Quarterly Property Market & Economic Update

New Zealand | Quarter 1, 2022

Data to March 2022

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Executive Summary

In the past few months it's become abundantly clear that the long-awaited slowdown in NZ's residential property market has finally arrived. Indeed, while sales activity was showing hints of a slowdown from around the middle of last year, the first few months of 2022 have been genuinely weak. And the decline in activity levels has flowed through to property values too, with a turning point now evident across most areas of the country. For the rest of 2022, it's likely to be more of the same – higher interest rates, lower sales volumes, and flatter house prices (with outright falls on the cards in some parts of the country).

Starting with some detail on sales activity, the totals for both January and February were the lowest for those months of the year since 2011. The omicron outbreak may have played a role in the weakness of those figures, but probably only minor. The bigger influences are sure to be stretched affordability, higher mortgage rates, reduced credit availability (e.g. loan to value ratio rules and the Credit Contracts and Consumer Finance Act changes), and a changed mindset too – where buyers aren't in as much rush to make offers, and properties are sitting unsold for longer.

The fall in sales activity has also contributed to the increase in the number of listings available on the market, which of course is related to the reduced anxiety amongst buyers that they might not actually find their ideal property. At the start of the pipeline, the new weekly flow of listings onto the market has been pretty normal for the time of year.

The big picture is we've probably shifted into a 'buyer's market' already in many parts of the country, sooner than what might have been anticipated. With buyers now feeling they have the upper hand when it comes to offers, it's no surprise to see that price pressures have faded away too. Our House Price Index (calculated as a three-month rolling average) is certainly showing a slowdown, while the timely median value measures lifted from our automated valuations model shows that roughly one in every six suburbs across the country saw a fall in the three months to February of at least 1%. Key centres such as Auckland, Hamilton, Wellington (especially Lower Hutt and Porirua), and Dunedin have been part of that weakness – but Tauranga and Christchurch, by contrast, have held up better.

In terms of the buyer mix, mortgaged investors have remained relatively quiet over the past few months, with a market share of around 23% – down from the peak a year ago of almost 30%, but at the same time, they haven't deserted the market altogether. Meanwhile, first home buyers are showing signs of a struggle, with their share of purchases having dipped from 26% to 23% quite quickly over the past few months. By contrast, with more listings and choice now available – as well as more equity behind them – 'movers' (relocating owner-occupiers) have increased their presence.

For the rest of 2022, some of the key areas/themes we'll be watching include credit conditions and the refinancing profile, and the construction sector. On credit conditions, it's conceivable that the low-point has already passed – with the CCCFA rules set to be loosened, and some hints that banks are making a bit more low deposit finance available. However, it's not going to be a significant easing, given that we still have higher mortgage rates (on the back of inflationary pressures and further looming increases in the official cash rate) and a large refinancing profile – about 50% of existing loans are fixed but due to roll over this year, and face up to much higher mortgage rates.

Meanwhile, in the construction sector, dwelling consents may start to drop soon, as cost pressures remain intense and some households are pushed away from the new-build path. Of course, builders themselves will stay busy for some time yet, just because of the large pipeline of consents already approved. There's a general feeling that maximum capacity in the industry is about 30,000 new houses constructed a year, yet consents lately have been at an annual rate of closer to 50,000.

Overall, 2022 will be a much weaker year for the housing market than 2021, with sales volumes lower and property value growth slowing sharply. We think national average property values could hold roughly steady this year (with falls in some areas offset by rises elsewhere), but the unemployment rate could hold the key. If greater numbers of jobs start to be lost, a more significant housing downturn would be on the cards. Of course, even a 5-10% fall in average property values could probably be called a 'soft landing', given it would only return the level to where it was around the middle of last year.

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

$1.73 trillion

NZ LISTED STOCKS

$175 billion

COMMERCIAL / INDUSTRIAL REAL ESTATE

$293 billion

NZ SUPER & KIWISAVER

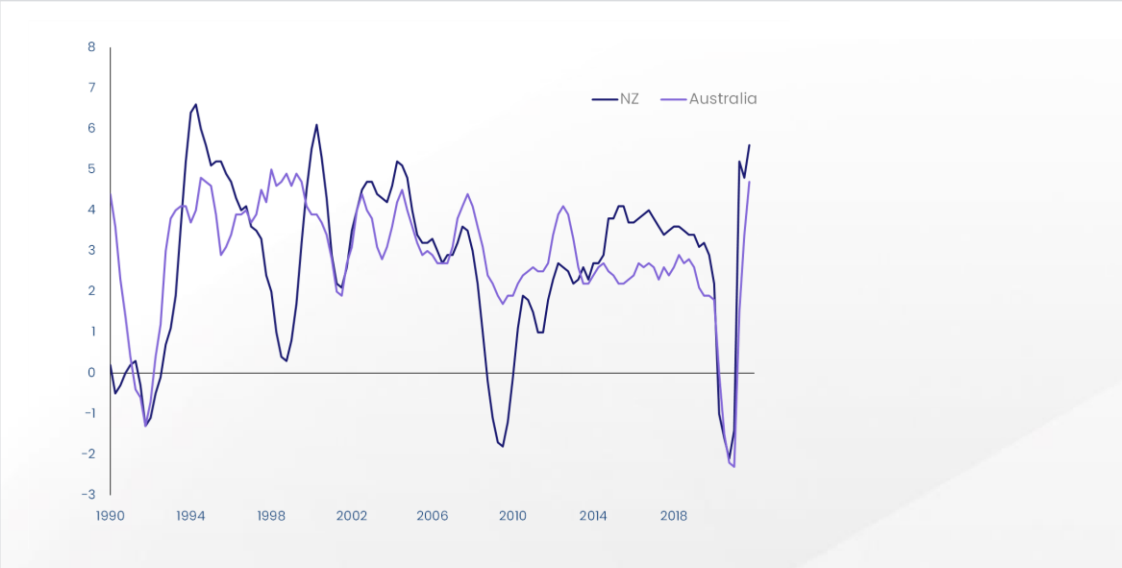
$153 billion

The value of residential property across the country as at Q1 2022 was $1.73T, 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.

Meanwhile, the value of commercial & industrial property across NZ has risen solidly in recent months, while the value of the NZ Super Fund and KiwiSaver deposits have also held up pretty well – given global uncertainty around inflation, interest rates, omicron, and especially the Russia-Ukraine situation. The NZX50 has had a subdued 2022 so far, albeit the big losses of January haven't continued, with the market tracking sideways in the past 2-3 months (albeit with fluctuations around that sideways trend).

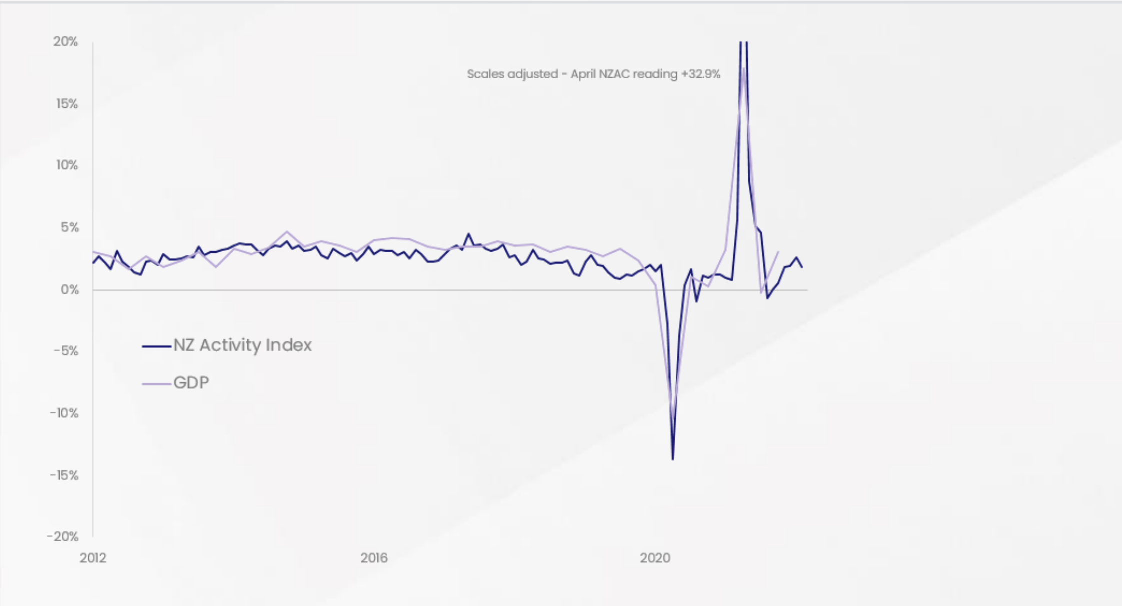
Sources: CoreLogic NZ, Reserve Bank of NZ, NZX, NZ Super Fund

NZ & Australia GDP Growth



Annual Average GDP Growth (%)

The NZ economy rebounded by 3% in the fourth quarter of 2021, which was a solid result. However, it didn't fully reverse the previous quarter's decline, so the level of economic activity still remains below where it was in mid-2021. The actual result for Q4 also undershot analysts' expectations for a stronger rebound – so on the whole, the latest result was solid but not stellar.



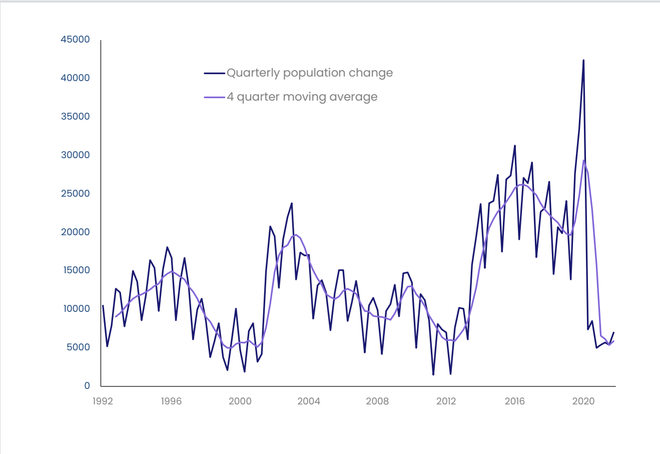
Annual Change in New Zealand Activity Index and GDP (%)

Moreover, things have moved quickly so far in 2022, with omicron taking hold, and both business and consumer confidence plunging. Given this, it seems likely that Q1's GDP result could also be a little disappointing, an unwelcome development when we also have high inflation and rising interest rates. At least on the plus side, re-opened borders and more tourism will be a boost for the economy ahead.

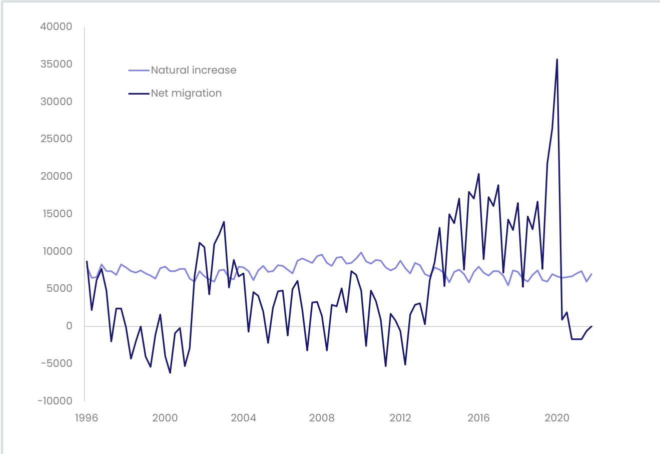
 Sources: Reserve Bank of New Zealand, Stats NZ

NZ Population & Migration

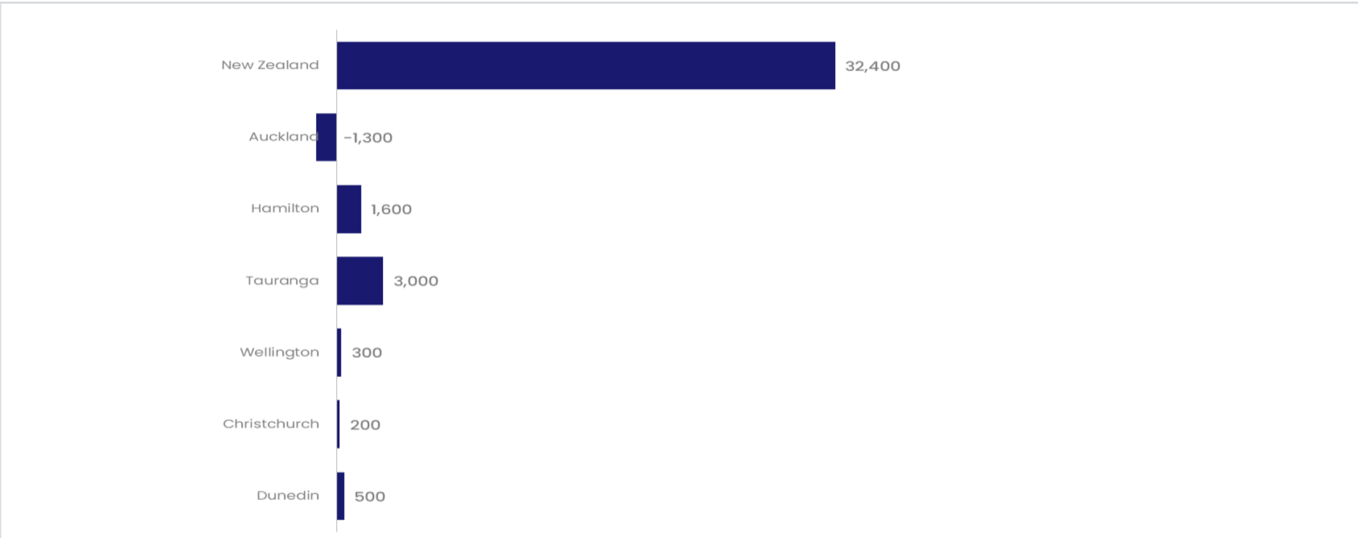
Quarterly Change in National Population (persons per quarter)



Population Change Composition (persons per quarter)



Annual Change in Population (persons)



In the year to December 2021, NZ's population only rose by 23,500 (to hit 5.13m), only a touch above the rise in the year to September (21,500), which itself was the lowest since Q1 2001 (20,500). In other words, our population growth rate is currently the lowest it's been for 20 years.

