Quarterly Property Market & Economic Update

New Zealand | Quarter 3, 2022

Data to September 2022

Contents

New Zealand
Quarter 3, 2022

About CoreLogic

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Executive Summary

The property market downturn has clearly rolled on in the past three months, and if anything, even deepened a bit – with sales volumes running at their lowest levels for a decade, and the pace of decline in average property values rivalling or even getting a bit worse than the GFC episode. With mortgage regulation still quite restrictive, lenders in a cautious mood, and mortgage rates continuing to creep higher, further falls in property values seem likely in the next few months. But there is also just a sense that the 'mood on the ground' has started to shift a little and this could help sow the seeds of a floor for property values into 2023.

In terms of the buyer/seller dynamic, it's clear that purchasers still have the upper hand when it comes to negotiation – a key reason why house prices are still dropping. However, although total listings on the market are higher than they've been for a few years, they're not excessive. In other words, vendors still have a degree of power too, and very few are coming to the market as 'forced sellers' – especially given that unemployment is still very low.

In terms of the market share for active buyers (within that lower number of deals), the CoreLogic Buyer Classification figures are now showing signs that first home buyers are looking at the market more positively. Indeed, after a lull for market share of 21% earlier in 2022, they've risen back to around 25% in recent months – perhaps with some who were previously waiting for prices to fall a bit further now seeing value again. This is likely to have been helped by the easing of the CCCFA rules, as well as the increased price cap for First Home Grants and removal for First Home Loans.

Meanwhile, the market share for cash multiple property owners (MPOs) has also risen, up from around 9-10% late last year to 14-15% recently. To be fair, some of these buyers may have just rejigged the debt on other properties in a portfolio, meaning that the latest purchase isn't 'cash' per se. But even so, in this environment where mortgages are costlier and harder to get, it stands to reason that cash buyers – potentially seeing 'bargains' – would have a higher share of the market.

On the flipside, mortgaged MPOs have seen their market share fall. New-builds remain popular with mortgaged investors (given continued interest deductibility and shorter Brightline), but this type of property is a relatively small share of the stock. Generally speaking, this buyer group is facing pressure from the pincer movement of low rental yields (and slowing rental growth) and higher mortgage rates, as well as the stringent 40% deposit requirements. It's probably also worth noting the returns on potential alternative assets, such as term deposits, have risen too.

In a wider context, the economy continues to perform fairly well. Recession was avoided in the second quarter of the year and most indicators point to further economic growth in the near term, with unemployment staying low. Of course, this is also sustaining a degree of pressure on inflation, and forcing the Reserve Bank to keep raising the official cash rate (OCR). The OCR is likely to reach 4% by the end of the year, and potentially go even higher in 2023.

In turn, we probably haven't seen the peak for mortgage rates just yet, especially if global uncertainty also sustains the pressure on offshore wholesale funding costs and longer term NZ fixed mortgages. On the plus side, at least a fair degree of the 'refinancing wave' has already worked its way through the system – with the share of loans fixed but due to reprice in the next 12 months now back down at a 'normal' 40-45%, compared with more than 60% a year or so ago. Competition amongst the banks for a smaller new lending pie also remains intense.

Just quickly touching on rents and new dwelling consents – both seem to be past their peak. Slowing rental growth will be another challenge for investors, although there are no clear signs that existing landlords are selling property to any great degree. And for construction, even as consents slow, there's currently a belief that the downturn will be shallower than in the past.

Overall, the property market still faces some challenges yet, and the ultimate peak to trough fall in national average property values could still be in the vicinity of 15% by the middle of next year. However, there are also now hints that some buyers are starting to return, with more households having had time to adjust to the 'new norm' for their finances. It wouldn't be a surprise to see sales volumes begin to rise modestly again in 2023, with values perhaps following suit in 2024. As has been the case for some time now, a continuation of low unemployment could be the difference between 'correction' and a more serious slump.

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 **$1.62 trillion**	NZ LISTED STOCKS **$165 billion**
COMMERCIAL / INDUSTRIAL REAL ESTATE **$302 billion**	NZ SUPER & KIWISAVER **$142 billion**

The value of residential property across the country as at Q3 2022 was $1.62T, so with mortgages secured against 21% of that value ($341bn), the other 79% 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.

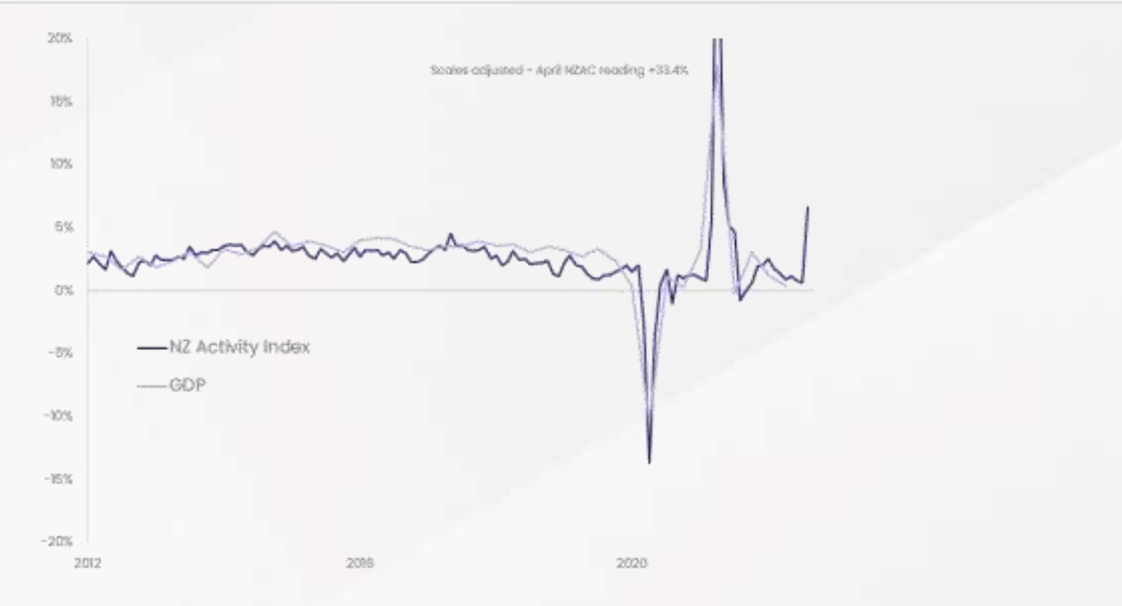
Meanwhile, volatility remains a key theme for the financial markets in 2022. After trending downwards for the first six months of the year, the NZX50 bounced back over July and August, but has recently slid backwards again. It's now basically back at levels not seen since mid-2020, and the softness of equity markets globally/generally has had knock-on effects for the value of holdings in the NZ Super Fund and KiwiSaver balances.

