Real Estate Overview

26 July 2011

Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy in a language they can understand.

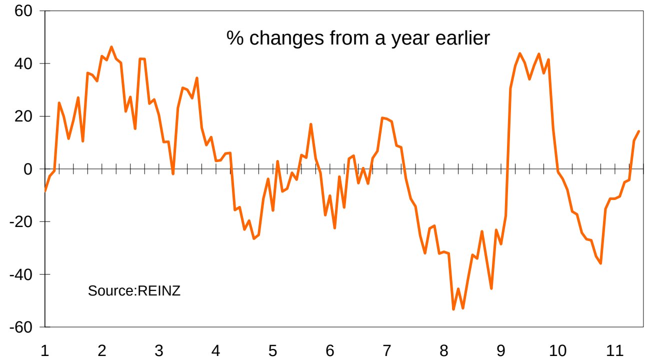
Market Improving

New Zealand's residential real estate market has started a cyclical recovery evident now in rising turnover, rising prices, decreasing number of days taken to sell a dwelling, a spike in listings shortages, and entry of first home buyers into the market. We anticipate improving prices and activity over the coming couple of years however there will be restraint from easing net migration inflows over the coming year, rising interest rates, high household debt and possible a structural lift in the savings rate, and already high house prices compared with incomes.

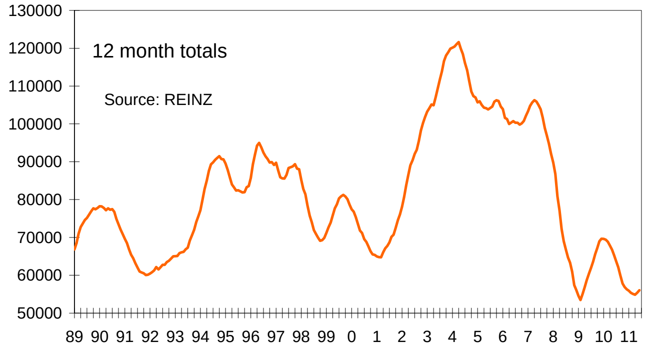
Turnover – Trending up from a low base

Around New Zealand in June there were 5,228 dwellings sold. This was a 14.3% rise from June 2010 and in the June quarter sales were 6.6% ahead of a year ago and roughly 15% ahead in seasonally adjusted terms form the March quarter. So activity in the NZ residential real estate market is picking up but at just 56,042 the number of sales in the year to June was still extremely low by historical standards.

DWELLING SALES



NUMBER OF DWELLING SALES



On a regional basis we have chosen to present the change over the June quarter compared with the average change for that quarter in the previous six years to get a feel for whether activity is showing above normal growth. The answer is yes for all regions except Hawkes Bay.

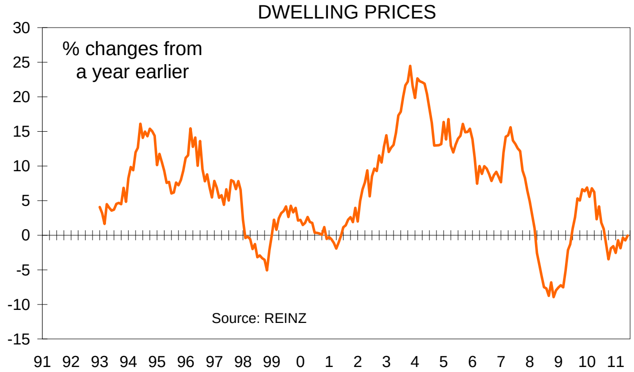
	3 month change vs. average %
Northland	18.2
Auckland	13.7
Waikato & Bay of Plenty	17.2
Hawkes Bay	-1.9
Manawatu & Wanganui	17.8
Taranaki	10.2
Wellington	6.8
Nelson etc.	22.6
Canterbury	28.1
Central Otago Lakes	31.5
Otago	16.5
Southland	21.8
New Zealand	**15.9**

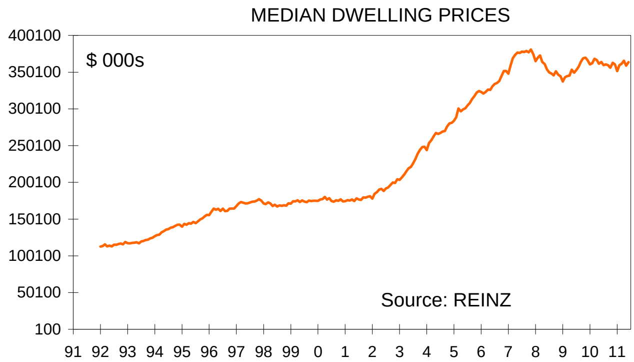
Prices – Starting to move up

Gauging price movements over short time periods is difficult using the data available in New Zealand with the best gauge coming from Quotable Value NZ quarterly releases. But these releases appear with about a three and a half month lag and the monthly ones are not useful guides in our opinion. Therefore for an up to date feel for price movements we use the monthly REINZ numbers but average over a three month period. Note however that even doing this we can get slight variation between the REINZ numbers and the eventually accurate data released by QVNZ.