By component, the natural rate of increase has been trending upwards a little in recent years, from a trough of 25,900 in the year to Q1 2020, to 27,500 in 2021 – perhaps as deaths have fallen, births have risen, or both. But more generally, the key shift down in our population growth rate has the fall in net migration. From a peak of nearly 92,000 in the year to Q1 2020, the latest annual figure was -4,000 (i.e. a net migration loss).

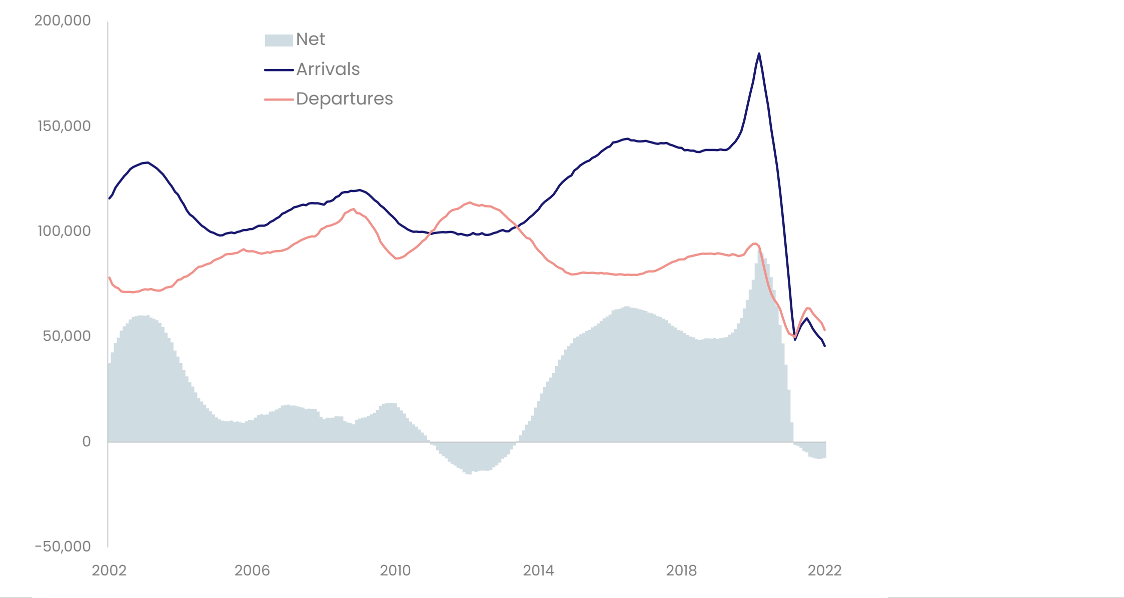
Of course, none of this is surprising when you consider the effects of COVID and the closed borders, which have restricted inbound migration, but others have still been able to return home to other countries overseas.

Looking ahead, it seems likely that we may have passed the worst for overall population growth. In particular, as the borders re-open, net migration looks likely to start to recover, as some kiwis return home to live, and people of other nationalities migrate to NZ. However, we wouldn't expect a surge in net migration, nor a large boost to house prices. After all, don't forget that some would-be new residents to NZ might choose to migrate to other countries instead (where wages are higher and housing cheaper), while there'll be many current residents who are looking to move offshore too.

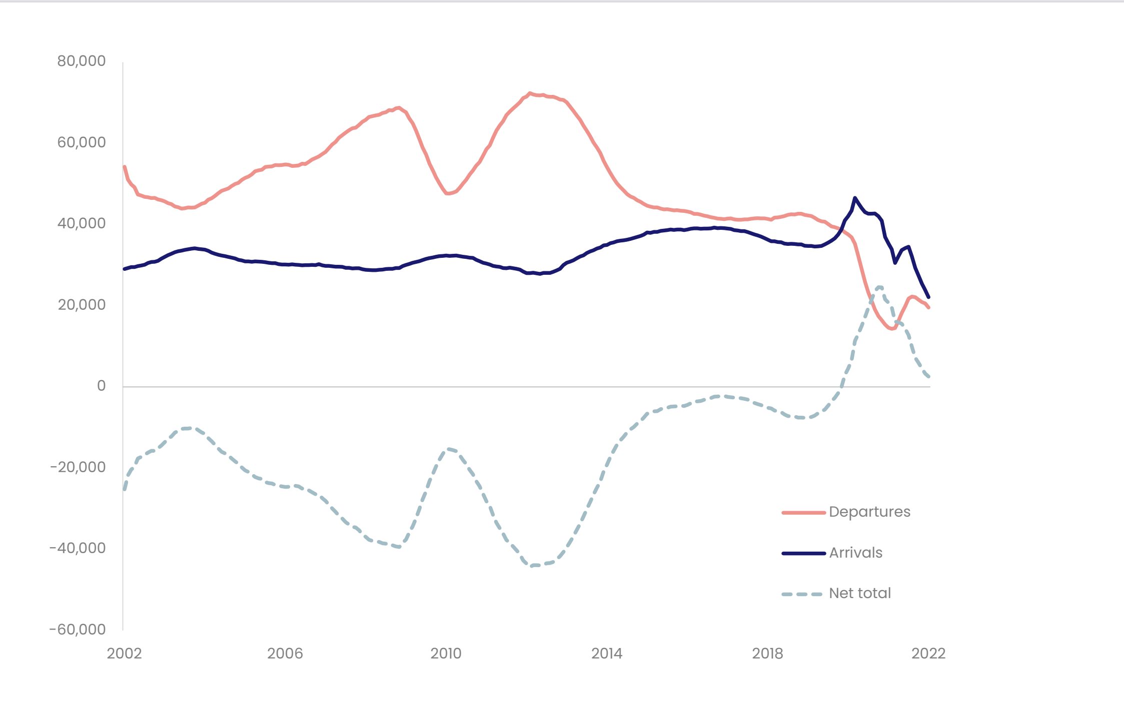
 Source: Stats NZ

NZ Population & Migration

Long Term Migration (12-month rolling totals)

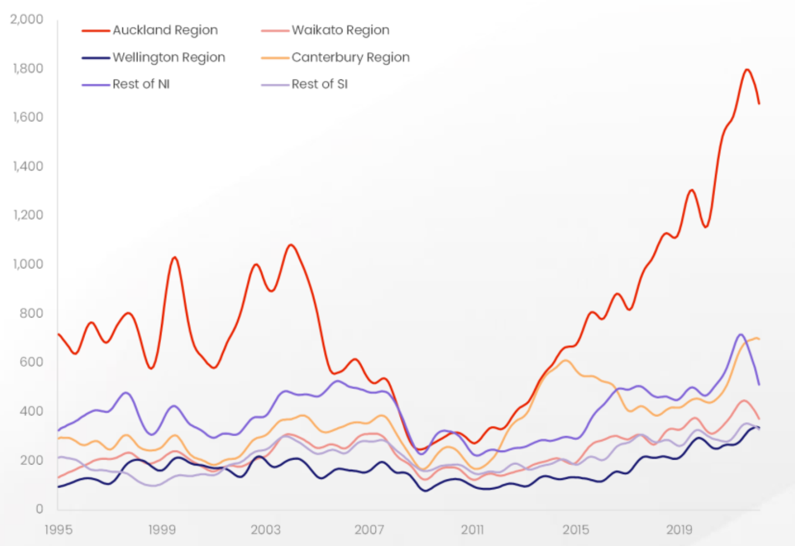


Migration Flows for NZ Citizens (12-month rolling totals)



 Source: Stats NZ

Building Consents



New Dwelling Consents Trend (consents per month)

New dwelling consents have remained pretty strong over the past few months, and after a blip in January, actually reached a new record high in February – an annual rolling total of 49,773. In February last year, that total was 39,725 – still pretty high in its own right. Across NZ as a whole, smaller dwellings such as townhouses, flats, and apartments accounted for 48.7% of the total in the year to February 2022, another record high. Back in 2010, that figure got as low as 15.1%.

Meanwhile, in Auckland, smaller dwellings accounted for an even more striking 68.4% of the annual total for February 2022. It will clearly take a long time for the new flow of dwellings to shift the balance of the existing stock, but it's still a good start on the path to a more intensified housing stock – i.e. making better use of our existing housing land, via initiatives such as the Auckland Unitary Plan.

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. Over the past 12 months, consents for alterations & additions have been worth $2.2bn across NZ (a record high), with an average value per consent of more than $81,000. More listings amongst the existing property stock could see households start to move more often rather than renovate, but at least for now, this type of work is still busy.

Of course, the key (related) problems in the residential construction sector are costs and capacity. The cost to build a new house is already rising sharply and, even if new dwelling consents do start to tail off shortly, builders themselves will be busy for some time yet getting through the pipeline of properties already approved. Hence, with labour and materials both in short supply, the intense pressure on construction costs isn't likely to dissipate anytime soon.

Moreover, any eventual slowdown in the sector could be less pronounced than in the past. After all, we still need more houses as the population naturally grows. And the demand incentives for buyers to look at new-builds (e.g. exemptions from the LVR rules, ability to keep claiming interest as a deductible expense) haven't existed in previous cycles either. This should give developers confidence to keep building.

Consumer Confidence

ANZ-Roy Morgan Consumer Confidence (Index, Monthly)

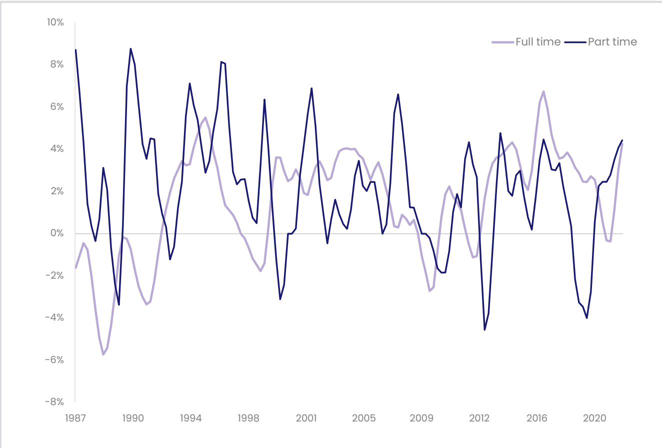
Consumer confidence has collapsed in the past few months, as omicron bites, inflation pressures remain intense, the housing market slows, and mortgage rates continue to rise. Indeed, on the ANZ measure, sentiment in March hit another record low (for data that stretches back to 2004). The one bright spot is that unemployment is still low, but without faster wage growth, many households are still seeing their spending lower eroded by general inflation.

In terms of the implications for the housing market, weak sentiment at the same time as mortgage rates are rising is not a favourable combination. With the mindset/mood/expectations playing an important role in how house prices move, the low levels for consumer confidence certainly support the outlook that property value growth will flatten significantly in 2022.

 Source: ANZ, Roy Morgan

Employment

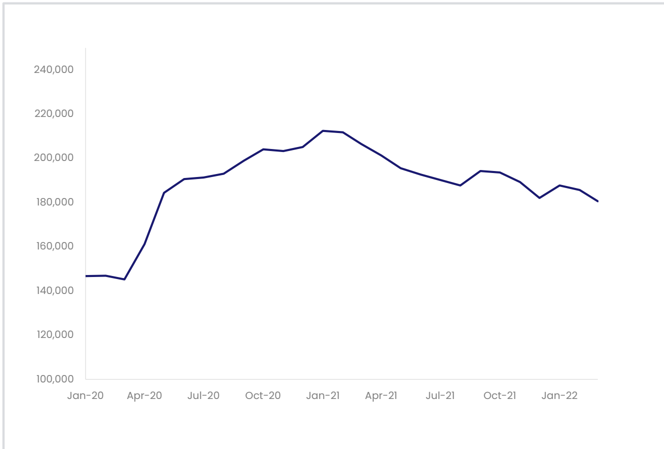
Annual Change in Employment



Labour Force Participation Rate (%)

Unemployment Rate (%)

Number of Jobseeker Support Claimants



The labour market remained very strong in the final three months of 2021, with jobs growth recovering to an annual pace of 4.3% (up from 3.3% in Q3), the highest since mid-2017. Part-time employment growth has accelerated, but perhaps the most noteworthy aspect of the data was the sharp rebound in full-time jobs growth – as new jobs are created, but some people also switch from part-time to full-time work. The number of people coming back to the workforce, perhaps after raising a family etc., has also risen – evidenced by the higher labour force participation rate.

Meanwhile, the unemployment rate has dropped to a record low of 3.2%, with the number of JobSeeker Support claimants also continuing to trend downwards after a peak in early 2021. On the back of all of this, there are signs that wage growth is also starting to pick up.

In reality, the employment growth figures probably would have been even stronger if more people had actually been available to work. After all, with the borders only now starting to reopen, firms have been dealing with skills shortages for several months, and that lack of staff has limited business growth opportunities in many cases.

Clearly, the strength of the labour market has been a support for property sales and values over the past year or two. But that support will be tested this year, with some hints now emerging that unemployment could start to rise a bit. Some job losses alongside rising mortgage rates could be a damaging combination for the property market and could turn a soft landing into something more significant.

Of course, the reopening of the borders and return of international tourism may happen at just the right time.