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

NZ & Australia GDP Growth

Annual Average GDP Growth (%)

The NZ economy bounced back strongly after the disappointing 0.2% *fall* in GDP in Q1 2022 to expand by 1.7% in Q2. This was more robust than most commentators were expecting and was driven in large part by sectors that were previously hindered by COVID-related social restrictions and tricky border rules – e.g. transport, restaurants, hospitality. The solid economy should help to keep the unemployment rate for the coming months, in turn providing a backstop for the housing market to some degree.



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

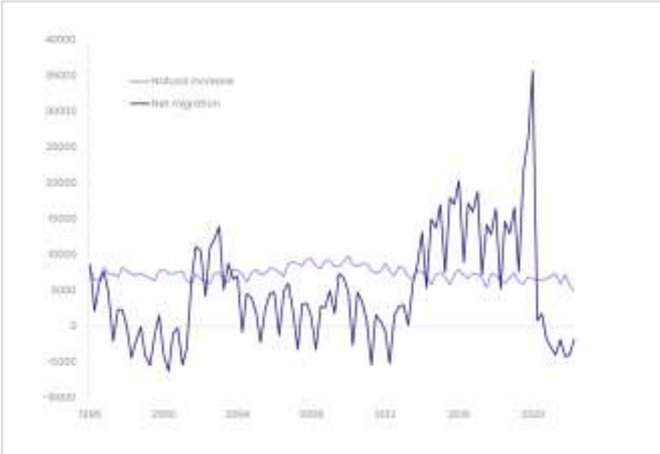
In addition, although the Q3 GDP number is likely to be softer again (but still positive), the early indications are that the economy has continued to 'tick over' in recent months, with timely indicators such as business and consumer confidence showing some flickers of life. Overall, a recession can't be ruled out at some stage over the coming 6-12 months, but for now the economy is faring pretty well.

 Sources: Reserve Bank of New Zealand, Stats NZ

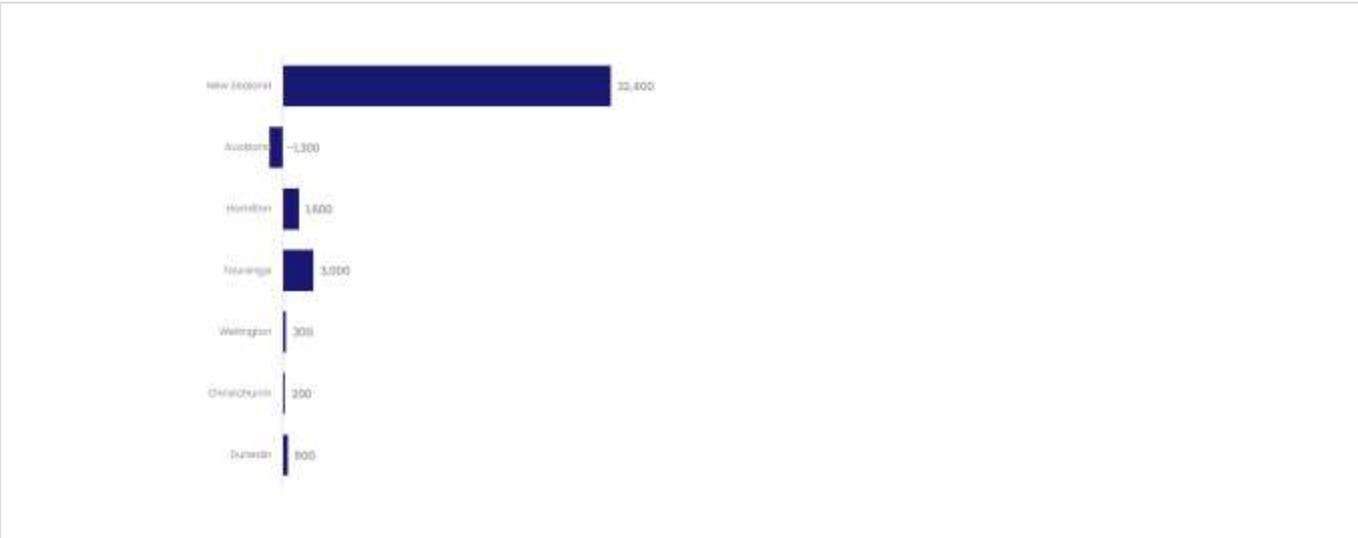
NZ Population & Migration

Quarterly Change in National Population (persons per quarter)

Population Change Composition (persons per quarter)



Annual Change in Population (persons)



In the year to June 2022, NZ's total population only rose by 12,700 people, to hit 5.12m. That was just a 0.2% rise, with population growth in both percentage and number terms currently running at its lowest levels for at least 30 years. At the peak in the latest cycle, annual population growth was 117,500 (2.4%), in the year to March 2020.

The natural rate of population change (i.e. births minus deaths) remains pretty steady, at around 25,000 or so on an annual basis. This means that it's net migration which has dragged down the overall population growth figure, and in the year to Q2 2022, the migration figure was -11,500. That's a far cry from the total of 91,700 in the year to March 2020.

