Quarterly Property Market & Economic Update

New Zealand | Quarter 4, 2021

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Data to December 2021

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About CoreLogic

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Executive Summary

As it turned out, 2021 was certainly the 'year of property politics', with loan to value ratio restrictions reinstated (and then even extended further for owner-occupiers), tax rules for investors made less favourable, and the Reserve Bank opening the consultation on possible caps on debt to income ratios for mortgages. In the event, none of that threw the housing market off course, with sales volumes holding up fairly well and average property values rising by a record 27.6%. However, in thinking about 2022, we reckon it could potentially become the 'year of the buyer's market'.

So what has happened recently and how are things positioned as we start the new year? At the tail end of 2021, clearer signs had begun to emerge of an easing in the tight/supply demand balance in many parts of the country. In particular, Wellington and Dunedin have seen the stock of listings on the market rise quite appreciably, as new flows ticked over but achieved sales at the other end of the pipeline eased. However, this rise in property available to buy will take some time to show through more clearly in price measures, and indeed, the average value across the country increased by a further 1.9% in December alone.

Buyer patterns also stayed reasonably consistent in the final few months of last year. Mortgaged investors, if anything, saw their market share rise a little, but it's still well down on the early 2021 peak, as this group battles against 40% deposits, tighter tax rules, and the tricky balance of low gross rental yields but rising costs (especially mortgage rates). Indeed, as some landlords face the reality of actually paying a higher tax bill from around the middle of this year, they may start to put a few more properties up for sale.

Meanwhile, would-be movers (i.e. owner-occupiers looking to relocate) have been relatively quiet, while first home buyers are still finding ways into the market. Indeed, due to the ability to use KiwiSaver for the deposit, as well a willingness to look at smaller and/or less centrally-located properties, the market share for FHBs has remained at around a record high of 26%.

Of course, the lending environment is changing for everyone. For a start, owner-occupiers now face a much smaller availability of low-deposit loans, while the CCCFA regulations are reported to be having a significant effect too. And all borrowers are having to face up to the reality of significant mortgage rate increases too. To be fair, any further rate rises could be smaller and slower than those experienced in the second half of 2021, but we can't overlook the fact that about 60% of existing loans need to be refinanced within the next 12 months. Anybody who fixed for a year in about April/May 2021 could easily see their mortgage rate double when they review mid-this year.

At the same time, some banks are already enforcing caps on debt to income ratios and they could be officially mandated later this year – perhaps at a flat rate of seven or so for all borrowers (with some kind of speed limit set-up and probably also an exemption for new-builds). That said, if the property market has already slowed considerably by late 2022, as we expect, then RBNZ-mandated DTIs may not see the light of day in this cycle.

One other key theme for this year will be construction – output, capacity, and cost growth. Clearly, the LVR and tax system now incentivise both owner-occupiers and investors to seriously consider a new-build purchase. And this should give developers confidence to keep building more new houses. However, the industry is already red-hot and costs are rising quickly – even despite solid demand, there has to be a reasonable probability that we start to see new dwelling consents tail off a bit this year as the cost to build just gets too high for some households.

Overall, it's going to be another fascinating year and we suspect the balance of power could tip towards buyers from June/July onwards and it wouldn't be a surprise to see average value growth slow from almost 30% in 2021 to single digits in 2022, possibly close to zero.

The potential swing factor for whether or not we see property values actually fall on a more widespread basis is probably unemployment. For now, it's very low and looking likely to stay that way – this is why outright house price falls aren't our central expectation. However, we'll be watching unemployment very closely, and any slowdown in the labour market further into 2022 could threaten house prices.

Finally, it's obvious that much of this rests on the COVID situation 'ticking over', or at least not rapidly worsening again. In fact, if anything, a resolution and reopening of NZ's borders would tend to be positive for the economy and housing market, albeit we shouldn't necessarily assume that net migration will return to its pre-COVID levels anytime soon – not least because many current residents will be keen to head overseas to live.

As always, we keep a running monitor on the property market every week via our NZ Property Market Pulse articles, so be sure to check these out on our website www.corelogic.co.nz/research-news. Our podcast is also a great source of data and commentary: corelogicnzpropertymarket.buzzsprout.com.

Macroeconomic & Demographic Indicators

New Zealand Asset Classes

RESIDENTIAL REAL ESTATE

$1.72 trillion

NZ LISTED STOCKS

$187 billion

COMMERCIAL / INDUSTRIAL REAL ESTATE

$245 billion

NZ SUPER & KIWISAVER

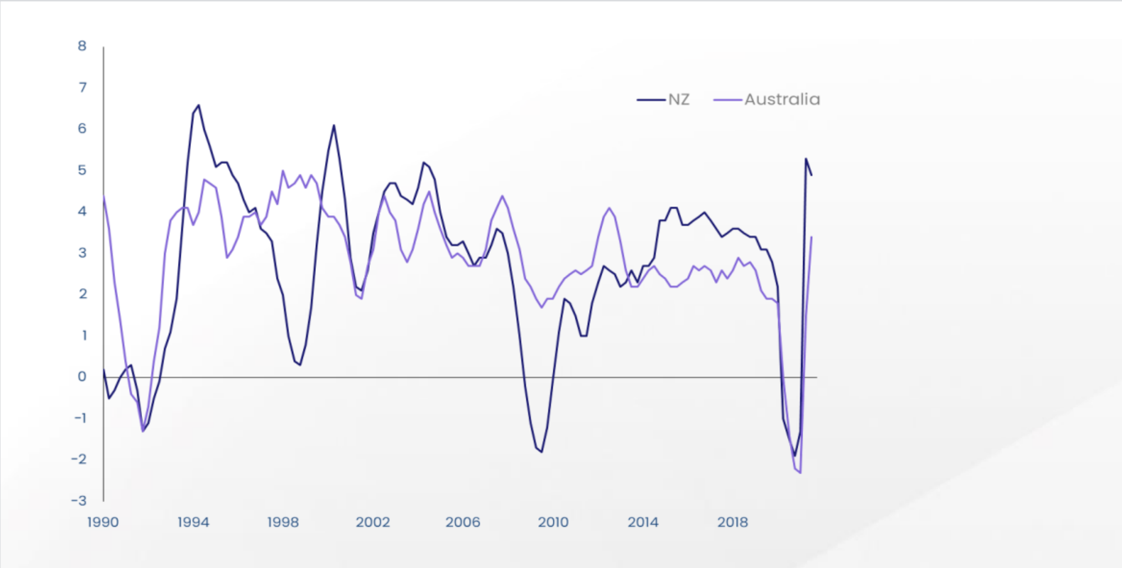
$151 billion

The value of residential property across the country as at Q4 2021 was $1.72T, so with mortgages secured against 19% of that value, the other 81% of the property market is household equity. However, it's also important to note that household debt is high relative to income, and to some extent the debt has only been sustainable recently because of low mortgage rates. However, that situation is clearly now changing and so households are going to have to adjust their finances fairly quickly to ensure they stay on an even keel.

After solid peak through September, the NZX50 eased downwards through October and November, before generally rising again in December (to not far short of the September peaks). That will have boosted household wealth directly, and also helped to raise the size of the NZ Super Fund and the overall KiwiSaver holdings. The continued growth in property values will also have improved the financial positions of owners.

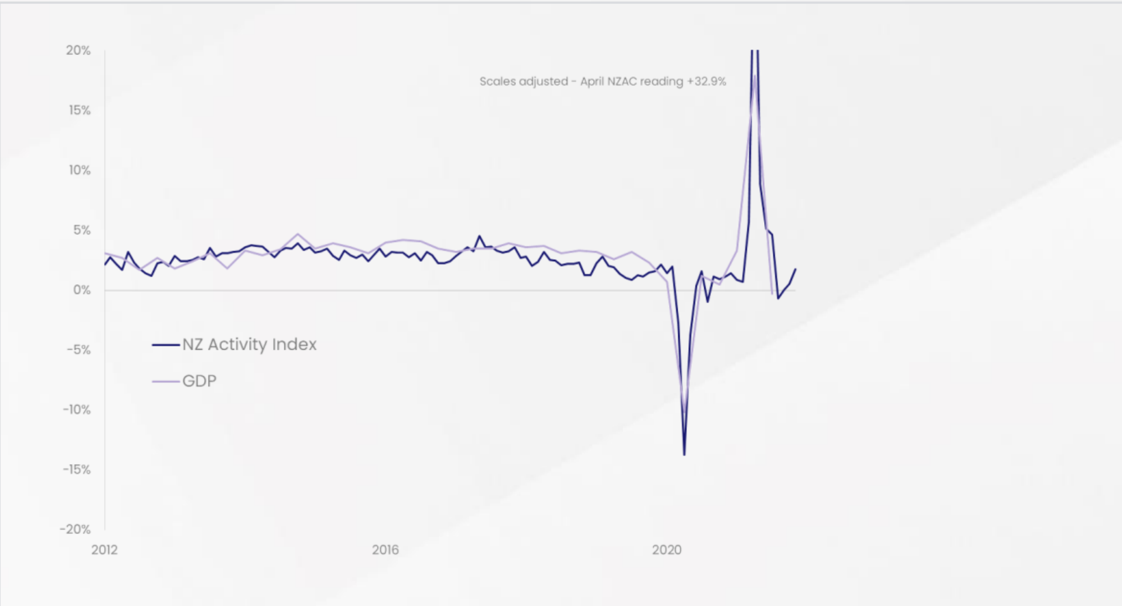
Sources: CoreLogic NZ, Reserve Bank of NZ, NZX, NZ Super Fund

NZ & Australia GDP Growth



Annual Average GDP Growth (%)

The NZ economy contracted by 3.7% from June to September 2021, as the effects of the latest round of social restrictions reduced activity. Not surprisingly, customer-facing sectors such as retail trade and accommodation were weak in Q3. However, analysts had been anticipating an even bigger fall in GDP in Q3, so in a strange way, the latest result was actually quite encouraging.



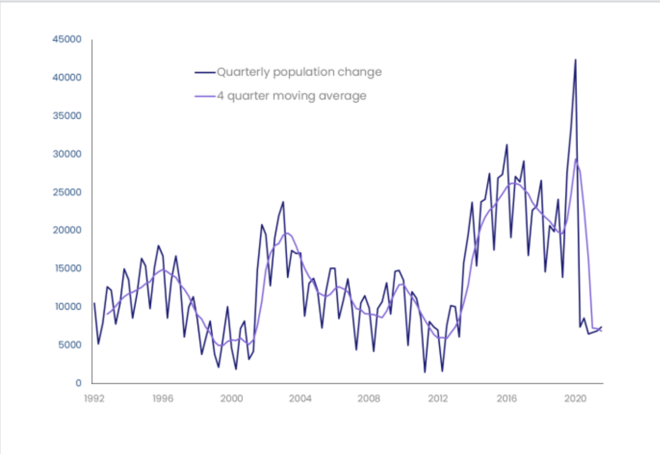
Annual Change in New Zealand Activity Index and GDP (%)

Moreover, the Q3 GDP data are already 'out of date' anyway, and other timelier indicators for economic activity have held up well in recent months – for example, the NZ Activity Index, which has continued to show year-on-year growth, despite COVID disruptions. For 2022, most expectations are that the NZ economy will grow at a solid pace – especially if the borders reopen - with unemployment staying low.

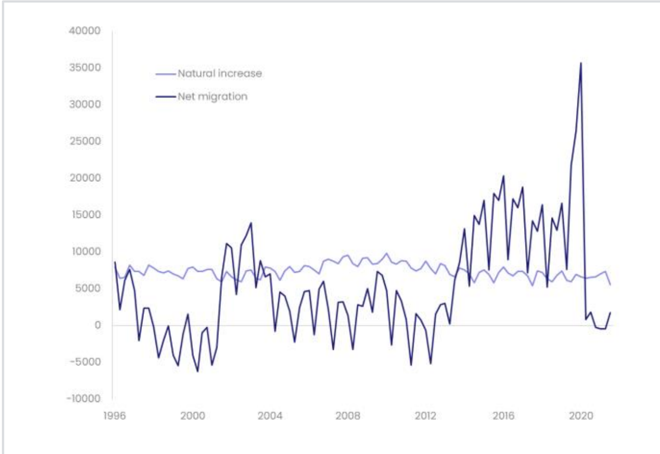
 Sources: Reserve Bank of New Zealand, Stats NZ

NZ Population & Migration

Quarterly Change in National Population (persons per quarter)



Population Change Composition (persons per quarter)



Annual Change in Population (persons)

In the year to September 2021, NZ's population only rose by 27,500 (to hit 5.13m), the smallest annual increase since 2012. The natural increase over the past 12 months has been a fairly standard 26,800, meaning that net migration was only 700 people. For context, in the year to March 2020, net migration was around 92,000. Of course, none of this is surprising when you consider the effects of COVID and the closed borders.

The lack of net migration has driven some interesting regional patterns too. Over the past year or so, population growth has held up in areas such as Hamilton and Tauranga. However, the gains in Wellington, Christchurch, and Dunedin have been smaller, and Auckland has actually seen its population fall a little (1,300 people on the year to June 2021).