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Interest Rates

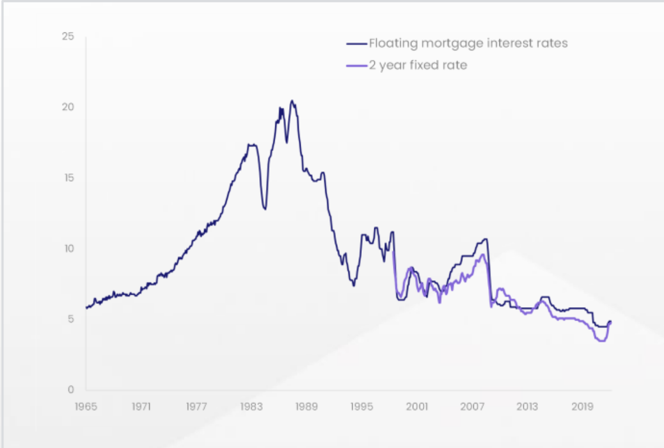
After steady increases in the middle to later part of 2021, mortgage interest rates have been flatter over the past 2-3 months. One key factor here is that lenders were quick to 'price in' future increases in the official cash rate last year, or in other words, the pass-through of *expectations* to actual mortgage rates was fast – meaning that even as the official cash rate has actually started to rise in practice, the effects on mortgage rates in recent months have been minimal.

However, it's no time to relax. After all, the change in mortgage rates has already been substantial, with the increases across many loan durations (e.g. a one or two year fix) having been 1.5-2%-points in the past six to nine months. A typical 'special' rate now sits at around the 4-4.5% mark.

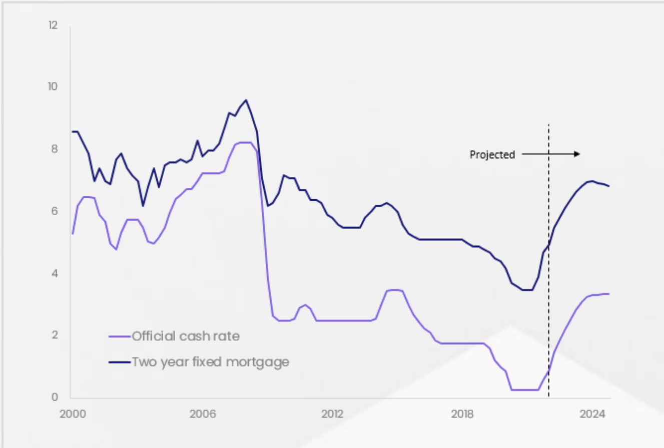
Moreover, this is unlikely to be the peak for mortgage rates either. Indeed, although the future has already been priced in to some extent, the Reserve Bank still 'surprised' the markets in their latest Monetary Policy Statement by penciling in a higher peak for the official cash rate (>3%) than previously indicated (roughly 2.5%). This may be a signal of intent rather than real action. But either way, it still looks clear that mortgage rates have further to rise, and it wouldn't be a surprise to see typical rates climb towards 6% at their peak.

That would still be low by past standards, and also below the internal serviceability rates applied by the banks themselves when assessing a borrower's ability to pay. However, when compared to the lows of 2-2.25% seen in the first half of last year, a peak of around 6% is still a large change and will require borrowers to make significant changes to their spending.

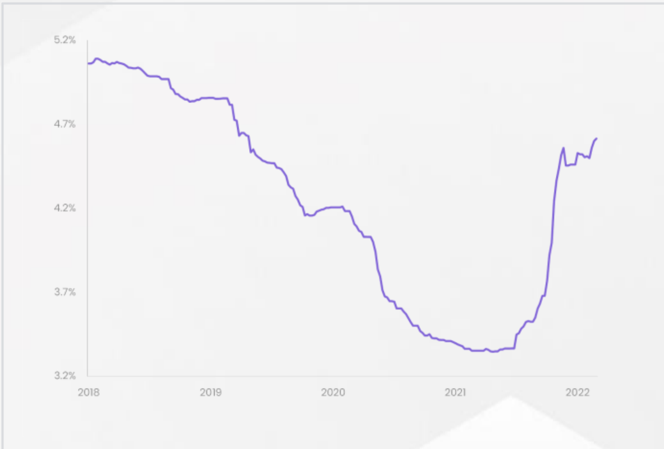
Mortgage Interest Rates (%)



Official Cash Rate & Mortgage Rates (%)



Average Two-Year Fixed Rates (%)



 Sources: Reserve Bank of NZ, interest.co.nz

Housing Overview

Listings

Weekly Flow of New For-Sale Listings

Weekly Flow of New For-Rent Listings

In the past few months, the new weekly flow of listings onto the market has been pretty typical for the time of year, or in other words has just followed the typical seasonal pattern – both for sale and for rent. There are very signs of investors generally looking to sell off some properties to consolidate debt or look to other asset classes, although it seems certain that some landlords will be doing this now, and it's likely that more could start to consolidate as the rest of 2022 passes.

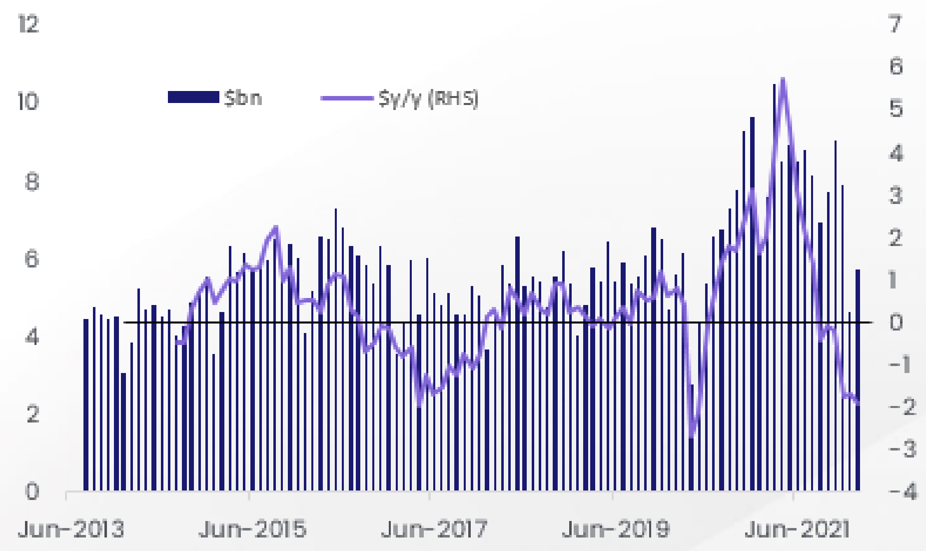
But in lieu of greater-than-normal listings flows, the rise in the stock of property available on the market has nevertheless continued in recent months, giving buyers more choice and seeing some 'cheeky offers' being accepted by vendors, some of which are less confident about getting further/higher offers than the first one submitted.

The reason for the continued rise in stock on the market (even despite normal new flows) is that agreed sales at the other end of the pipeline have tailed off – and as buyers and sellers take more time to settle on a price, the days to sell measures have also increased. There have been notable shifts in stock on the market in many parts of the country, including Wellington and Dunedin amongst the main centres.

To be fair, there aren't many vendors who are currently facing any 'forced selling' pressure, so buyers are still having to be pretty realistic about what they need to offer to secure a property, and of course, it's only those borrowers who have already jumped considerable lending hurdles (e.g. 20% deposits) who are actually in a position to even make an offer anyway.

However, the shift to a 'buyer's market' that we've been anticipating this year has if anything moved more quickly than we had expected, and is probably here right now. Clearly, that implies considerably less pressure on prices.

Lending Conditions



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

As the slowdown has emerged more clearly in the housing market in general in the past 2-3 months, so too has it become evident for mortgage lending activity. When you look at the value of mortgage lending, it has now fallen year-on-year for the past six months in a row, with February's total of $5.7bn down by $1.9bn from the same month a year earlier.

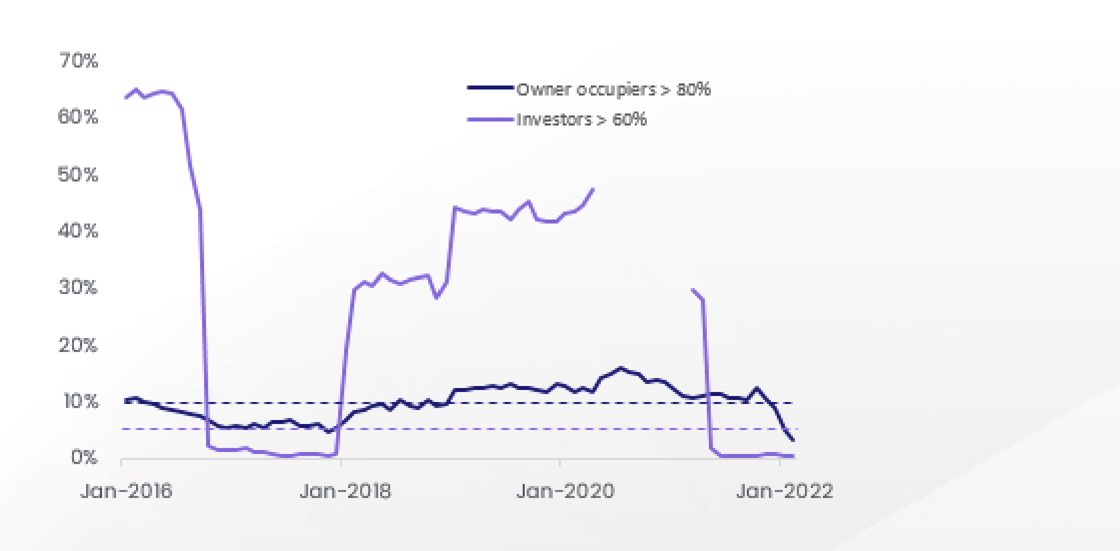
By number of loans, the slowdown is even more stark. There were about 14,900 loans drawn-down in February, across home sales, top-ups, bank switches etc. And apart from January 2022 (which was even weaker) and April 2020, which was affected by the first COVID lockdown, the February result was the weakest for this data series, which runs back to August 2014.

Over the past six months or so, the slowdown in lending to investors has been the key driver of overall trends, but owner-occupiers have also cooled more recently too – especially with the reduction in the low deposit lending speed limit on 1st November from 20% of activity to 10%. This has really hit first home buyers hard, given that they were previously using almost all of the higher speed limit allowance – and this effect has of course been exacerbated by the tightening of the CCCFA rules (which are now set to be loosened again).

With the reduction in the LVR speed limit – combined with the fact that banks are operating even further below the cap than in previous cycles – the share of first home buyers that are getting a low deposit (or high LVR) loan has halved from two in five a few months ago to just one in five now.

 Source: Reserve Bank of NZ

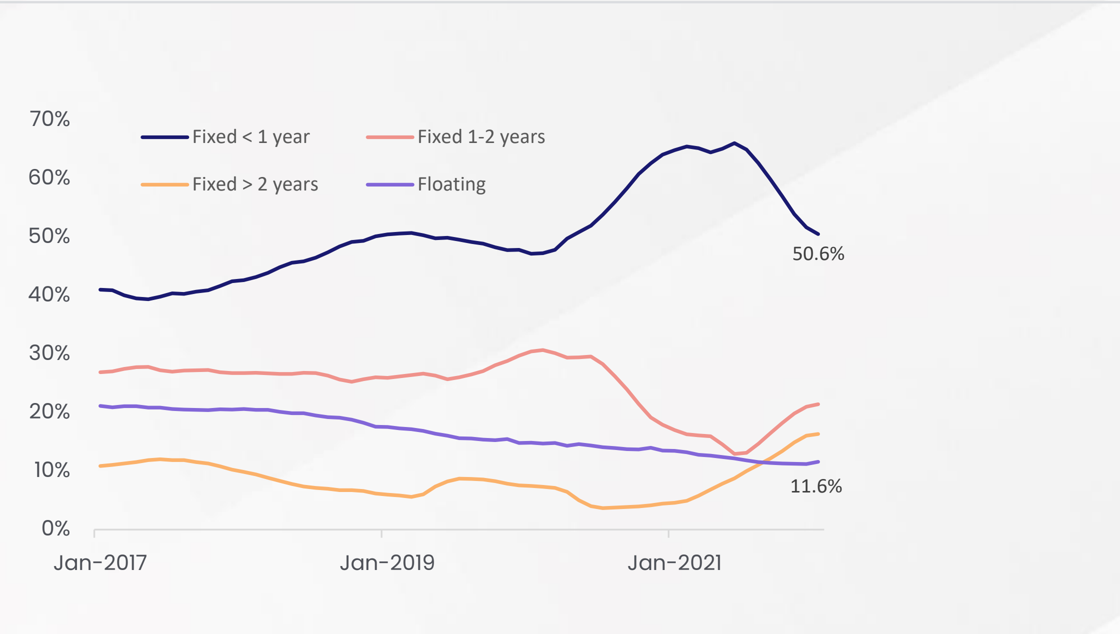
Lending Conditions



High LVR Lending (% of new lending)

Overall, 2022 is likely to be a quieter year for mortgage lending volumes than 2021 – with the loan to value ratio rules still in play and mortgage rates rising. To be fair, the low-point may already have been seen, given that CCCFA is set to be loosened, and some banks are reportedly relaxing in-house rules around debt to income ratio caps and the availability of low deposit finance. But it's still going to be harder to get a new mortgage this year than it has been for some time, and meanwhile there's also a large refinancing wave to come through too, with about 50% of existing loans fixed but due to roll over this year. These borrowers will generally be facing a much higher repayment schedule when they refinance.

