Quarterly Property Market & Economic Update

New Zealand | Quarter 2, 2022

Data to June 2022

Contents

New Zealand
Quarter 2, 2022

About CoreLogic

CoreLogic is a leading property information, analytics and services provider in the United States, Australia and New Zealand.

CoreLogic helps clients identify and manage growth opportunities, improve performance and mitigate risk, by providing clients with innovative, technology-based services and access to rich data and analytics.

Whilst all reasonable effort is made to ensure the information in this publication is current, CoreLogic does not warrant the accuracy, currency or completeness of the data and commentary contained in this publication and to the full extent not prohibited by law excludes all loss or damage arising in connection with the data and commentary contained in this publication.

Call us
0800 355 355

Wellington Office
Level 14, 10 Brandon St
Wellington 6011

Auckland Office
Level 5, 41 Shortland Street
Auckland 1010

Email
reports@corelogic.co.nz

Executive Summary

The slowdown for sales activity that had become abundantly clear last quarter has now flowed through to a marked decline in property values too, as multiple challenges hit the market – not least the combination of sharply rising mortgage rates and the large wave of refinancing of existing mortgages that will occur over the next 6-12 months. Indeed, the rest of 2022 and most (if not all) of 2023 are set to be a testing period for property.

Starting with sales activity, it's certainly been a weak start to 2022, and the drop in volumes has allowed time for the stock of listings available on the market to be replenished, and has shifted the balance of pricing power firmly in favour of buyers in many parts of the country. As yet, there hasn't been an abnormally large rise in new listings flows, but this is certainly a risk we're keeping an eye on as financing costs continue to increase and the returns on other assets (e.g. bank deposits) rise too.

In terms of property values, the sharp post-COVID upswing has now given way to a firm correction, and the falls already seen to date have been spread across most geographical areas and value bands/tiers of the market – i.e. this isn't just a 'top end' or 'bottom end' story. There is still plenty of uncertainty out there, but a plausible central scenario is that the national average property value ultimately drops by 10-15% by the middle of next year, meaning that (in broad terms) we're perhaps halfway through this correction in both duration and scale.

Looking at the various purchaser groups, the CoreLogic Buyer Classification figures show that first home buyers and mortgaged multiple property owners have remained relatively subdued in the past few months. That's hardly a surprise, given that affordability is still stretched (for FHBs), gross rental yields are low (for investors), credit conditions remain testing, and of course mortgage rates continue to increase. One silver lining could the recent relaxation of the CCCFA rules. But we doubt that this will be a game-changer, especially with the banks once again re-tightening their attitudes to high LVR lending.

By contrast, movers (or relocating owner-occupiers) and cash multiple property owners have seen their market share hold up or even increase a bit recently. This stands to reason too, given that in a debt-restrained environment, those buyers with a larger equity/cash base behind them should be seeing a bit less competition for properties than otherwise. Of course, it also needs to be reiterated (as noted above) that the number of deals is down, so in some cases the market share has only risen because of a smaller fall than elsewhere.

Looking ahead to the rest of 2022 and into 2023, there are many interesting aspects to keep an eye on. First, the path for inflation, the economy, the official cash rate (OCR), and hence mortgage rates will be vital. If the economy starts to feel the pinch of tighter monetary policy sooner than the Reserve Bank expects, the OCR may not need to go all the way to 4% – which would also tend to limit the peak for mortgage rates (as would banking sector competition amidst the slowdown in property sales volumes). That said, offshore rates also matter too, and the key point is that mortgage rates are still likely to have further to rise yet.

Clearly, higher mortgage rates (alongside the higher serviceability test rates too) limit the amount of money a borrower can secure, and hence the price they can pay for a property. But the added challenge at the moment is that more than 45% of existing mortgages in NZ are currently fixed but due to reprice in the next year. Many of those will be rolling off a mortgage rate of 2.5-3% (or less), and onto levels of 5.5% or more – a significant change in debt servicing repayments.

Given their favourable treatment at present (i.e. continued ability to claim mortgage interest deductibility and exemption from LVR rules), new-builds are clearly still a target for some property investors and first home buyers. That should give developers a degree of confidence to sustain the future pipeline of new projects. But given all of the other pressures in the industry – e.g. materials availability/cost, labour shortages – it wouldn't be a surprise to see building activity slowdown in the coming 6-12 month, albeit from a high base.

Overall, the property market is clearly now into a very different phase than we've seen for several years, with sales volumes low and values falling outright. That said, provided that unemployment remains low (i.e. in the range of 3-4%), this should remain a correction for the property market rather than a serious slump. But recession risks certainly haven't dissipated altogether, and any signs of a rise in unemployment need to be watched closely.

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

The value of residential property across the country as at Q2 2022 was $1.69T, so with mortgages secured against 20% of that value, the other 80% of the property market is household equity. This is an important point to note, as it highlights a degree of resilience in the system – i.e. there are many property owners who don't actually have debt. Of course, those who do have mortgages tend to have larger average debts than before, and this makes these households very sensitive to the current rising mortgage rates.

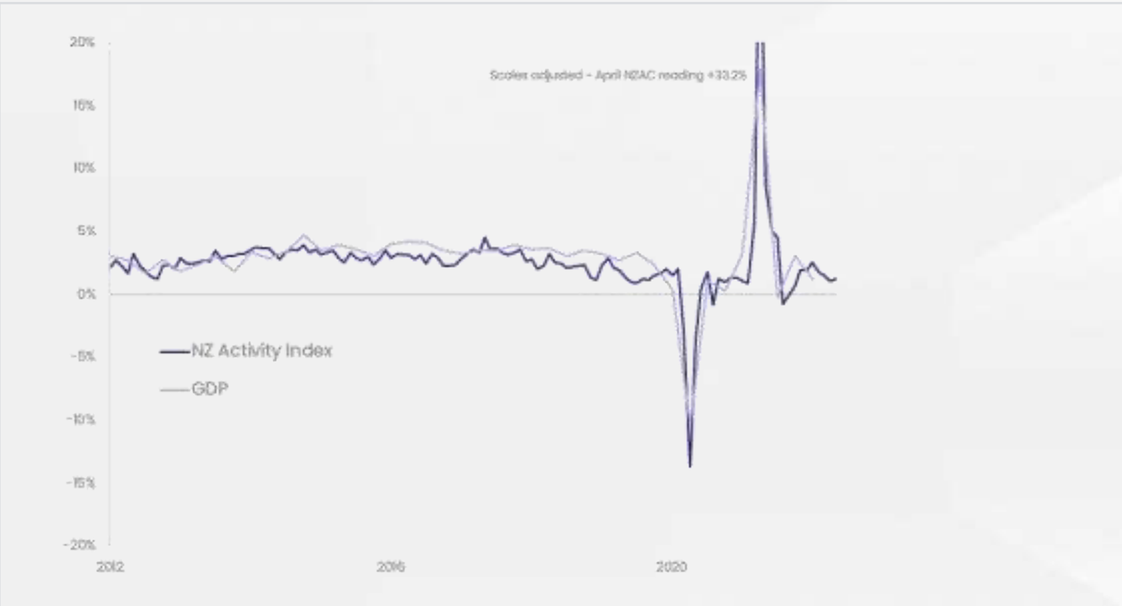
Meanwhile, it's been a volatile past few months for other asset classes too, with the value of New Zealanders' KiwiSaver balances declining, as well as the overall NZ Super Fund, on the back of falling share markets. From early January's peak, the NZX50 has drifted lower pretty much throughout 2022 so far, dropping by about 15%.

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

NZ & Australia GDP Growth

Annual Average GDP Growth (%)

The NZ economy returned a disappointing result for Q1 2022, with GDP declining by 0.2% from Q4 2021. Most analysts had been expecting 0% at worst, so to have a fall in GDP took many by surprise, and has reinforced fears about a possible recession, and upwards risks to the unemployment rate. Clearly, this would a major concern for the property market, given that interest rates also continue to rise.



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

That said, based on timely data for the second quarter of the year, a technical recession (two consecutive quarterly falls in GDP) may not be on the cards just yet. For example, although consumer and business sentiment remains subdued, the NZ Activity Index has shown reasonably steady (albeit subdued) growth over April and May. However, even if we avoid a technical recession, the average household may still consider conditions on the ground to be 'recessionary', given rapid living cost increases.

 Sources: Reserve Bank of New Zealand, Stats NZ

NZ Population & Migration

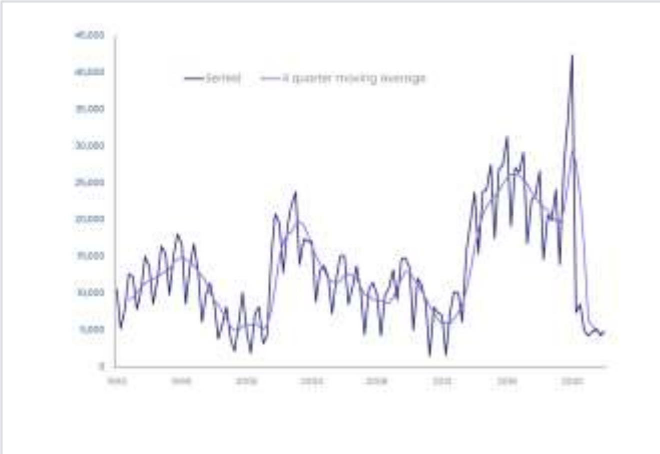
In the year to March 2022, NZ's population only rose by 19,200 people, to hit 5.13m. That equated to a 0.4% rise, the same figure we've seen for the past four quarters in a row (and Q1 2021 was only a touch higher, at 0.5%). For comparison, in the year to Q1 2020, the increase was 2.4%, or 117,500.

The natural rate of population growth (i.e. births minus deaths) remains pretty steady, at around 26,500 on an annual basis. Therefore, as has been the case for a while now, it's net migration that has dragged down the overall population growth figure, and in the year to Q1 2022, the migration figure was -7,300. Again for comparison, in the year to Q1 2020, net migration into NZ totalled 91,700.

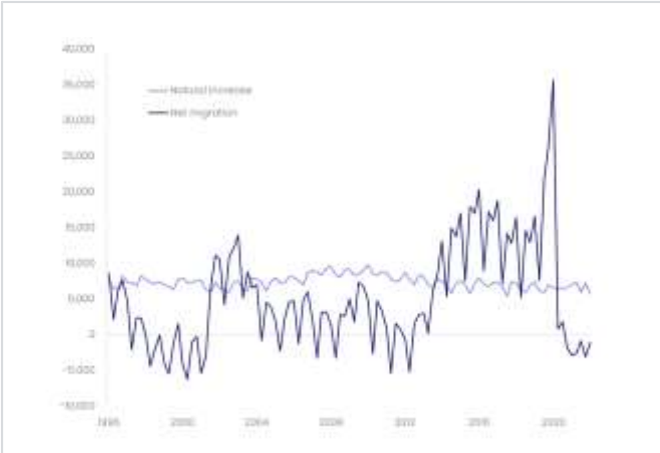
Given the wider COVID issues and closed borders in recent years, of course none of these population trends come as a surprise. But as the borders now reopen again, the different patterns will need to be watched closely.

Indeed, it seems likely that inflows of new residents to NZ will start to rise again, as global migration flows pick up. But in terms of the effect on our housing market, what really matters is the *net* migration figure. And given that many current residents have already started to head overseas for their OE or longer, that net migration figure may not rise all that much. Certainly, it doesn't seem likely to return to pre-COVID levels anytime soon.