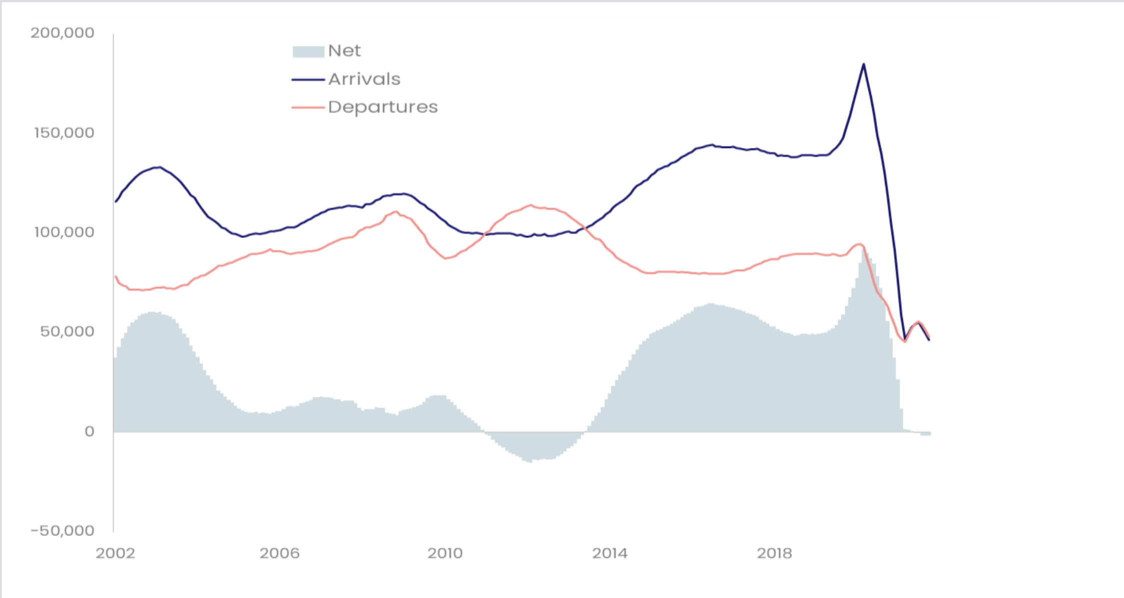
Looking ahead, COVID/omicron uncertainty is obviously still very high and this makes projections about population growth difficult. On the assumption that the borders gradually reopen over the course of 2022, it's likely that net migration will start to increase again too – pushing up housing demand.

However, we'd be cautious about blindly assuming that the net migration flow will return to pre-COVID levels. After all, although many people will be keen to come and live in NZ, so too will many current residents be keen to go overseas to live or do their OE. That outflow (potentially to Australia) is something that will need to be watched closely in 2022.

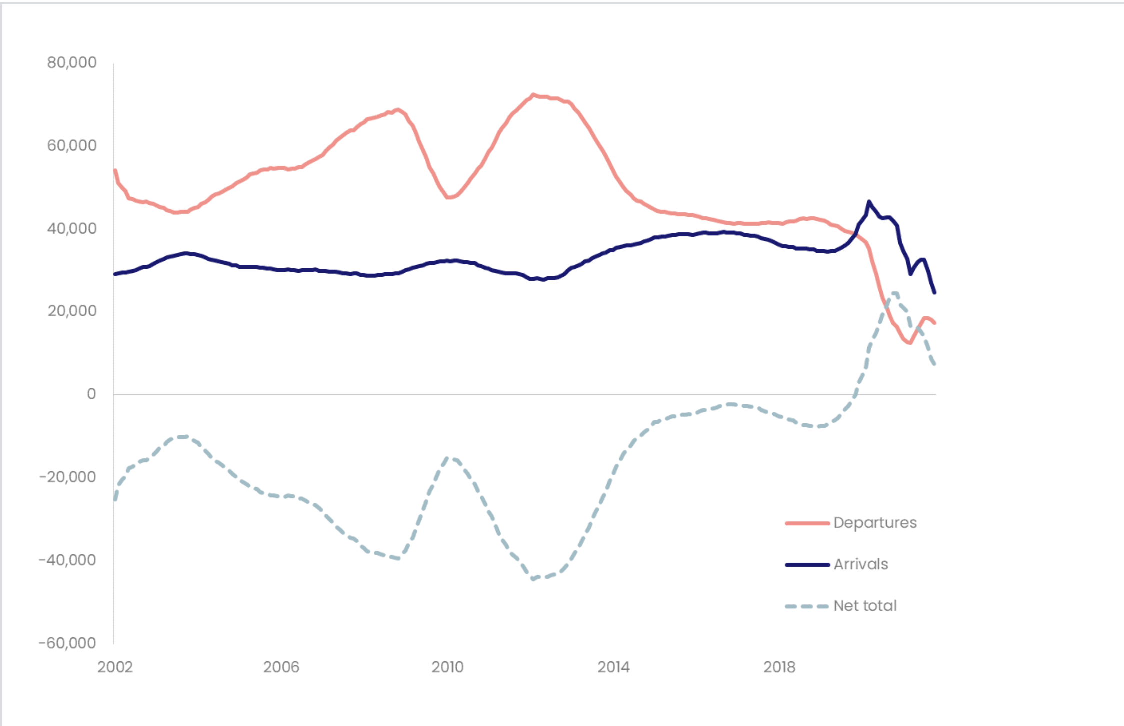
 Source: Stats NZ

NZ Population & Migration

Long Term Migration (12-month rolling totals)

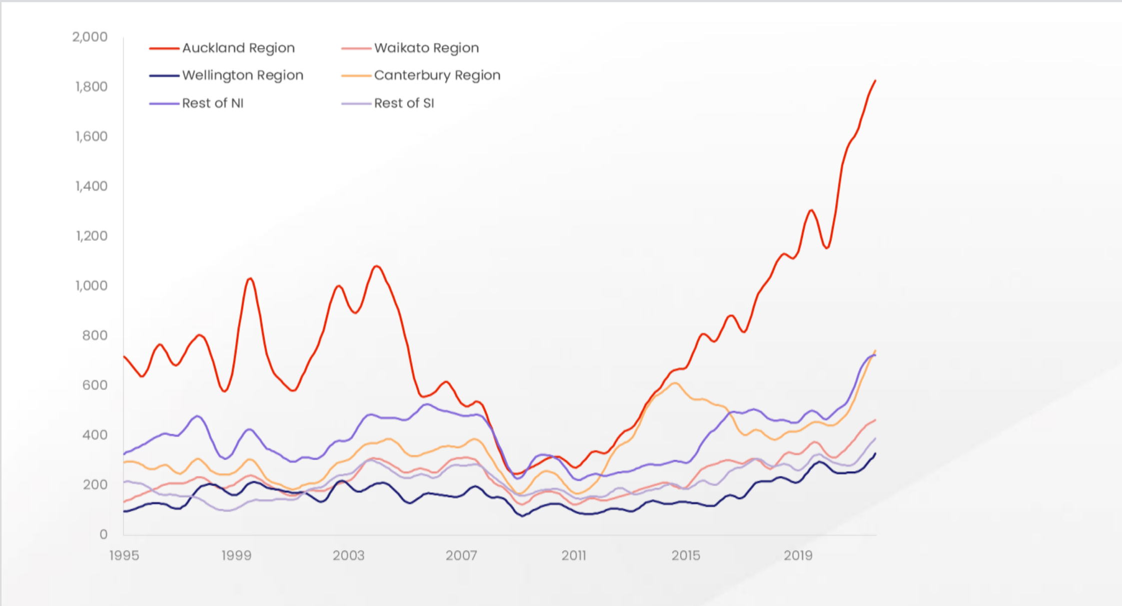


Migration Flows for NZ Citizens (12-month rolling totals)



 Source: Stats NZ

Building Consents



New Dwelling Consents Trend (consents per month)

Over the past few months, new dwelling consents have remained strong, with the annual total rising to a record high of more than 47,700. Much of that increase has been driven by smaller dwellings such as townhouses (especially in Auckland), with this group now accounting for more than 46% of the total - a record high and up sharply from less than 20% in 2013.

It's not just new dwelling construction that is running at high levels either; consents issued for alterations to existing properties (let alone non-consented work) are also strong, with more people choosing to 'love it' rather than 'list it'. Indeed, we suspect that the shortage of available listings on the market is a key reason why owner-occupiers are staying where they are instead and making their existing property better for their needs.

Given our rising occupancy rate (people per household) and (un-)affordability pressures, a more intensified housing stock makes sense. Indeed, in Australia where home ownership rates are higher than NZ, units/apartments comprise a much bigger share of housing stock. On that point, the recent bi-partisan political agreement to drive forward further planning rule changes here in NZ – i.e. three dwellings of up to three storeys each on one section – should be a positive step.

However, it's also important to remember that the construction industry is already at full capacity and costs are rising quickly – with the supply chain problems created by COVID an unwelcome additional problem. Given this, it's hard to see how the planning rule changes will have much immediate impact, although they should help to alleviate affordability challenges over the longer term.

With construction costs rising quickly, there is surely a risk in 2022 that some people planning to build a new house are simply deterred from that option, and hence it wouldn't be a surprise to see new dwelling consents start to ease off over the coming 6-12 months. Of course, for the builders themselves, there is still enough work in the pipeline for some time to come yet.

Putting aside any costs issues, at least the recent changes to the property investment landscape have certainly incentivised investors to look at new-build properties, which should give developers confidence about their future demand levels. These incentives for investors include exemptions for new-builds from the LVR rules and also the Brightline extension, while interest deductibility can also continue to be used on new-builds for the first 20 years of their life (and across however many owners there are in that period).

 Source: Stats NZ

Consumer Confidence

ANZ-Roy Morgan Consumer Confidence (Index, Monthly)

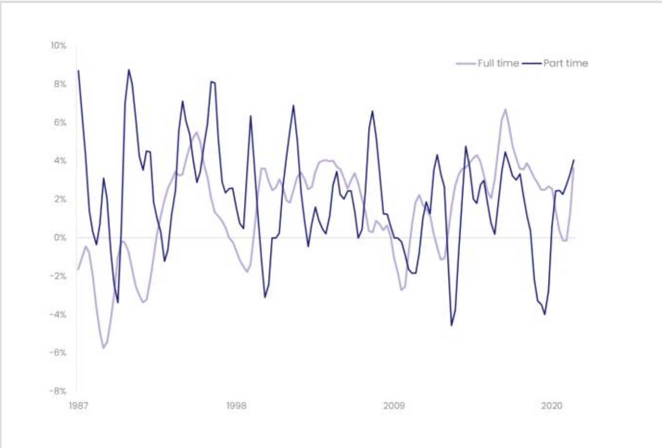
Consumer confidence has certainly passed the peaks that it hit in the first half of 2021, and it looks likely that households will have a cautious attitude when it comes to spending decisions in 2022. For sure, unemployment is low, and this will be helping to prop up confidence to some degree. But the lingering effects of COVID and, more notably, sharply rising mortgage rates seem to be key concerns.

Another interesting aspect of the consumer survey results has been rising inflation expectations. The Reserve Bank will be wary of the risk that higher inflation expectations become 'embedded', prompting higher wage demands, which would tend to reinforce the higher *actual* inflation we're currently seeing. Therefore, these figures add to the likelihood that the official cash rate will continue to rise.

Source: ANZ, Roy Morgan

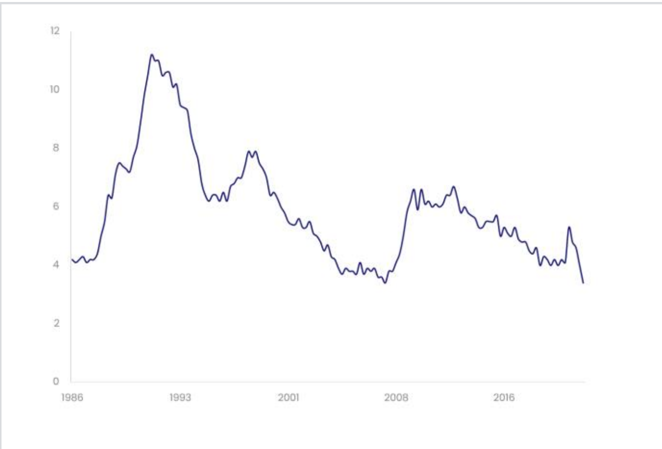
Employment

Annual Change in Employment

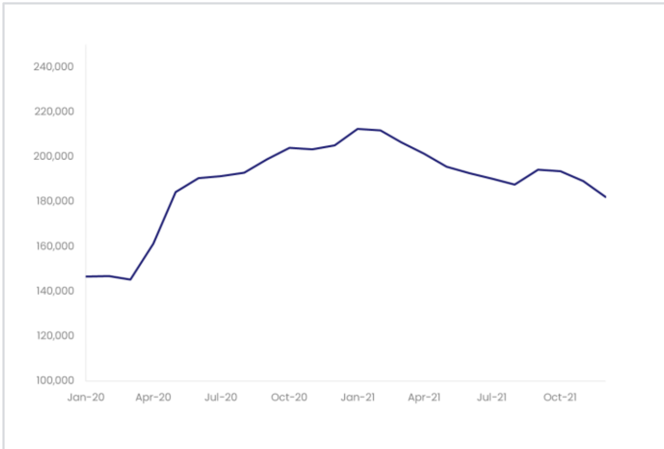


Labour Force Participation Rate (%)

Unemployment Rate (%)



Number of Jobseeker Support Claimants



The labour market remains very strong, with almost all indicators pointing in the positive direction. For example, under-utilisation (i.e. those working part-time but who want to be full-time) has declined, the labour market participation rate has continued to increase, and wage growth has also accelerated. This has all helped to support the property market in recent months.

Moreover, employment growth itself has been steady, and in reality could have been even higher if there were more people actually available to work. Indeed, with the borders closed and migration low, skills shortages and a lack of available workers have become key issues in many industries.

Finally, the most high-profile labour market indicator is of course the unemployment rate, and in Q3 2021 it dropped to a record low of 3.4%.

In other words, the labour market remains a clear 'success story' since we emerged from the first lockdown about 18 months ago. Admittedly, it must be acknowledged that some sectors have fared much worse than others. But overall, strong jobs growth and low unemployment have played their part in pushing up property values lately.

Looking ahead, most expectations are that unemployment will stay low throughout 2022, which will again provide a foundation for the property market. However, it will be worth keeping an eye on business confidence surveys over the first few months of 2022, looking for any hints that after their return from holidays some firms have started to question their prospects. If that was to be the case, there could be some risk of a rise in unemployment, which would of course present another challenge for the property market.