Refinancing Profile for Mortgages (% of stock)



 Source: Reserve Bank of NZ

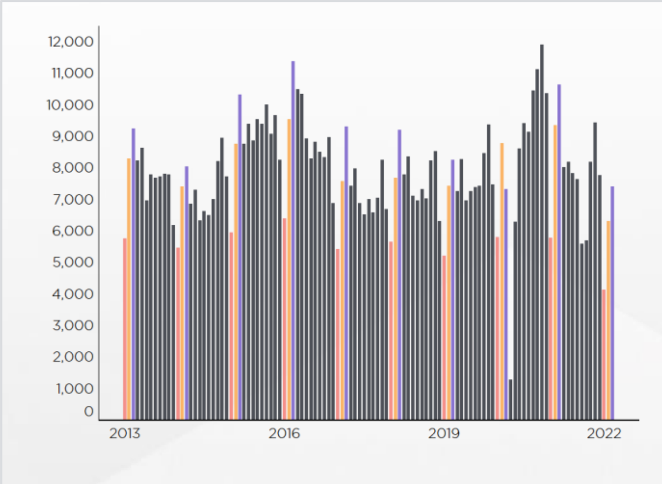
Sales Volumes

It's been a very weak start to 2022 for property sales volumes, and indeed you have to go back about a decade to find softer results for any given January, February or March. To be fair, it's conceivable that omicron has played a temporary/artificial role here by putting some agents off work sick and/or meaning some vendors aren't willing to have open homes or buyers aren't as keen to attend.

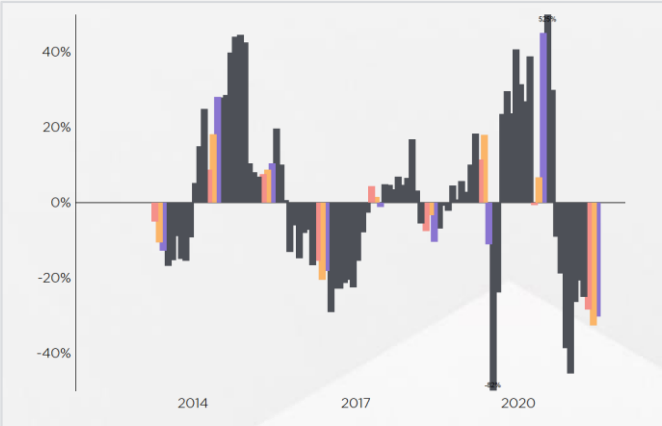
However, we'd suggest that omicron has only played a small role, and the key drivers for the sales slowdown are more fundamental and longer-lasting – such as higher mortgage rates and reduced credit availability. On the plus side, at least the CCCFA rules are set to be eased, and banks are reportedly making a bit more low deposit finance available.

However, the bigger picture is that it's still going to be a quieter period coming up for property market activity, with sales volumes perhaps declining by as much as 10% this year, and another 5% or so in 2023. This is best characterised as a slowdown though, rather than a serious downturn.

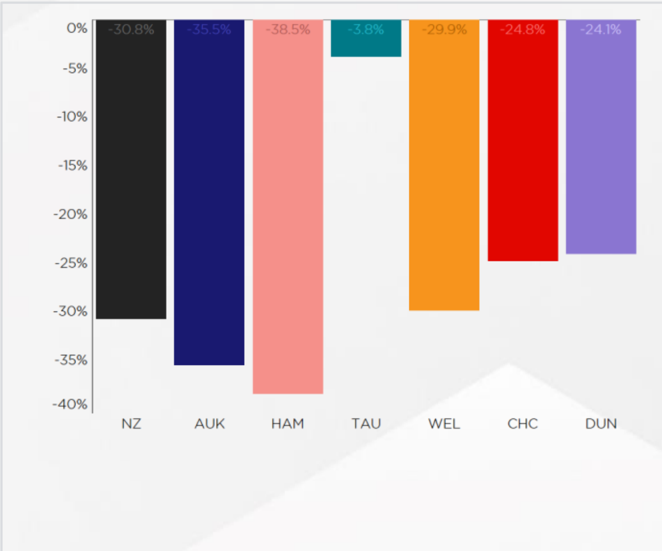
Nationwide Sales Volumes (monthly total)



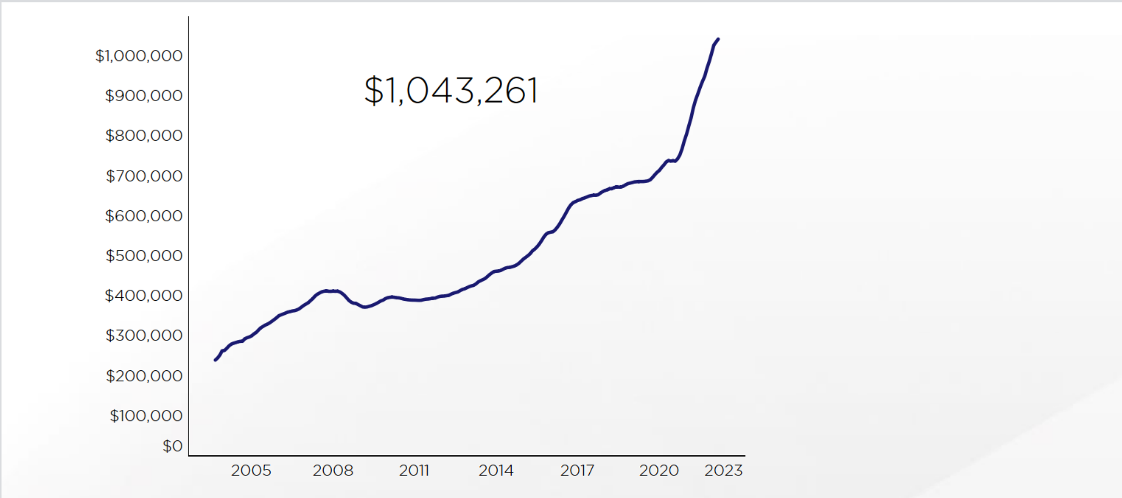
Nationwide Annual Change in Sales Volumes (%)



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



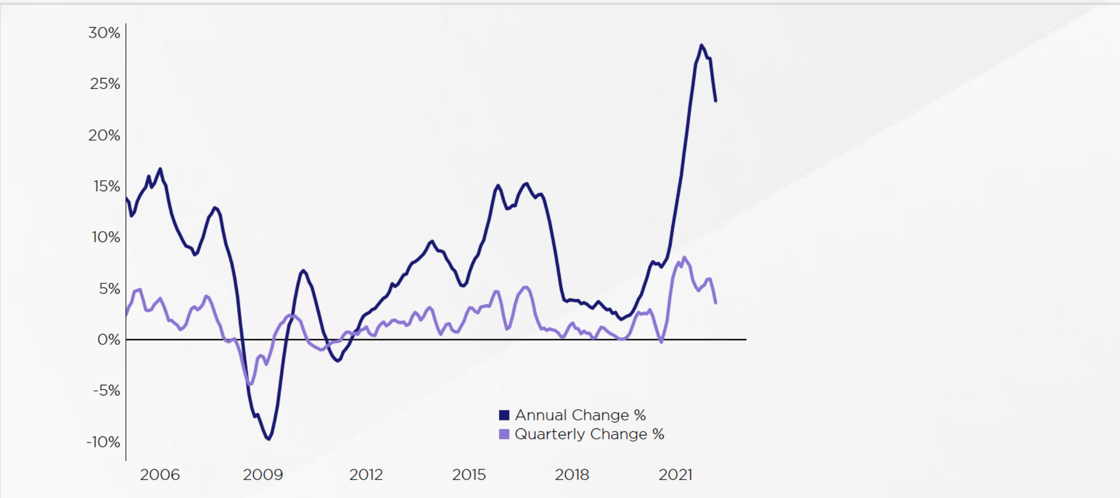
Values



Average Value of Housing Stock - New Zealand ($)

Property values have definitely turned the corner now, with the national average only up by 0.7% in March, the softest figure of this upswing (since values dropped by 0.2% in August 2020). The increase of 3.6% since December was the smallest quarterly rise since 1.9% in the three months to October 2020, while the annual growth rate has also slowed to 23.4% (a figure not seen since June last year).

Of course, it's important to acknowledge that these are still increases at the national level. But the momentum has certainly shifted, and some key areas actually saw values drop in March, including Hamilton, Wellington, Christchurch, and Dunedin. The rest of the year is likely to remain soft for property values too, as mortgage rates rise, credit remains tricky to secure, and buyers have more choice of listings. However, if unemployment stays low, we don't anticipate significant/widespread falls in property values.



Annual and Quarterly Change in Value (%)

House Price Index

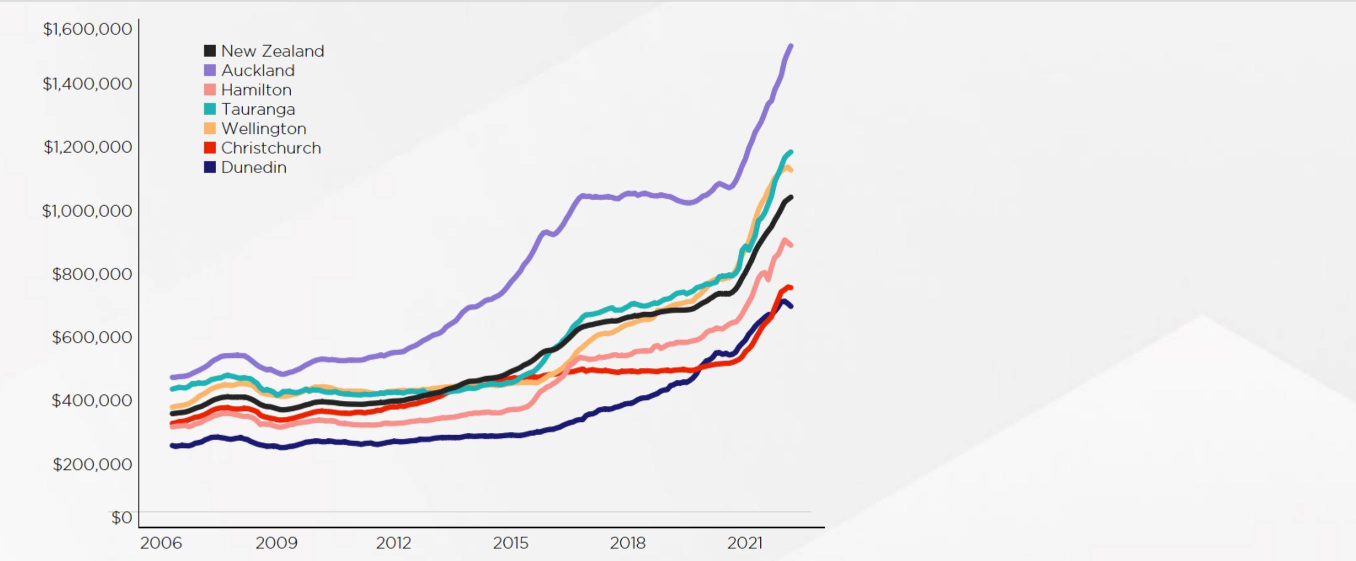
A key feature of the post-COVID upswing in property values was its widespread nature – i.e. not just reflecting growth in one or two key centres, but upturns right across the country. In turn, that had reflected common fundamental drivers, such as low mortgage rates and a tight supply/demand balance.

However, these key drivers have now turned around pretty quickly, and mortgage rates across most terms have doubled in the past 6-9 months. Total listings available on the market have also increased sharply in many parts of NZ, not so much due to an influx of new listings, but because of the slowdown in sales activity which has given total listings a chance to replenish.

Accordingly, we suspect that this next phase of the cycle, where property values slow sharply will also be fairly widespread. However, there is also likely to be some regional divergence, with some parts of NZ more vulnerable to falls in values than others, while some may actually see further growth.

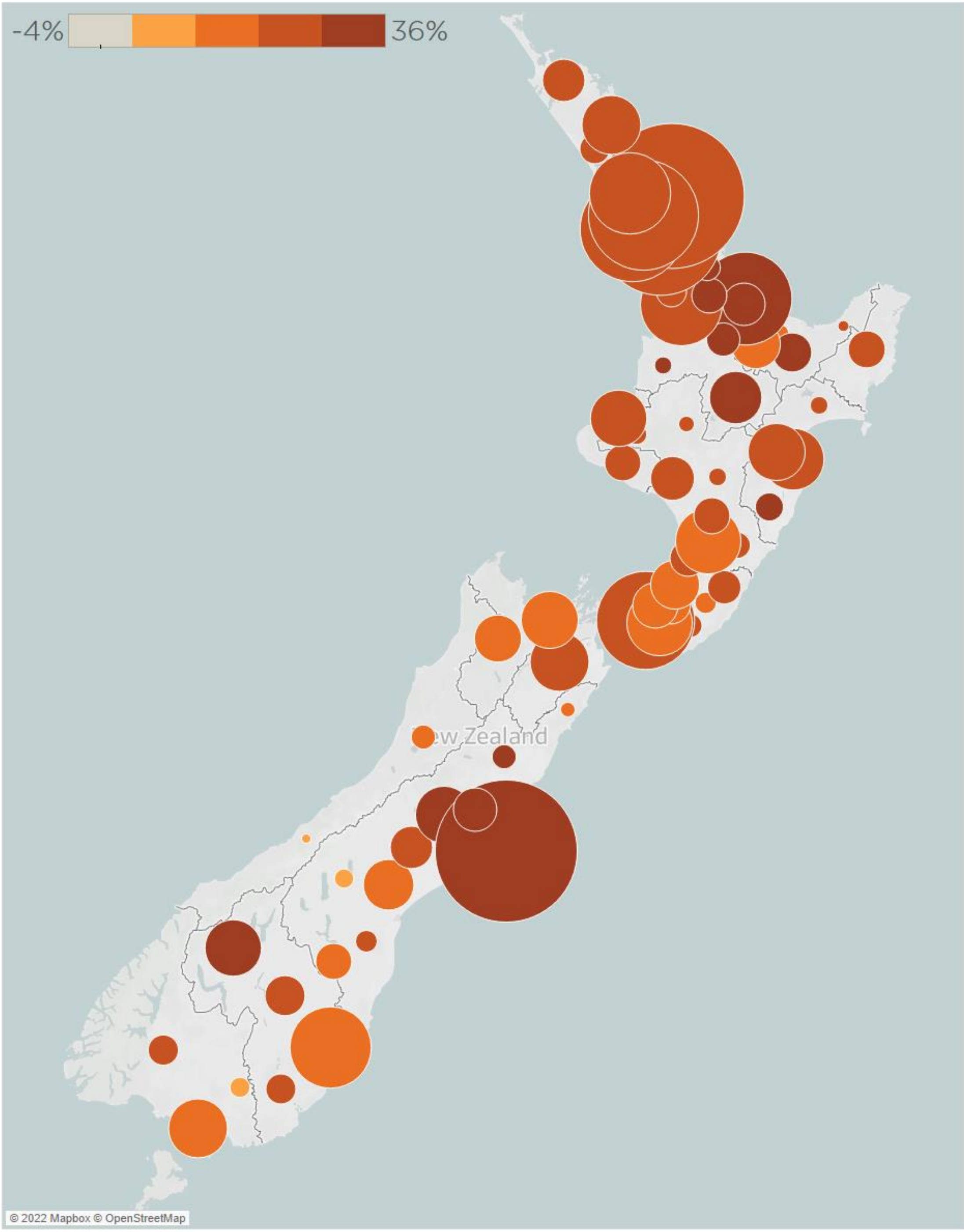
There are many factors that will influence each region over the coming year or so. But parts of Canterbury certainly have affordability on their side, so could see further (modest) growth. By contrast, many smaller markets in the central and lower North Island already look stretched, so could be poised to underperform.