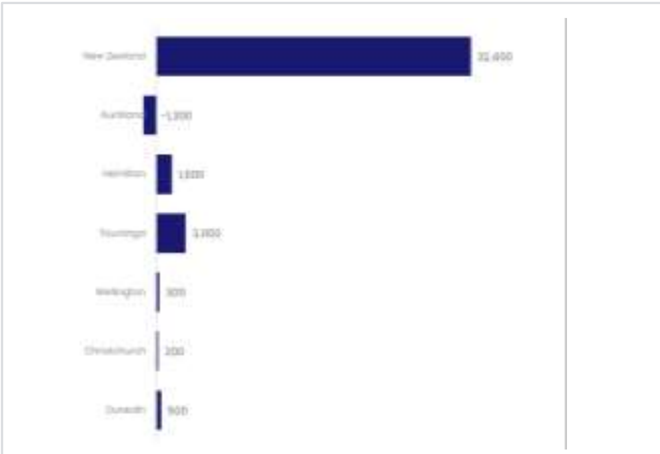
Quarterly Change in National Population (persons per quarter)



Population Change Composition (persons per quarter)



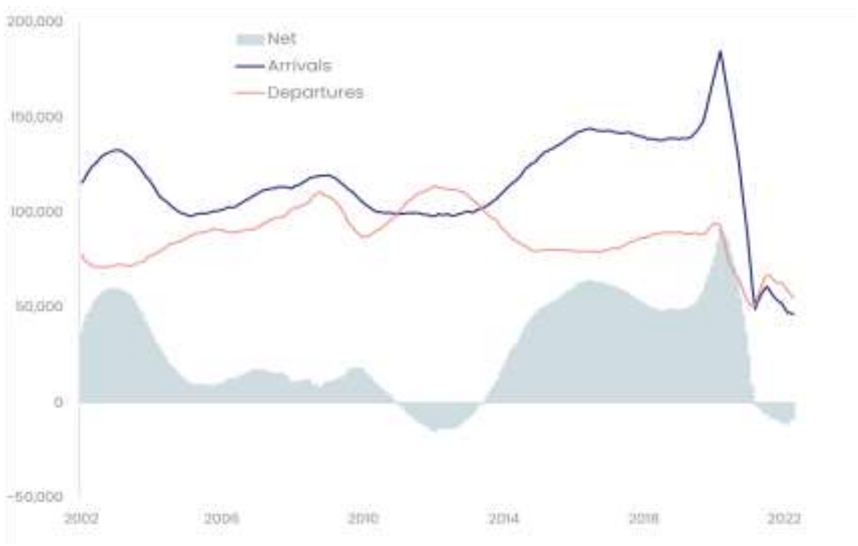
Population Change Composition (persons per quarter)



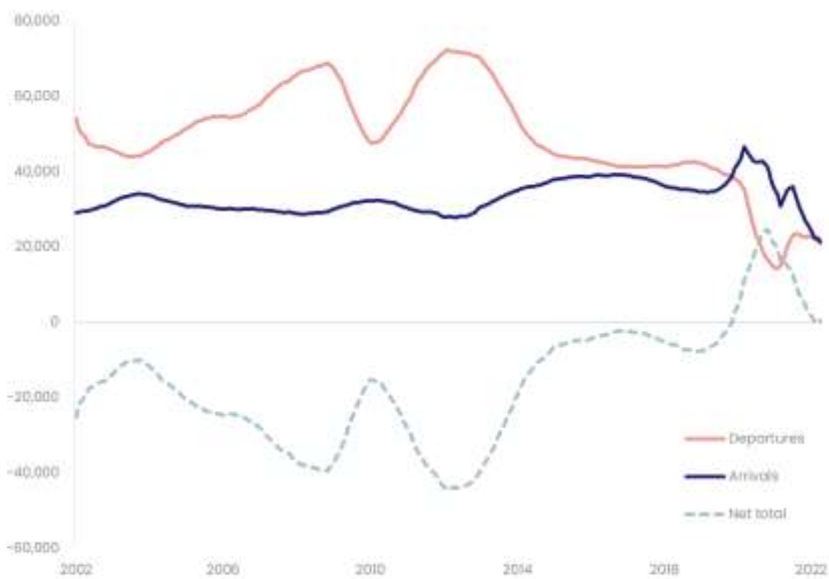
Source: Stats NZ

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 continue to hover at around 50,000 on an annual basis, with a lot of this strength being driven by smaller dwellings, especially townhouses, which have recently risen to more than half (51%) of all new consents – a record high. In Auckland, that proportion has recently topped a level greater than 70%. 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.

In the meantime, smaller dwellings will obviously require fewer materials than standalone houses, but there are just so many being put through the system that there's still been no respite for the stretched materials supply chain – nor for labour capacity. And in turn, this is showing up as continued pressure on overall construction costs, especially when you also allow for alterations/renovation work, and non-consented activity too.

Looking ahead, it seems likely that new dwelling consents will start to tail off, as cost pressures deter some households from going down the new-build path and as credit conditions remain restricted (and mortgage rates rise). However, given the pipeline of consents already approved, there's still likely to be a steady flow of actual houses being completed for a while yet – provided that builders can actually get materials, such as plasterboard.

Longer term, we'd be a bit more confident than in the past that the wider construction industry won't go from boom to outright bust. After all, the loan to value ratio rules and tax system now favour new-build property, both for owner-occupiers and investors. A higher 'normal' level of demand for new property than we've seen in the past should give developers confidence about future market conditions.

Source: Stats NZ

Consumer Confidence

ANZ-Roy Morgan Consumer Confidence (Index, Monthly)

Consumer confidence has remained very weak in the past few months, and there aren't many compelling reasons to think that it will turn around markedly anytime soon either. After all, global tensions remain high, the cost of living is soaring, recession risks are lingering (which could cause some job losses), and the weakening housing market will be dampening sentiment too.

The housing market itself is also both a contributor and sufferer in this scenario. After all, house price falls will be undermining household confidence, which then tends to feed back into even softer trends for property values. For now, the low unemployment rate is a large support. But we'll be watching closely for any signs of job losses starting to come through.

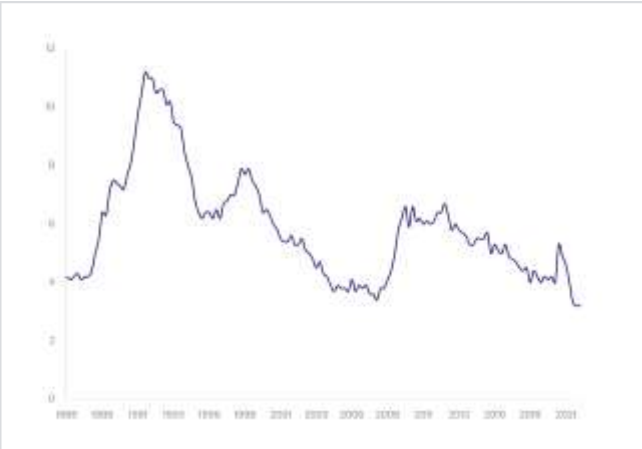
 Source: ANZ, Roy Morgan

Employment

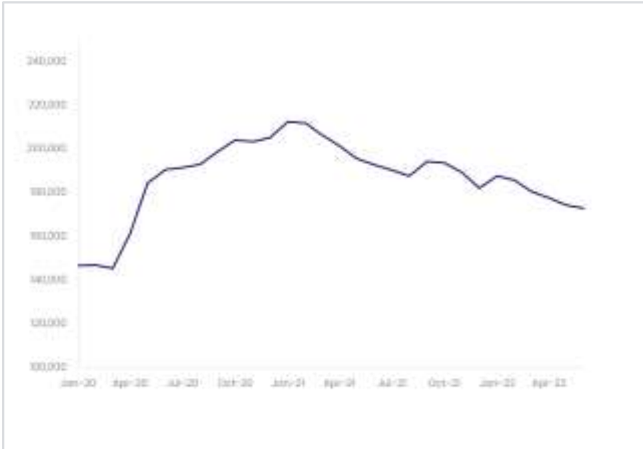
Annual Change in Employment

Labour Force Participation Rate (%)

Unemployment Rate (%)



Number of Jobseeker Support Claimants



The labour market has remained strong in recent months, and this is a key support for the property market. In the year to Q1 2022, employment rose by 2.9%, or by around 81,000 people. The latest figure was a bit slower than the 3.6% gain the year to Q4 2021, but this isn't necessarily reflecting a lack of demand for new employees – it's probably just as much about a lack of skilled workers and employers unable to easily find the staff they want (i.e. supply-side issue).

Indeed, it was also reassuring that the overall growth was driven by full-time employment, which rose by 3.8% in the year to Q1 2022, as strong as it's been for at least 4-5 years. Part-time employment actually fell by 0.7% in the year to Q1 2022, but the positive angle on this is that some part-time workers will have shifted into full-time roles.

Meanwhile, the labour force participation rate remains high, at about 71%, representing the share of working age population who are either in work or actively seeking a job.

That said, not many people are actually unemployed. This rate currently stands at just 3.2%, unchanged from Q4 last year, and the lowest figure on record (with the data stretching back to 1986). The number of JobSeeker Support claimants also continues to trend downwards. On the back of all of this, there are signs that wage growth is also starting to pick up.

Looking ahead, the reopened borders should help to ease some of the skills shortages for employers and keep the filled jobs numbers rising. However, it needs to be kept in mind that some current residents will be looking to head overseas, which would push in the other direction for skills supply. Meanwhile, the economic outlook still remains shaky, and a recession can't be ruled out. That would tend to raise the risks of hiring freezes and even actual job cuts – clearly a threat to the property market that can't be ignored.

Interest Rates

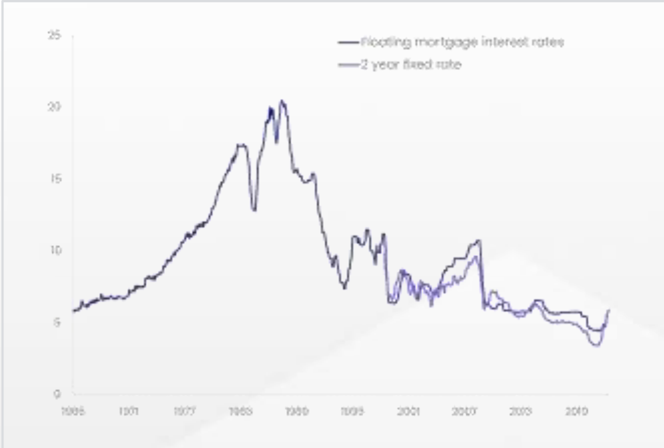
Mortgage rates are up, and from a trough of around the 2-2.5% range (depending on exact structure/duration of the loan) in the middle of last year, it's fairly typical for new loans to be done at 5.5-6% now. That can no longer be considered 'low by past standards', but moreover, we've always noted that they key point is the proportional change anyway – and this doubling (or more) in mortgage rates in the past year or so is a major issue for the housing market.

To be fair, there are some doubts that the Reserve Bank will need to push the official cash rate all the way up to 4% (as it's currently projecting), because the economy and inflation may start to slow more significantly in a timelier fashion. And competitive pressures in the banking industry – with market share for existing borrowers/refinancing very important when new lending is slowing – may also cap the extent to which mortgage rates ultimately rise (albeit 'relief' may come in the form of cashbacks or similar, rather than headline rates).

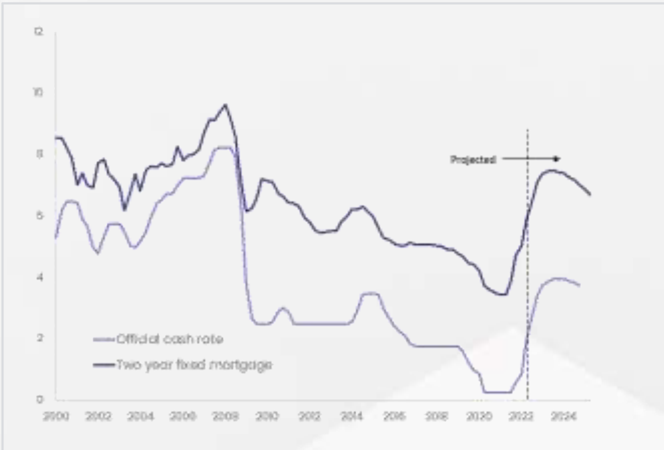
However, there are also risks in the other direction – e.g. high inflation overseas could sustain the pressure on wholesale money markets, pushing up fixed mortgage rates here, even if the Reserve Bank eases back on monetary tightening. Meanwhile, we also now have the RBNZ embarking on a reversal of the Large Scale Asset Purchase Programme, and also the banks adjusting to new capital requirements over the coming 5-7 years too.

In the end, then, mortgage rates are unlikely to have peaked yet, and this reduces how much finance new borrowers can get. And with about 48% of existing loans fixed (on low rates) but due to reprice in the next 12 months (onto higher rates), there is plenty of pressure ahead.

