recent sales before the unconditional date (contrary to some commentary) so does not have the previously reported 6-week lag.