For instance, during the March quarter while the REINZ stratified house price measure fell 0.7% the actual change contained in the accurate QVNZ data was a rise of 0.3%. The December quarter change reported by REINZ however was -0.0% and the actual change was -0.1%.

Keeping this small caveat in mind then we note that during the June quarter the REINZ house sale price measure rose by 1.5%. This was the strongest quarterly gain since December 2009 though prices were still 0.4% down from a year earlier and 4.3% below the absolute peak in the three months to November 2007. Prices on average therefore in real terms are 16% below their peak.





Note that there is no evidence of downward pressure on prices as a result of tax changes from April 1 which include the removal of depreciation deductibility and use of loss attributing qualifying companies to offset property losses against other income.

At the regional level (no adjustments made for mix changes), compared with a year ago prices have risen 3% in the Central Otago Lakes district and 2.6% in Auckland.

	Median Sale Price $	**Annual Change 3 mth av.**
Northland	323,000	-2.7
Auckland	461,000	2.6
Waikato & Bay of Plenty	316,000	0.0
Hawkes Bay	254,000	-5.1
Manawatu & Wanganui	230,000	0.9
Taranaki	255,000	-6.0
Wellington	380,000	-3.2
Nelson etc.	322,000	-2.6
Canterbury	300,000	-2.2
Central Otago Lakes	433,000	3.0
Otago	224,000	0.0
Southland	185,000	0.9
New Zealand	360,000	-0.4

For your guide and for the interest of potential migrants, New Zealand and Australia remain relatively unaffordable countries to live in when measured in terms of housing affordability according to the 7th Annual Demographia International Housing Affordability Survey. http://www.demographia.com/dhi.pdf

The ratio of median dwelling sale price to median annual household income in New Zealand was 5.3 times in 2010 for the country overall which was essentially the same as in the UK but more affordable than Australia. The table below shows these numbers in the last column while the columns to the left show the number of cities falling into each category of affordability.

Table ES-4
Housing Affordability Ratings by Nation: All Markets

Nation	Affordable (3.0 & Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 & Over)	Total	National Median
Australia	0	0	5	27	32	6.1
Canada	9	17	3	6	35	3.4
China (Hong Kong)	0	0	0	1	1	11.4
Ireland	0	3	2	0	5	4.0
New Zealand	0	0	4	4	8	5.3
United Kingdom	0	0	12	21	33	5.2
United States	106	74	16	15	211	3.0
TOTAL	115	94	42	74	325	

However, when measured in terms of major metropolitan areas – which for NZ means only Auckland with a population over one million - New Zealand looks much less affordable than UK cities though still more affordable than Australia's cities. The exact ratio for Auckland of 6.4 compared with 9.6 in Sydney, 9.0 in Melbourne, 7.2 for London, 7.1 Adelaide, 6.6 Brisbane, and 6.3 for Perth. Of course one may want to keep in mind that cities rated as most affordable tend to be those in the United States which have seen the biggest collapse in house prices following the 2000s boom – namely Atlanta at 2.3, Detroit 2.5, or Las Vegas 2.6.

Table 3
Housing Affordability Ratings by Nation: Major Markets (Over 1,000,000 Population)

Nation	Affordable (3.0 & Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 & Over)	Total	National Median
Australia	0	0	0	5	5	7.1
Canada	0	3	0	3	6	4.6
China (Hong Kong)	0	0	0	1	1	11.4
Ireland	0	0	1	0	1	4.8
New Zealand	0	0	0	1	1	6.4
United Kingdom	0	0	7	9	16	5.1
United States	20	22	5	5	52	3.3
TOTAL	20	25	13	24	82	

If it is the Australian housing market you are interested in then this link to an article discussing price changes outside the capital cities may be of interest.
http://www.vision6.com.au/em/message/email/view.php?a=9640&id=783133

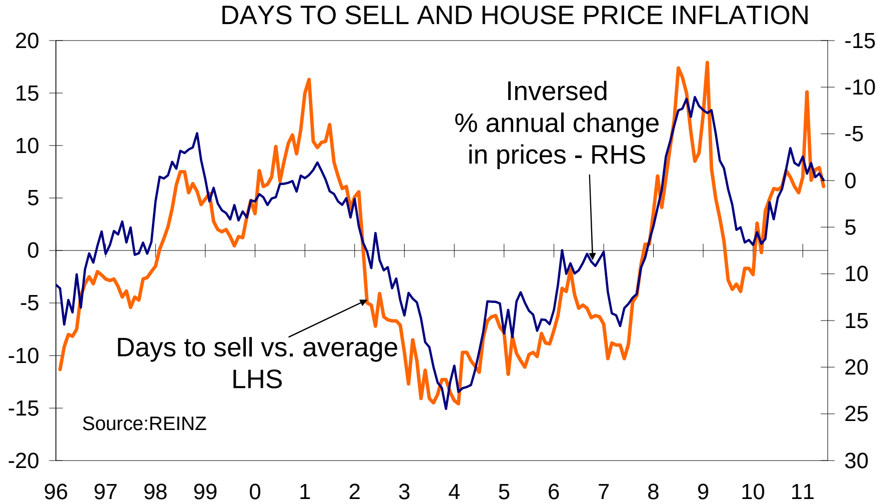
This link takes you to the RP-Data Rismark house price data showing latest median prices for the capitals.
http://www.rpdata.com/research/monthly_indices.html

Days to Sell – Slight quickening of pace underway

On average in June it took 44 days to sell a dwelling. This was down by one day from June a year earlier and 6.1 days longer than the average for June over the past decade. In May it took 7.9 days longer than average to sell a house, in April 7.7 days, and the June 6.1 day result was the lowest since December's 5.5

days. Therefore there has been a hastening of activity in the market consistent with the improvement in sales volumes discussed above.