 Sources: Stats NZ, Ministry of Social Development

Interest Rates

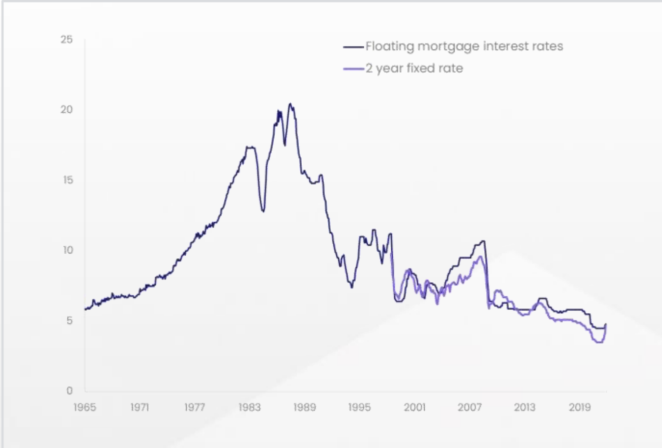
The historical lows for mortgage rates that were reached in the aftermath of COVID first hitting NZ have now well and truly passed, and a firm upwards trend for mortgage rates has been established. Depending on the duration of the loan, mortgage rates have risen from around 2-2.5% about 4-5 months ago to about 4-4.5% now – so in other words, they've pretty much doubled. Of course, mortgage payments (on principal repayment loans) don't double, but it's still a significant increase, especially for a generation of borrowers who have never actually seen rates rise, only fall.

A key part of the increase in mortgage rates has of course been the two official cash rate rises already delivered by the Reserve Bank, taking the OCR to 0.75%. However, mortgage rates have also increased due to the expectation of further OCR rises to come – in other words, those ORC rises have already been 'priced in' to mortgage rates to some extent.

Therefore, even if the OCR does increase all the way to about 2.5% over the next 12-18 months, the flow through to mortgage rates might be smaller than what we've seen so far. That is, we've already seen about 2% of rises in mortgage rates, but there might perhaps 'only' be 1% or so left to go. It wouldn't be a surprise to see rates typically above 5% or 5.5% later in 2022, but the chances of going above 6% aren't as high.

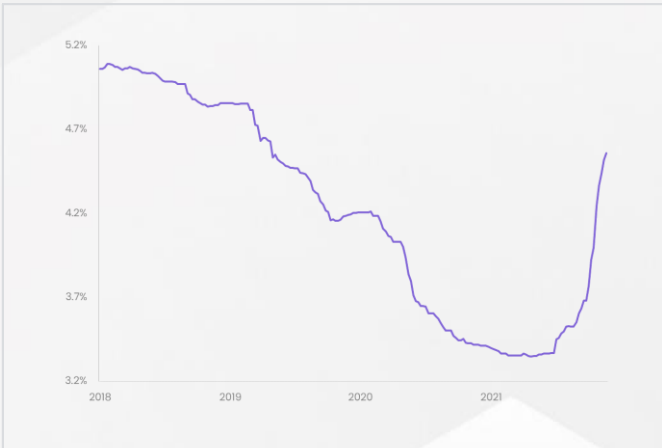
Of course, it will take some time for some borrowers to feel this effect, given most people have fixed for 1-2 years. And the low unemployment rate offers some insulation too. However, rising mortgage rates will still be a significant handbrake for property sales volumes and values in 2022.

Mortgage Interest Rates (%)



Official Cash Rate & Mortgage Rates (%)

Average Two-Year Fixed Rates (%)



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Housing Overview

Listings

Weekly Flow of New For-Sale Listings

Weekly Flow of New For-Rent Listings

For the past 2-3 years, the low supply of listings on the market has been a key feature of the NZ housing story, playing a key role in pushing up property values – as more buyers came to the market, but at the same time they were facing reducing choice. Clearly, that put the power in the hands of vendors. However, this situation is now turning around, and our hunch is that at some stage in 2022, this will be able to be labelled as a 'buyer's market', with vendors' expectations likely to be disappointed in some cases.

In other words, we've already seen the total stock of available listings on the market start to rise nationally, driven by (among other areas) sizeable shifts in places such as Wellington and Dunedin. In terms of the mechanics of this, new listings at the start of the pipeline have risen, but only to 'normal' levels – meaning that the rise in stock on the market has really been driven by fewer achieved sales at the other end of the pipeline.

It's important to note that the total stock of listings on the market nationally is still relatively low. And it may not shift from a seller's to a buyer's market overnight – after all, with unemployment low, there's no major pressure on most vendors to push through a quick sale. Indeed, listings may just sit unsold for longer and/or be withdrawn altogether. However, as we get further into 2022, the pressures of higher mortgage rates may start to tell for current owners/sellers, and those active buyers who can secure finance will find themselves in a relatively strong position when it comes to price offers.

One group who could potentially being forward more properties to the market are those investors who have already seen large capital gains and are outside their Brightline period, who are also now facing low rental yields and rising costs (e.g. higher mortgage rates, more tax, compliance etc).

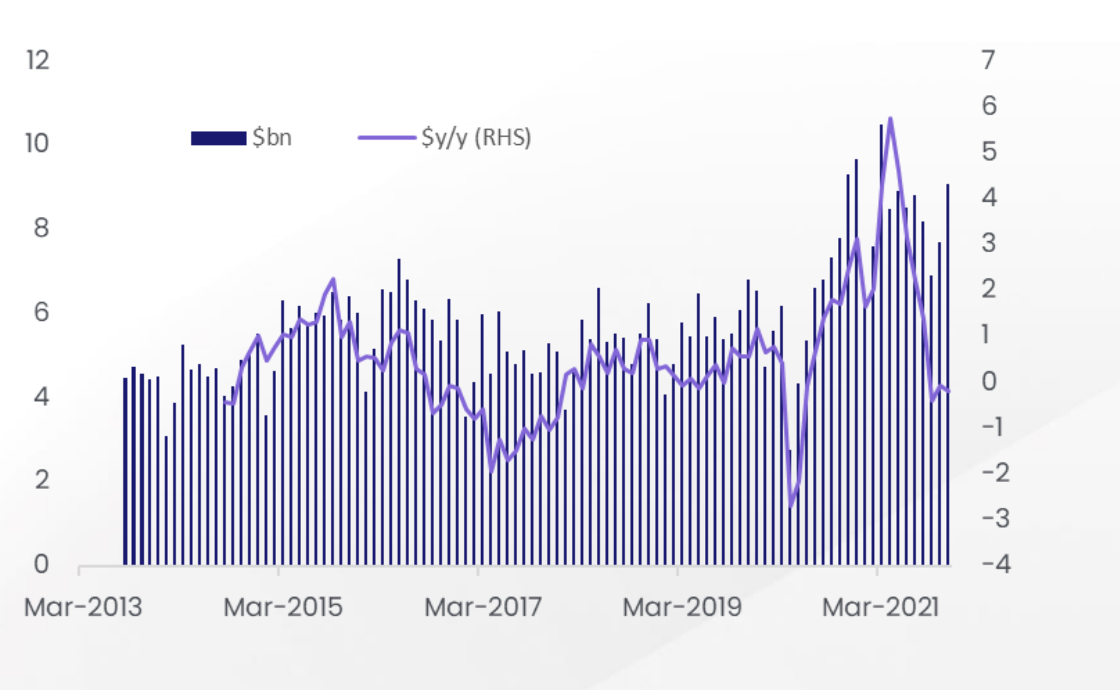
Early Property Market Indicators

During the various phases of COVID-related social restrictions over the past two years or so, early and timely information on property market activity (on a daily basis) has become even more important – such as pre-listing measures (real estate agent appraisals), as a guide to what might happen down the track to actual listings themselves. This information is covered in our Early Market Indicators Report shows, as per the link below:

www.corelogic.co.nz/early-market-indicators

 Source: CoreLogic

Lending Conditions



Annual Change in Gross New Lending Flows ($m per month)

Mortgage lending volumes have recently been buffeted around by COVID-related restrictions, just like listings activity, sales volumes etc. However, on the whole, they've stayed relatively strong, with 'other' lending such as top-up loans (as homeowners look to 'use' a bit of their equity) and bank switches bolstering activity over and above the usual flow of new mortgages being written.

There was $7.7bn of gross new lending in October, pretty much unchanged from a year earlier – after a long series of months where annual growth was significantly positive. Owner occupier activity has recently been holding up fairly well, but given the tighter LVR rules for investors, their activity has softened more significantly in recent months. Given a generally more cautious outlook amongst the banks, it's no surprise that interest-only lending has remained stable in recent months.

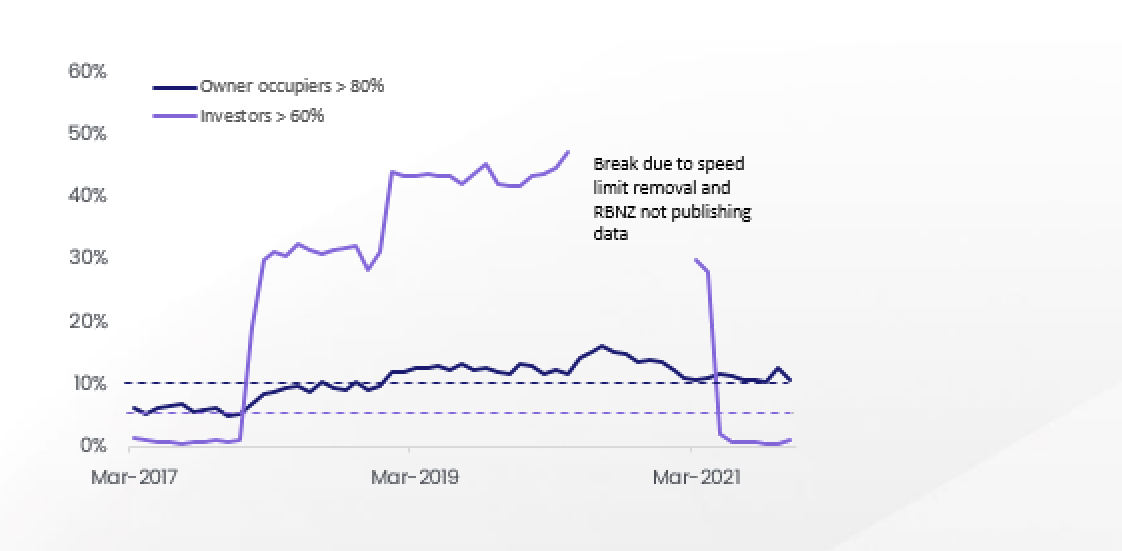
It's going to be really interesting to see how the mortgage market evolves next year. After all, owner occupiers now face tighter LVR rules too, with the low deposit lending speed limit having been cut from 20% to 10% on 1st November. This will tend to affect first home buyers (FHBs) the most, as they were the ones making the most use of the previously higher allowance. Indeed, about 75% of all exempt owner occupier lending has recently gone to FHBs.

Meanwhile, the consultation on minimum serviceability test rates and caps on debt to income (DTIs) ratios is also now open. It looks relatively likely that minimum test rates could be mandated from around the middle of the year, although the effect may not be substantial if most banks are already testing above that threshold anyway.

DTIs have the potential to be the bigger influence, although again may not be imposed until the end of the year, by which time we think the market will have slowed anyway (therefore perhaps meaning that DTIs don't actually get enforced by the Reserve Bank). With a far greater proportion of investors borrowing at high DTIs than owner-occupiers, they would tend to see the greatest impact – effectively capping the size of their portfolios (until income can be raised over time).

 Source: Reserve Bank of NZ

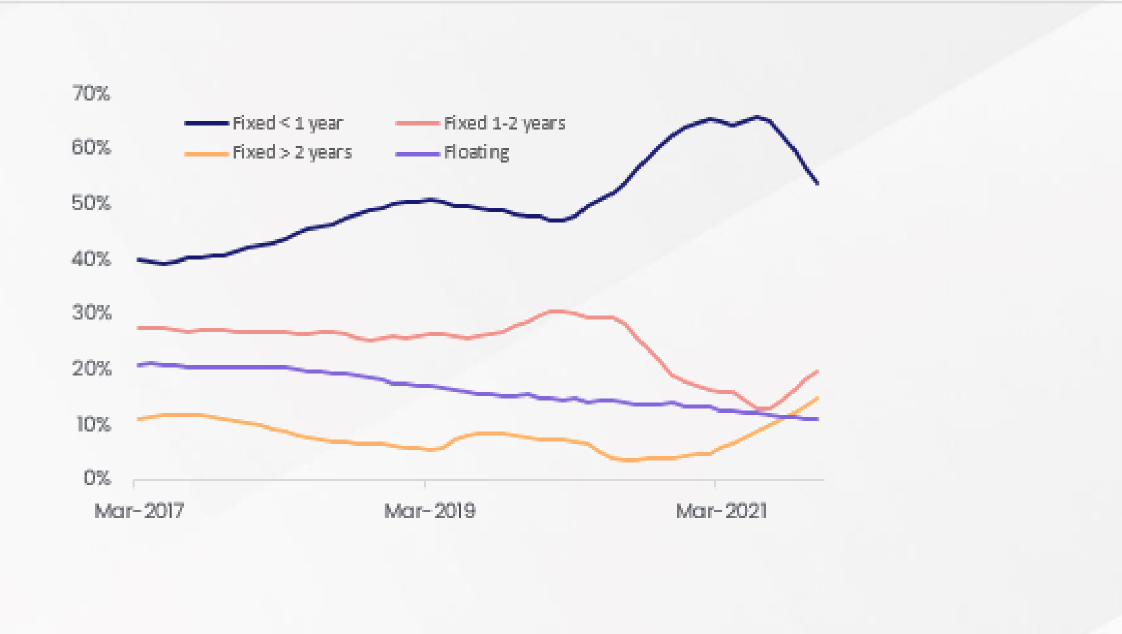
Lending Conditions



High LVR Lending (% of new lending)

Overall, 2022 is likely to be a quieter year for mortgage lending volumes, especially as the CCCFA regulations are also biting fairly hard (on top of other rules such as the LVRs). Rising mortgage rates won't knock all households straightway, especially those that fixed 2-3 years ago on a higher rate anyway (and therefore their new rate when the loan renews may not change) and/or kept their payments the same even as mortgage rates fell. But about 70% of NZ mortgage debt is either floating or fixed for less than another 12 months, so higher rates will still be a challenge for many this year.