Average Dwelling Value ($)



	March 2022 Current value	1 month	3 months	12 months	5 years
New Zealand	$1,043,261	0.7%	3.6%	23.4%	62%
Auckland	$1,520,341	1.4%	6.5%	24.7%	46%
Hamilton	$891,884	-0.9%	0.9%	22.3%	67%
Tauranga	$1,185,907	0.6%	4.1%	32.1%	75%
Wellington	$1,128,708	-0.8%	0.3%	20.6%	87%
Christchurch	$757,902	-0.2%	1.8%	31.6%	52%
Dunedin	$698,879	-1.3%	-2.1%	12.5%	92%

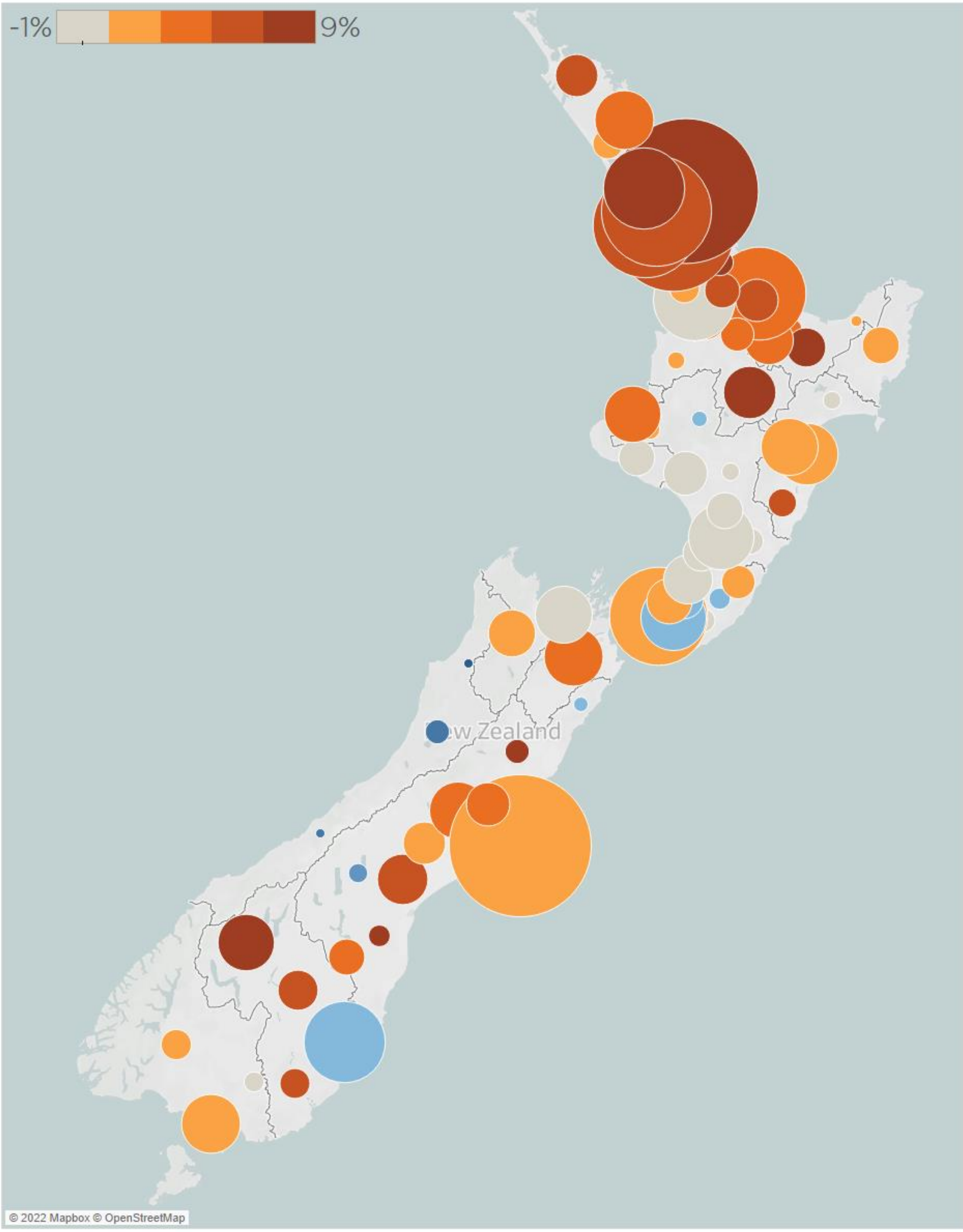
House Price Index



Annual Value Change (%)

Over a 12 month horizon, average property values have risen in all parts of the country. However, at a turning point (such as where we're at now), this measure becomes less relevant.

House Price Index

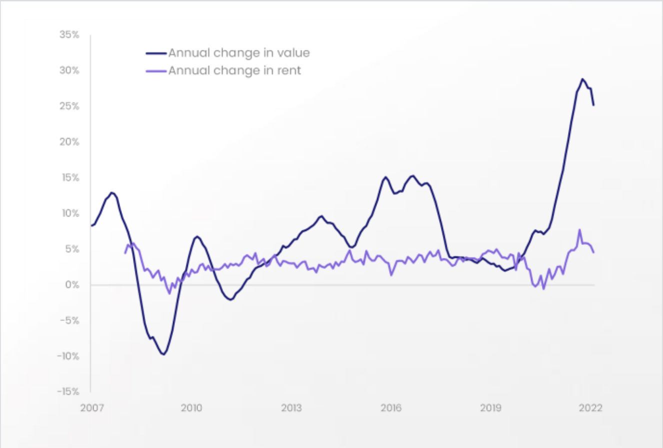


Three Month Value Change (%)

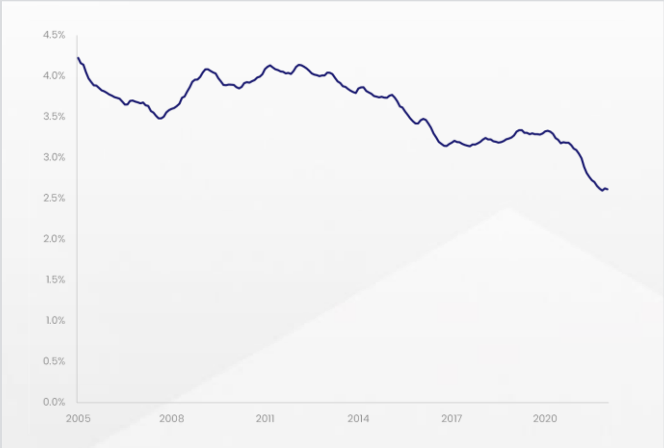
Indeed, the timelier three-month change is much more useful at present, and it illustrates the turning point pretty clearly. Since December, average values have dropped in a number of areas, including Dunedin, as well as Upper Hutt and Lower Hutt.

Rent

National Annual Change in Value and Rent (%)



Gross Rental Yield – National (%)

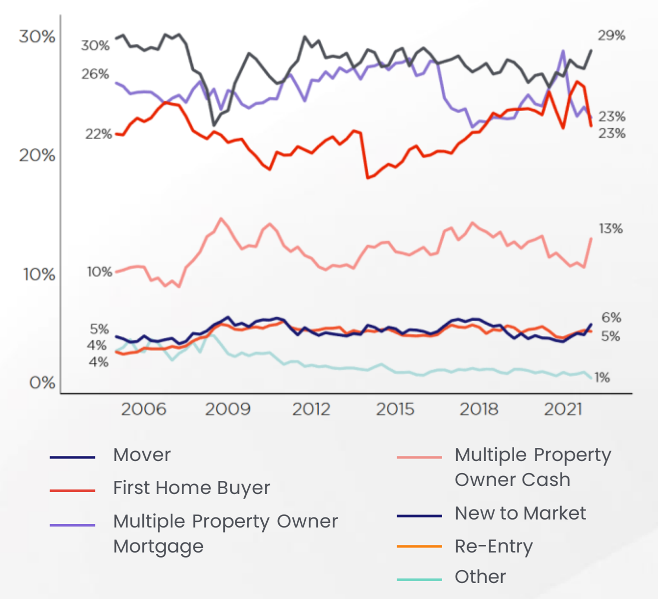


According to the Stats NZ rental price index, the growth in rent for new tenancies has continued to slow in the past few months, from an annual pace of close to 6% in late 2021 to about 4.5% in February this year. Clearly, that is still relatively high compared to the typical figure of about 3% historically. But it's still a marked slowdown from the recent past, and signals that the general cooling of the wider housing market is passing through to the rental sector too, as well as reinforcing the fact that rents can't rise faster than tenants' incomes for too long, because at some stage affordability constraints will kick in.

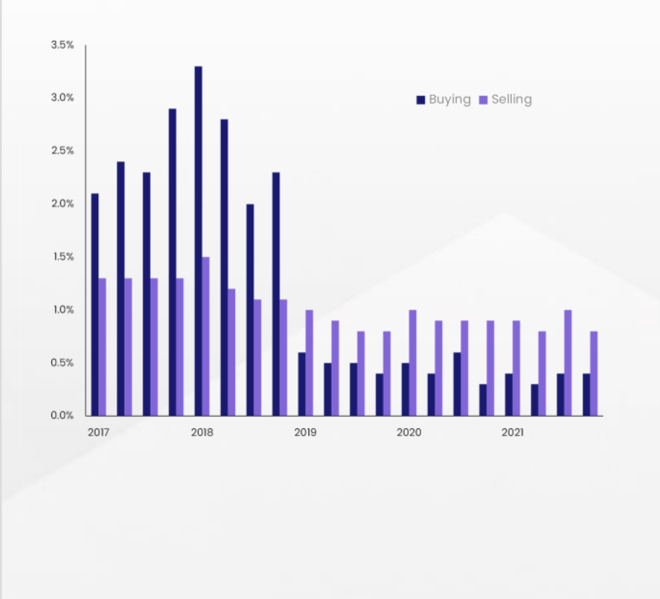
Looking ahead, we'd anticipate that rental growth continues to slow, and without such rapid capital gains either, many investors will really be focused on trying to control their costs where possible – especially since gross rental yields are already relatively low. Some landlords may be hoping for a National election victory next year and a reversal of the Brightline and interest deductibility changes, although it's also worth noting that the track record of any government reversing its predecessor's large policy changes (especially when it comes to tax) isn't strong.

Buyer Classification

Buyer Classification – New Zealand (% of purchases)



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



The past three months have certainly seen some clear shifts in the composition of buyers in the property market – with a theme along the lines of 'debt vs equity' emerging.

Perhaps the most notable recent shift has been for first home buyers (FHBs), who only had a 23% share of purchases across Q1 as a whole, and 21% in March itself. Apart from the lockdown-affected April 2020, the latest figure is the lowest monthly share for FHBs since the second half of 2017. This abrupt shift only started in January (their share was still 26% in December), clearly a reflection of November's tightening to the LVR rules and December's CCCFA law changes.

Indeed, in regards to the LVR changes, Reserve Bank figures show that in October last year, about two in five FHBs took out a low deposit mortgage – but by February this year the figure was only one in five. In addition, it's a bit of a truism, but also consider the overall lending slowdown – without sufficient demand from higher deposit borrowers, the banks simply aren't able to advance much low deposit debt. That is, 10% (the LVR speed limit) of not much is still not much.

Meanwhile, across Q1 2022 as a whole, mortgaged investors (multiple property owners/MPOs) had a market share of around 23% – below the long term average of 25%, and a continuation of the relatively quiet period that they've had for the past 6-9 months in the aftermath of last year's interest deductibility changes and of course the requirement for a 40% deposit in most cases (apart from new-builds). For comparison, in Q1 last year, their share of property purchases had been much higher, at close to 30%.

By contrast, switching to those with a greater equity base, cash investors' market share has recently risen to 13%, and in the current market where listings are rising, they may be sniffing out some 'bargains' in some areas.

Then finally, 'movers' are another key group of interest, with these relocating owner-occupiers taking a 27% share of purchases in March and 29% for the first quarter as a whole – that quarterly figure is the highest since 2016, and has been helped by more listings being available (making it more likely that movers can actually find a property they like), but also by their longer period in the market and increased equity base.