There is a good correlation between changes in the number of days taken to sell a dwelling and prices therefore if properties continue to sell more rapidly we can expect house price inflation to lift.



At the regional level dwellings continue to take a lot longer to sell than average in Northland, Waikato/Bay of Plenty, Taranaki, and Wellington. Note the quick turnaround in Central Otago Lakes and fast sales paces in Auckland and Canterbury.

	Days to sell vs. average	
	June	**May**
Northland	19.9	22.6
Auckland	1.8	1.6
Waikato & Bay of Plenty	17.2	16.2
Hawkes Bay	4.1	13.3
Manawatu & Wanganui	9.3	16.1
Taranaki	29.7	22.7
Wellington	17.2	9.2
Nelson etc.	4.9	16.4
Canterbury	1.8	6.1
Central Otago Lakes	-9	29.5
Otago	13.9	11.4
Southland	10.1	14
New Zealand	**6.1**	**7.9**

Stock Availability – Tightening up nationwide, though some regions still replete with listings

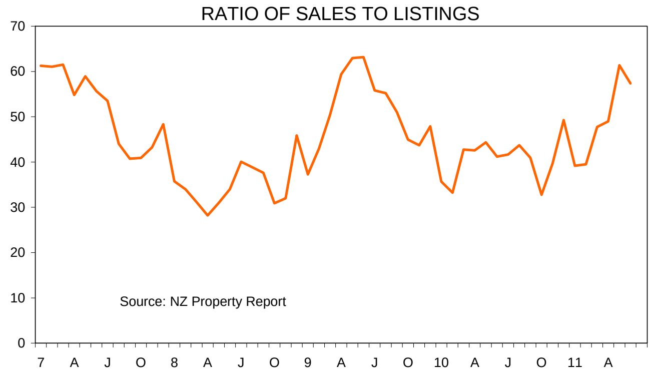
At the start of each month the real estate listings website www.realestate.co.nz produces a publication called the NZ Property report which reveals total listings at month end by region and listings received during the month. Using the data one can get a feel for housing availability nationwide and where that availability is above or below average. We have calculated the average ratio of sales to listings for the three months to June and compared that outcome with the average such ratio for each region. Note that strong conditions are associated with a high sales to listings ratio.

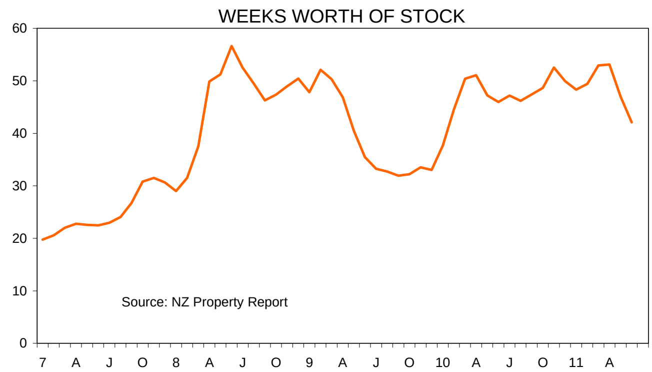
The first column in the table below shows the sales/listings ratio versus average and we see that for the country as a whole the ratio is 10.1 percentage points stronger than average. Activity is above normal compared with stock levels. The region with the greatest above average ratio is Manawatu/Wanganui (possibly farming related) followed by Taranaki (energy and dairying region), Auckland (housing shortage from low 2000s construction), then Waikato/Bay of Plenty.

	Sales to listings ratio c.f. average	Change in ratio from 3 mths ago
Northland	6.4	9.6
Auckland	14.6	14.4
Waikato/BoP	13.5	16.4
Hawkes Bay	-1.5	0.7
Manawatu/Wanganui	17.0	17.5
Taranaki	15.4	21.3
Wellington	7.3	20.0
Nelson etc.	11.8	32.4
Canterbury	4.4	12.6
Central Otago Lakes	1.1	-2.0
Otago	10.6	13.8
Southland	-4.9	15.3
New Zealand	**10.1**	**12.7**

The second column shows the change in each region's ratio of sales to listings from three months ago. Nationwide there has been a strong improvement of 12.7% (to 54.9% in the three months to June from 42.1% in the three months to March. Nelson has seen a very fast rise in the sales to listings ratio to above average levels. Note the weakness in Hawkes Bay and Central Otago Lakes.