Refinancing Profile for Mortgages (% of stock)



 Source: Reserve Bank of NZ

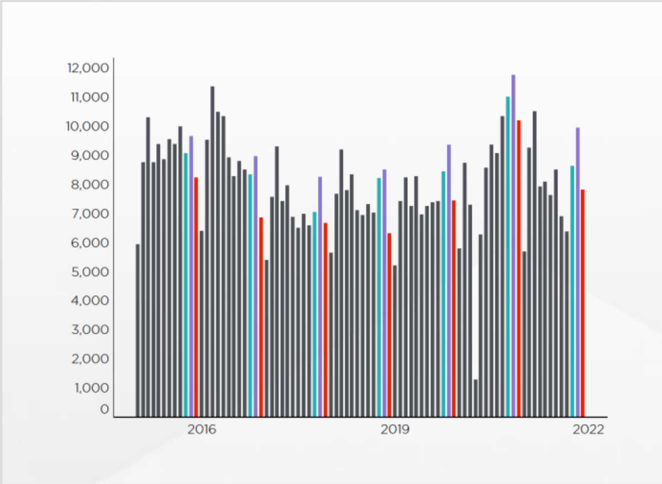
Sales Volumes

December's sales volumes data brought even clearer evidence that market activity levels have passed their peak, with activity down by about 28% from the same month a year earlier. This downwards trend – which we think actually started as early as June or July last year – had previously been 'masked' by August's lockdown and the volatility that it introduced to the sales figures. But now that the effects of that lockdown are washing out, it's much clearer that sales are declining.

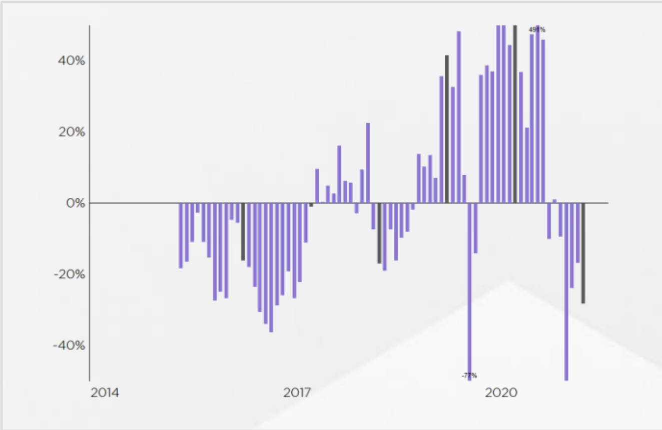
Of course, that shouldn't come as a surprise. After all, nothing can stay at above-normal levels forever, and with affordability pressures biting for buyers, mortgage rates going up, and credit criteria being tightened, it's become harder in recent months for buyers to get across the line on a deal. The recent rise in listings may have also seen some buyers become a bit more patient, in the hope of securing a 'bargain', which will have also caused a drop off in agreed sales.

Looking ahead, we think sales activity has further to fall this year, as the forces discussed above continue to play a role in dampening buyer activity. And typically when sales activity eases, so too does the rate of property value growth. However, the scope for an outright downturn is limited by the continued strength we're seeing in the labour market.

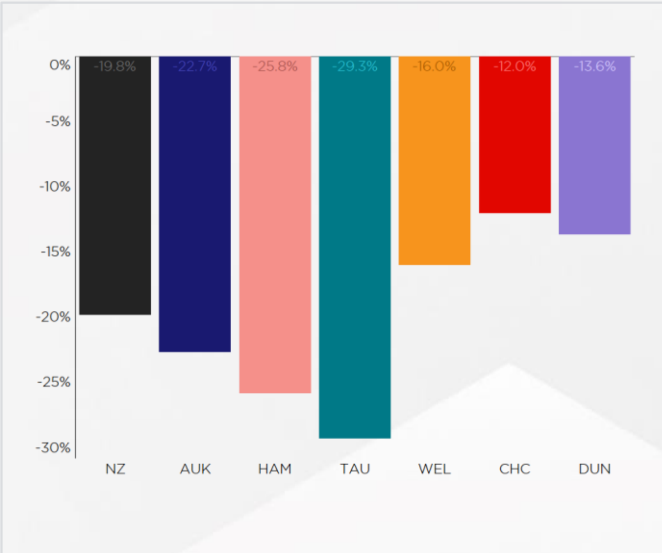
Nationwide Sales Volumes (monthly total)



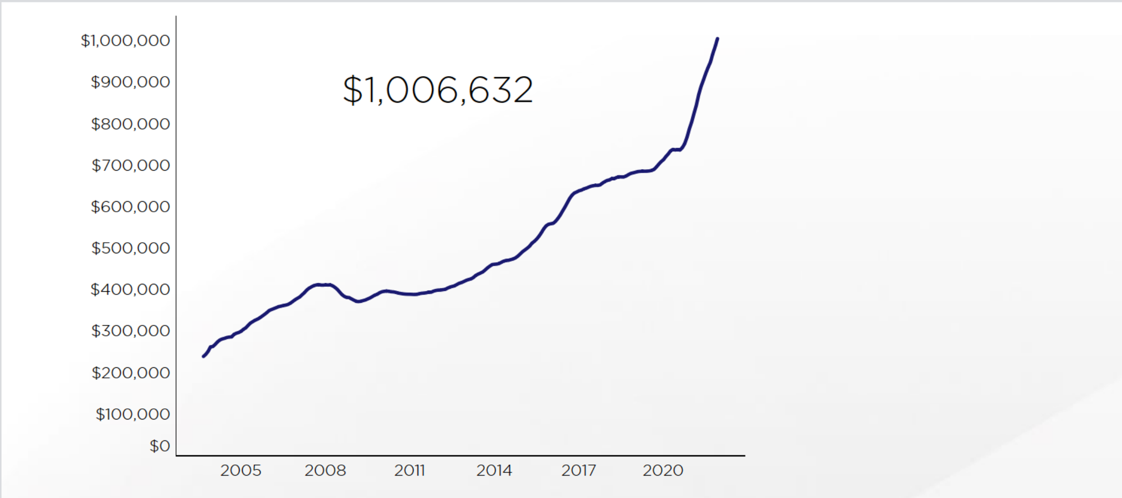
Nationwide Annual Change in Sales Volumes (%)



Regional Sales Volumes (year-on-year % change)



Values

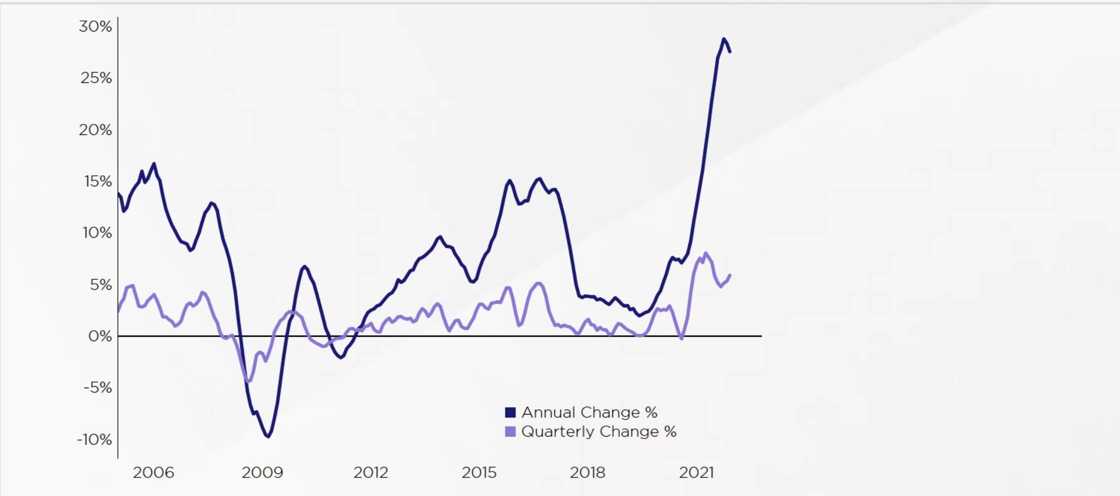


Average Value of Housing Stock - New Zealand ($)

Property values have continued to rise pretty steadily in the past three months, up by 5.9% from September to December, 11.0% since June, and by 27.6% for the calendar year. In December, the average value topped $1m for the first time, which represents a staggering increase of nearly $218,000 from the end of 2020. For a first home buyer purchasing at the average level, that equates to needing to find an *extra* $43,500 or so, just to keep their deposit at that 20% mark.

However, conditions in the property market are set to change significantly this year. Indeed, sales volumes themselves are already showing signs of a slowdown, and with affordability pressures intense, mortgage rates rising, credit supply tighter, and listings/choice for buyers rising, the growth in property values will also slow markedly this year – we'd anticipate it dropping back to single digits, possibly close to zero.

Annual and Quarterly Change in Value (%)



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House Price Index

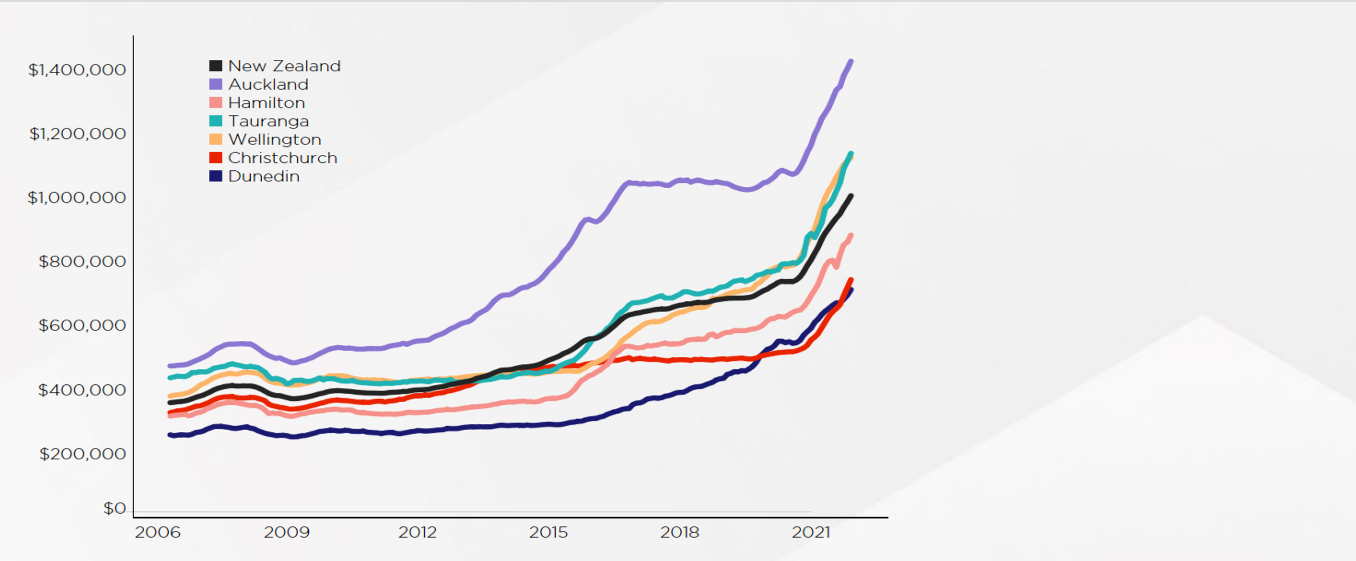
A key feature of the upswing in property values over the past 12-18 months has been its widespread nature – i.e. not just reflecting growth in one or two key centres, but upturns right across the country. In turn, this has reflected common fundamental drivers, such as low mortgage rates and a tight supply/demand balance (which are now changing quickly).

Across the 2021 calendar year, all 66 main territorial authorities (excluding Chatham Islands) saw average property values rise by at least 17.8% - that figure being in Timaru. Only three areas saw a gain of less than 20%, i.e. Timaru, and Rotorua, MacKenzie. There were 27 areas with increases of between 20% and 30%, including Wellington, Whangarei, Palmerston North, New Plymouth, Porirua, Nelson, Auckland, Gisborne, Invercargill, and Dunedin.

At the other end of the spectrum, seven areas saw average property values rise by more than 40% in 2021, headed by Wairoa, Tararua, and Selwyn. The other four areas were also small/rural, i.e. Grey, Central Hawke's Bay, South Waikato, and Rangitikei. The remaining 29 areas had increases of between 30% and 40%, including Christchurch, Hastings, Whanganui, Upper Hutt, Napier, Lower Hutt, Kapiti Coast, Hamilton, Queenstown, and Tauranga.

Clearly, the rise in property values creates 'paper' wealth for owners at the expense of would-be buyers. However, those gains can only be realised when the property is sold, and of course for relocating owner-occupiers, any new equity probably just has to be recycled straight back into the next purchase.

Average Dwelling Value ($)



	DECEMBER 2021 Current value	1 month	3 months	12 months	5 years
New Zealand	$1,006,632	1.9%	5.9%	27.6%	58%
Auckland	$1,426,882	1.7%	5.9%	24.9%	36%
Hamilton	$883,989	2.7%	7.4%	31.0%	65%
Tauranga	$1,139,186	2.2%	8.9%	30.0%	69%
Wellington	$1,125,729	1.0%	3.9%	30.6%	94%
Christchurch	$744,661	3.5%	11.7%	38.0%	51%
Dunedin	$713,773	2.6%	6.2%	22.6%	102%

House Price Index

Annual Value Change (%)

Over a 12 month horizon, average property values have risen in all parts of the country, with the most strength still evident in many parts of the North Island and in and around Canterbury too.