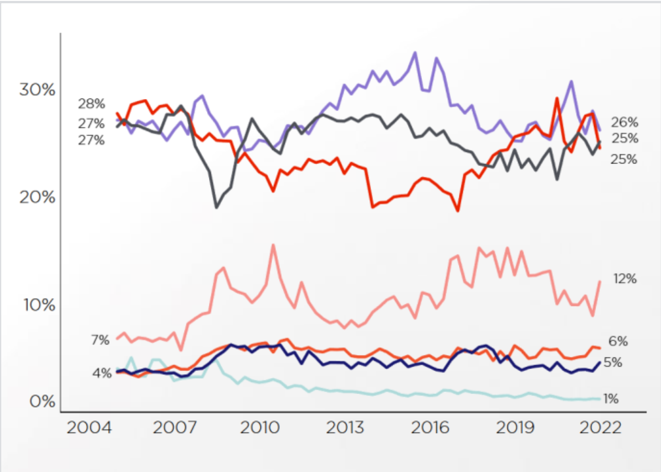
With LVRs likely to be in force at their current levels for the foreseeable future, mortgaged investors and first home buyers may continue to find it tough going, although you could never rule out a loosening of the credit rules at some stage later this year, while we also have to acknowledge that some FHBs may have pulled back of their own free will, in the hope that they might be able to pay a lower price later. That said, it still seems likely that buyers with a larger equity base may be the key groups to watch for the rest of the year.

 Source: Statistics New Zealand

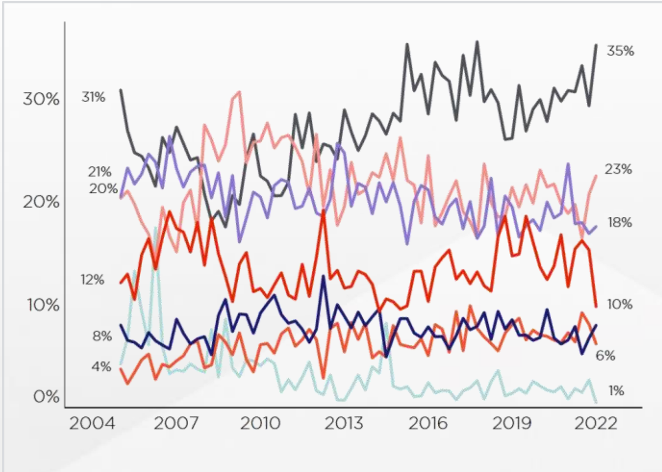
Main Cities Housing Market Indicators

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 the national picture lately – although also with some slight differences. For example, the market share for cash investors has started to rise in recent months, as these buyers potentially hunt out some bargains in a less competitive environment – but the share (12%) is a touch lower than the national average.

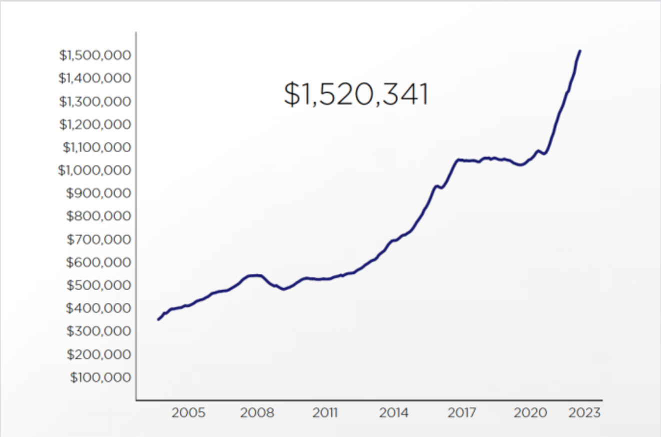
Meanwhile, movers in Auckland are showing signs of greater market share too, as listings rise and they can more easily find that ideal next property. However, the upwards trend isn't perhaps as clear as at the national level, perhaps reflecting the larger gap in price that exists to trade up in Auckland versus other parts of the country.

Turning to mortgaged investors, they've been quieter within Auckland in recent months (similar to the national trend), but a market share of 26% in Q1 2022 is still higher than the NZ-wide figure. That's despite Auckland having lower gross rental yields than many other parts of the country, but signals that these buyers are still able to find profitable opportunities.

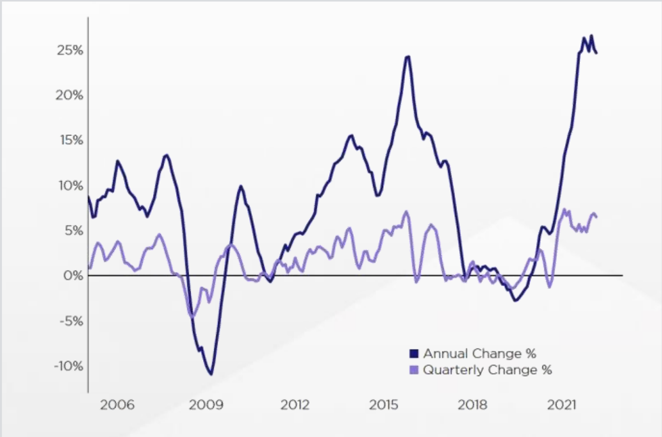
Auckland first home buyers are also finding the market tougher to crack, with their market share of purchases dropping back from 28% in Q4 2021 to 25% in Q1 2022 – again, that trend is similar to the national picture, but the level itself is still a bit higher than the NZ figure (23%). Clearly FHBs in Auckland have to raise a larger deposit in dollar terms than most other parts of NZ, but many are finding a way.

Auckland Values

Average Value of Housing Stock Auckland ($)



Annual & Quarterly Value Change Auckland (%)



Auckland perhaps held up a bit better than other parts of the country in March, but there are still signs of the slowdown, and it won't be immune over the coming months. Indeed, Manukau and Franklin both saw average property values drop in March, by 0.3% and 0.9% respectively (albeit that still left the level >$1m in each of the Auckland sub-markets).

A clear factor that could weigh on Auckland property values in the coming months is stretched affordability, with the average deposit now taking 13.5 years to save, and payments on a typical new mortgage absorbing 55% of gross average household income. The national figures for comparison are 11.7 and 48% respectively.

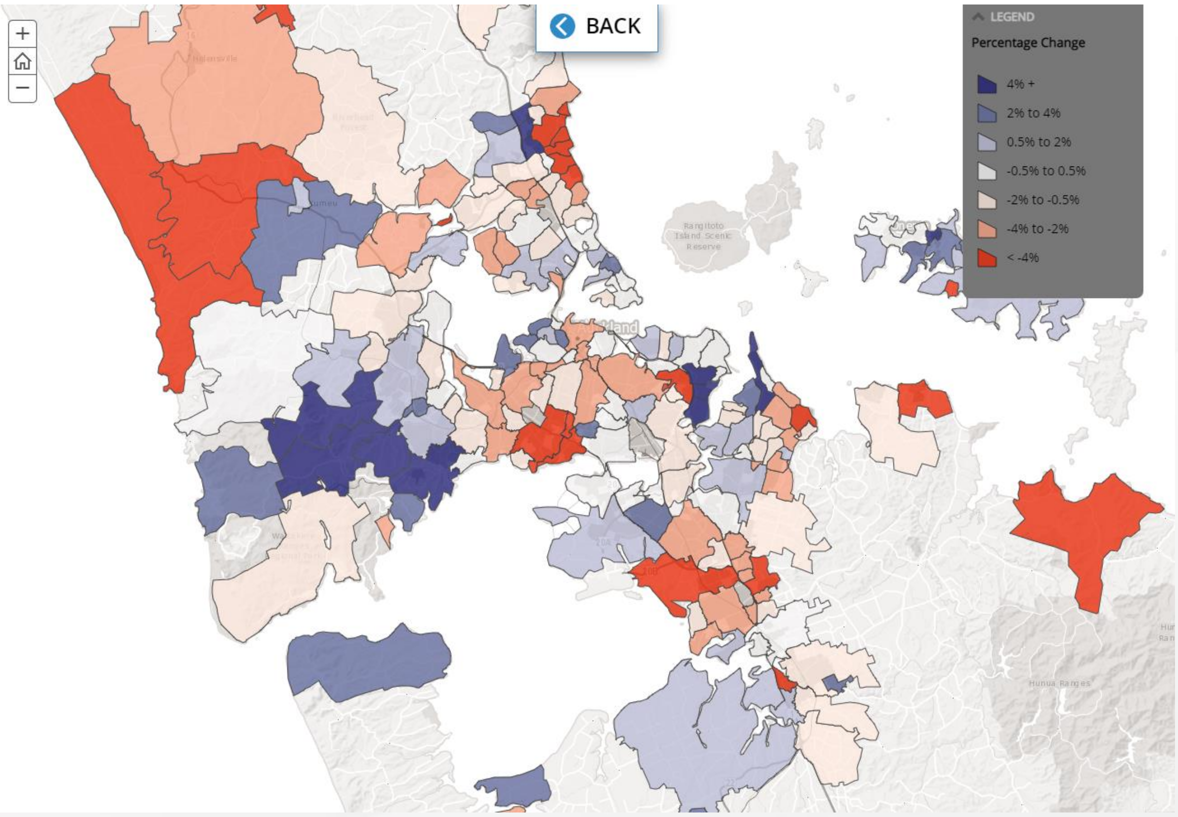
On top of that, Auckland has of course been the key driver of NZ's construction boom over the past year or two – especially as the Unitary Plan has encouraged infill housing and helped to drive a large upswing in townhouse development.

To be fair, we doubt that a significant oversupply of property will emerge in Auckland anytime soon, not least because we were starting from a position of tight supply and of course many of the townhouse developments have also involved demolitions of the previous dwellings – so in other words, the *stock* of housing hasn't been rising as fast as consents. In addition, as construction rises, more 'hidden' households who were perhaps living with parents until affordability started to improve again could come out of the woodwork and absorb extra properties.

Overall, however, the forces are in play for Auckland property values to slow in the coming months.

	March 2022 Current value	1 month	3 months	12 months	5 years
Rodney	$1,420,588	2.3%	7.1%	27.7%	51%
North Shore	$1,676,550	0.3%	5.2%	21.0%	40%
Waitakere	$1,226,326	1.2%	7.0%	26.3%	48%
Auckland City	$1,765,043	2.6%	7.2%	22.6%	44%
Manukau	$1,370,259	-0.3%	5.7%	27.8%	52%
Papakura	$1,084,641	0.1%	6.1%	30.5%	57%
Franklin	$1,045,704	-0.9%	5.1%	32.1%	57%

Current Suburb Values: ‘Mapping the Market’



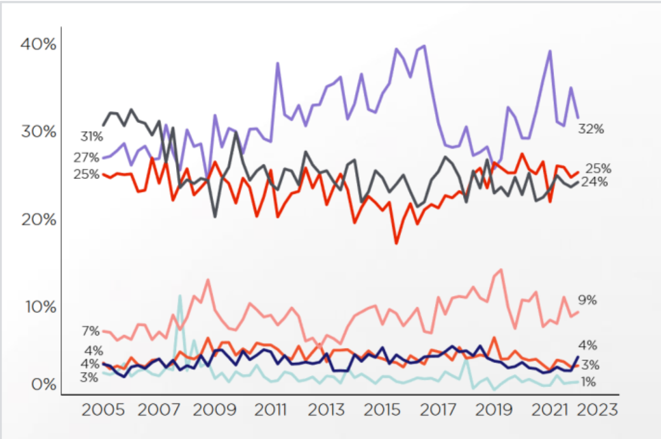
Auckland suburb median values March 2022 ($)

CoreLogic’s interactive ‘Mapping the Market’ product shows the changes in median property values by suburb over the past three months, it’s freely available and updated quarterly. The heatmaps in ‘Mapping the Market’ are point-in-time snapshots of median values from 2021 and 2022, and show the % and $ change over that period too. See **www.corelogic.co.nz/mapping-market.**

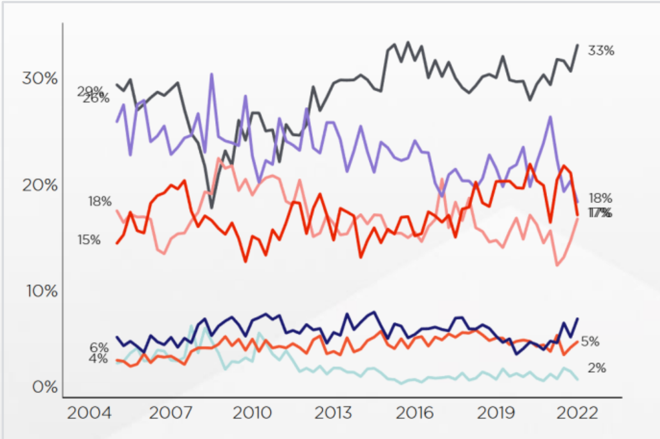
Auckland is illustrated in the heatmap here. Over the past three months, a number of suburbs have seen continued increases in median values, with 11 seeing growth of 5% or more. Another 28 have been in the 2-5% range. However, many others have begun to ease downwards, and since November, 62 suburbs have seen values drop by at least 2%. In dollar terms, six have seen declines of more than $100,000 in the past three months, while another 26 have seen drops in the $50-$100,000 range. Herne Bay is still the most expensive suburb (median value $3.73m), but other ‘high end’ areas such as Remuera, Stanley Point, and Epsom have seen values drop since November.

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 is a key area of the country where the buyer classification trends have looked a little different in recent months to other areas.

For a start, cash investors haven't seen their market share change too much, while the rise we've also seen for movers at the national level isn't as apparent in Hamilton either. Indeed, their share of 24% in Q1 2022 is a continuation of a fairly stable pattern over the past few quarters.

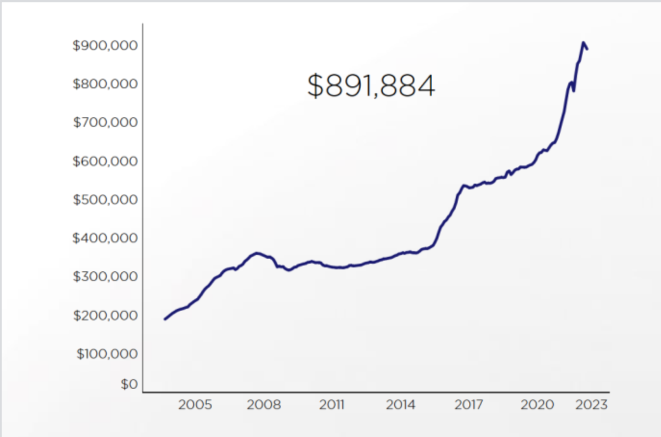
Meanwhile, first home buyers (FHBs) have managed to keep a reasonably high and stable market share in Hamilton too (25% in Q1), as opposed to the drop at the national level. And finally, although mortgaged investors' market share in Hamilton has dropped back a bit compared to where it was 9-12 months ago, it's still comparatively high at 32%.