This graph uses the above data plus that for the nationwide stock to show how in recent months the two potential stock measures have both moved very quickly in the tightening direction.





BNZ Confidence Survey – Listings hard to find

Our most recent survey of BNZ Weekly Overview readers was conducted on Friday 8 July and in the residential property sector it found a preponderance of submitted comments along the lines of listings being in short supply. To whit…

- Auckland Eastern Suburbs residential real estate. Listings incredibly hard to get; significant stock shortage. Buyers around in numbers, but fussy and not willing to pay more. New houses mostly failing to meet developers' costs. Despite building cost and specification increases, but buyers will not pay more than last year. Less interest in "do-ups" reflects uncertainty over building costs and bureaucratic delays. Investors non-existent. Buyers saying "can't afford more" but really meaning they do not want additional debt, even though it is available from banks. Banks seem tighter on serviceability of loans. Sellers asking "why sell if we can't make a profit?"
- Real Estate , we are selling but the listings are not being replaced.
- Real Estate - we have seen a great increase in activity, mainly from buyers. With some properties selling very fast and at good prices.

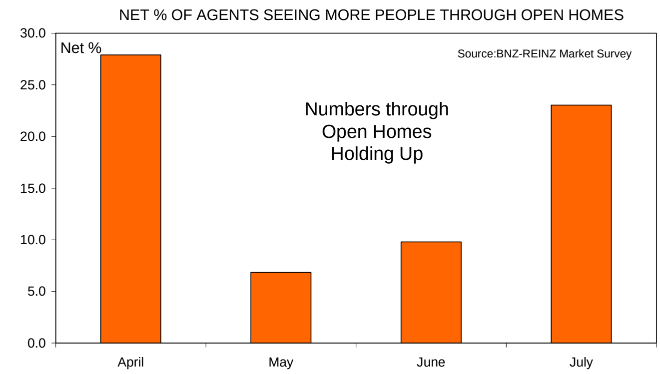
- Slow . Real estate
- Real estate Invercargill. More buyer interest Lack of listings
- Residential real estate sales - Central Auckland. Listings very tough to get at the moment. Buyers becoming frustrated but good prices being paid and certain properties being sold before marketing campaign has run it's full course. Also seeing more properties being listed but not advertised i.e. being sold through word of mouth.
- Residential Real Estate, Hawkes Bay. Quiet winter, prices and buyer demand steady
- Real Estate in Kaiapoi- inquiry is picking up again but we all badly need more properties to sell. Once again we are getting multi-offers. Developers are starting to increase their section prices and I think house prices might increase too demand exceeding supply. Hopefully not too much though.
- Real Estate; seem to be more buyers and listings seem a little fewer. Generally a feeling of improvement happening.
- Real Estate North Shore Auckland. Basically lots of buyers out there and a shortage of houses to sell so prices are good and we are selling houses faster. A good time to bring a house onto the market.
- Flat but improving. real estate
- Real Estate, Napier. Sales happening, Listings in very short supply
- Real Estate; a serious lack of listings compounded by those who would normally sell and move on maintaining reluctance to come to terms with the reduced values now enhanced further by the lift in values caused by, in my opinion, a marketplace overfull of purchasers and the natural enthusiasm caused by the advent of the world cup.
- Real Estate Kapiti Coast area The market seems to be just marking time at the moment, it would not appear to be either a buyers or sellers market. Listings are not easy to get as people are uncertain as to the future.
- Real estate Auckland. Lack of new listings. Multi offers are now common. Relatively good sales volume considering it is winter.
- Real estate Chch - Things are humming along. Listings appraisals are on the rise and buyers in unaffected areas are very active.
- I am in Real Estate in Mt Eden. I am busy but listings are short. Prices steady in our area. I do not feel that it is as buoyant as it was in February - April. Many buyers.
- Residential Real Estate Hamilton: far more positive market than same time last year. Tentatively 40%+ up on same period. Very active buyers and plenty of them. Good quality mid priced stock is in severe short supply and being fiercely contested. Multiple offer situations every week, and many new properties selling in under a week. Buyers need to act fast to secure good properties. Vendors seem to want to hold off in expectations of higher prices due to supply/demand scenario, however strong risk of stock blowout in spring as last 2 years sellers react to positive media. Making hay while the sun shines.
- Real Estate - definitely more buyers out there, just need to get people to sell!
- Real Estate - Eastern Beaches. Quieter than previous month with a continued low level of properties coming on the market and a continued lack of urgency from buyers.
- Real shortage of listings but what stock we are selling and for good prices.
- Residential real estate Howick/Pakuranga - very short of stock, as yet no effect on prices but already signs that vendors expectations are rising.
- Real estate sales on Auckland's North Shore are still very slow - unless you're an Asian agent selling to other Asians - largely due to listings being thin on the ground. Good houses under about $850k are still selling readily and achieving good prices for the vendors.
- Real Estate Auckland (Ponsonby) More buyers than houses by country mile.
- Real Estate - lift in metro markets and buyer enquiry in our local provincial market (Whitianga) - does not translate to upward trend in volume or prices at this stage
- Property. Some well located and character dwellings are achieving good prices near the centre of Auckland, but rest of market flattish. Demand is for family homes.
- Real Estate. Good demand for the right property. Shortage of listings
- Real Estate in Gisborne continues to struggle. Listings are tight, although we know there are plenty of vendors who would like to sell but are not currently listed for sale. Purchasers offers often do not reflect fair market value thus sales are few.