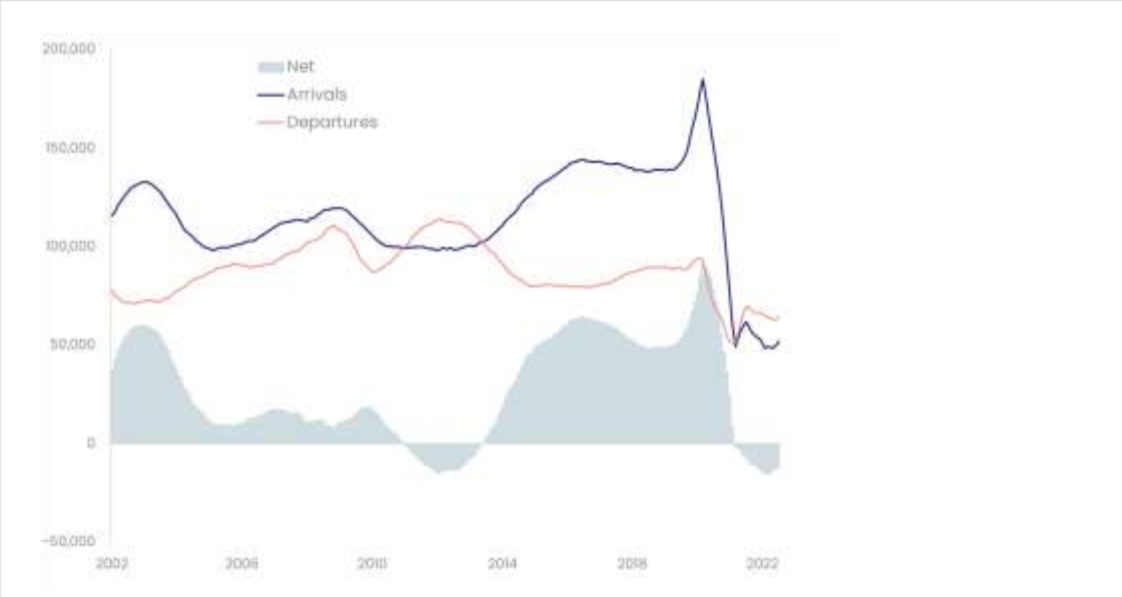
Looking ahead, with the borders now reopened, more new migrants will look to move to New Zealand, but at the same time, we're also seeing steady departures of both NZ citizens and non-citizens. This 'brain drain' may be an issue for labour supply in NZ and housing demand for 6-12 months yet.

However, net migration is unlikely to be negative forever and a lot of that will hinge on the non-citizen balance, which has historically been the swing factor, outweighing any net outflows of kiwis. There have already been signs in the most recent few months that non-citizen arrivals to NZ have started to perk up, so if that continues, we couldn't rule out the overall net migration balance turning positive again over a 12-24 month horizon, perhaps late 2023.

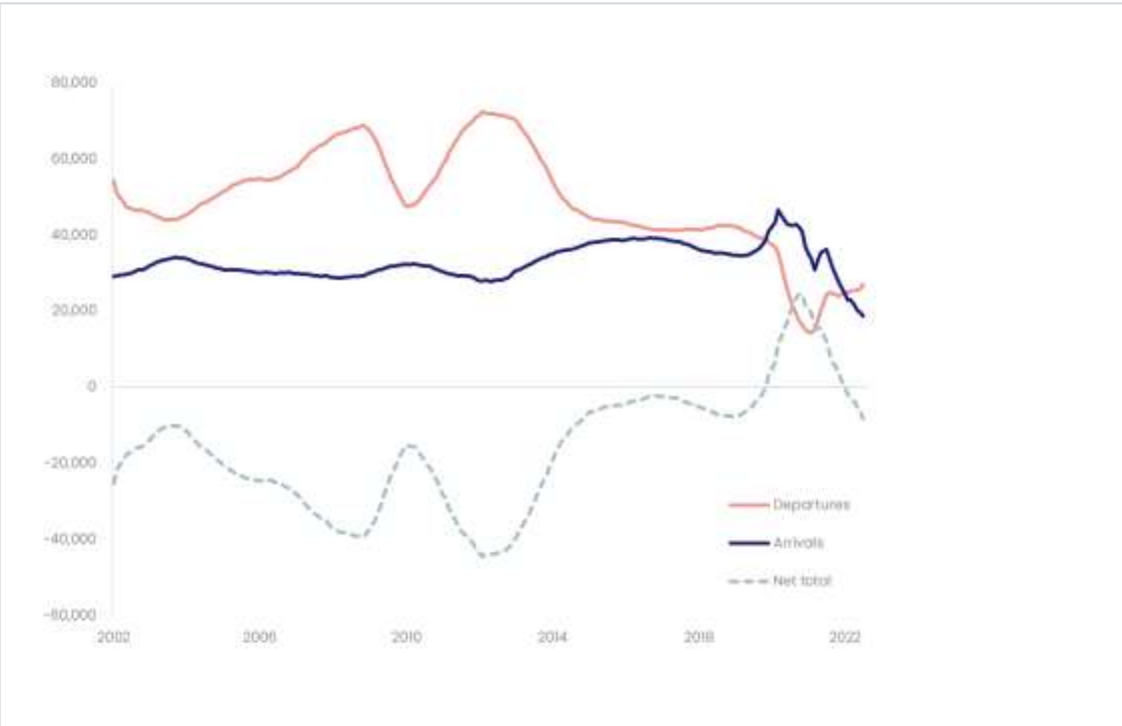
Source: Stats NZ

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)

There are now clearer signs starting to emerge that new dwelling consents have entered the long-awaited slowdown, as more households are turned off the new-build path by reduced availability of development finance, rapidly rising construction costs, and uncertainty about building timeframes.

However, any slowdown will be from a very high base, and moreover, the general feeling is that this decline could be much shallower than those that we've seen in the past (e.g. the bust that occurred post-GFC). For example, there are still shortfalls of housing that need to be remedied, and incentives such as reduced deposit requirements for new-builds and continued tax advantages for investors in new property should support demand – in turn, giving developers the confidence to keep bringing projects forward.