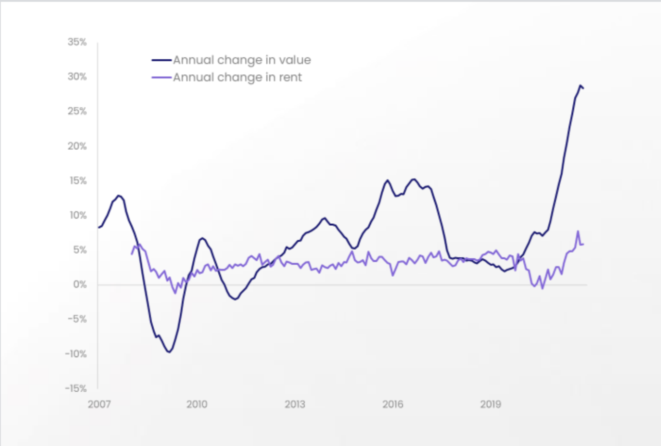
House Price Index

Three Month Value Change (%)

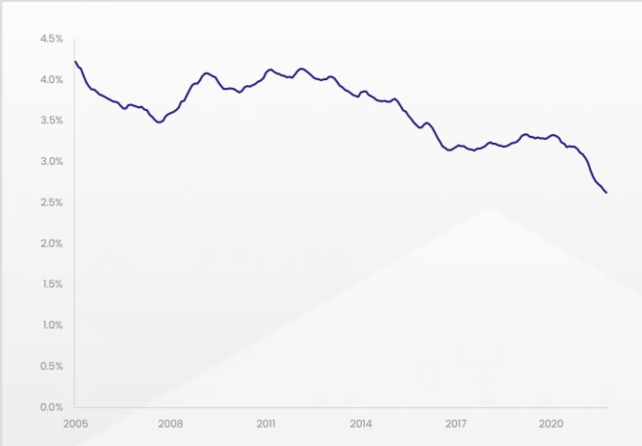
Over the shorter three-month period since September, however, there has been a little more regional variability. Around much of the Wellington region, value growth has slowed in the past few months, and outside Canterbury, other parts of the South Island have been a little more subdued too.

Rent

National Annual Change in Value and Rent (%)



Gross Rental Yield – National (%)



According to the Stats NZ rental price index, the growth in rent for new tenancies has moderated a little in the past few months, from an annual pace of 7.8% in September, to 5.8% in October and 5.9% in November. Clearly, that is still relatively high compared to the typical figure of about 3% historically. But it's perhaps not as high as some people had been anticipating, given the expectation that landlords would look to push through sharp rental increases in response to the tax changes made by the Government at the end of March 2021 (i.e. extension of Brightline and phased removal of interest deductibility).

Indeed, it's very hard to disentangle at present how much of the rental growth is attributable to tax changes versus how much is due to other factors, such as simple supply/demand pressures and also rising mortgage rates – as well as possibly still some 'catch up' growth after 2020's rental freeze.

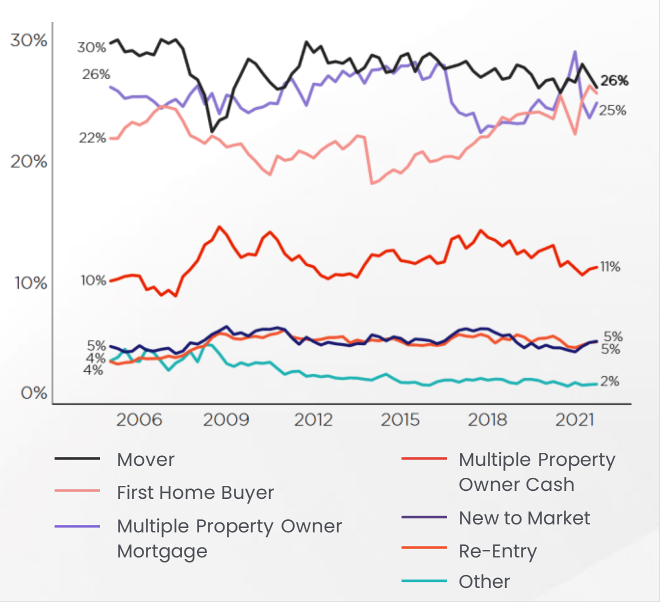
Either way, however, none of this will be much comfort for renters, who are facing rising housing costs at exactly the same time that some of them will also be trying to save a deposit to buy their own property.

The good news for them is that rents can't rise at their recent pace forever – in the end, they're anchored by what tenants can afford to pay (which is a function of how quickly their wages rise). And at the same time, the majority of landlords value a good tenant and are willing to keep rents steady in order to avoid vacancy and the costs of finding somebody else (as well as potential repairs bills from a 'bad' tenant).

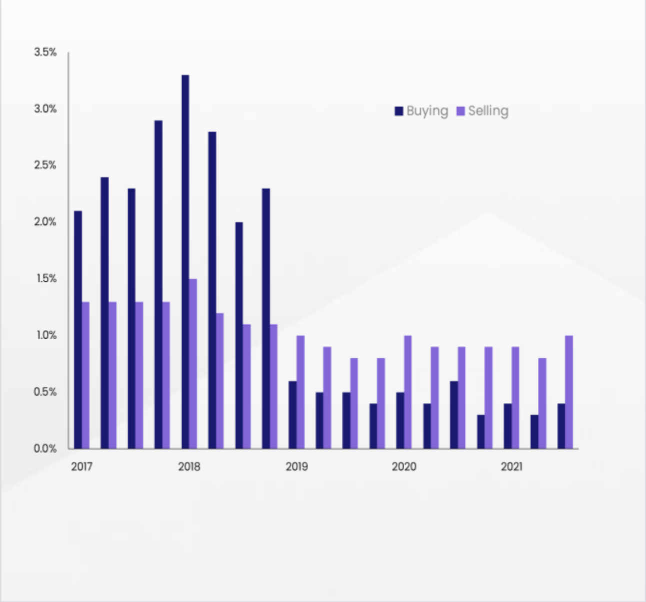
However, there may still be above-average rent increases over the next 3-6 months at least.

Buyer Classification

Buyer Classification – New Zealand (% of purchases)



NZ Property Transfers by Non-Citizens or no Resident Visa (% of total transfers)



There hasn't really been a lot of change in terms of the market shares for the each of the key property buyer groups over the past three months, with any shift no more than 1%-point or so in either direction. With most buyers now affected to some extent by regulation (either deposit or tax rules), a key theme for 2022 in terms of market share will simply be which group can weather the storm the best, or worst.

Over the course of Q4 2021, mortgaged multiple property owners (i.e. investors) managed to raise their share of purchases from 24% to 25%. However, that's still well down on Q1 2021's peak of 29%, which was the period just prior to the loan to value ratio rules being reinstated and also of course before the Government announced the changes to the Brightline Test and interest deductibility rules.

To be fair, the lingering disruptions from COVID and the alert level changes mean that these market share figures are based on a smaller number of deals than probably would otherwise have been the case. But even so, it's clear that mortgaged investors' appetite to purchase property has waned, although they will no doubt still be eyeing up new-builds – given they only have a five year Brightline period (rather than 10), they're exempt from the LVR rules, and can have interest as a deductible expense for the first 20 years from code compliance (if granted after 27th March last year). That interest benefit can also pass on to subsequent owners within that first 20 years too.

Turning to other buyer groups, movers' market share eased down from 27% in Q3 to 26% in Q4 – the lowest figure since Q3 2020. Would-be movers have recently been staying where they are in many cases simply because of the lack of available listings – i.e. they've been reluctant to sell their house because they can't find their ideal next property. However, we suspect that as some investors start to list and sell a bit more often in 2022, more opportunities will open up for owner-occupiers looking to move house (partly also because of the extra listings being made by other owner-occupiers who have been able to move).

Meanwhile, first home buyers (FHBs) have held on to their 26% market share in the past few months, even as values and required deposits have increased. Many in this group continue to find ways onto the ladder, including using their KiwiSaver for the deposit and/or looking for smaller properties or those located further away from city centres – in order to find a cheaper price point. Up until 1st November, the 20% allowance for low deposit lending was also a key avenue for FHBs, but of course this has now changed and will make things harder as 2022 progresses.

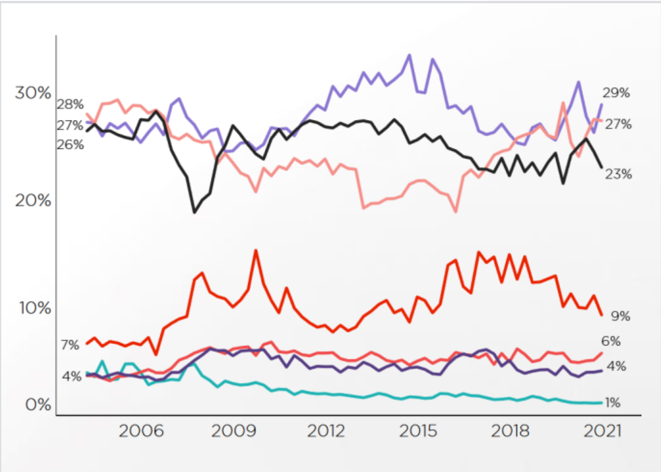
The smaller groups, such as cash investors, re-entry, and new to market have also had relatively steady market shares in the past 2-3 months.

Main Cities Housing Market Indicators

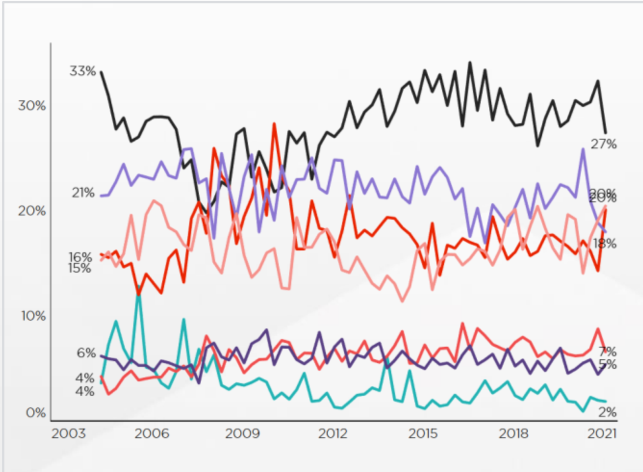
CoreLogic

Auckland Market Activity

Buyer Classification – Auckland (% of purchases)



Buyer Classification – Northland region (% of purchases)



Mover
First Home Buyer
Multiple Property Owner Mortgage
Multiple Property Owner Cash
New to Market
Re-Entry
Other

The Buyer Classification trends within Auckland have been similar to NZ as a whole lately – with mortgaged investors and first home buyers fairly stable in terms of market share over the past 2-3 months. However, it's noticeable that movers, or relocating owner-occupiers, have a reduced share in Auckland (23%) versus the national average (26%).

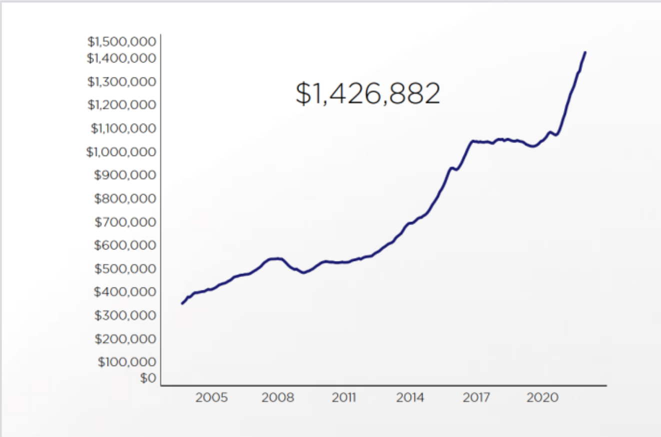
After a figure of 31% in Q1 2021, mortgaged investors' market share in Auckland had dropped back to 26% by Q3, as 40% deposits and the changes to tax rules (as well as low gross rental yields but rising costs) took effect on day to day finances but also the mood/expectations of investors. However, that figure rose back to 29% in Q4, a surprisingly strong result given all of the challenges currently faced by investors. Clearly, some are still seeing profitable buying opportunities – and potentially also trying to buy before any debt to income rules kick in.

Meanwhile, after seeing their market share drop away in late 2020 and into early 2021, first home buyers across Auckland have made a strong comeback in the past 6-9 months, and the Q4 figure was broadly steady at 27% (from 24% in Q1). Clearly FHBs in Auckland have to raise a larger deposit in dollar terms than most other parts of NZ, but many are finding a way.

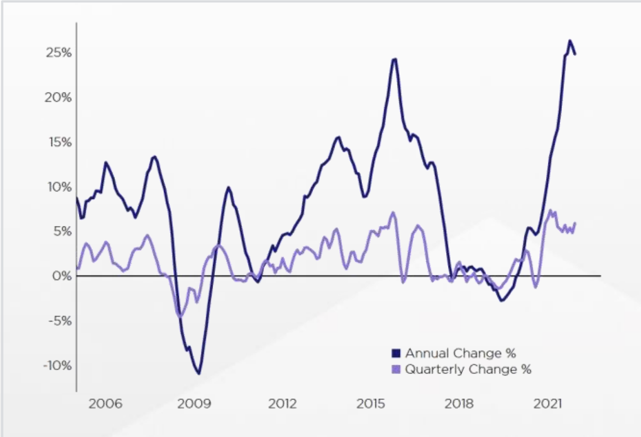
As is the case elsewhere in NZ, movers are also relatively quiet in Auckland, and in fact have a lower share than elsewhere. That's consistent with the low level of listings, and the fact that many would-be movers are finding it hard to locate their ideal next property (and/or already have high debt levels and can't raise more funds, or their bank won't allow them). This may turn around a bit in 2022, however, as more listings and choice starts to open up for owner occupiers who want to relocate.