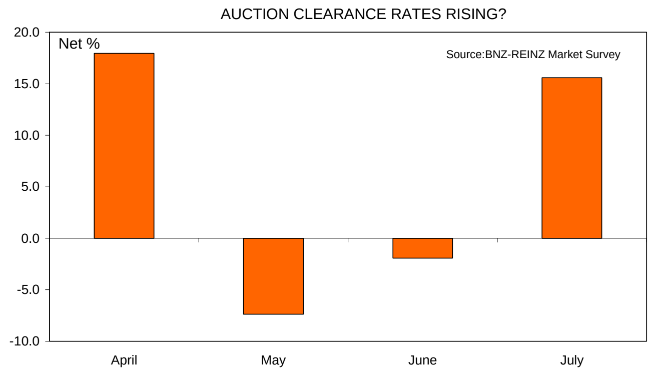
- Real Estate Wellington. A little more activity but the numbers still remain low as they have now for the past four years. I anticipate that the spring market will bring a lift in transaction numbers which will be very welcome. Values remain stable
- Real Estate - Supply and Demand. We have people wanting to buy but not many people want to sell at this time. Interesting times. Maybe people are waiting till Spring when gardens look nice but would be great to get on market now when supply is so low

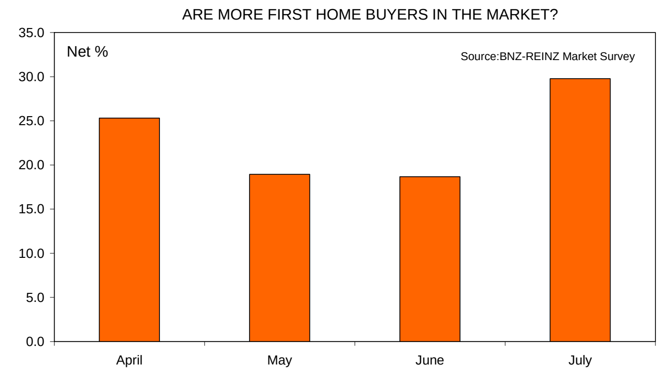
Full details of the survey can be found here.
http://tonyalexander.co.nz/topics/surveys/bnz-confidence-survey/

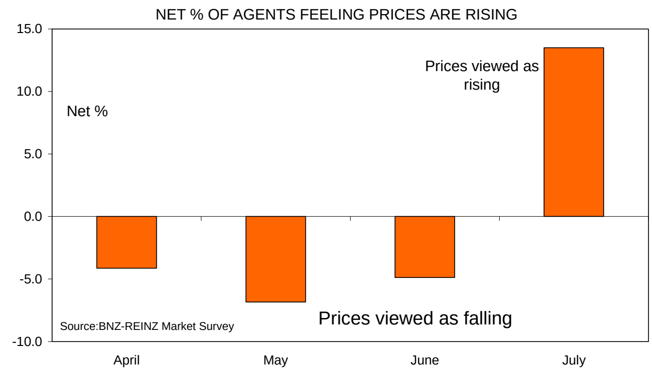
BNZ-REINZ Residential Market Survey – First home buyers out looking

The results of our latest monthly survey of licensed real estate agents were released on July 13 and showed that of the 742 agents who responded a net 23% reported more people going through Open Homes, a net 16% reported higher auction clearance rates, and a strong net 30% reported more first home buyers in the market. In contrast a net 1% reported fewer investors in the market. Perhaps as a result of this increased interest a net 14% reported that they feel house prices are rising. For each of the previous three months this measure had been negative.