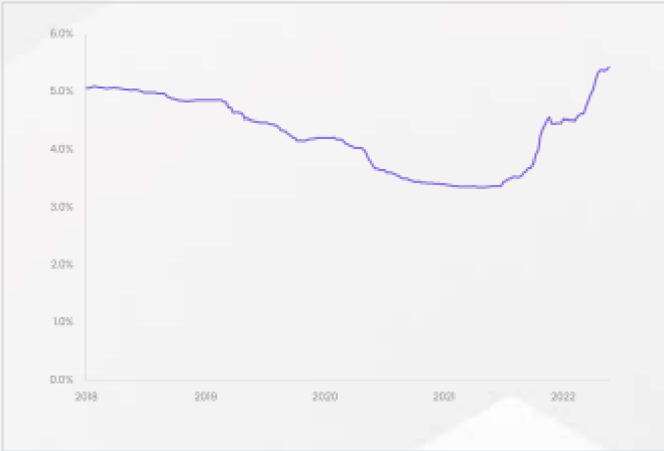
Mortgage Interest Rates (%)



Official Cash Rate & Mortgage Rates (%)



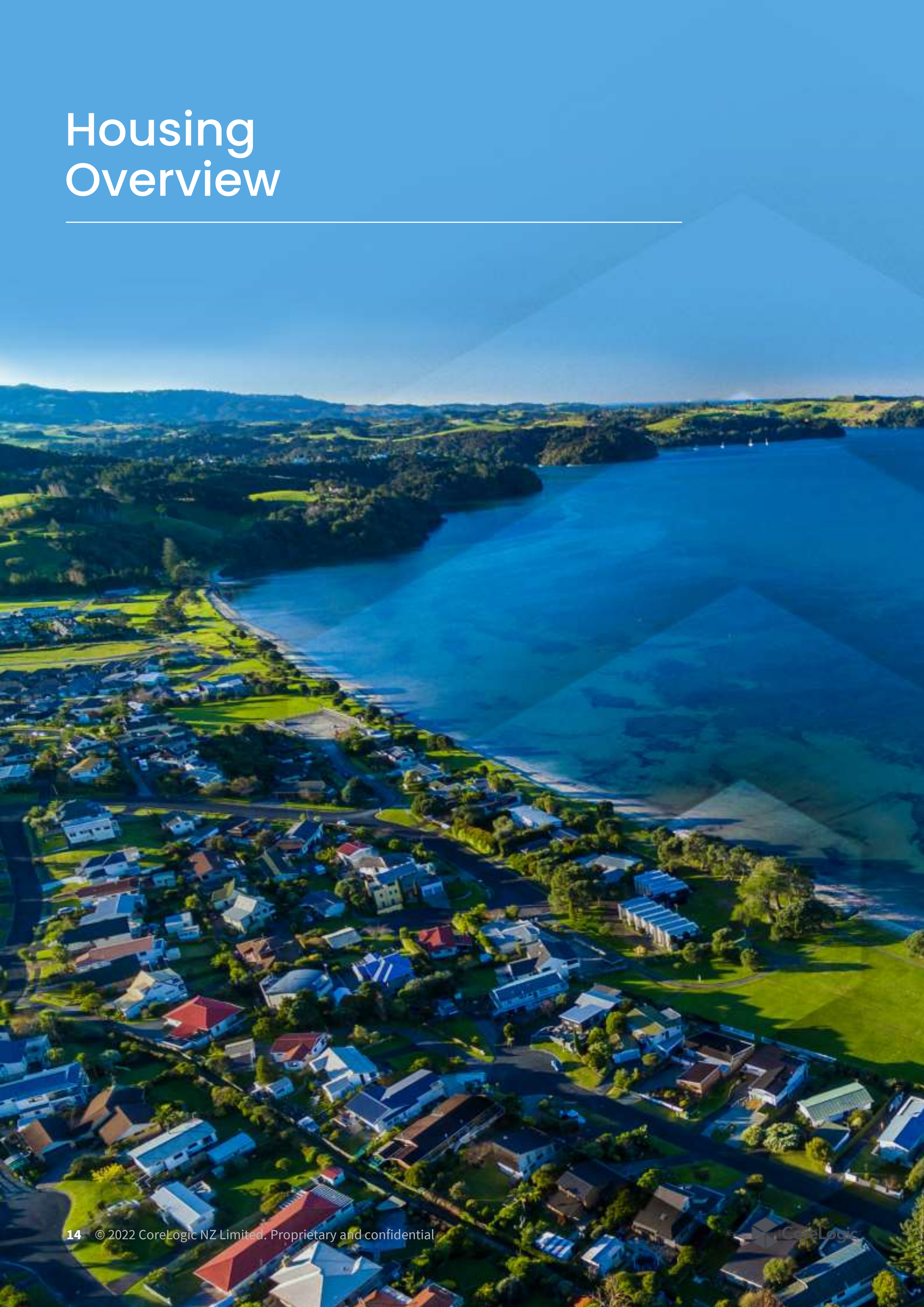
Average Two-Year Fixed Rates (%)



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

CoreLogic

Housing Overview



Listings

Weekly Flow of New For-Sale Listings

Total for-sale listings on the market

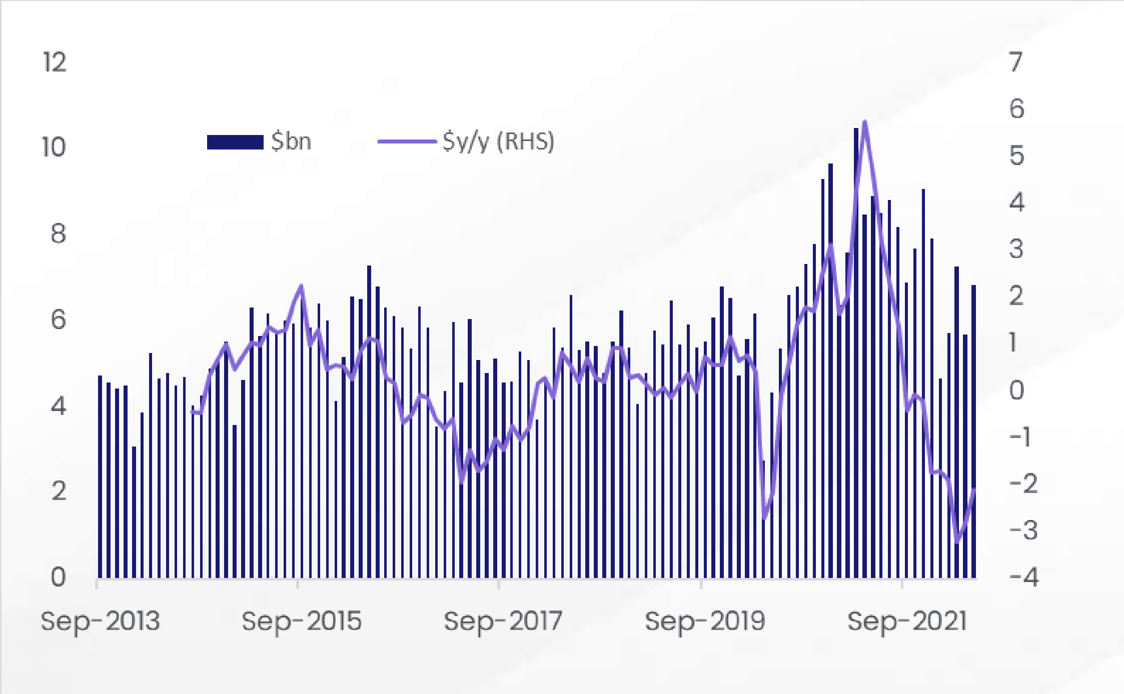
In the past few months, new listings flows each week have remained fairly normal for the time of year – i.e. they've been in their normal Winter lull, and tracking at similar rates to previous years. In other words, there's no evidence of a big rush to sell, either by owner-occupiers or investors.

In the meantime, of course, agreed sales at the other end of the pipeline have been low (and taking longer too), and this has allowed the total stock of listings on the market at any point in time to be replenished. Active buyers, who have managed to secure a mortgage or have a higher equity/cash base behind them, know that they have more choice and have seen the pricing power shift firmly in their favour.

In terms of what happens next, there are a couple of points to keep an eye on. First, it's the labour market – for as long as unemployment stays low, 'forced sellers' won't be much of a feature and this will limit the extent to which house prices might ultimately fall.

However, we'd also be mindful of the possibility that some existing landlords start to bring a few more properties to the market in Spring, as they reassess the economics of low gross rental yields versus rising mortgage costs (and greater appeal of other asset classes, such as term deposits), and also the reduced prospect of capital gains over the next few years.

Lending Conditions



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

Aggregated mortgage lending data from the Reserve Bank (RBNZ) showed a weak level of activity in May. The total value of gross lending – which covers new loans but also top-ups and bank switches – was $6.8bn, down by $2.1bn (23.6%) from the same month last year. If anything, the number of loans has been even weaker in recent months. The falls in lending activity lately have reflected weakness for both owner-occupiers and investors.

Meanwhile, the RBNZ figures also show a split by loan type, i.e. interest-only (I-O) versus principal repayment, and there have been some really interesting trends here lately too. For example, the share of I-O loans amongst the new lending flow has been relatively stable for investors in the past 3-6 months but drifting lower for owner-occupiers, and both are at lower figures than in the past – e.g. 40% recently for investors, compared to >50% in mid-2015.

Moreover, interest-only lending has been on a gradually declining trend amongst the existing stock of loans too, as it becomes a bit harder to get a new I-O loan but also existing borrowers are switched to a principal repayment schedule. Some of this may have been a choice too – in particular, as mortgage interest deductibility is phased out for investors, there is now a stronger incentive to reduce the size of the loan at a faster rate.

As per usual, a lot of our focus is on the breakdown by loan to value ratio (LVR). After a bounce-back in April, the share of lending to owner-occupiers at a high LVR (or <20% deposit) continued to increase in May, from 6.1% to 7.7% – a five month high. From a bank's perspective, that may now be getting uncomfortably close to the mandated 10% speed limit, and indeed several main lenders have recently announced a temporary pause on high LVR loans.

Of course, it's not just the supply of mortgage credit that has been tightening up lately, it's also obviously the cost. 'Special' (high equity) new mortgage rates (from RBNZ data) have risen sharply from their trough – up by 2.9% on a one year rate, and by 3.3% on five year rates – with more increases potentially to be seen in the coming months too.

 Source: Reserve Bank of NZ

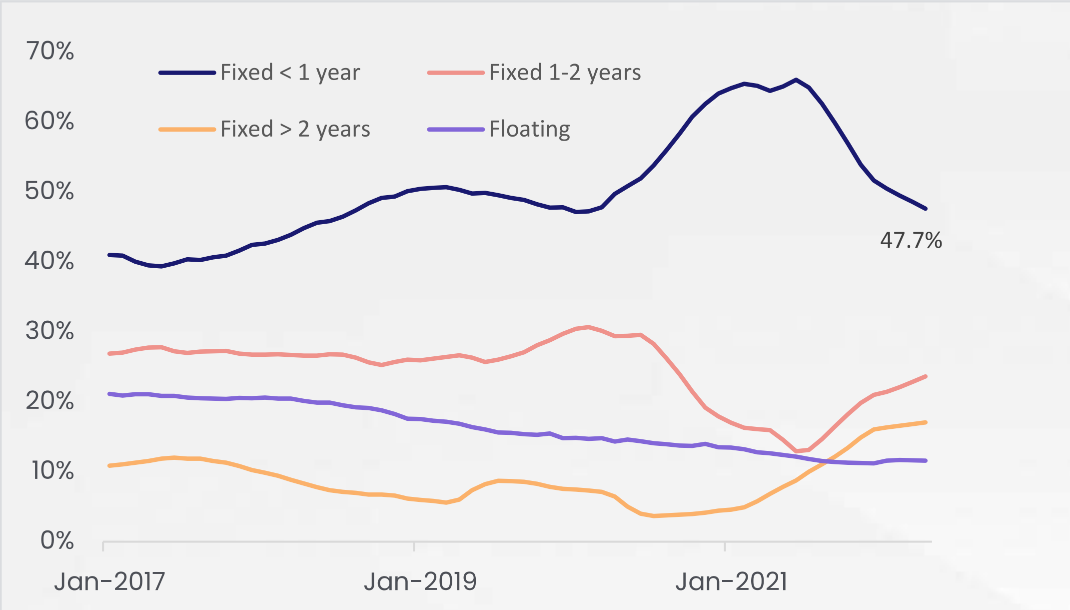
Lending Conditions

High LVR Lending (% of new lending)

But even that's only part of the story. With about 48% of existing loans (by value) currently fixed but due to reprice in the next 12 months (and 12% floating), the full effect of higher mortgage rates is yet to be felt. To be fair, there are plenty of doubts circling that the official cash rate will need to rise all the way from 2% to 4%, as the RBNZ is currently indicating – e.g. because the economy may start to weaken much sooner, and this would tend to pull down inflation to some degree. In addition, a slower overall property market means that banks are likely to have a keen eye on market share, with these competitive pressures also potentially capping the extent to which mortgage rates might ultimately rise.

Even so, there are clearly still some testing times ahead for mortgaged households, as well as the wider economy and property market. A key theme for the next year or so will be that combination of the refinancing wave hitting up against higher mortgage rates themselves.