The Government has also shown it's willing to support the sector, with initiatives such as the recent increase to the KiwiBuild caps (allowing more properties to be developed) and the Build-Ready Development Pathway, whereby they underwrite any consented projects that can't quite get off the ground due to financial stress amongst developers.

Of course, even if new dwelling consents do continue to dip in the coming months, builders will still be busy for a while yet with the pipeline of work already approved – which in turn will mean further increases in construction costs, as capacity remains stretched, albeit the pace of increase is likely to slow (especially as COVID effects fade and supply chain pressures ease).

 Source: Stats NZ

Consumer Confidence

ANZ-Roy Morgan Consumer Confidence (Index, Monthly)

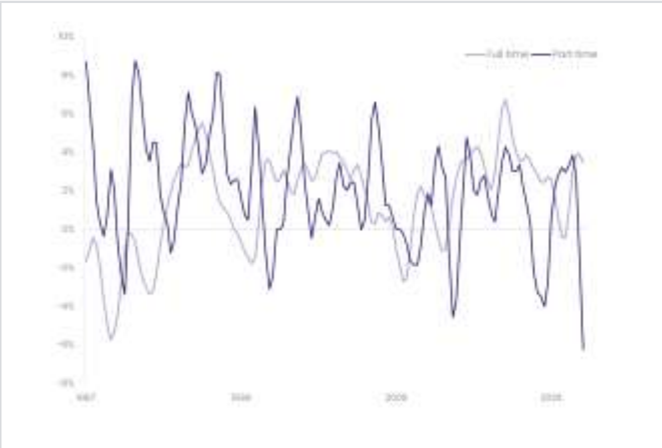
Consumer confidence has remained subdued in recent months, as the cost of living stays high (and even rising further), mortgage rates continue to increase, and the downturn in house prices rolls on. There is still a considerable amount of economic uncertainty around the world and this could also continue to buffet NZ for a while yet.

However, there have nevertheless been some tentative signs in the past few months that consumers are starting to look ahead to brighter times and become a little more optimistic – albeit modest so far, and from a low base. This could reflect more households now having had time to adjust to the 'new norm' for their finances amidst the backdrop of continued low unemployment.

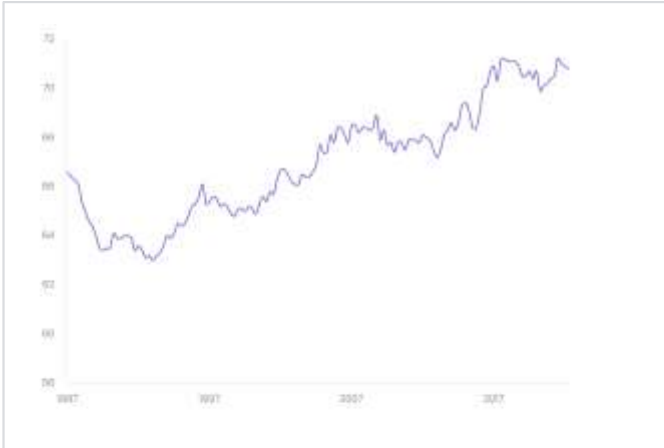
 Source: ANZ, Roy Morgan

Employment

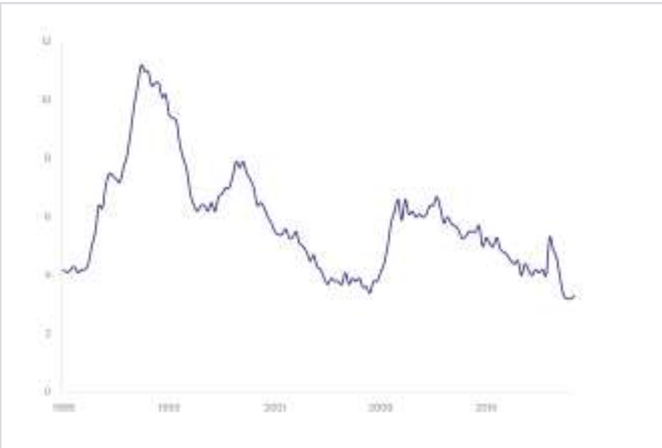
Annual Change in Employment



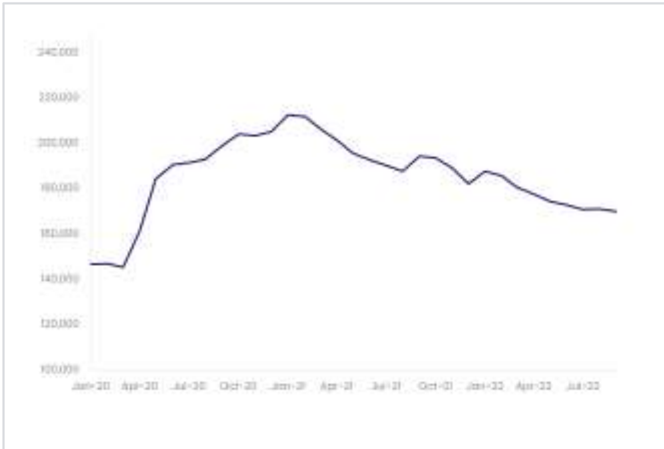
Labour Force Participation Rate (%)



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 – clearly not preventing house price falls altogether, but likely limiting their speed/size/duration.

In the year to Q2 2022, total employment rose by 1.5%, which to be fair was below the figures over the previous few quarters. However, as the number of jobs grows, it's naturally harder (from a higher base) for such fast growth rates to be sustained – especially when firms still want more workers, but skilled labour is in short supply.

Moreover, full-time employment actually expanded by 3.5% in the year to Q2 2022, an impressive result – meaning that the overall figure (1.5%) was only held down by part-time employment, which has dropped by 6.2% over the past year. Even this can be seen in a positive light, however, as people have switched out of part-time roles and taken up full-time positions.