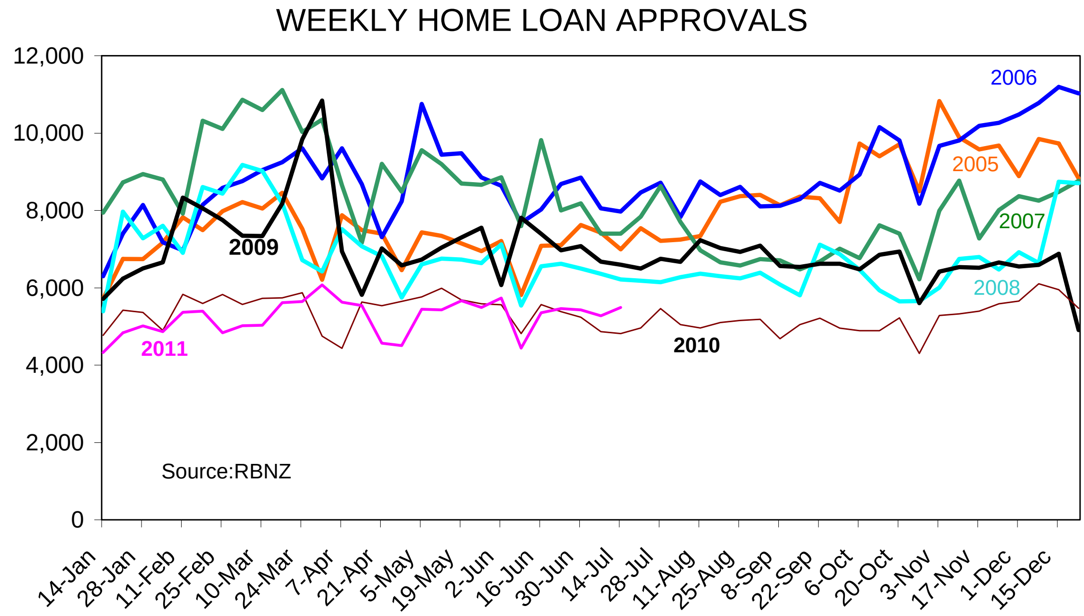


The results bespeak of a housing market with increasing activity producing upward pressure on prices as already evident in the official sales data discussed above.

Full details of the survey including responses at the regional level can be found here.
http://tonyalexander.co.nz/topics/surveys/bnz-reinz-survey/

Weekly Home Loan Approvals Survey – Mild lift to July 15

This particular statistic does not receive much attention, but for the record there appears to be a small lift underway in the number of home loans being written. We find that the best way to gauge this is simply to look at the following graph which plots weekly home loan approvals for each year from 2005. Results for 2011 are plotted in pink and that line vies for bottom position with the one for 2010. Note however that in recent weeks the level of home loan approvals has been climbing when compared with 2010. This improvement suggests that the gains we have noted above for residential real estate activity in June have most likely continued into July.

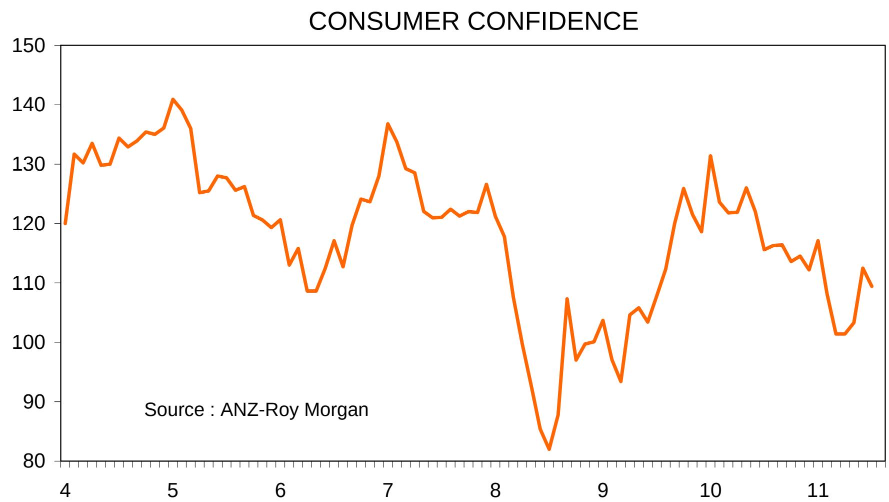


FACTORS INFLUENCING THE REAL ESTATE MARKET

In this second section we will examine, where data permit, the factors which influence real estate market activity. What we get is a picture of a market facing factors turning positive.

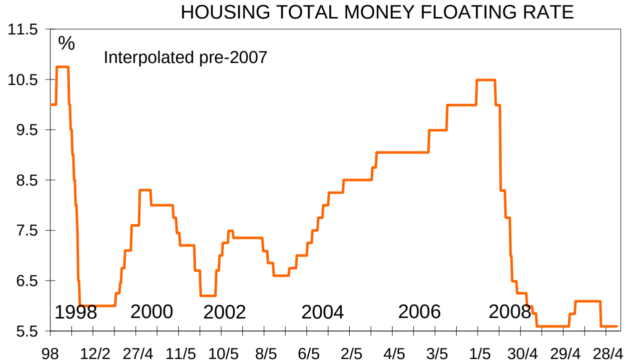
Consumer Confidence – Caution returns

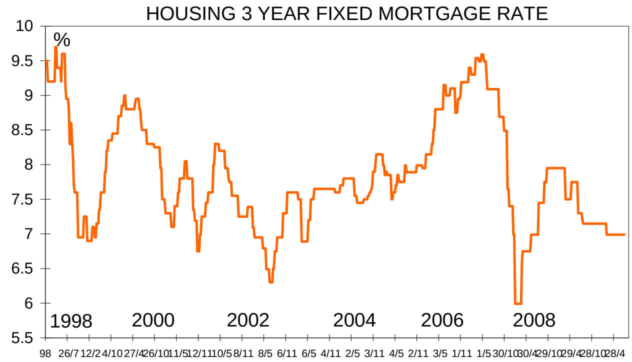
The most up to date gauge of consumer sentiment we have comes from the monthly ANZ-Roy Morgan poll. It showed a decline in their index reading to 109.4 in July from 112.5 in June. This result was still in positive territory but below the ten year average of 118 and therefore suggestive of some caution on the part of consumers with regard to where they see things going. There is no specific question with regard to the housing market however a net 14% feel that it is a good time to buy a major appliance which is not too much below the average of 121%. And although a net 24% of respondents expect that they will be better off financially in a years time, a net 14% say they are worse off now than a year ago.