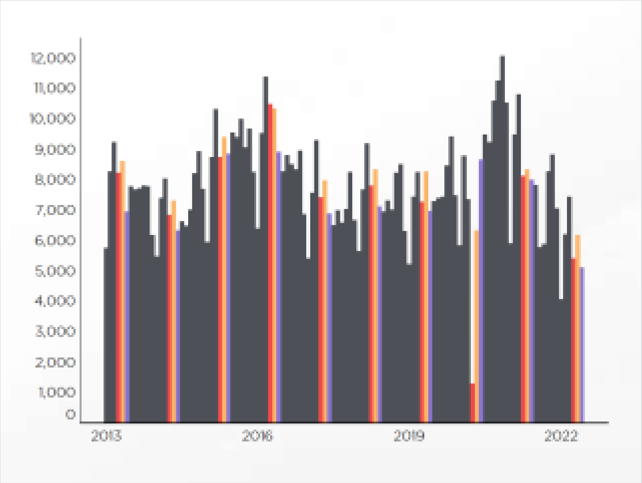
Refinancing Profile for Mortgages (% of stock)



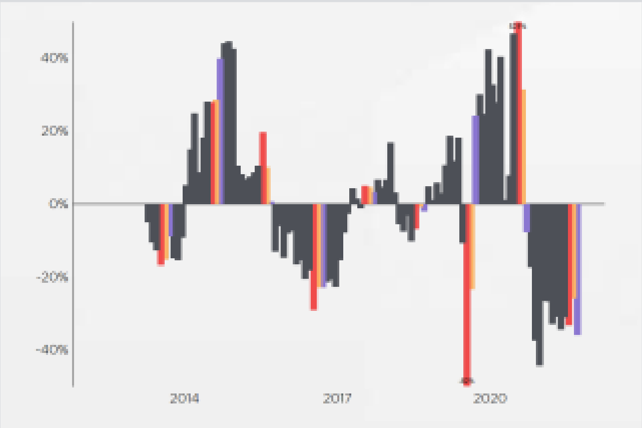
 Source: Reserve Bank of NZ

Sales Volumes

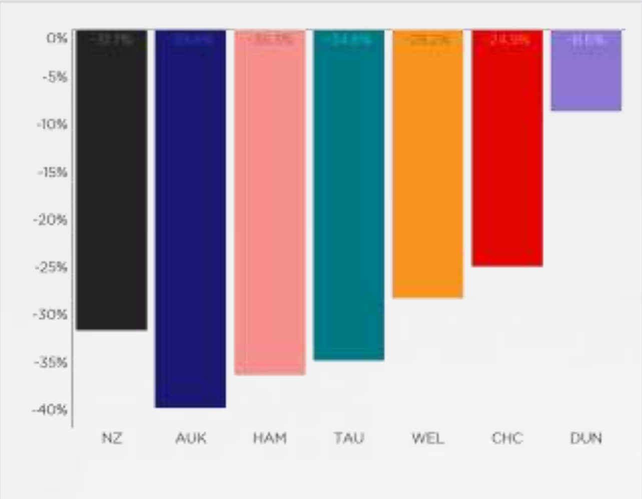
Nationwide Sales Volumes (monthly total)



Nationwide Annual Change in Sales Volumes (%)



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

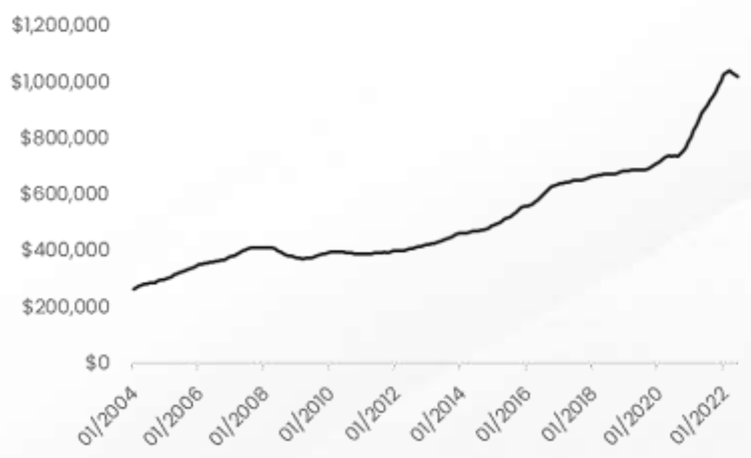


The sharp decline that we've seen for property sales activity so far in 2022 has shown few signs of letting up in the past 2-3 months. Indeed, you have to go back about a decade to find a softer period for sales volumes than we've seen this year to date. Days to sell has also risen, as vendors aren't generally being forced to sell and buyers aren't in any rush either – knowing that they have the pricing power and plenty of choice amongst the existing stock of listings.

Looking ahead, the rest of 2022 and into 2023 looks set to remain a testing time for market activity levels. After all, the economy remains a little fragile, net migration could stay relatively subdued (even as the borders fully reopen), and on top of that, credit conditions remain restricted and mortgage rates continue to rise. All of these factors point to further downwards pressure on property sales.

On the plus side, at least the CCCFA rules are easing, and this may allow some more people to access the market who might otherwise have been turned down for a loan. But we doubt that this will be a game-changer, and our projection is for total sales this year of around 78,000, down from 94,000 in 2021.

Values



Average Value of Housing Stock - New Zealand ($)

Property values have now fallen for three months in a row and the peak has now well and truly passed – the average now stands at $1,018,770, which is down by 2.3% from the peak, or around $24,500. The quarterly change for the three months to June was -2.3%, the worst since February 2009, while the annual growth rate has also slowed to 12.4% (lowest since December 2020).

It's not hard to find the reasons why property values across the country are now in a downturn – these include more listings (and shift in pricing power towards buyers), the tighter mortgage lending environment, and sharply higher interest rates. This weaker phase for the property market looks set to continue into 2023, and even when the floor is reached, the experience of the GFC was that it took another 2-3 years for the next upswing to start.

Annual and Quarterly Change in Value (%)

House Price Index

The falls in property values in recent months have been pretty widespread across the country, with most areas seeing a decline to some degree.

Around the main centres, the falls in the past three months have been largest in Auckland (-4.9%) and Wellington (-4.7%), while Tauranga and Dunedin have been closer to the -2% mark, and Hamilton is down by 1.2%.

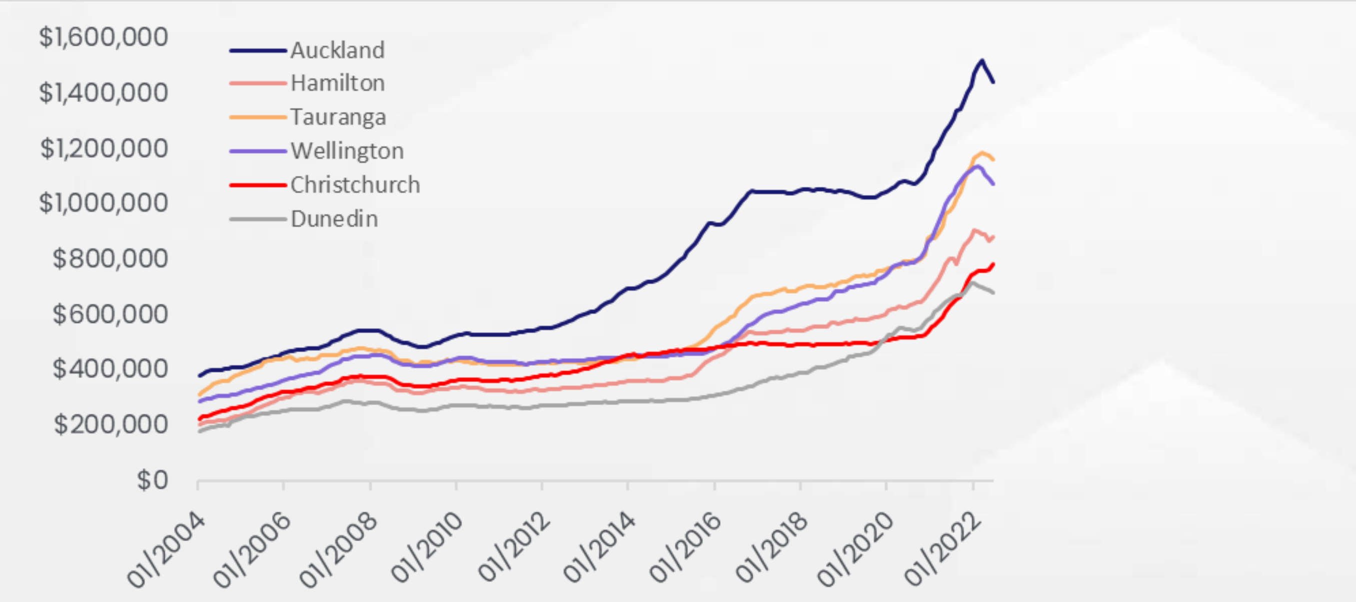
However, Christchurch stands out for having seen values continue to rise over the past three months – up by more than 3% since June. Clearly, just like the others, this market is also affected by reduced credit supply and higher mortgage rates.

But Christchurch has affordability on its side (owing to a smaller upswing in values over the past 3-5 years), which to date has insulated it from falls.

Elsewhere, other examples of ‘fallers' in the past three months include Hastings (-3.9%), Napier (-2.7%), Whanganui (-2%), Palmerston North (-2.3%), and Invercargill (-1.9%). Again, however, there are still pockets of increase, such as New Plymouth, which has seen average property values rise by almost 3% since March.

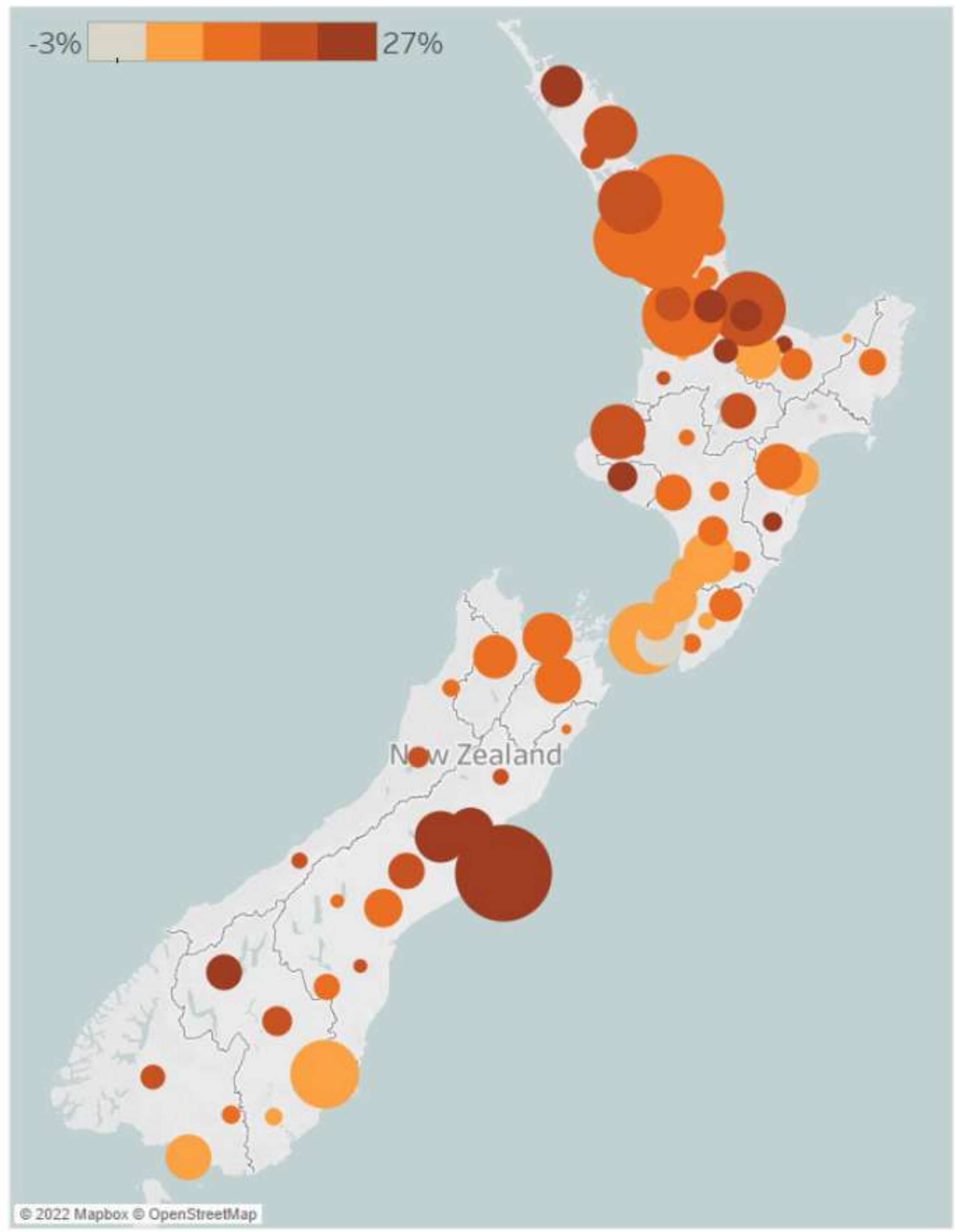
Overall, we're clearly now into a very different phase for the property market, with values no longer rising inexorably. Indeed, the downturn may run on into 2023.