Meanwhile, the labour force participation rate remains high, at about 71%, representing the share of the 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 3.3%, up ever so slightly from the record lows of 3.2% in Q4 2021 and Q1 2022, but still a very low level. 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, some analysts are projecting a rise in the unemployment rate over the coming 12-24 months. But it should be noted that this is due mostly to more people returning to the labour force, rather than outright job losses. As such, the risks of a 'second round' downward leg for house prices due to a weaker labour market remain low for now.

 Sources: Stats NZ, Ministry of Social Development

Interest Rates

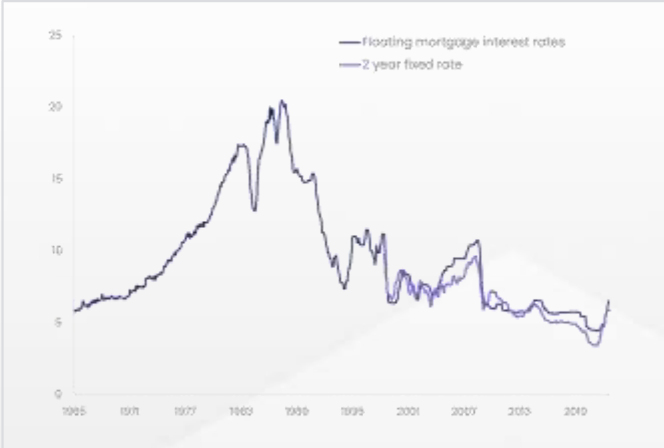
After a short period where the rise in mortgage rates seemed to have come to an end (and had actually gone into reverse), heightened uncertainty in global financial markets and the increase in offshore wholesale interest rates have seen domestic banks start to raise mortgage rates again. That pressure at the shorter end of the rate curve (i.e. for floating loans and short-term fixes) has been emphasised by the continued increases in the official cash rate as the Reserve Bank remains tough on the fight against inflation.

Indeed, a range of indicators suggest that inflation is proving tricky to get under control and there's now a growing chance that the official cash rate will hit 4% by the end of 2022 and then *keep rising* into 2023. That potential extra tightening next year hasn't been anticipated until very recently, so won't necessarily be 'priced in' to current mortgage rates.

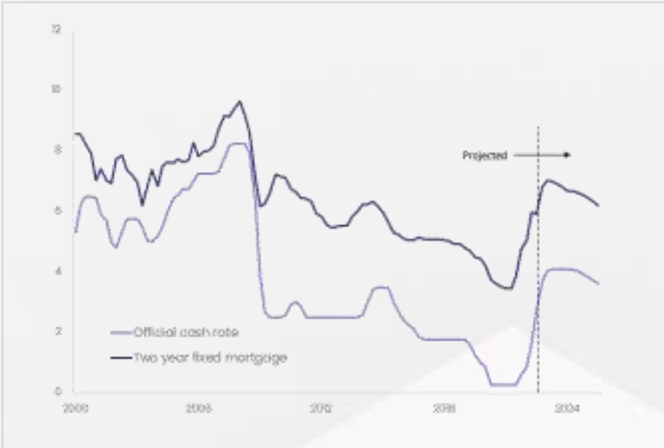
On the whole, then, the interest rate environment will remain a challenge for the property market – limiting how much money new borrowers can secure, and also knocking existing borrowers' household finances as they roll off their old (lower) fixed rate and onto the new pricing. In many cases, this will see the payable mortgage rate more than double, from roughly 2.5-3% to around 5.5% or even 6%.

From a borrower's perspective, at least the silver lining is that the banks are competing hard with each other, and this is seeing cashback deals become quite common, as well as tending to limit the scale of any further mortgage rate increases.

Mortgage Interest Rates (%)



Official Cash Rate & Mortgage Rates (%)



Average Two-Year Fixed Rates (%)

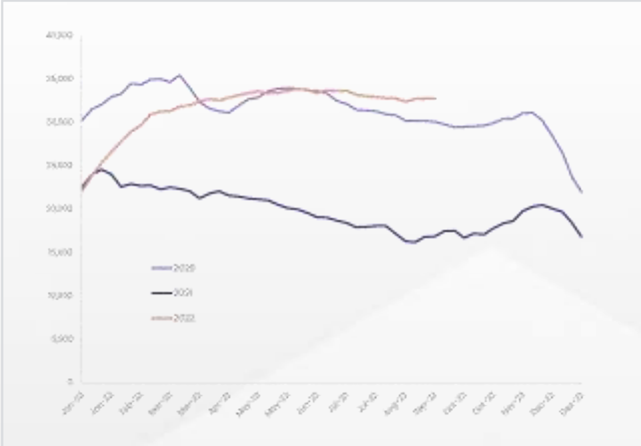
 Sources: Reserve Bank of NZ, interest.co.nz

Housing Overview

Listings

Weekly Flow of New For-Sale Listings

Total for-sale listings on the market



In the past few months, new listings flows have generally remained 'normal' for the time of year, with the Spring rise now in progress. This typical flow of new listings means 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. That said, the rise in total stock has been tailing off a bit lately, perhaps as some vendors who previously had their property on the market, but didn't manage to sell it, have now delisted for a period of time.

It wouldn't be a surprise to see the weekly flow of new listings remain fairly normal for the rest of the year and into 2023, provided that unemployment stays low. This means buyers will still have the pricing power and an increased choice of stock on the market at any point in time, but vendors won't have lost all their bargaining power either.

The key potential change to watch for, however, could be a rise in sales coming forward from investors, as they readjust to low gross rental yields, slowing rental growth, and higher mortgage rates. These may not be 'forced sales' as such, but more about landlords consolidating their portfolios to reduce debt. Higher term deposit rates could attract some investors too.

Lending Conditions

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

There have been few surprises to see that gross mortgage lending activity (across new loans, top-ups, and bank switches) has remained sluggish in recent months. For example, the total lending flow of $5.4bn in August was significantly lower than the same month last year ($8.2bn), and in fact was the lowest figure for the month of August since 2019. Moreover, when measured by the number of loans (15,109), activity was the weakest since at least 2013.