Interest Rates – Support to decline now

The Reserve Bank took its official cash rate back to an emergency setting of 2.5% from 3% in March following the Christchurch earthquake of February 22. As a result floating mortgage rates fell back to four decade lows and fixed housing rates were cut – though only by around 0.05%. But in recent weeks data have been released showing stronger than expected 0.8% growth in the New Zealand economy during the March quarter, firm business confidence and investment/employment intentions, plus higher than expected inflation in the June quarter.



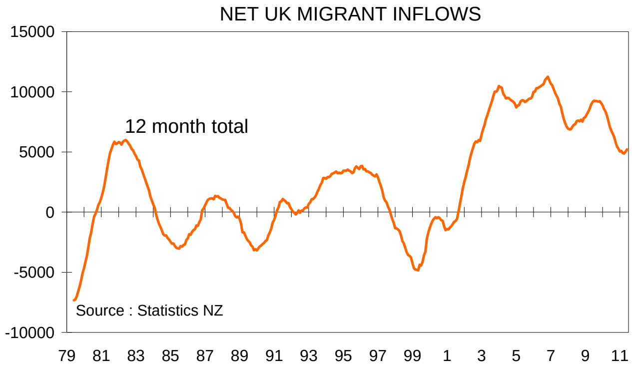


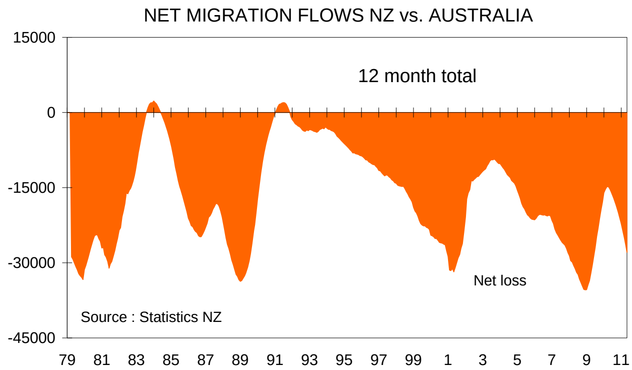
The markets are now pricing in a 100% chance of the official cash rate rising 0.25% come October and our view is that rate rises will start in September with the cash rate rising from 2.5% currently to end the year at 3.25%. Further rises are forecast over 2012 with the rate ending at 5% come early 2013. Fixed lending rates have in fact already started to creep up and it is likely that in the very short term there will be quite a number of floating rate borrowers switching to fixed rates. However the jump from the likes of 5.59% floating to a three year fixed rate of 6.99% will be too great for most and we anticipate that the overwhelming majority of borrowers will stay floating through this interest rates cycle.

BNZ rates
http://www.bnz.co.nz/personal-banking/footer/rates-and-fees/personal-banking-rates-and-fees/home-loans-rates-and-fees
* NAB Choice Package for Australian fixed rates.
http://www.nab.com.au/wps/wcm/connect/nab/nab/home/personal_finance/6/1?urid=1308618797910
** Clydesdale Bank, 80% loan to value ratio, http://www.cbonline.co.uk/personal/mortgages/all-our-mortgages/fixed-rate-mortgages/

Migration – To turn negative

The annual net migration gain for New Zealand has averaged 16,000 over the past ten years. In the year to June the gain was just 3,867, down from a recent peak of 22,588 in January 2010. The decline in net migrant inflows over the past year has been caused by a 2% rise in arrivals being swamped by a 21.8% rise in departures – mainly to Australia. The net NZ population loss to Australia has risen from 15,908 in the year to June 2010 to 29,255 now. At the same time the net gain from the United Kingdom has fallen from 7,095 to 5,208.





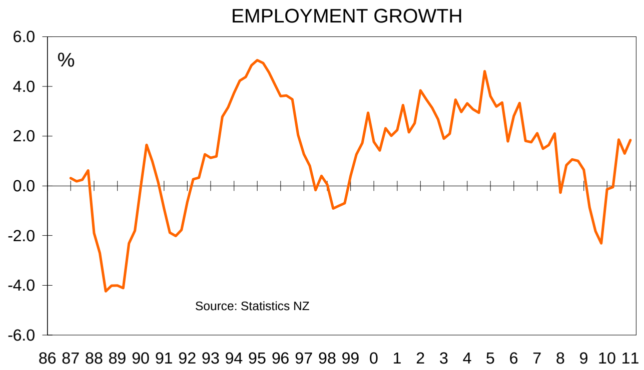
Our expectation is that while the high level of the NZD against the UK pound will keep net flows from the UK weak in the coming year, the below average level of the NZD against the Aussie dollar will keep net outflows above average. The interesting dynamics in play here are that people coming to New Zealand from the UK tend to bring investable assets with them including proceeds from the sale of a family home. Those proceeds now purchase far less in NZ than was the case even a year ago when the exchange rate was 46.6 pence let alone the 34 pence of early 2009.