Average Dwelling Value ($)



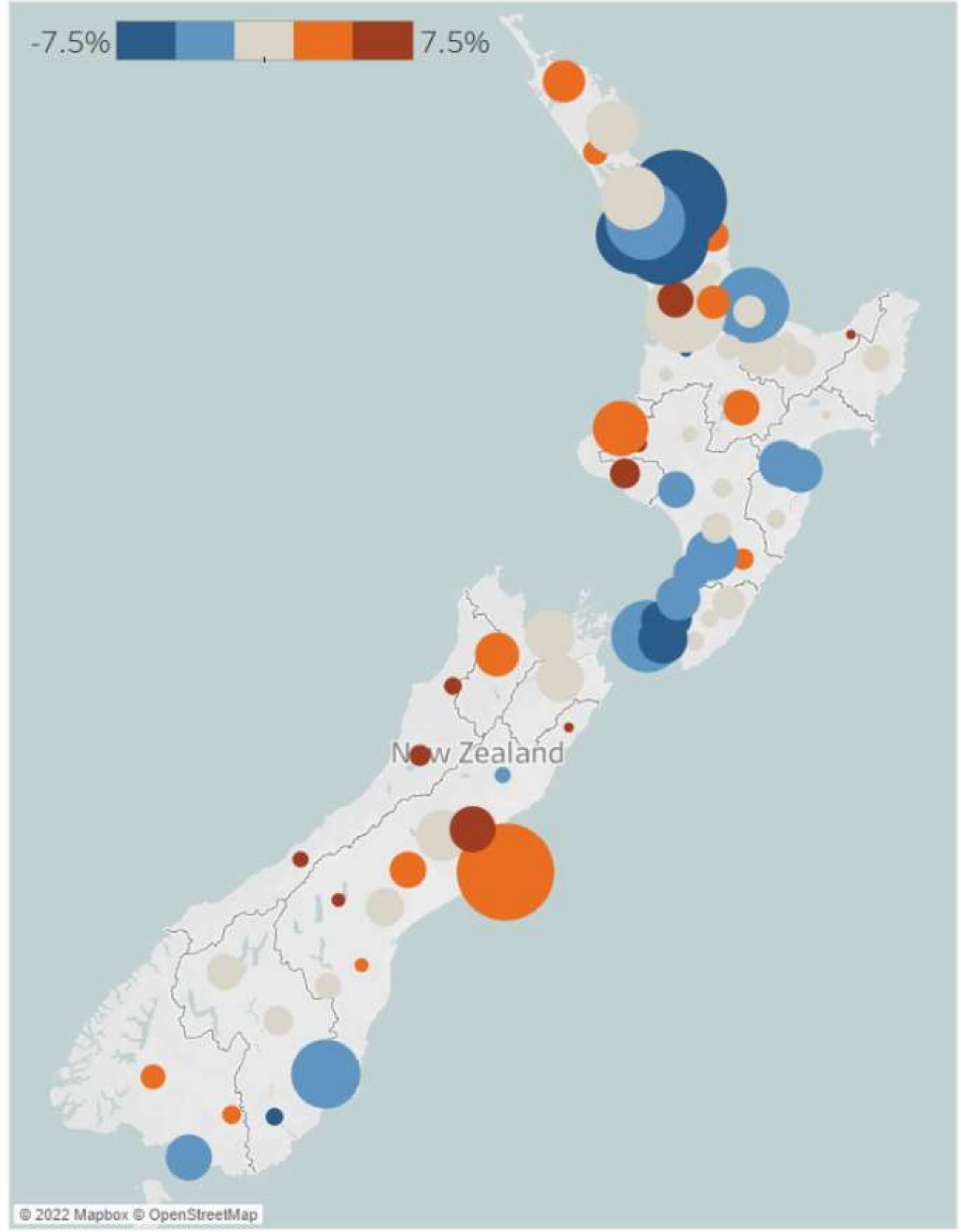
	JUNE 2022 Current value	1 month	3 months	12 months	5 years
New Zealand	$1,018,770	-0.8%	-2.3%	12.4%	56.6%
Auckland	$1,445,624	-1.9%	-4.9%	12.6%	38.4%
Hamilton	$880,947	1.8%	-1.2%	9.9%	63.3%
Tauranga	$1,164,444	-1.2%	-1.8%	19.1%	69.4%
Wellington	$1,075,676	-1.5%	-4.7%	5.0%	75.4%
Christchurch	$783,215	2.6%	3.3%	24.1%	57.8%
Dunedin	$682,108	-1.4%	-2.4%	4.1%	81.7%

House Price Index



Annual Value Change (%)

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



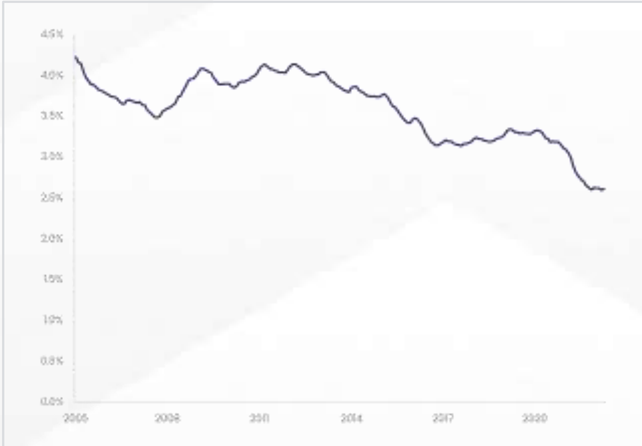
Three Month Value Change (%)

Indeed, the timelier three-month change is much more useful at present, and it illustrates the turning point pretty clearly. Since March, average values have dropped across many parts of NZ, including Auckland, Wellington, and Dunedin. But there are still pockets (e.g. Canterbury) where values have held up better.

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 been a little ‘jumpy’ in the past few months – e.g. accelerating from 5.8% in March to 6.9% in April, but then slowing back again in May, to 5.3%.

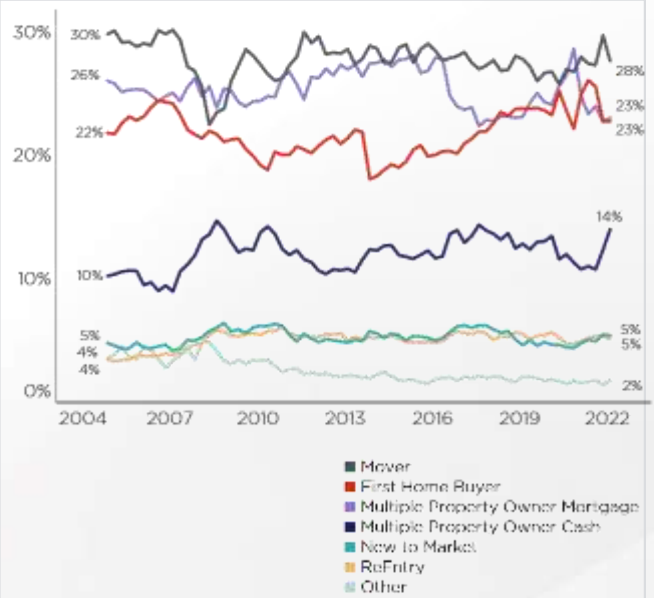
Even so, the key point is that rental growth remains uncomfortably high for tenants, given that the long term average is closer to 3%. Of course, from a landlord’s perspective (provided that they keep their tenants), the current conditions are in their favour, as they try to recoup increased costs such as higher mortgage payments and tax bills (from the phased removal of interest deductibility).

Looking ahead, rental growth may stay fairly strong in the near term, but eventually it is likely to slow, as more tenants hit their affordability constraints – indeed, in the long run, wage growth seems to be the anchor for how fast rents can rise.

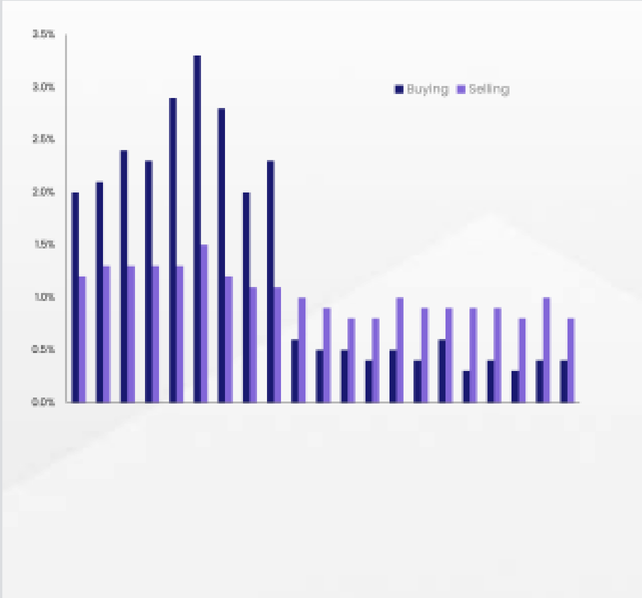
That could again alter the economics of the game for new investors, who may already be looking hard at their sums – given that capital gains have faded, yields are low, and that costs have risen. The situation is different for existing landlords, who may have paid quite a bit less for their property if they’ve been investing for several years, but even here, higher mortgage rates may see some landlords looking to sell in order to consolidate/manage their debts.

Buyer Classification

Buyer Classification – New Zealand (% of purchases)



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



The recent Buyer Classification data has shown some fairly stable patterns for first home buyers (FHBs) and mortgaged multiple property owners (MPOs), a slight dip for movers, but an increased market share for cash MPOs. In the current environment of tougher credit conditions and higher mortgage rates, it's logical that buyers with a greater equity base would be seeing a higher market presence (albeit amidst the fall in the number of sales).

Starting with FHBs, their share of property purchases across NZ has held fairly steady at 23% lately, at a lower level than we saw in late 2021 (26%). The reasons for lower FHB market share this year are easy to find – such as stretched affordability, tight availability of low deposit mortgages, the CCCFA changes, and no doubt an active pull-back from the market by some would-be FHBs as they try to hunt out a bargain later down the track.

For mortgaged MPOs, the share of purchases has also been flat at 23%, pretty much where it's been for the past 3-4 quarters now, following the cyclical peak of 29% in Q1 2021 – prior to the 40% deposit requirement and the removal of interest deductibility. Of course, while mortgaged MPOs share is lower than it used to be, it's still worth noting that they haven't deserted the property market altogether – almost 1 in 4 buyers are still in this category, with some investors/MPOs clearly able to find enough convincing reasons to buy property, with higher yielding stock and/or new-builds potentially a target.

Meanwhile, for movers (or relocating owner-occupiers), if anything the past few months have been a bit softer for market share – coming in at 28% in Q2, a bit weaker than Q1 (30%). Even though there is plenty more choice now available for would-be movers, some may have started to think twice about what higher mortgage rates might mean for their finances if they 'traded up' and took on more debt. There may also be concerns about whether or not they can sell their current property too.

But perhaps the most striking change in recent months has been for cash multiple property owners, with their market share rising from as low as 9% in October last year to now sit at 14%. Admittedly, there are some important caveats here. For example, some of these purchases may not really be cash – instead just made using the funds freed up by reshuffling (increasing) debt on other properties in a portfolio. Moreover, it must also be noted that the number of purchases being made by cash MPOs has fallen – it's just that the decline has been smaller than for the other buyer groups, meaning that their % market share has risen.

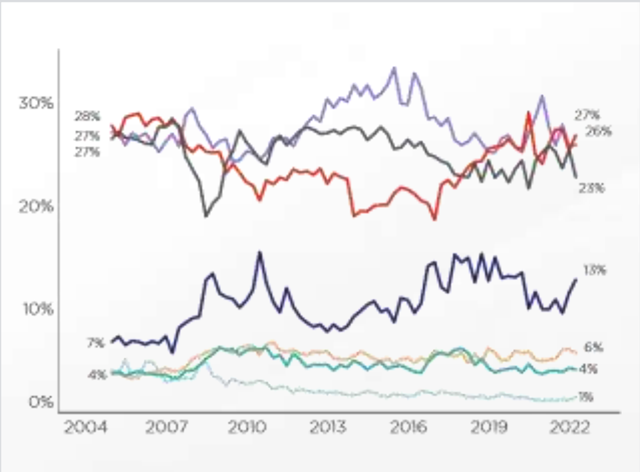
But even with these caveats in mind, in an environment where credit is harder to secure and mortgage rates have risen sharply, as well as some potential 'bargains' starting to emerge, it stands to reason that people with larger equity bases and/or buying with cash would be enjoying the current conditions.