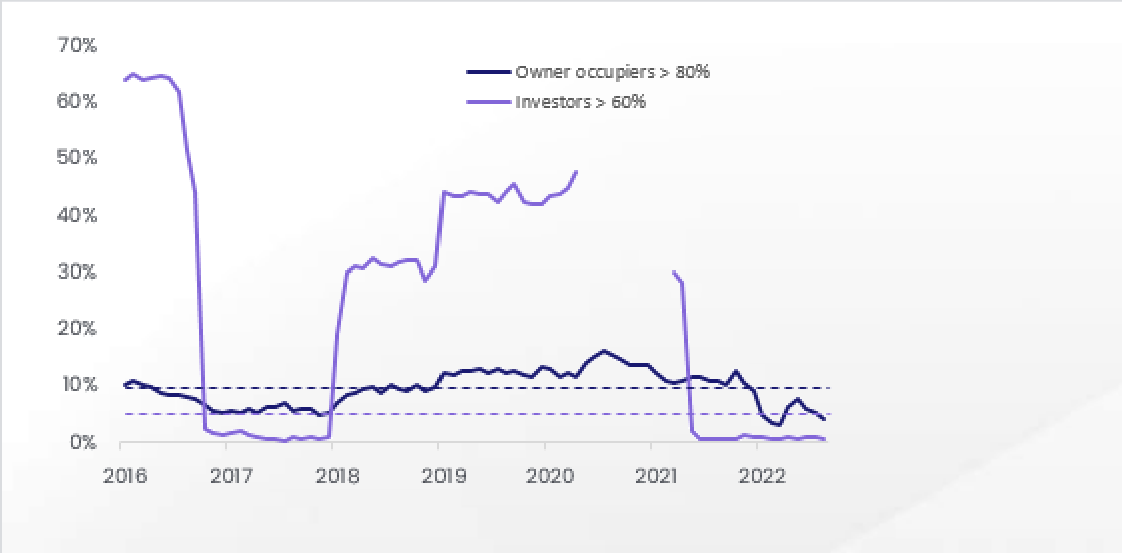
Looking at the breakdown by borrower type, it's clear that both investors and owner-occupiers are struggling, with lending continuing to fall in recent months. Our own CoreLogic Buyer Classification data has shown a similar pattern, albeit with some signs of a pick-up for first home buyers lately.

There are hints in the mortgage lending data that a pick-up for interest-only (I-O) lending has helped some investors purchase property in the past few months, but generally speaking, I-O lending remains under control. Certainly, given the removal of interest deductibility for purchasers of existing property, there's now more of an incentive for investors to repay some principal anyway.

Turning to the breakdown of the figures by loan to value ratio, it's clear that low deposit mortgages remain very difficult to secure. After exemptions (e.g. for new-builds), just 0.7% of investor loans were approved with less than a 40% deposit in August – versus the speed limit of 5%. And only 4.1% of owner-occupier loans had <20% deposit, against the speed limit of 10%. Given continued falls in property values, it's not hard to understand a cautious attitude from the banks when it comes to approving loans to borrowers who already have lower equity levels. With housing affordability still stretched and mortgage rates higher, it's likely that fewer borrowers really want a high LVR loan either.

 Source: Reserve Bank of NZ

Lending Conditions

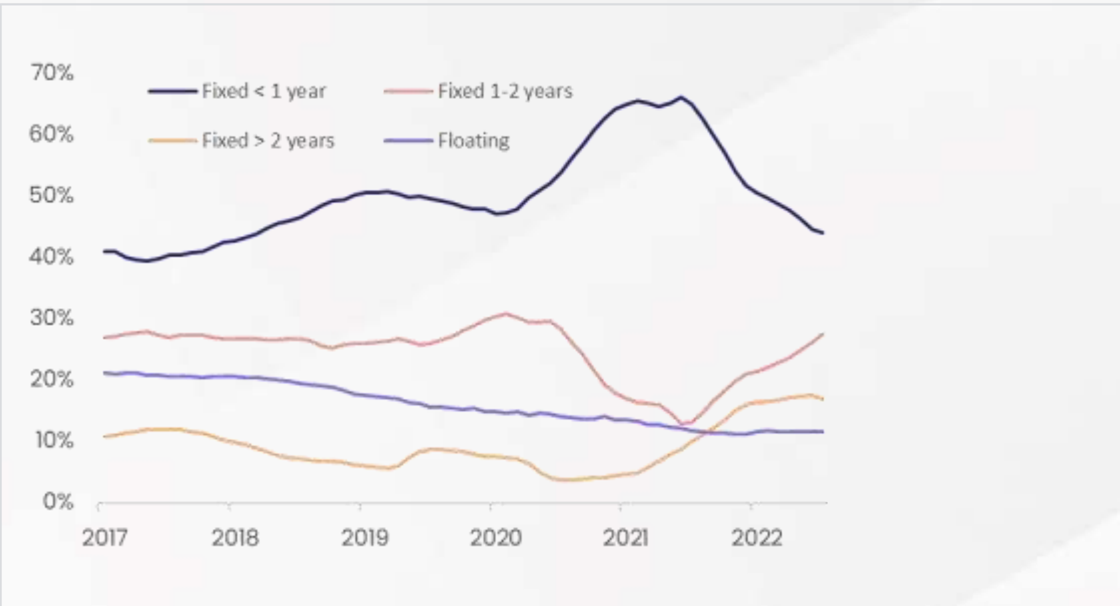


High LVR Lending (% of new lending)

Looking ahead, a key issue for the mortgage market in the coming months is the pressure that will apply to many borrowers as they roll off previous low interest rates onto a much higher repayment schedule. To be fair, the scale of this 'refinancing wave' isn't as big as it used to be – currently 44% of existing mortgages (by value) are fixed and due to roll over in the next year, which is well down from the peak of 66% in June last year, and back down to levels last seen in early 2018. At the same time, non-performing loans on the banks' books are still trivial at present.