It's difficult to be categorically sure of why Hamilton is looking a little different to other areas, but it's certainly encouraging that FHBs are still managing to find ways into the market, and judging simply by their continued high market share, mortgaged investors are also obviously seeing value too – even though mortgage rates are rising and gross rental yields are starting from a relatively low level.

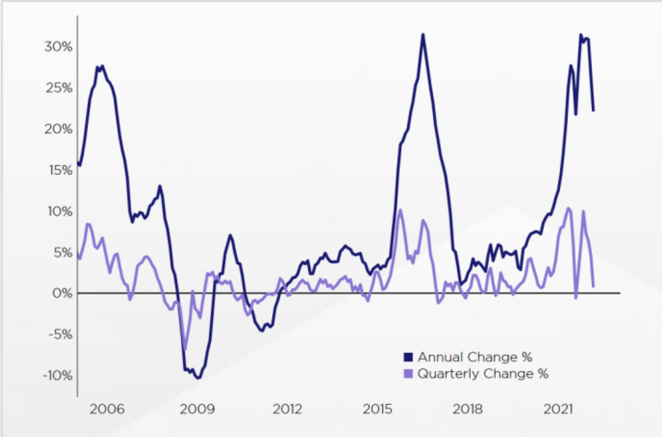
Given wider forces, however, it wouldn't be a surprise to see the market shares for cash investors and movers start to rise in Hamilton over the coming months, while mortgaged investors and first home buyers may dip a little.

Hamilton Values

Average Value of Housing Stock Hamilton ($)



Annual & Quarterly Value Change Hamilton (%)



Hamilton's average property values have weakened lately, with a *drop* of 0.9% in March, leaving the quarterly change at just +0.9%, and the annual rate at 22.3% - quite a sharp slowdown from the figure of more than 30% in January.

Apart from the South West area of Hamilton (which ticked up by 0.1% in March), the recent falls were widespread, ranging from 0.9% in South East and North East, up to a drop of 2% in the Central & North West area.

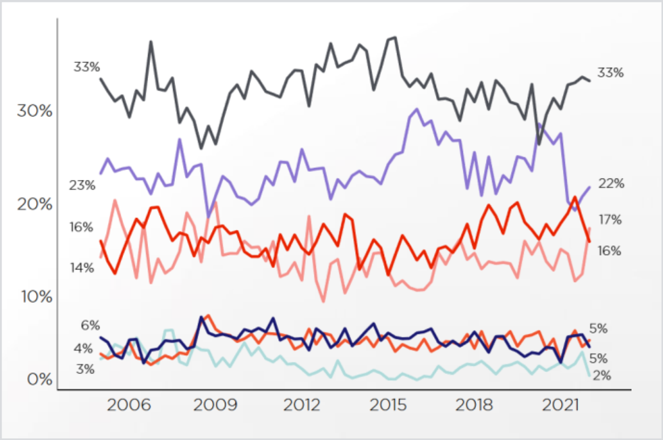
That drop of 2% meant that the Central & North West part of Hamilton actually saw a 0.4% fall across Q1 as a whole too. By contrast, growth in January and February still meant that the rest of Hamilton has average property values higher than they were in December last year.

Given the headwinds such as higher listings and rising mortgage rates, Hamilton's property values look set to stay soft in the coming months.

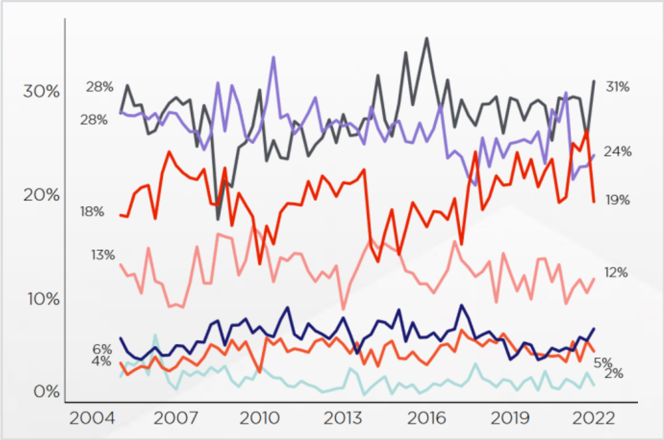
	March 2022 Current value	1 month	3 months	12 months	5 years
Hamilton Central & North West	$821,597	-2.0%	-0.4%	20.5%	65%
Hamilton North East	$1,113,445	-0.9%	0.7%	24.9%	64%
Hamilton South East	$823,451	-0.9%	1.9%	22.2%	70%
Hamilton South West	$789,254	0.1%	1.9%	19.5%	69%

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

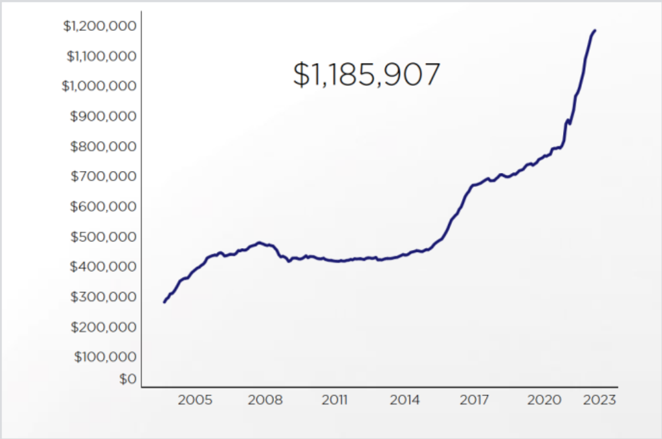
Tauranga also saw first home buyers' market share drop back in the first quarter of 2022, from a peak of 21% in Q3 last year, to 18% in Q4, and then 16% now. That's likely to reflect tighter lending rules and higher mortgage rates, but also the relative unaffordability of the Tauranga market on local wages.

Meanwhile, movers managed to hold a steady share of the market, at 33% in Q1 2022. With a bit more equity behind them and a higher number of listings available, this group could actually see market share rise a bit in future.

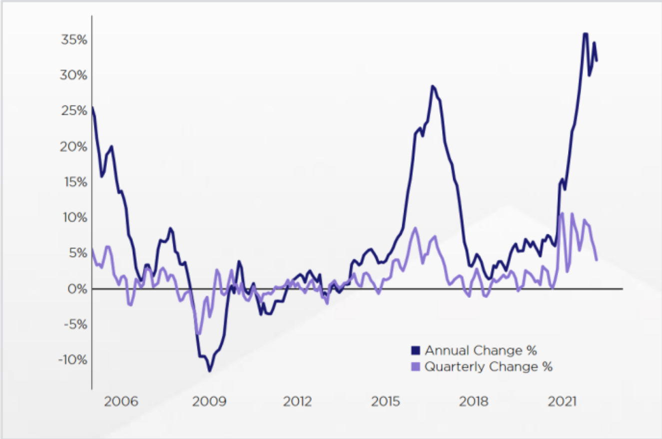
Perhaps the most interesting development in Tauranga over the past few months has been the bounce-back for investors. After reaching a trough of 19% in Q3 last year, the share of purchases going to mortgaged multiple property owners (MPOs or investors) has reached 22%. At the same time, the market share for cash investors has risen from 12% in Q3 last year to 17% now. Despite high property values in Tauranga and low gross rental yields, these figures show that many investors are still seeing profitable opportunities.

Tauranga Values

Average Value of Housing Stock Tauranga ($)



Annual & Quarterly Value Change Tauranga (%)

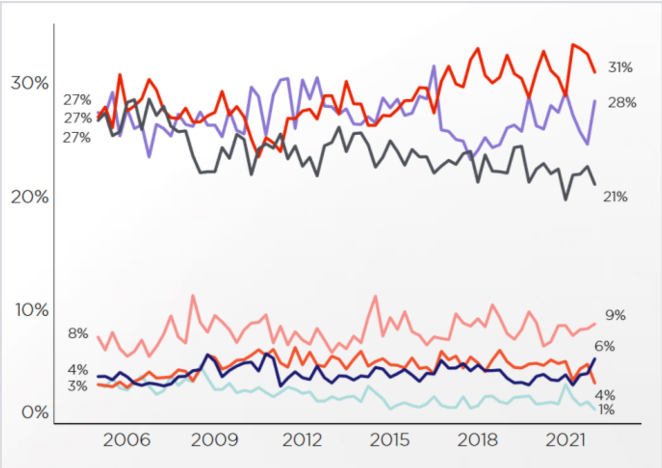


Despite an already high level of property values ($1,185,907), Tauranga was one of the few main centres to avoid a fall in March, instead seeing a rise of 0.6%. Its values are now 4.1% higher than they were in December, and are 32.1% up from the same time a year ago.

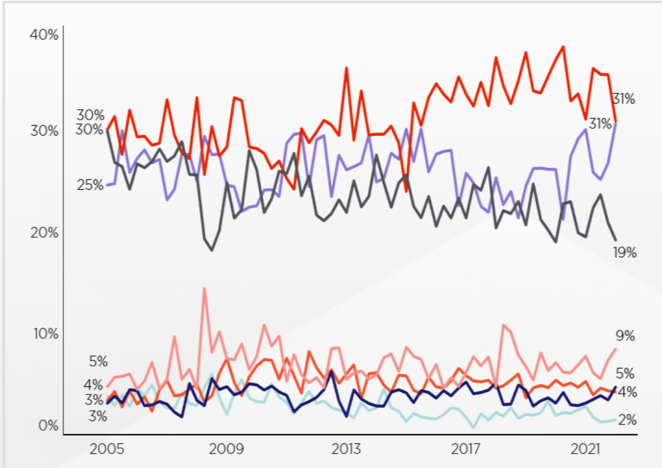
However, with affordability now looking very stretched in Tauranga, it won't be immune to the more general market slowdown over the coming months.

Wellington Market Activity

Buyer Classification – Wellington Area (% of purchases)



Buyer Classification – Lower Hutt (% of purchases)



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

The wider Wellington market is something of an outlier when it comes to buyer classification trends, especially with first home buyers seemingly holding on better than in other parts of the country, despite property values being high and affordability as poor as it's been for at least 20 years.

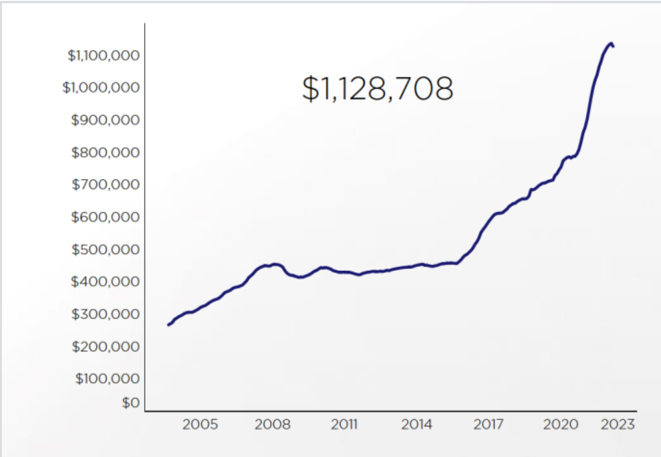
Across the four main territorial authorities (Wellington City, Lower Hutt, Upper Hutt, Porirua), the share of property purchases going to first home buyers (FHBs) did drop in Q1 2022, from 33% in Q4 last year to 31%. But that's not really much of a decline, and it still far higher than the national figure of 23%. Clearly, many FHBs are still managing to find a way into the market, including using KiwiSaver for a deposit and compromising on property type/location.

Meanwhile, mortgaged multiple property owners actually saw an increased share of purchases in Q1 2022, rising from 25% in Q4 last year to 28%. Even though gross rental yields are low and costs are rising (e.g. mortgage rates and the loss of interest deductibility), this group is obviously still seeing some value.

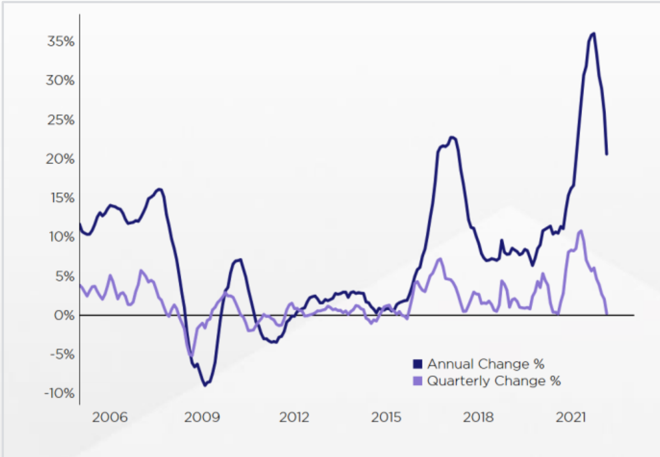
And finally, movers across the area were pretty stable in terms of market share in Q1 2022 (21%), quite a bit lower than the national figure of 29%. Although listings are now rising pretty sharply across the Wellington market, the inference here is that relocating owner-occupiers haven't quite been able to find that ideal next property in enough cases yet.

Wellington Values

Average Value of Housing Stock Wellington ($)



Annual & Quarterly Value Change Wellington (%)



The wider Wellington area has seen a large boom in property values in recent years, but it has quickly turned into an 'early faller' more recently.

Indeed, apart from Porirua – where values managed to stay flat in March – the latest data showed falls across the board, ranging from minor drops of 0.1% in Lower Hutt and Kapiti Coast, up to falls of about 1% in South Wairarapa and Wellington City, and about 2% in Upper Hutt.