 Source: Statistics New Zealand

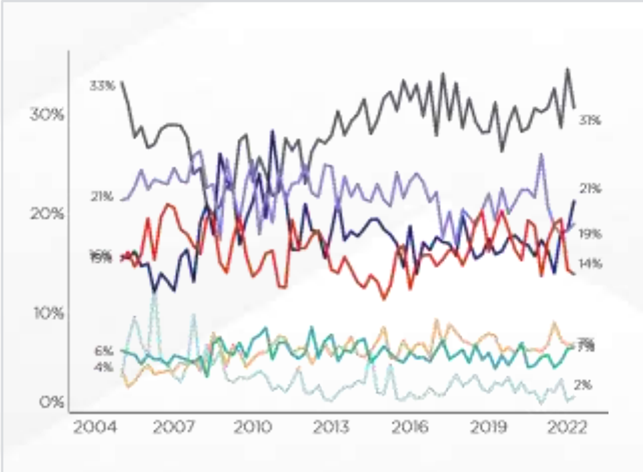
Main Cities Housing Market Indicators

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

In Auckland, despite average property values being a lot higher than many other parts of the country, first home buyers continue to fare relatively well, with a 27% share of purchases over the past few months. That's lower than the figures seen in late 2021 (28%), prior to the tightening of the LVRs in November and CCCFA in December, but the drift downwards hasn't been particularly significant. No doubt some FHBs in Auckland are compromising on property type and/or location in order to get their first house.

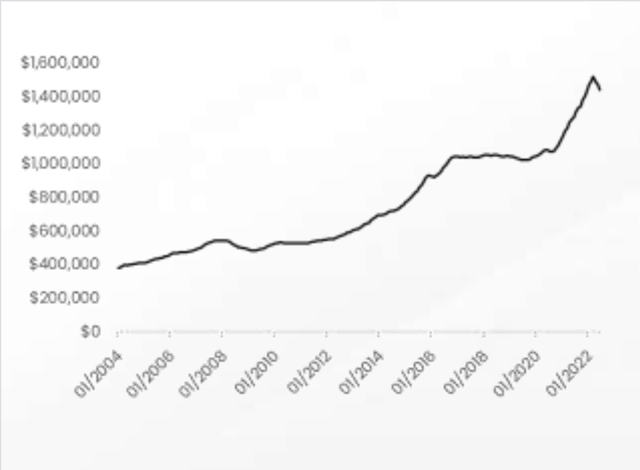
Meanwhile, mortgaged multiple property owners (MPOs) have had a 26% share of purchases in the past few months – which is down from the peak of 31% back in the first quarter of 2021 (prior to tax and deposit changes), but again not a complete slump. In other words, although mortgaged MPOs have less presence than before, they haven't deserted the Auckland market altogether.

Movers, or relocating owner-occupiers, remain a reasonable presence in the Auckland market, albeit their 23% share of activity is less than those other two key groups. And finally, it's interesting to see that cash multiple property owners have increased their share of activity in Auckland from 10% late last year to around 13% now.

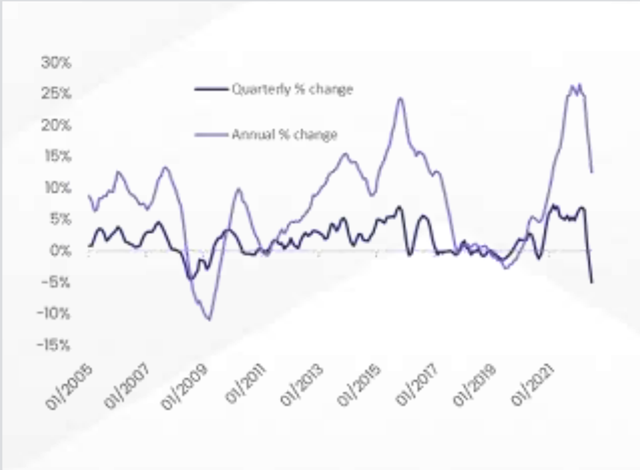
Of course, when assessing all of these % market share figures, we'd reiterate that the shifts are occurring within an overall quieter market (i.e. the *numbers* of deals are down).

Auckland Values

Average Value of Housing Stock Auckland ($)



Annual & Quarterly Value Change Auckland (%)



If anything, Auckland has been near the forefront of this emerging downturn in property values, with a decline in the overall average of almost 5% since March.

In June itself, values declined across the board, albeit only by a small amount (-0.1%) in Papakura. But the rest of Auckland's sub-markets were down by around 1% or more, with North Shore, Waitakere, and Auckland City actually down by more than 2% in that month alone.

When you add April and may into the mix, the declines over the past three months have topped 6% in Auckland City, 5.5% in Waitakere, and 4-5% in North Shore and Manukau. Rodney and Franklin have held up a little better since March, with smaller falls perhaps reflecting better demand for the different mix of properties in those areas.

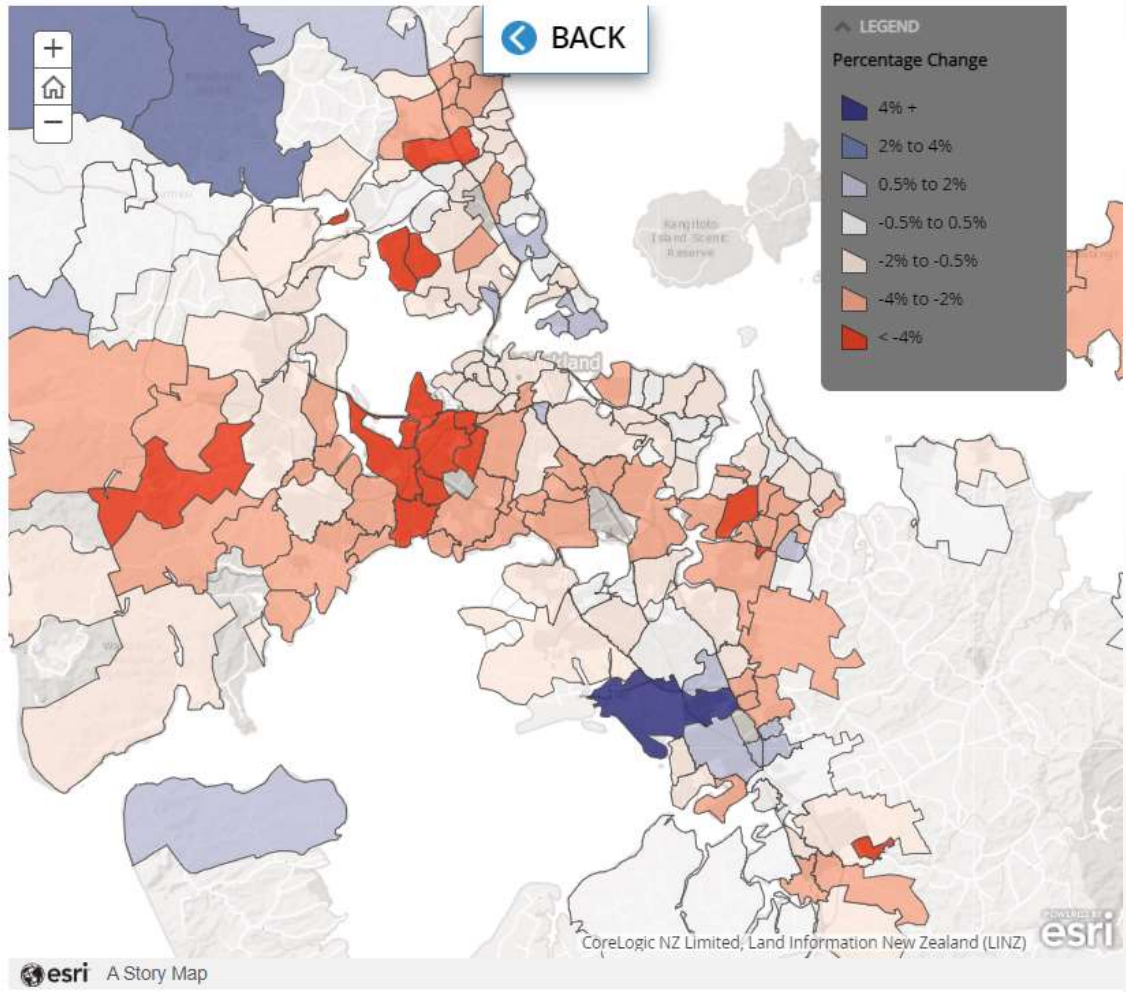
Meanwhile, Papakura hasn't fallen as much as elsewhere either, which may reflect its lower starting point for property values – or in other words, potentially slightly better affordability.

Broadly speaking, there's likely to be further downwards pressure ahead for Auckland property values. After all, values are generally still high in relation to incomes, and Auckland has of course had (and is still having) a large construction boom, especially for infill townhouses , which is correcting the previous supply/demand imbalance.

To be fair, we doubt that a significant oversupply of property will emerge in Auckland anytime soon. But there are still forces in play for values to keep falling.

	JUNE 2022 Current value	1 month	3 months	12 months	5 years
Rodney	$1,409,251	-0.7%	-0.8%	17.8%	47%
North Shore	$1,604,040	-2.1%	-4.3%	10.1%	33%
Waitakere	$1,159,214	-2.1%	-5.5%	11.1%	41%
Auckland City	$1,656,359	-2.1%	-6.2%	10.9%	35%
Manukau	$1,305,272	-1.7%	-4.7%	14.6%	45%
Papakura	$1,070,975	-0.1%	-1.3%	19.5%	58%
Franklin	$1,026,058	-1.4%	-1.9%	19.3%	54%

Current Suburb Values: 'Mapping the Market'



Auckland suburb median values June 2022 ($)

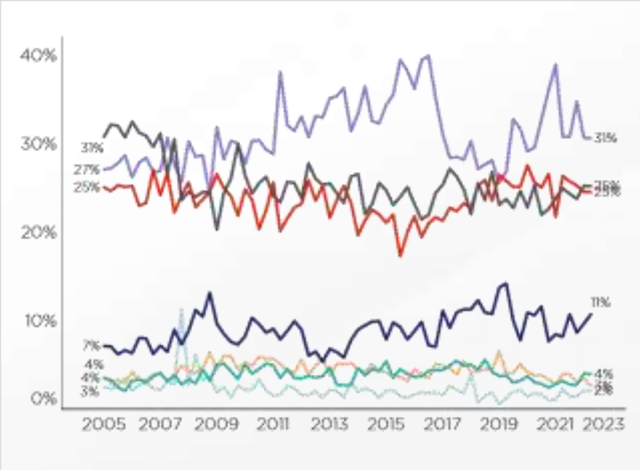
CoreLogic's interactive 'Mapping the Market' product shows the changes in median property values by suburb over the past three months, it's freely available and updated quarterly. The heatmaps in 'Mapping the Market' are point-in-time snapshots of median values from 2021 and 2022, and show the % and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

Auckland is illustrated in the heatmap here. Over the past three months, more than half of Auckland's suburbs have seen median property values fall by at least 1% – that's 119 out of 206 (and another 36 have seen drops of less than 1%). On the flipside, only 24 have seen median values rise by at least 1% since March. A drop of 4.6% in Point Chevalier converts to a dollar decline of more than $100,000 since March, with Pakuranga Heights and New Windsor also seeing median values fall by at least $90,000 in the past three months. Herne Bay is still Auckland's most expensive suburb, albeit values have dipped 1% since March.