However, anybody rolling onto new rates will still be seeing a large change in their repayments, given the sharp increases since the middle of last year. And although it's fairly safe to say we're closer to the peak for mortgage rates than the trough, it's still far from certain that mortgage rates have actually topped out yet – even despite strong competition amongst the banks.

Refinancing Profile for Mortgages (% of stock)



 Source: Reserve Bank of NZ

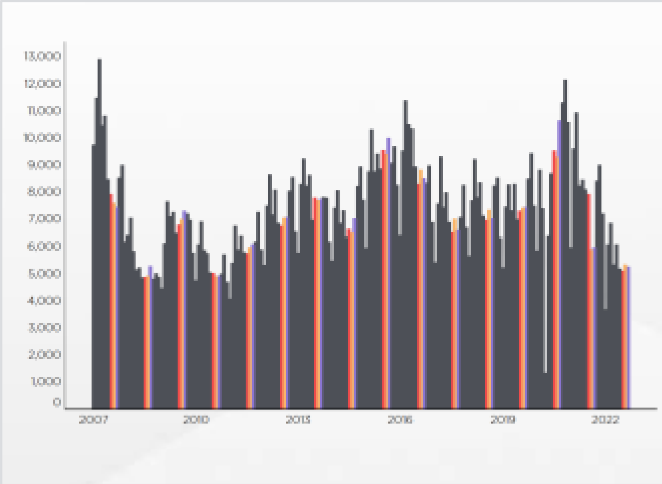
Sales Volumes

Property market activity levels have remained very weak in the past three months, and 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.

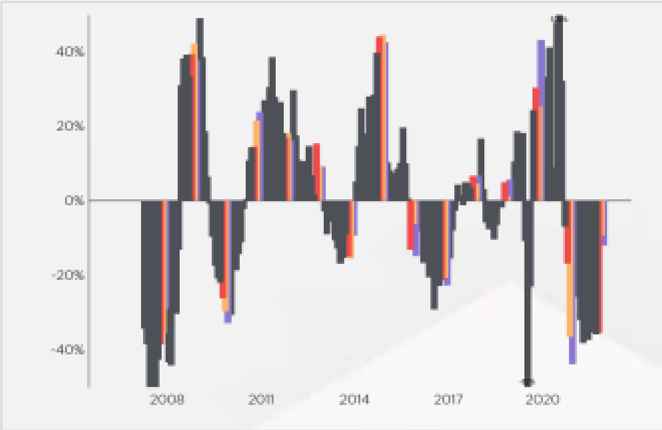
Looking ahead, the rest of 2022 and into 2023 looks set to remain a testing time for market activity levels. After all, the economy remains a little fragile, net migration could stay relatively subdued (even as the borders fully reopen), and on top of that, credit conditions remain restricted and mortgage rates continue to rise. All of these factors point to further restraint in terms of 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. On the whole, challenges remain, but after a weak 2022, our working assumption is that sales volumes rise gradually in both 2023 and 2024, as mortgage rates eventually peak and then perhaps begin to decline a little again.

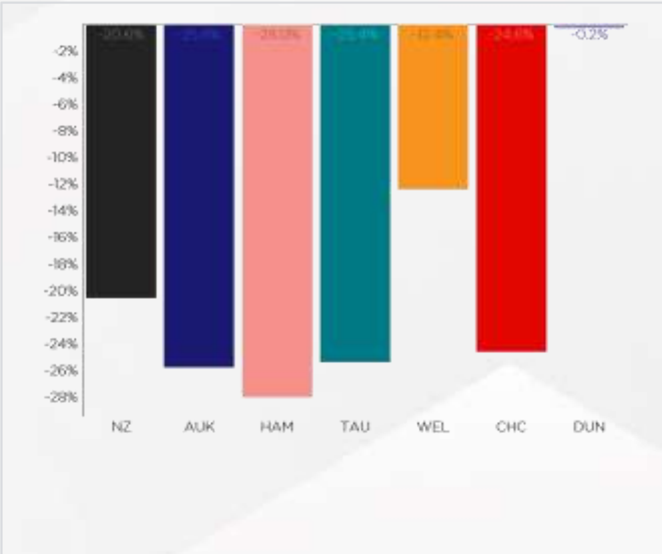
Nationwide Sales Volumes (monthly total)



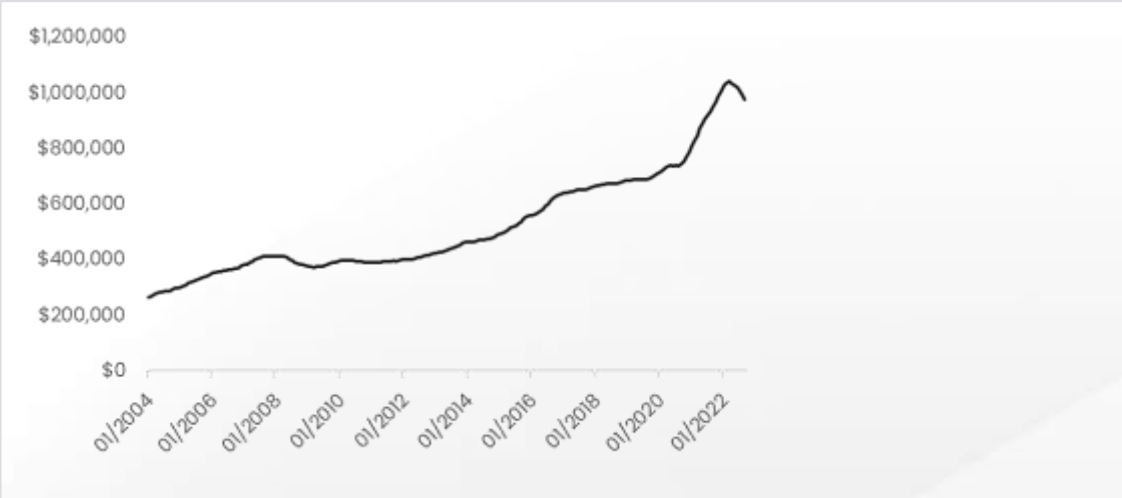
Nationwide Annual Change in Sales Volumes (%)