Auckland Values

Average Value of Housing Stock Auckland ($)



Annual & Quarterly Value Change Auckland (%)



The continued upturn in average property values for Auckland as a whole has reflected rising markets across each sub-area – in other words, the upturn remains broad based. In fact, only Franklin now has an average property value <$1m.

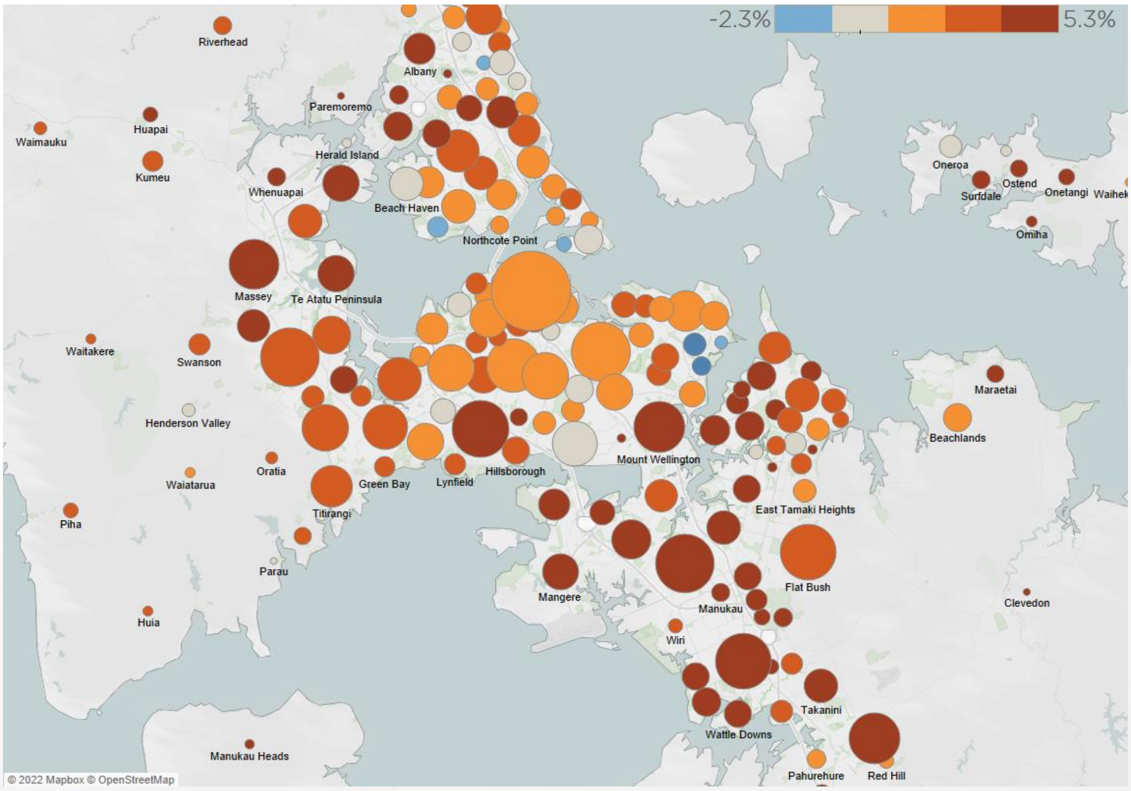
However, although the upturn remains pretty widespread across Auckland, a divergence has opened up between growth rates, with the 'cheaper' (in relative terms) parts of the city, i.e. Franklin and Papakura, seeing the largest gains in 2021 (of 34.4% and 32.5% respectively) – whereas the North Shore and Auckland City, where values are now about $1.6m or more, have had lower growth rates (21.5% and 22.6% respectively). This no doubt reflects a more favourable – but still stretched – affordability position in the cheaper areas.

Like most other parts of NZ, a slowdown in Auckland property values remains firmly on the cards this year. As noted, affordability is already stretched, while rising listings, higher mortgage rates, and tighter credit conditions will all weigh on property values too.

But Auckland has also been a hotspot for new dwelling construction over the past 12-18 months (and before that too), with any shortfalls of housing potentially now eradicated over the next 1-2 years – especially if the borders stay closed for a prolonged period and net migration doesn't return to any great degree for a while yet. Clearly, a much larger stock of housing will tend to dampen price pressures in Auckland.

	DECEMBER 2021				
	Current value	1 month	3 months	12 months	5 years
Rodney	$1,326,244	1.8%	7.4%	27.5%	43%
North Shore	$1,593,625	2.2%	5.6%	21.5%	31%
Waitakere	$1,146,195	1.7%	4.7%	25.7%	36%
Auckland City	$1,646,026	0.3%	3.5%	22.6%	35%
Manukau	$1,296,302	3.9%	9.7%	28.9%	43%
Papakura	$1,022,126	3.1%	9.9%	32.5%	50%
Franklin	$994,779	4.9%	11.3%	34.4%	51%

Auckland Suburb Value Change



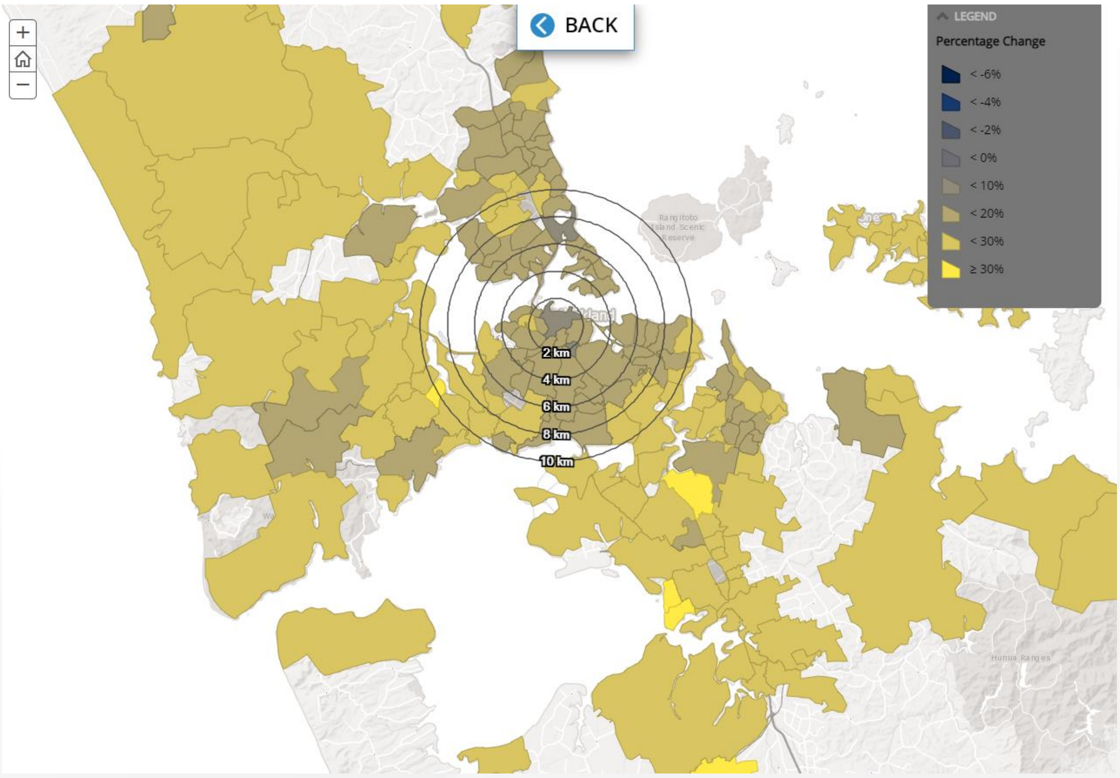
Three-month Value Change (%)

There has still been plenty of upwards momentum in property values in most Auckland suburbs over the past three months, but the slight moderation in the more expensive areas (i.e. North Shore and City) can also be seen in the map above. To the west and south, values are still growing strongly.

The upturn in Auckland property values in the past few months has been pretty broad-based, with all suburbs across the city now seeing solidly rising values.

CoreLogic

Current Suburb Values: 'Mapping the Market'



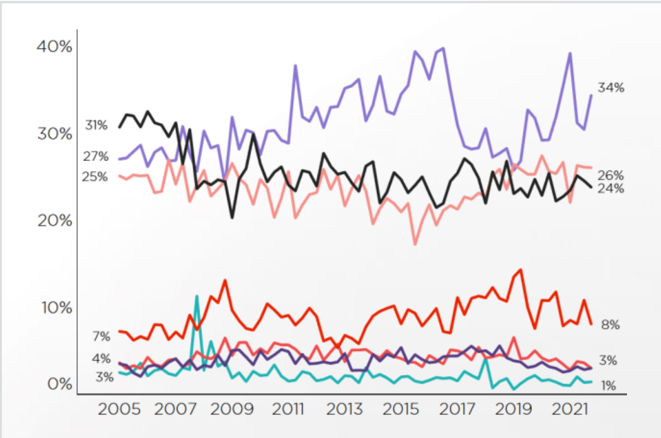
Auckland suburb median values December 2021 ($)

The upturn in property values over the past 12-18 months has been seen across almost all suburbs, with some areas seeing very stark increases. CoreLogic's interactive 'Mapping the Market' product shows the changes over the past 12 months, it's freely available and updated quarterly. The heatmaps in 'Mapping the Market' are point-in-time snapshots of median values from 2020 and 2021, and show the % and $ change over that period too. See **www.corelogic.co.nz/mapping-market.**

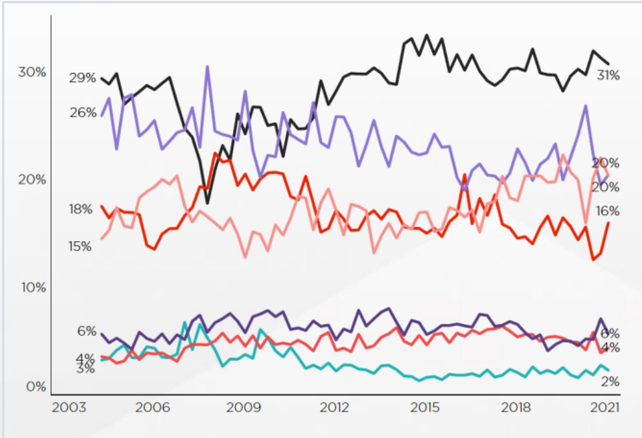
Auckland is illustrated in the heatmap here. Herne Bay remains the highest priced suburb in Auckland (and NZ), with a median property value now of $3.61m. There are 28 suburbs across Auckland with a median value at least $2m, and 153 in the $1m-$2m range – only 26 less than $1m, and three less than $700,000 (Grafton, Manukau, Auckland Central). All suburbs have seen median values rise over the past year, with six having seen gains of 30% or more – topped by Otara at 36.2%. In dollar terms, Herne Bay leads the field (up by $558,050 over the past year), with another seven in excess of $400,000. Newmarket's increase of $44,900 was the lowest.

Hamilton Market Activity

Buyer Classification – Hamilton (% of purchases)



Buyer Classification – Waikato Region (% of purchases)



Mover
First Home Buyer
Multiple Property Owner Mortgage
Multiple Property Owner Cash
New to Market
Re-Entry
Other

Hamilton's Buyer Classification trends have also mirrored the national picture lately, but mortgaged multiple property owners always tend to have a higher market share than the national average, while the recent return to the market has also been a bit stronger too.

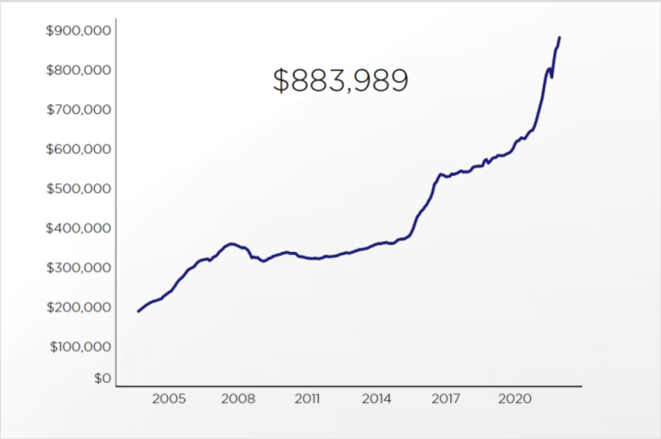
Indeed, from a market share of 30% in Q3 2021, mortgaged investors saw their figure rise back to 34% in Q4. To be fair, that's still well down on the record high of 39% in Q1 last year. But the latest figure is still the highest since that peak. Despite higher deposit requirements, a less favourable tax set-up, low gross rental yields, and rising costs, investors are obviously still seeing some buying opportunities in Hamilton.

By contrast, the market share for movers (i.e. relocating owner-occupier) has eased downwards in recent months, from 25% in Q2 and Q3 2021 to 24% on the latest data. That's likely to reflect the lack of listings (hence movers can't find their ideal next property) and also the fact that it still costs quite a lot to 'trade up', both in terms of legal/agent costs but also just the extra equity & debt required to make that move.

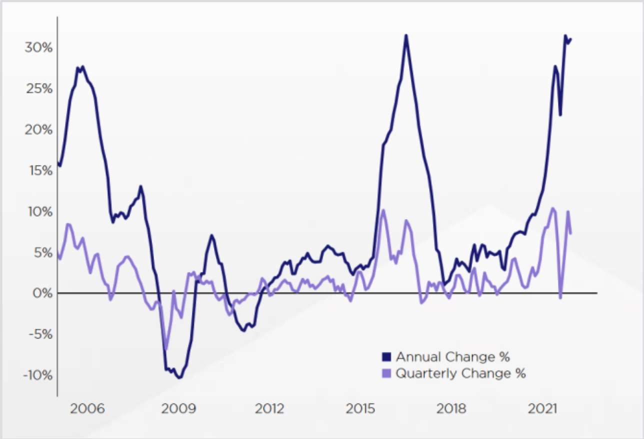
Finally, despite rising property values and hence an increase in the required deposit, first home buyers managed to retain a 26% share of property purchases in Hamilton in Q4 2021 – unchanged from both the Q2 and Q3 figures. However, conditions are unlikely to get too much easier this year, as mortgage rates rise and the reduced speed limit for low deposit owner-occupier takes full effect.