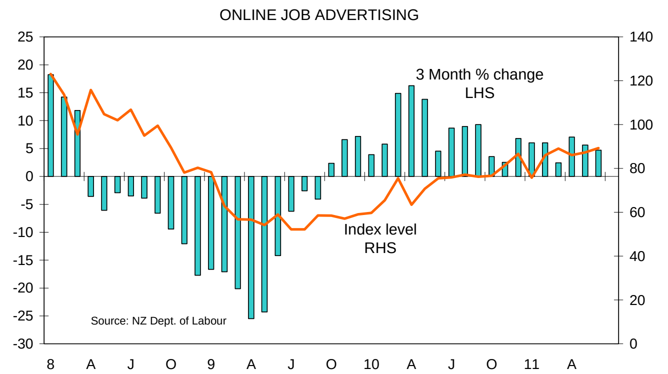
In contrast Kiwis going to Australia tend to be younger with few assets and a focus on wages which get myopically converted back into an attractive sounding quantity of NZ dollars. Few people convert living expenses back into NZ currency.

Over the coming year we expect a rise in the NZD against the AUD which when combined with slowing in the Australian housing and labour markets at a time of cyclical improvement in both NZ markets will see the net NZ population loss to Australia start easing from the second half of 2012. Before then we are however likely to see a record net outflow exceeding the loss of 35,395 recorded in December 2008.

Labour Market – To strengthen much more

Over the past month we have received little fresh information on the state of the New Zealand labour market. The official data remain well out of date referring as they do to the March quarter when job numbers rose 1.4% but hours worked actually fell by 0.9% creating a somewhat confusing picture of what really happened. Compared with a year earlier job numbers were up 1.8% in the March quarter and hours worked 0.4% suggesting that businesses have hired people in expectation of stronger activity levels but that as yet these people are not fully utilised. If so then this suggests in the near term employment growth may be muted and this perhaps explains why there has been a slight downward trend evident recently in the number of online job advertisements.





However job advertising continues to grow and the NBNZ Business Outlook survey for June found a net 10% of businesses plan hiring extra people over the coming year. The average reading for this measure is a net 3% positive so the latest result is suggestive of a strong labour market. This is one of the factors we believe will contribute to firm growth in housing demand in the near future especially as young people who have delayed purchasing their first home because of job fears enter the market – as our BNZ-REINZ Residential Market Survey suggests may already be happening.

See our monthly NZ Labour Market report at http://tonyalexander.co.nz/nz-labour-market/ for more information on the NZ labour market's current condition and prospects.

Construction – Worsening Shortage Has Price Implications

New Zealand needs at least 25,000 consents for new dwellings to be issued each year in order to meet the housing requirements of the growing population. But in the year to May issuance was only 13,817 with a 1.5% seasonally adjusted fall in consent numbers during the three months to May. There is a shortage of dwellings which we estimate at around 45,000 units and as each month goes by the shortage worsens by approximately 1000. This shortage is we believe already manifesting itself in reports of listings shortages and rising rents – especially in Auckland.

Population Projections

The official population projections produced by Statistics New Zealand can be found here. http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/demographic-trends-2010.aspx

Taking Out A Mortgage – Information For Migrants

In New Zealand most lending for home purchases is undertaken by banks and criteria are similar between all. At the BNZ the criteria relevant to migrants are as follows. You need to have a Working to Residency Visa, be earning at least $60,000 per annum, and generally have a minimum deposit of 5%. For loan to value ratios above 85% (deposit less than 15% of the valuation) a low equity premium will be charged. Between 85.01% LVR and 90% the premium is 0.4%. Between 90.01% and 95% the premium is 0.5%, and above 95% it is 1%. Once the loan to value ratio falls below each of these bands the premium falls so taking out a mortgage with 5% deposit only does not mean paying an extra 1% until it is completely paid off!
There are of course various legal costs and application fees you will need to sort out as well.

Summary

New Zealand's housing market is trading at low levels with prices on average still some 4% below late-2007 peaks, construction near the lowest levels in four decades, and turnover less than half that seen in 2003/04. However there is a shortage of property now manifesting itself in agents reporting a sharp increase in difficulties finding new listings. This is happening at a time when more and more first home buyers are entering the market in an environment of increased discussion of the shortage, awareness of upward creep in rents and prices, and with interest rates set to come off their four decade lows.

While high levels of debt and low affordability by world standards will tend to constrain the extent of the housing upturn, barring a new global economic catastrophe, it appears that New Zealand's housing market has started a cyclical upturn.

Data Sources

To find out what average rentals are currently in different suburbs one can use this website. http://www.landlords.co.nz/housing-statistics/rental-graphs.php or this one http://www.dbh.govt.nz/rental-information Here is an interesting site if you want to compare various aspects of the NZ housing market with other countries. http://www.globalpropertyguide.com/

Real estate commentary
www.unconditional.co.nz

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