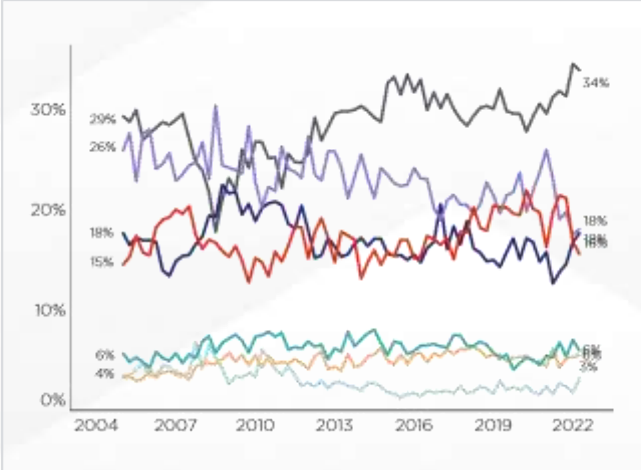
CoreLogic

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

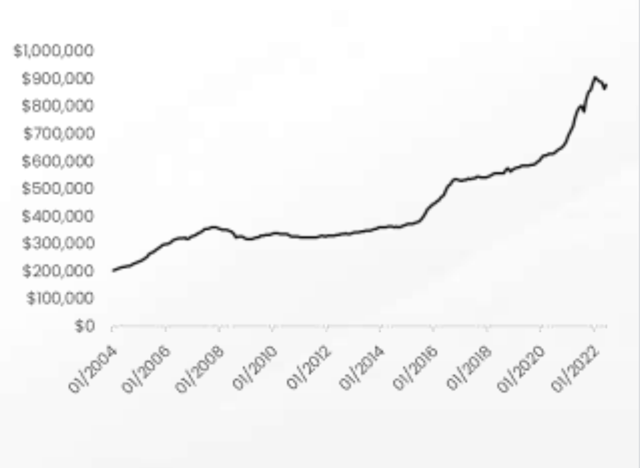
Hamilton's Buyer Classification patterns remain a little different than other main centres. Most notably, mortgaged multiple property owners have sustained a market share of purchases in excess of 30% lately, even as the tax rules have changed (i.e. phased removal of interest deductibility) and deposit requirements have toughened. To be fair, that's lower than the early 2021 peak of 39%, but it's still comfortably above the national average in the mid-20%'s.

Meanwhile, cash multiple property owners haven't seen the same rise in market share in Hamilton as has been observed in other parts of the country, and movers are just ticking along at fairly steady shares too.

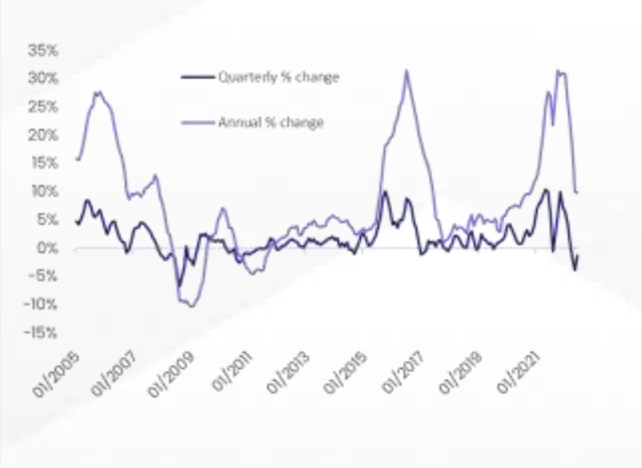
Nor have first home buyers shown the same signs of a struggle in Hamilton as we've started to see elsewhere either. Their market share of purchases (25% recently) is a touch above the national average – and the key point is that it hasn't really changed, even as affordability has deteriorated, credit conditions have tightened, and mortgage interest rates have spiked higher. It's difficult to be 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.

Hamilton Values

Average Value of Housing Stock Hamilton ($)



Annual & Quarterly Value Change Hamilton (%)



Hamilton's average property values have been a little 'jumpy' from month to month lately, with growth actually showing through again in June alone.

But over a broader three-month horizon, the downwards trend is clearer. Since March, average property values in Hamilton have fallen by 1.2%, with Central & North West holding steady, but falls more evident in South East and North East.

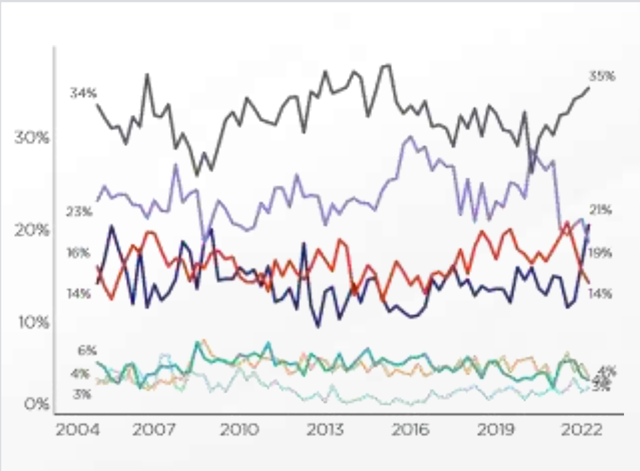
The falls in recent months have also dragged down the annual rate of change into single digits in almost all of Hamilton's sub-markets, other than North East (still +11.1%).

Given the headwinds for the wider property market, such as higher listings, tighter credit availability, and higher mortgage rates, there looks likely to be further falls ahead for Hamilton's property values in 2022.

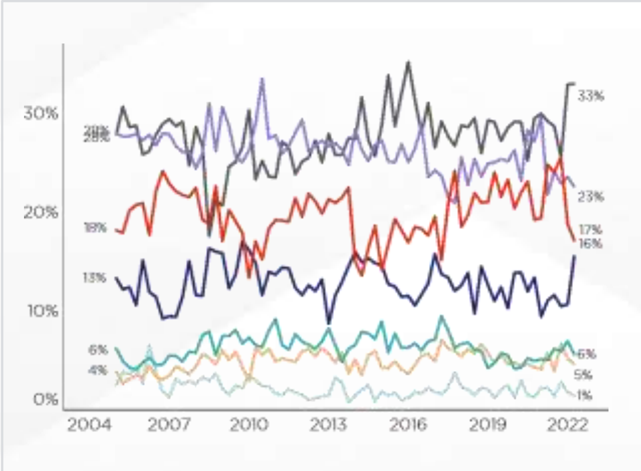
	JUNE 2022 Current value	1 month	3 months	12 months	5 years
Hamilton Central & North West	$821,446	2.0%	0.0%	8.1%	65%
Hamilton North East	$1,089,195	1.1%	-2.2%	11.1%	60%
Hamilton South East	$811,211	4.2%	-1.5%	9.3%	65%
Hamilton South West	$783,311	-0.3%	-0.8%	9.9%	62%

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 has seen some quite abrupt shifts in Buyer Classification patterns in the past few months (albeit keeping in mind that these % share changes are taking place amidst an overall drop in the *number* of transactions).

First, mortgaged multiple property owners have managed to sustain a relatively steady share of the market, at around 20% lately. But movers' presence has continued to grow, and now sits at more than 35% - up from about 30% 12-18 months ago.

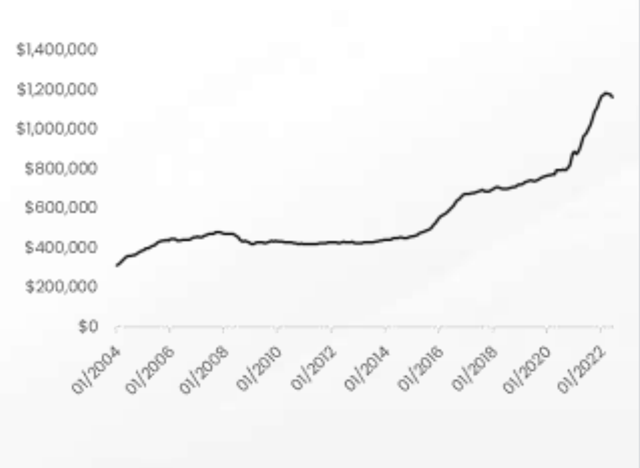
Meanwhile, the market share for cash multiple property owners has also continued to increase. Alongside the rise for movers, this illustrates how important a greater equity/cash base has become in terms of buying property in Tauranga.

Indeed, the market share for first home buyers – who by definition have less equity behind them – has fallen quite sharply, albeit it always tends to be a bit lower in Tauranga than other parts of the country anyway.

Looking ahead, it seems likely that the presence of mortgaged investors and first home buyers could remain more subdued, as credit conditions stay tight and mortgage rates high. But that could present more opportunities in Tauranga for movers and cash multiple property owners.

Tauranga Values

Annual & Quarterly Value Change Tauranga (%)



Annual & Quarterly Value Change Hamilton (%)

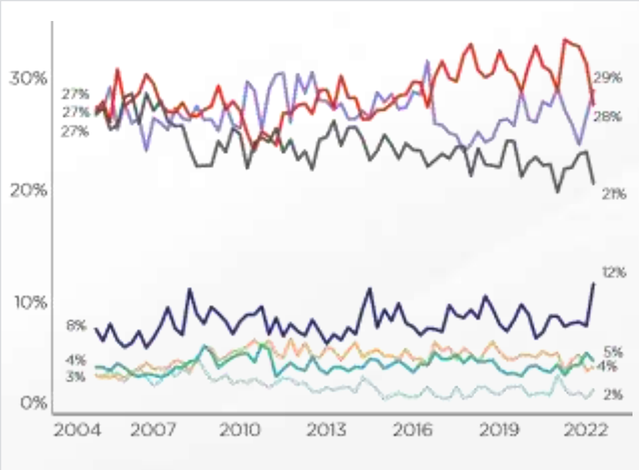
Tauranga's average property values peaked in March and since then they've dropped by 1.8%, or about $21,500 – to now sit at $1,164,444. Most of that drop came in June alone, down by 1.2% that month.

Looking ahead, Tauranga is still one of the most stretched parts of NZ in terms of housing affordability, especially for first home buyers looking to get on the ladder. Low rental yields make it tough for investors too.

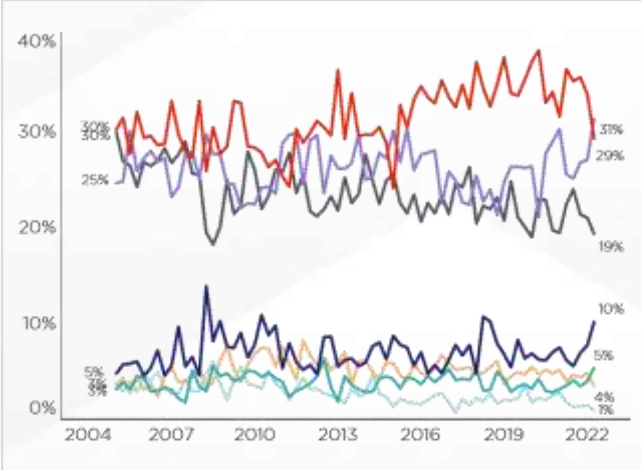
Hence, it may remain a market where pre-existing equity/wealth is more important than elsewhere, but with some would-be buyers likely to now be 'locked out', further falls in property values in Tauranga would not be a surprise.

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

After a sustained run of strong first home buyer market share figures around the wider Wellington property market (including the City, Upper and Lower Hutt, and Porirua), there are now signs of a pull-back – either because of reduced and costlier mortgage credit, and/or would-be first home buyers simply making a choice to step back from the market for a while, with the aim of getting a cheaper price later. Indeed, after holding above 30% for an extended period of time, the first home buyer figure has recently fallen back towards 28%.

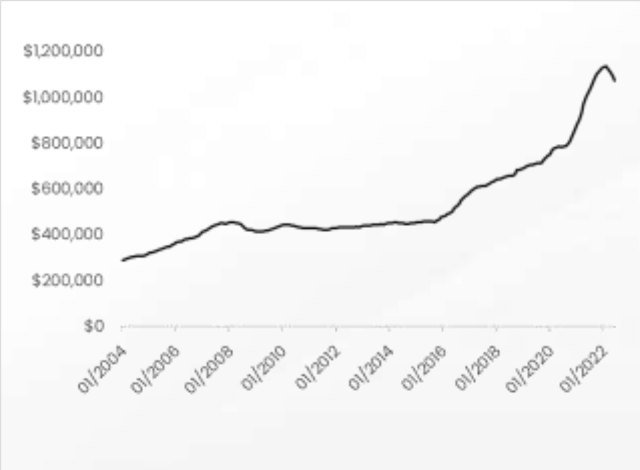
Meanwhile, movers have been relatively steady, at a fairly low level of 20-21%. This means that the offsetting rise in market share of property purchases in Wellington has come from mortgaged and cash multiple property owners.

Indeed, mortgaged MPOs have seen their share of activity rise to 29% lately, the highest figure for a couple of years (albeit again within an overall lower *number* of transactions), while the figure for cash MPOs have increased from 8% a few months ago to more than 10% now.

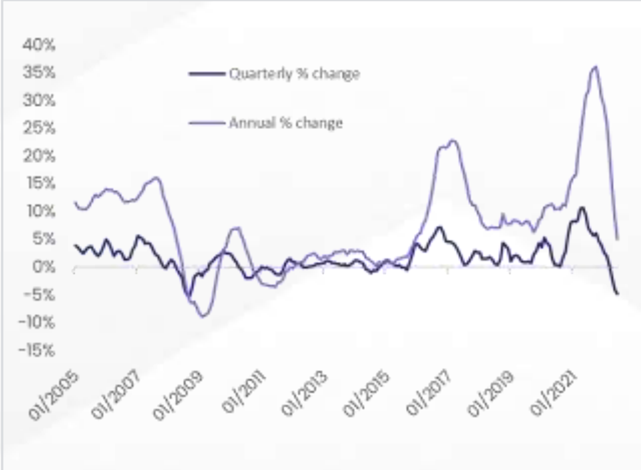
Overall, with mortgages harder to get and interest rates rising, it wouldn't be a surprise to see buyers with a greater cash/equity base behind them – such as movers and cash MPOs – see a rising market share in the coming months. But conversely, mortgaged MPOs and first home buyers could find the going a bit tougher for a while yet.