Hamilton Values

Average Value of Housing Stock Hamilton ($)



Annual & Quarterly Value Change Hamilton (%)



Hamilton's average property values have risen by a further 7.4% since September, and are now 31.0% above a year ago. The level of values has risen to $883,989, which is $209,426 more than a year ago.

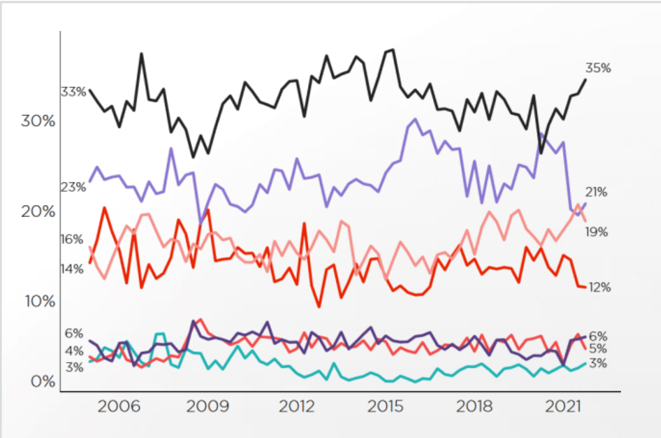
That growth has been reflected around each of the areas of Hamilton, with an increase across the board of at least 5.0% (South West) in the past three months, up to 9.8% in North East.

On an annual basis, the South West has also been a little more subdued than the other parts of Hamilton, with an increase of 26.3% - versus figures in excess of 30% in North East and Central & North West. However, the South West's annual rise of about 26% is still of course fairly strong in its own right.

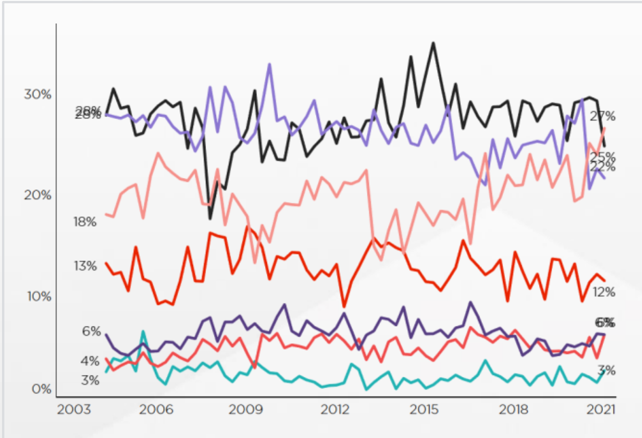
	DECEMBER 2021				
	Current value	1 month	3 months	12 months	5 years
Hamilton Central & North West	$825,298	1.7%	7.8%	33.5%	65%
Hamilton North East	$1,105,660	2.0%	9.8%	32.3%	62%
Hamilton South East	$807,825	4.0%	5.2%	29.7%	67%
Hamilton South West	$774,185	4.4%	5.0%	26.3%	66%

Tauranga Market Activity

Buyer Classification – Tauranga (% of purchases)



Buyer Classification – Bay of Plenty Region (% of purchases)



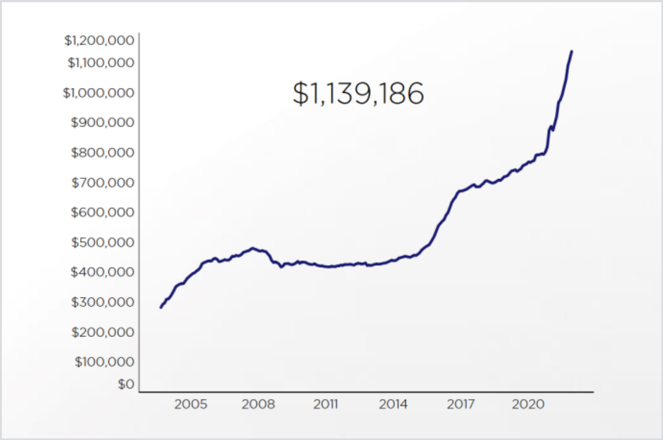
Mover
First Home Buyer
Multiple Property Owner Mortgage
Multiple Property Owner Cash
New to Market
Re-Entry
Other

Over the fourth quarter of 2021, movers remained the key buyer group in Tauranga, accounting for 35% of purchases – that was their highest figure since the middle of 2015, and helps to indicate something we've been pointing out for some time now; that a solid base of equity/wealth (which movers have) is important in Tauranga, rather than necessarily local wages being a key driver for a property purchase.

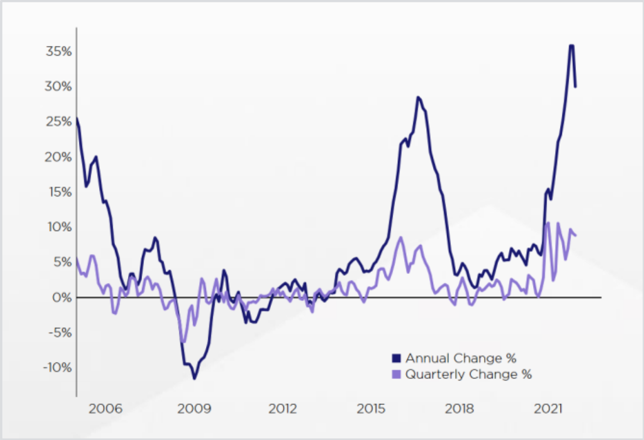
By contrast, both mortgaged investors and first home buyers have had a reduced presence in Tauranga over the past few months, with market shares of 21% and 19% respectively in Q4 2021. Those are both lower than the national figures of 25% and 26% respectively. With finance harder to come by for first home buyers, and investors facing the challenge of low yields but rising costs, both groups may still a bit subdued in 2022.

Tauranga Values

Average Value of Housing Stock Tauranga ($)



Annual & Quarterly Value Change Tauranga (%)

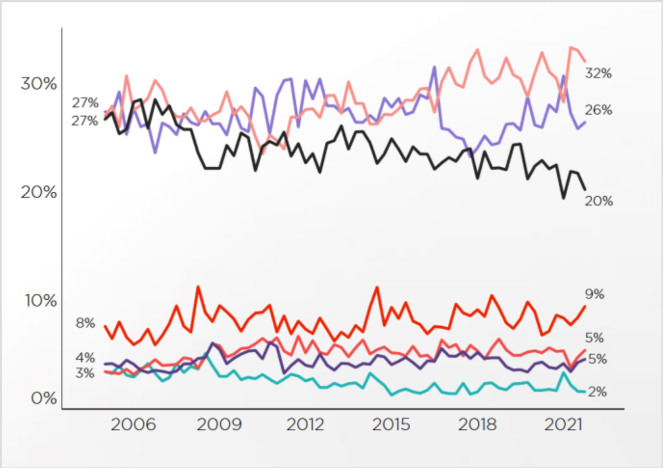


Tauranga's average property values have continued to rise at a steady pace in recent months. There was an increase of 2.2% in December alone, taking the three-month change to 8.9%, and the increase for the 2021 calendar year to 30.0%.

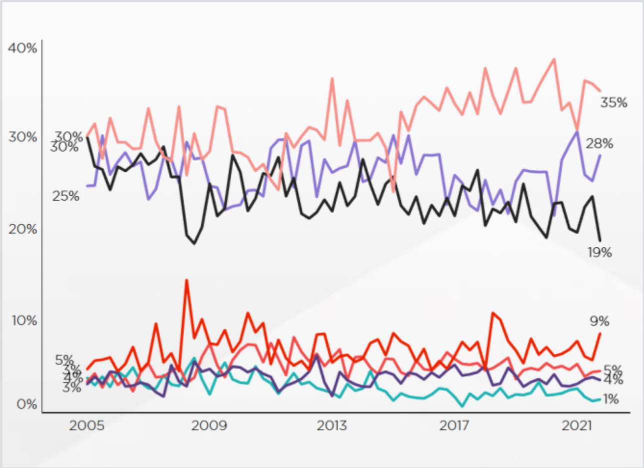
The level of property values now stands at $1,139,186 on average, up by $263,063 from the end of 2020. It's now the fourth most expensive market in the country, behind Queenstown, Auckland, and Wellington City – but just ahead of Thames-Coromandel district.

Wellington Market Activity

Buyer Classification – Wellington Area (% of purchases)



Buyer Classification – Lower Hutt (% of purchases)



Across the four main territorial authorities in Wellington (City, Lower Hutt, Upper Hutt, Porirua), first home buyers remained the largest buyer group in Q4 2021, with mortgaged investors at a new lower, but stable level. Movers are still less active than has typically been the case in the past.

FHBs' share of purchases did tick down a little in Q4 2021, from 33% in Q3 (and Q2) to 32%. But that's still an historically high level and well above the figure for mortgaged investors. Access to KiwiSaver for the deposit, as well as a willingness to compromise on location and/or property type, and also making use of the LVR speed limits (which admittedly are now tighter) are all likely to have been factors supporting FHB activity in Q4.

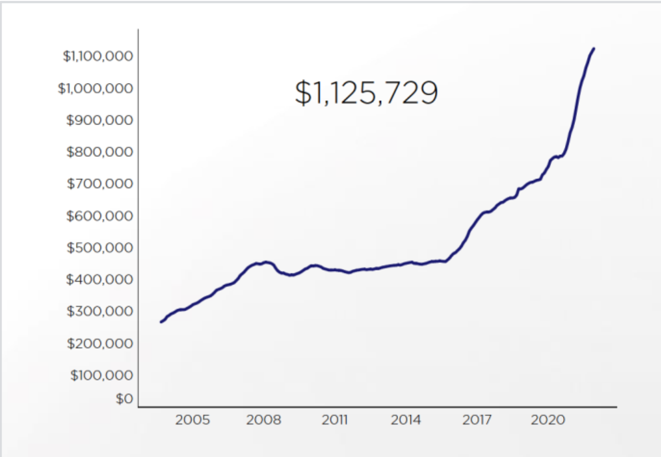
Meanwhile, mortgaged investors' market share was unchanged at 26% in Q4, a 'middle of the road' result for the wider Wellington market, but consistent with the pressures investors are currently facing – e.g. falling rental yields, rising costs, and tighter deposit requirements. It wouldn't be a surprise to see mortgaged investors' share of purchases across Wellington stay subdued over the coming months.

Turning to movers, Wellington really stands out amongst the main centres for having a low market share for this buyer group. Some will have been deterred from shifting house by the high costs to trade up, both legal/agency fees, but also the extra equity and/or debt required to finance the move.

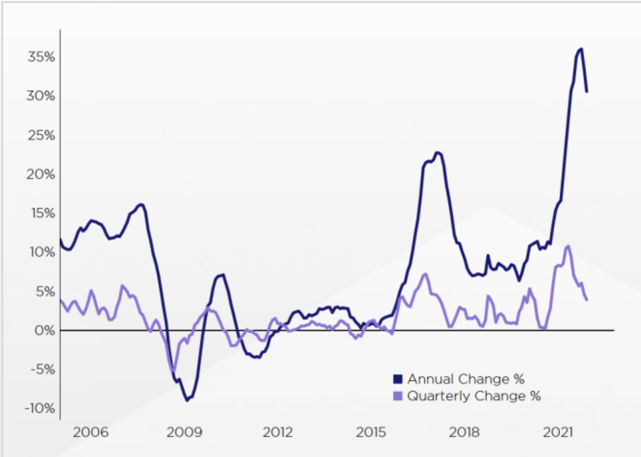
But *until recently* Wellington has also been very tight for listings, meaning that a lot of would-be movers have had little choice. Now however the listings position is changing quickly and so movers should have more choice this year.

Wellington Values

Average Value of Housing Stock Wellington ($)



Annual & Quarterly Value Change Wellington (%)



The wider Wellington area has seen strong growth in property values over the past 12-18 months, but the momentum just seems to have eased in the most recent period, perhaps as affordability ceilings are reached for some buyers and also listings available on the market start to increase.

Indeed, although areas such as Masterton, Upper Hutt, and Porirua all saw increases in property values of at least 1.5% in December, other areas were a bit more sluggish, including Lower Hutt, Wellington City, and Carterton.

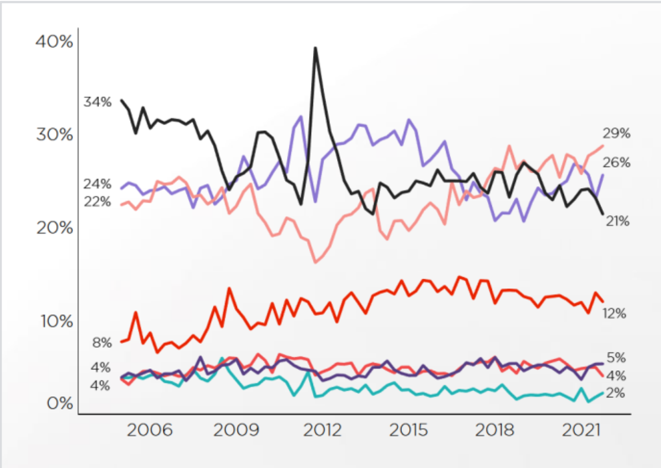
On a three month basis (where the national figure is 5.9%), most parts of the Wellington area are also looking softer, such as Porirua (2.9%) and Carterton (3.2%). However, that's not universal – e.g. South Wairarapa has still seen average values rise by 11.5% since September and Upper Hutt by 6.1%.