Over the slightly longer three-month period since December, values have fallen by at least 1% in Carterton, Lower Hutt, and Upper Hutt. However, just to highlight the 'patchiness' that can occur at turning points, values are still at least 1% higher than December in Porirua, Wellington City, and Masterton.

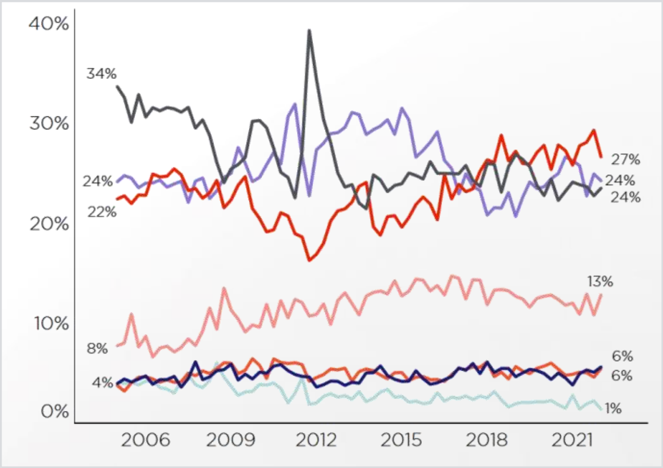
With listings rising and affordability stretched, the wider Wellington area could be amongst the more vulnerable parts of the country to more meaningful drops in house prices.

	March 2022 Current value	1 month	3 months	12 months	5 years
Porirua	$1,010,455	0.0%	1.0%	18.9%	98%
Upper Hutt	$931,727	-2.0%	-1.8%	18.1%	111%
Lower Hutt	$985,062	-0.1%	-1.8%	19.7%	98%
Wellington City	$1,274,691	-1.1%	1.3%	21.8%	78%
Carterton	$731,839	-0.3%	-1.4%	19.1%	119%
Masterton	$682,675	-0.8%	1.7%	21.6%	136%
South Wairarapa	$901,792	-1.1%	-0.3%	22.9%	133%
Kapiti Coast	$977,568	-0.1%	-0.7%	18.4%	102%

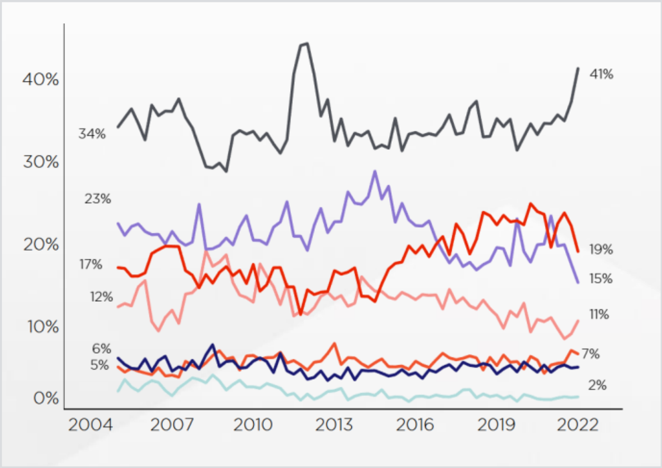
CoreLogic

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

Generally speaking, the buyer trends across Christchurch have stayed pretty consistent in the past few months, with first home buyers still active, and the market shares for movers and mortgaged investors a little lower.

Indeed, although the share of property purchases going to first home buyers in Christchurch dropped from 29% in Q4 2021 to 27% in Q1 2022, that's still a relatively high figure by historical standards, and also above the national average. No doubt better housing affordability in Christchurch than other parts of the country is allowing FHBs to save their deposit quicker and to successfully purchase more often.

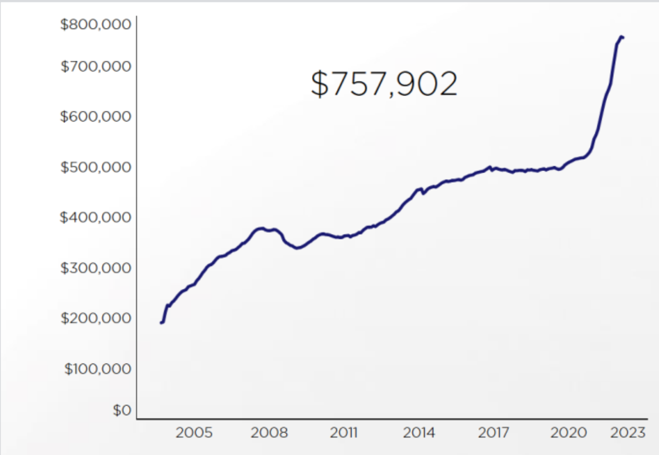
The market share for mortgaged investors also edged down a bit in Q1 2022, from 25% in Q4 last year to 24%. However, that's still a reasonably solid figure, and reflects higher gross rental yields in Christchurch than the other main centres.

Meanwhile, the market share for movers ticked up a bit from 23% in Q4 2021 to 24% in Q1 2022. However, that's still relatively low by past standards, and again lower than the national average of 29%. Some previous FHBs in the city who are now looking for their second home have no doubt been leaving Christchurch and becoming 'movers' in Selwyn instead, typically for a new-build property.

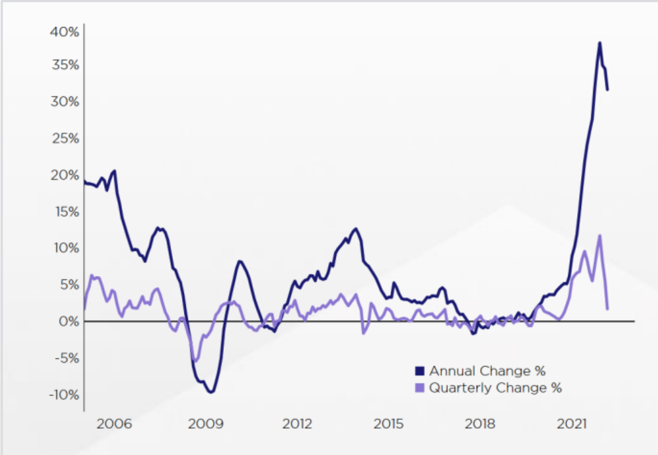
Indeed, movers' share of property purchases in Selwyn has recently been running at high levels, in excess of 40%.

Greater Christchurch Values

Average Value of Housing Stock Christchurch ($)



Annual & Quarterly Value Change Christchurch (%)



The wider Christchurch market has been a key part of the national upswing in property values over the past few years, and still has affordability on its side (compared to other parts of the country) – but even so, values have still shown signs of a marked slowdown in the past few months.

Indeed, Christchurch City saw average values drop by 0.2% in March (albeit a small fall), driven by the Central & North areas, and the East, with South West also down a bit, but not much. By contrast, Christchurch Hills saw values climb by 3% in March.

Outside the City, Banks Peninsula and Selwyn continued to see rises in average property values in March, but the previously buoyant Waimakariri area saw values drop by 2.2%.

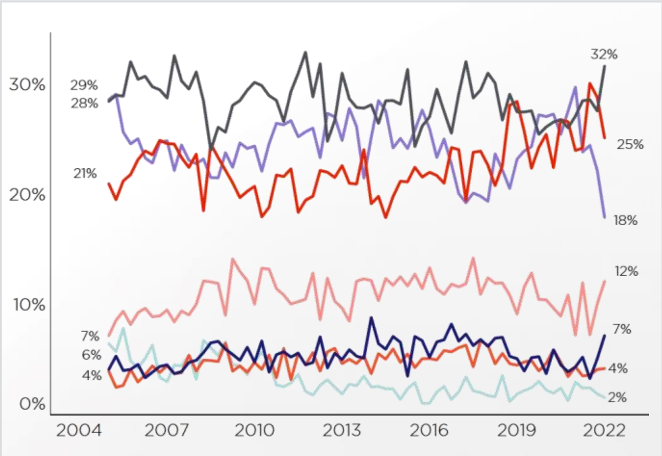
As noted, Canterbury still looks more affordable than other areas, so has a reasonable chance of outperforming the national average in terms of property values over the coming months. But recent data reinforces the fact that nowhere is immune to the slowdown altogether.

	March 2022 Current value	1 month	3 months	12 months	5 years
Banks Peninsula	$803,553	3.3%	2.9%	31.8%	59%
Christchurch Central & North	$867,766	-0.9%	1.4%	29.4%	48%
Christchurch East	$577,465	-1.1%	1.4%	30.8%	55%
Christchurch Hills	$1,043,650	3.0%	3.8%	32.3%	56%
Christchurch Southwest	$733,297	-0.3%	1.6%	34.1%	54%
Selwyn	$868,673	0.5%	3.1%	38.2%	59%
Waimakariri	$690,646	-2.2%	3.8%	32.9%	57%

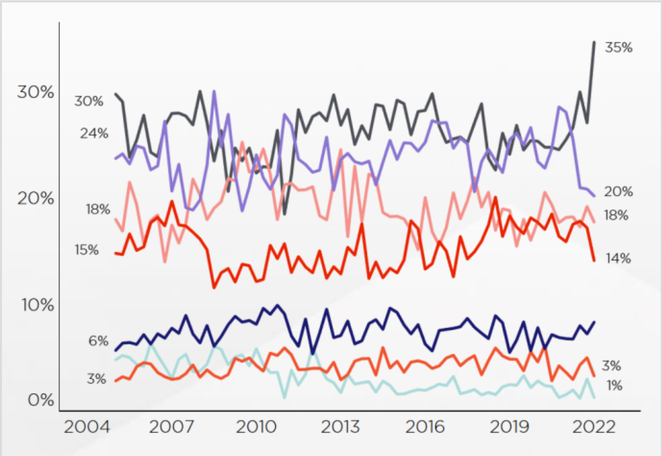
CoreLogic

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

With Dunedin's property values having risen substantially over the past 4-5 years and affordability now looking poor, as well as gross rental yields low, the recent data has shown a sharp decline for mortgaged investors' market share of purchases, as well as a drop for first home buyers. But on the flipside, more listings have bought more movers out of the woodwork.

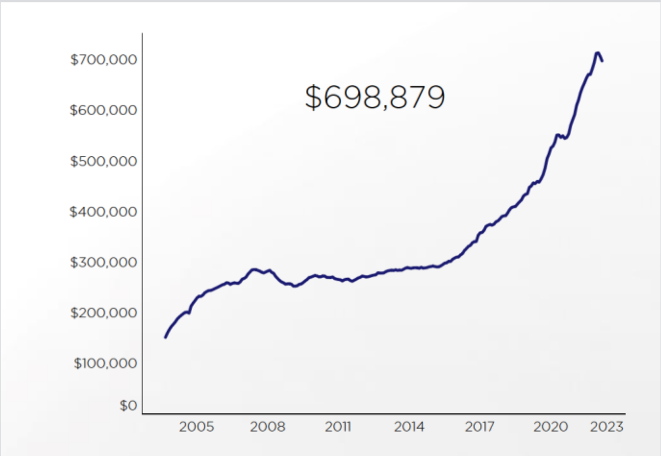
Indeed, from a peak of 30% of purchases across Dunedin in Q1 last year, the latest figure for mortgaged investors' market share was just 18% - the lowest in the history of this data. Higher deposits, reduced interest deductibility, and low yields are likely to have all undermined investors' appetite.

Meanwhile, as affordability has got worse, FHBs' share as also declined from 30% in Q3 last year to 25% now – still a reasonable figure, but on a downwards trend.

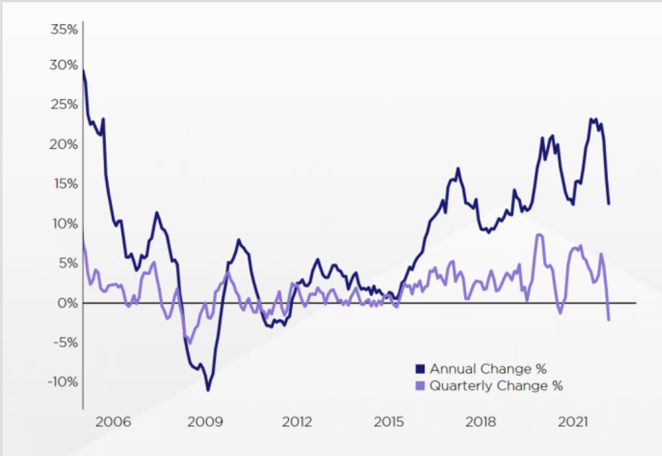
However, movers or relocating owner-occupiers have picked up again, and after a lull through 2020 (where their share was around 25%), they've gone back above 30% in terms of market share in Dunedin's property market. As we suggested last quarter, this kind of rise was always on the cards as more listings/choice became available.

Dunedin Values

Average Value of Housing Stock Dunedin ($)



Annual & Quarterly Value Change Dunedin (%)



Last quarter we highlighted a few tentative hints that Dunedin property values were turning down, and this has become clearer in the past three months. Indeed, apart from Peninsula & Coastal (with a 3.4% rise), values fell across Dunedin in March, ranging from 0.8% in Taieri up to a 3% drop in the South.

Over the broader three month period since December, Dunedin South has seen a 4% dip in values, with Taieri at 3.1%. And of course, this sharp reversal has seen the annual growth rates slow markedly too, to around the 11-12% range.

Given the huge boom that Dunedin has seen in average property values over the 5-6 years, and the associated fall in housing affordability, it's no surprise that it would see a slowdown at some stage – and this is likely to continue for the rest of 2022.

	March 2022 Current value	1 month	3 months	12 months	5 years
Dunedin Central & North	$722,376	-1.6%	-1.0%	12.2%	92%
Dunedin South	$659,979	-3.0%	-4.0%	11.1%	92%
Peninsula and Coastal	$662,771	3.4%	1.6%	17.1%	96%
Taieri	$723,196	-0.8%	-3.1%	12.9%	91%

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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