Wellington Values

Average Value of Housing Stock Wellington ($)



Annual & Quarterly Value Change Wellington (%)



The wider Wellington area had seen one of the largest booms of anywhere in the country over the 5-6 years from 2015-16, but that has now given way to a relatively sharp decline in property values so far in 2022.

Indeed, the four key areas of Porirua, Upper Hutt, Lower Hutt, and Wellington City itself have all seen average property values drop by 4% or more since March, and up to 6-7% in both Lower Hutt and Upper Hutt. Those two areas are now also pretty much flat on an annual comparison – i.e. the gains in the second half of 2021 have now been reversed in 2022.

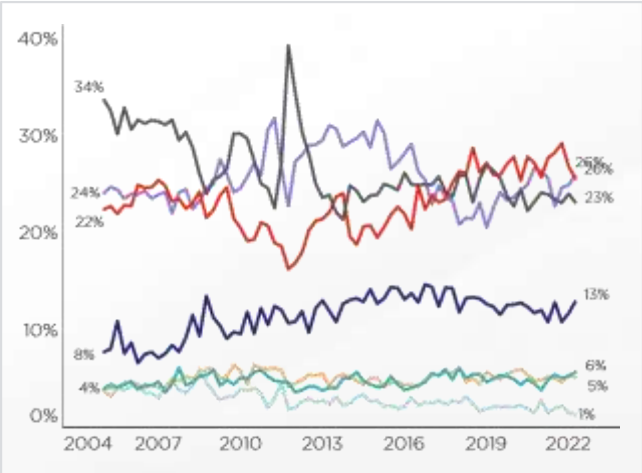
Kapiti Coast has also weakened, with average values down by 1.7% since March, but the Wairarapa area is still holding on a bit better – indeed, Masterton has seen values increase by 1% since March, and South Wairarapa by 0.4%.

With listings rising and affordability still significantly stretched across many of the sub-markets – not to mention restrictions on mortgage availability and higher interest rates – further falls in property values around Wellington look likely in the coming months and probably into 2023 too.

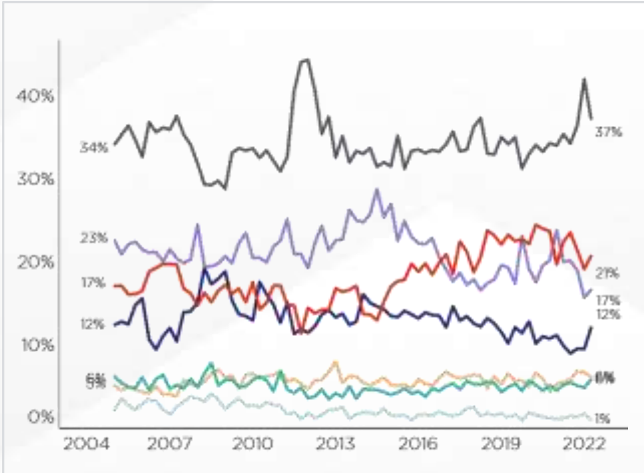
	JUNE 2022 Current value	1 month	3 months	12 months	5 years
Porirua	$962,139	-1.7%	-4.8%	5.1%	89%
Upper Hutt	$867,214	-2.8%	-6.9%	1.2%	93%
Lower Hutt	$923,980	-1.9%	-6.2%	1.0%	81%
Wellington City	$1,227,308	-1.2%	-3.7%	7.2%	69%
Carterton	$731,095	-0.1%	-0.1%	8.0%	110%
Masterton	$689,784	-0.2%	1.0%	13.0%	127%
South Wairarapa	$905,143	-1.5%	0.4%	11.3%	120%
Kapiti Coast	$961,418	-1.5%	-1.7%	5.3%	89%

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, albeit there are signs (as in many other parts of the country) that first home buyers have just started to feel the pinch a bit.

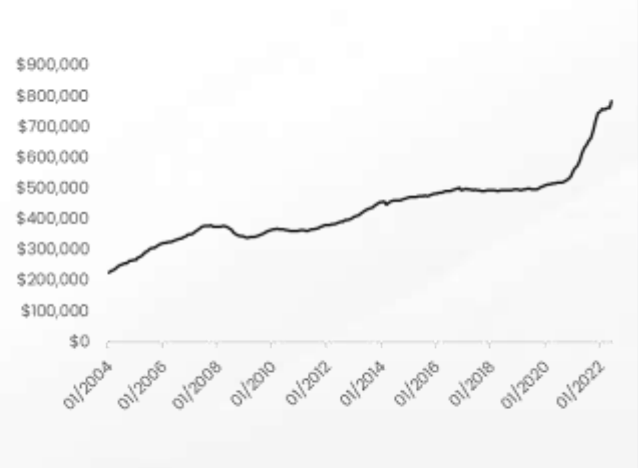
Indeed, from a share of purchases of 29% in late 2021, FHBs in Christchurch have since eased back towards 26% - partly because of tighter credit conditions and higher mortgage rates, but presumably also to some extent a choice by some would-be buyers to wait and see if they can get a bargain later.

Elsewhere, the other main buyer groups have been fairly steady, just moving up or down a little bit from quarter to quarter. Indeed, cash multiple property owners have edged up from 11% in late 2021 to 13% now, while mortgaged MPOs have also edged up a bit too. Finally, movers have been flatter (23%).

Overall, Christchurch still looks more affordable for owner-occupiers than other parts of the country, and gross rental yields for investors are also more attractive. This may mean that the number of deals holds up better than elsewhere, albeit activity will still probably be lower than in recent years.

Greater Christchurch Values

Average Value of Housing Stock Christchurch ($)



Annual & Quarterly Value Change Christchurch (%)

Canterbury was certainly part of the post-COVID upswing in property values around NZ and affordability has deteriorated in the past few years. However, it still remains more favourable than many other parts of the country, and this is likely to be a key factor as to why property values have actually continued to rise in the past few months.

Indeed, other than Selwyn (which has been flat since March), there have been some solid gains lately – ranging from almost 2% in Christchurch Southwest, up to 4-5% in the other parts of Christchurch over the past three months, and 6-7% in Waimakariri and Banks Peninsula.

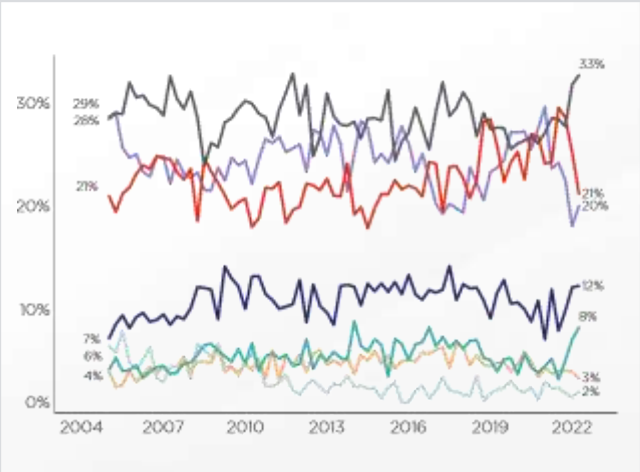
Looking ahead, we doubt that the wider Christchurch market will be totally immune to the changes in key housing drivers, such as higher interest rates and cautious mortgage lending attitudes at the banks.

But in a relative sense, Christchurch still looks appealing compared to other parts of NZ, given that it takes less time to save a deposit and that a mortgage absorbs less of a household's income each month. Rental yields for investors are also higher than elsewhere too. All of this suggests that Christchurch could continue to outperform, even if that only takes the form of smaller drops in average property values than elsewhere over the next 6-12 months.

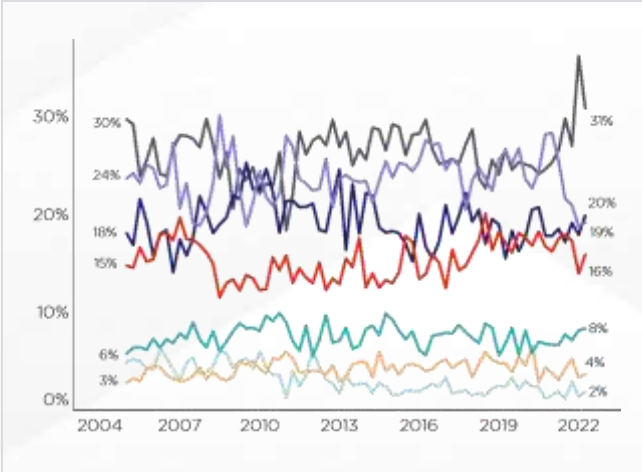
	JUNE 2022 Current value	1 month	3 months	12 months	5 years
Banks Peninsula	$862,532	5.1%	7.3%	27.7%	70%
Christchurch Central & North	$899,159	3.0%	3.6%	23.3%	53%
Christchurch East	$606,752	4.1%	5.1%	24.1%	63%
Christchurch Hills	$1,085,912	4.0%	4.0%	25.5%	63%
Christchurch Southwest	$745,027	0.9%	1.6%	24.3%	57%
Selwyn	$869,130	-0.4%	0.1%	28.3%	59%
Waimakariri	$730,898	5.5%	5.8%	28.9%	66%

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.

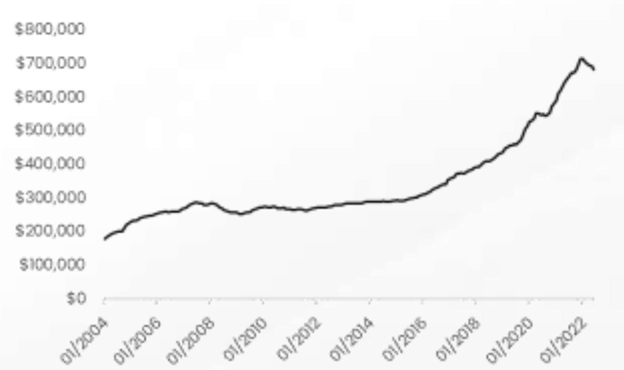
Indeed, from a peak of 30% of purchases across Dunedin in Q1 last year, the latest figure for mortgaged investors' market share was just 20% - very low compared to the past. Higher deposits, reduced interest deductibility, and low yields are likely to have all undermined investors' appetite.

Meanwhile, as affordability has got worse, FHBs' share as also declined from 30% in Q3 last year to just 21% 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 (%)

After a long and significant upswing in property values both pre- and post-COVID, Dunedin has now entered a downturn (alongside many other parts of the country).

Across the city as a whole, average values dropped by 1.4% in June, and have fallen by 2.4% since March. Over that three-month period, Peninsula & Coastal has fallen by a bit less (-0.6%), but Dunedin South and Taieri are in the 1-2% range, and Dunedin Central & North is down by a larger 3.6%.

Looking ahead, the downturn in property values in Dunedin looks set to continue in 2022. After all, increases in values over the past five years of 80-90% across the city have left affordability stretched, and that is compounding the effects of reduced mortgage supply and higher interest rates.

	JUNE 2022 Current value	1 month	3 months	12 months	5 years
Dunedin Central & North	$696,535	-0.6%	-3.6%	3.9%	79%
Dunedin South	$649,137	-1.7%	-1.6%	4.1%	82%
Peninsula and Coastal	$658,728	-4.6%	-0.6%	8.7%	90%
Taieri	$707,326	-1.3%	-2.2%	2.9%	81%

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.

Legal Disclaimer

Copyright

This publication reproduces materials and content owned or licenced by RP Data Pty Ltd trading as CoreLogic Asia Pacific (CoreLogic) and may include data, statistics, estimates, indices, photographs, maps, tools, calculators (including their outputs), commentary, reports and other information (CoreLogic Data).

Data & Research publications

Whilst all reasonable effort is made to ensure the information in this publication is current, CoreLogic does not warrant the accuracy, currency or completeness of the Data and commentary contained in this publication and to the full extent not prohibited by law excludes all loss or damage arising in connection with the Data and commentary contained in this publication.

You acknowledge and agree that CoreLogic does not provide any investment, legal, financial or taxation advice as to the suitability of any property and this publication should not be relied upon in lieu of appropriate professional advice.

Published date: July 2022

corelogic.co.nz

CoreLogic