As an aside, Porirua and Lower Hutt have both joined the $1m club in recent months – but the flipside of high values is of course reduced affordability for those looking to buy.

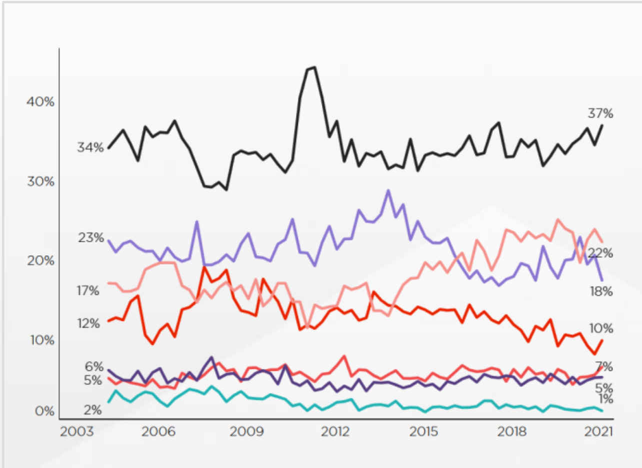
	DECEMBER 2021 Current value	1 month	3 months	12 months	5 years
Porirua	$1,000,088	1.6%	2.9%	26.9%	109%
Upper Hutt	$948,354	1.8%	6.1%	34.1%	124%
Lower Hutt	$1,002,880	0.6%	4.2%	33.6%	113%
Wellington City	$1,258,410	0.9%	3.7%	29.6%	81%
Carterton	$742,010	0.7%	3.2%	39.0%	135%
Masterton	$671,501	1.5%	4.0%	29.3%	147%
South Wairarapa	$904,924	1.2%	11.5%	30.3%	149%
Kapiti Coast	$984,511	1.1%	3.8%	32.0%	105%

Christchurch Market Activity

Buyer Classification – Christchurch (% of purchases)



Buyer Classification – Canterbury (% of purchases)



Mover
First Home Buyer
Multiple Property Owner Mortgage
Multiple Property Owner Cash
New to Market
Re-Entry
Other

The more favourable affordability position that Christchurch enjoys is likely to be a key factor behind first home buyers' market share staying high in recent quarters and in fact increasing even further in Q4, from 28% in Q3 to 29%. That's on a par with previous record highs.

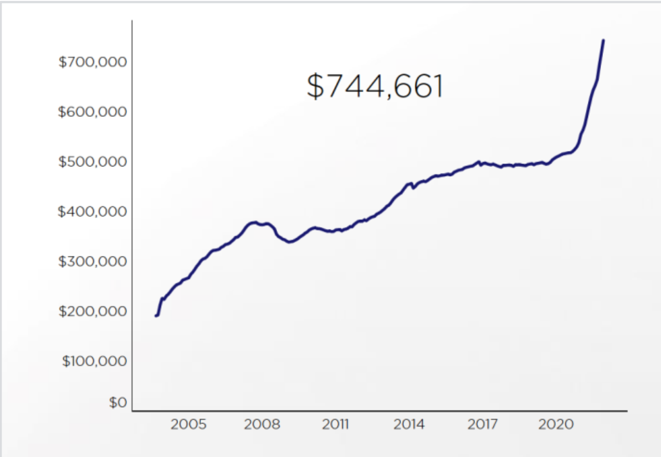
Anecdotal evidence firmly suggests that new buyers from outside Christchurch are recognising the value in the city and making the move from elsewhere around NZ. And of course a greater prevalence of remote working since COVID means that many of these people can probably keep their jobs in their original town or city.

Meanwhile, mortgaged investors also saw an uptick in their market share in Q4 (to 26%) and are perhaps holding on better than might have been anticipated, given tighter LVR rules and the changes to the tax system. Of course, in the case of Christchurch, higher yields make it a more attractive option than many of the other main centres – as well as some scope for capital growth to outperform over the medium term.

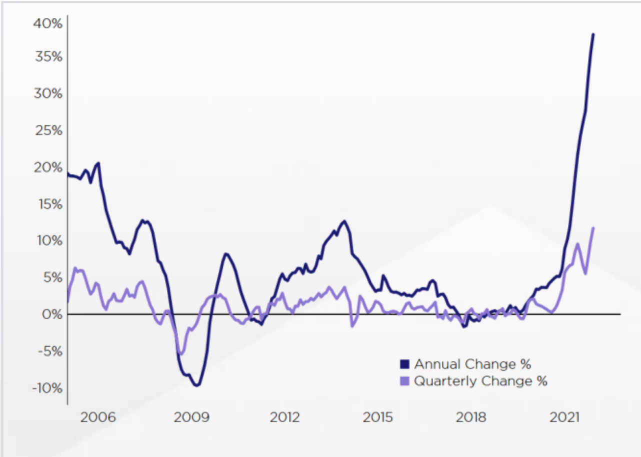
Finally, movers are very quiet in Christchurch at present, with just a 21% share of purchases – that's basically a record low. Consistent with other parts of the country, the relative lack of listings (and choice) is likely to be keeping more would-be movers where they are. To be fair, Christchurch's listings position is starting to ease a little, but it's still tighter than other parts of NZ.

Greater Christchurch Values

Average Value of Housing Stock Christchurch ($)



Annual & Quarterly Value Change Christchurch (%)



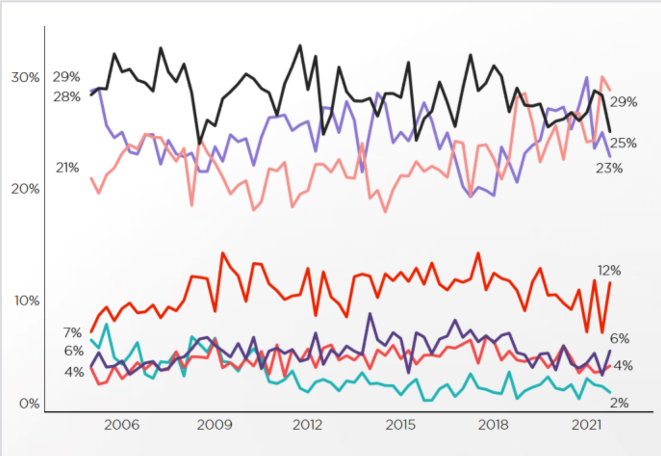
The wider Christchurch market has been a big part of the national upswing in property values in recent months, with continued strong gains in December – typically in the range of 3-4% in that one month alone. Over the past three months, the increased have ranged from 8.5% in Waimakariri, up to 13.9% in Christchurch Southwest. Despite continued high levels of construction in Selwyn, average values are up by 13.4% since September, showing that demand is very strong too.

Indeed, when you switch to the annual growth rates, Selwyn is now one of the strongest areas in the country, with average values up by 42.7% in 2021, just ahead of Christchurch Southwest at 41.5%. But it's not just those areas – each of the other parts of Greater Christchurch has also seen average values rise by at least 34.0% in the past year.

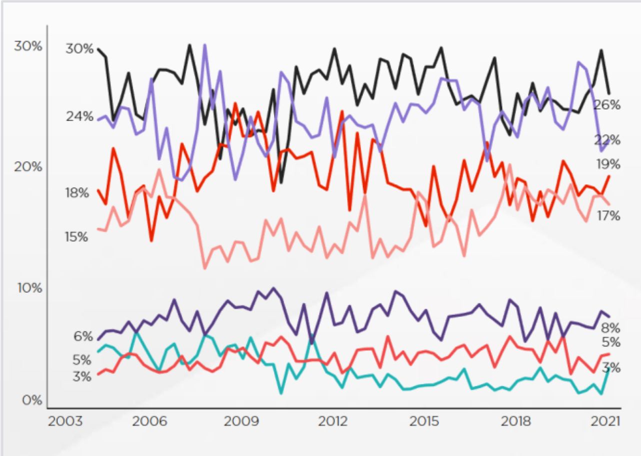
	DECEMBER 2021				
	Current value	1 month	3 months	12 months	5 years
Banks Peninsula	$780,893	2.9%	9.6%	35.5%	52%
Christchurch Central & North	$855,602	3.2%	10.8%	35.8%	46%
Christchurch East	$569,620	3.9%	11.1%	38.8%	55%
Christchurch Hills	$1,005,920	3.6%	10.9%	34.0%	53%
Christchurch Southwest	$722,050	3.5%	13.9%	41.5%	52%
Selwyn	$842,780	3.8%	13.4%	42.7%	55%
Waimakariri	$665,395	3.2%	8.5%	34.4%	54%

Dunedin Market Activity

Buyer Classification – Dunedin (% of purchases)



Buyer Classification – Otago (% of purchases)



Mover
First Home Buyer
Multiple Property Owner Mortgage
Multiple Property Owner Cash
New to Market
Re-Entry
Other

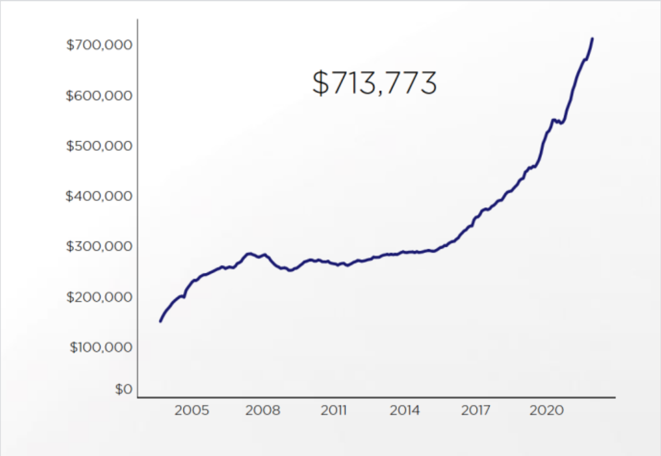
Across Dunedin, first home buyers held on to their top position in Q4, with a 29% share of property purchases – down from Q3's record high of 30%, but still a very strong result. As with all other parts of the country, however, first home buyers in Dunedin will now have to contend with the reduced availability of low deposit mortgages – not to mention higher interest rates too.

Meanwhile, mortgaged investors remain less of a presence in the Dunedin market than they've been for a few years now. At 23%, their share of property purchases is back down at a level last seen in early 2019. Yields are still comparatively good in Dunedin, but they're certainly a lot lower than they used to be, and some investors may also be questioning the long-run potential for future capital gains, given that Dunedin has already seen such a big boom.

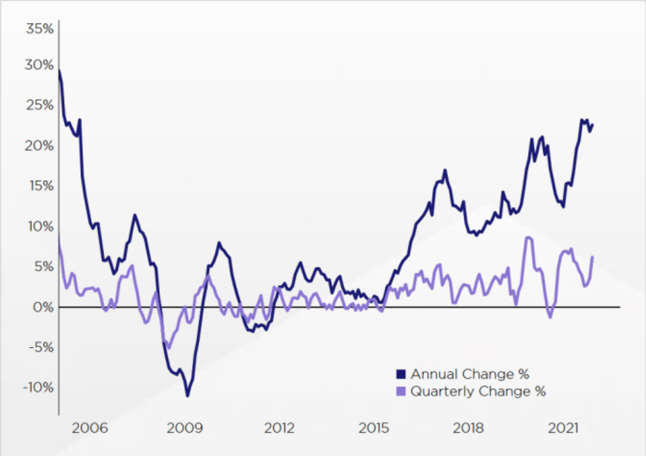
Existing owner-occupiers who chose to relocate (i.e. 'movers') also saw their market share drop again in Q4, to just 25% – again the lowest levels seen for a several years. However, with more listings becoming available in Dunedin, movers may start to be more active again in 2022, as their choice increases.

Dunedin Values

Average Value of Housing Stock Dunedin ($)



Annual & Quarterly Value Change Dunedin (%)



There have been a few hints in the very latest data that Dunedin's property market may have started to slow after a long upswing – e.g. average values dipped a bit in some sub-markets in December, namely a 1.4% drop in Peninsula & Coastal. And the annual growth rates in the range of 22-24% are now below the national figures, albeit still fairly strong in absolute terms.

	DECEMBER 2021				
	Current value	1 month	3 months	12 months	5 years
Dunedin Central & North	$729,802	3.2%	5.6%	22.4%	98%
Dunedin South	$687,791	3.2%	9.5%	21.6%	103%
Peninsula and Coastal	$652,281	-1.4%	4.4%	24.2%	111%
Taieri	$746,003	2.6%	5.1%	23.8%	101%

CoreLogic Data & Analytics

Suburb Scorecard

Detailed housing market indicators down to the suburb level, with data in time series or snapshot and segmented in most cases across houses, flats and apartments. The Suburb Scorecard data includes key housing market metrics such as median prices, median values, transaction volumes, rental statistics and vendor metrics such as median selling time.

Market Share Reports

CoreLogic is in a unique position to monitor mortgage related housing market activity. Transaction volumes, dwelling values and mortgage related valuation events all comprise our Mortgage market report which provides an invaluable tool for mortgage industry benchmarking and strategy.

CoreLogic Indices

The suite of CoreLogic Indices range from simple market measurements such as median prices through to our flagship house price indices – both quarterly for completeness and monthly for reactiveness. The Quarterly CoreLogic House Price Index has been specifically designed to track the value of a portfolio of properties over time and is relied upon by New Zealand regulators and industry as the most accurate measurement of housing market performance.

Sales Volumes

CoreLogic tracks sales from a number of different sources to provide up to date insights on recent sale. Where applicable CoreLogic also applies estimation for expected final sales in recent months where not all sales have been collected.

Market Activity

Based on all valuations run through the centrally managed valuation panel CoreLogic provides an index for market activity which tracks as a lead indicator for sales in the market.

Buyer Classification

A unique and flagship product to CoreLogic, Buyer Classification classifies all purchases into types of buyer based on their current ownership of NZ property. Used at a record level by Government organisations to assist policy decisions.

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