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



Values



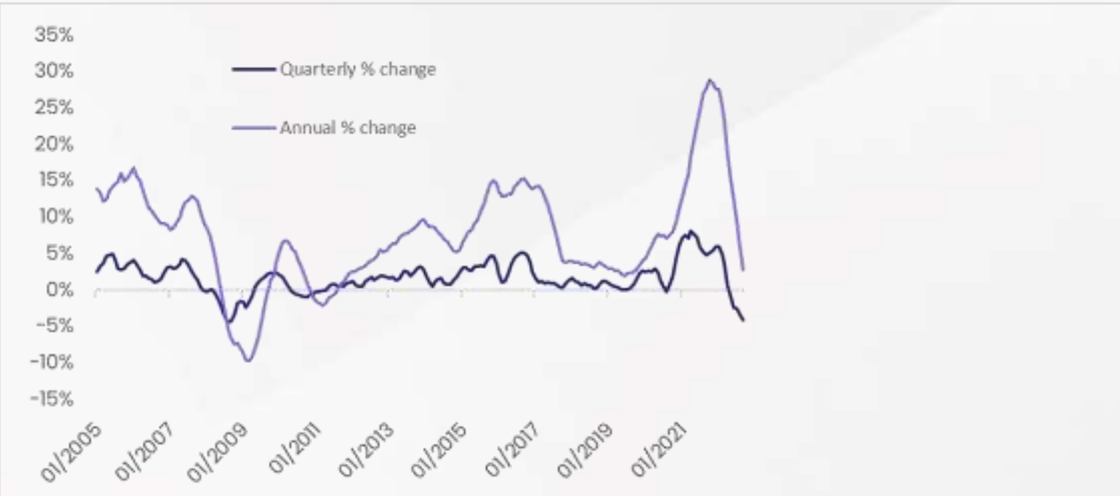
Average Value of Housing Stock - New Zealand ($)

The downturn in property values has continued over the past three months, with falls of -0.9% in July, -1.8% in August, and -1.5% in September. Values have now fallen for six months in a row, and from a peak of $1,043,261, they're down by a total of 6.3%, to $977,158. That's a drop of more than $66,000.

Clearly, the market still remains in buyers' favour, with listings higher than they've been for a couple of years. However, the pool of willing and active buyers have also reduced, due to ongoing affordability problems, tighter credit rules (and internal policies at the banks), and of course higher mortgage rates. That said, there is a sense now that more households are adjusting to the 'new norm' for their finances, with unemployment still low.

Overall, then, this downturn in property values seems set to run into 2023. But it wouldn't be a surprise to see a floor for values next year, before some kind of recovery potentially begins in 2024 (given scope for mortgage rates to possibly be falling again by then).

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. But some markets have also held up better.

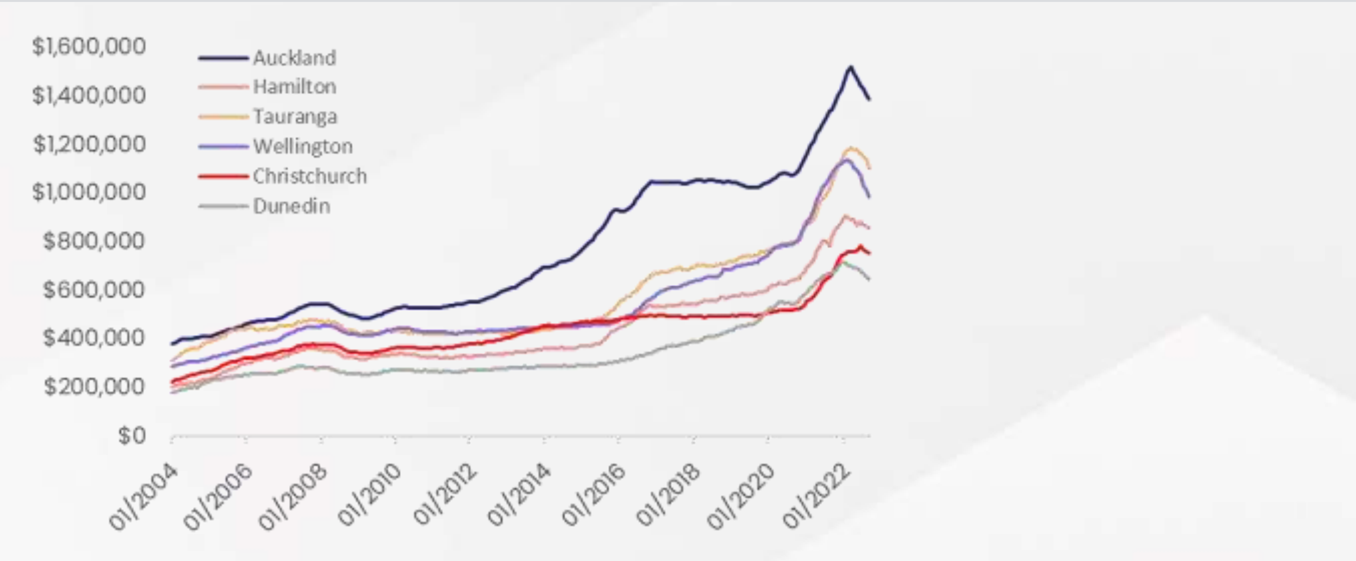
Around the main centres, the falls in the past three months have been largest in Wellington (-8.5%), followed by Dunedin (-5.4%) and Tauranga (-5.2%). Auckland has dropped by about 4% since June, with the falls in Christchurch and Hamilton sitting at 3%.

If we look outside the main centres now and out over a slightly longer six month horizon, there are still parts of the country where property values have been a little more resilient. Thames-Coromandel for example has seen a lift over that period, while New Plymouth has largely avoided falls.

In the South Island, there's also been slightly greater resilience in parts of Canterbury, including Waimakariri, Selwyn, Ashburton, and Timaru. These markets are still relatively more affordable than other parts of the country.

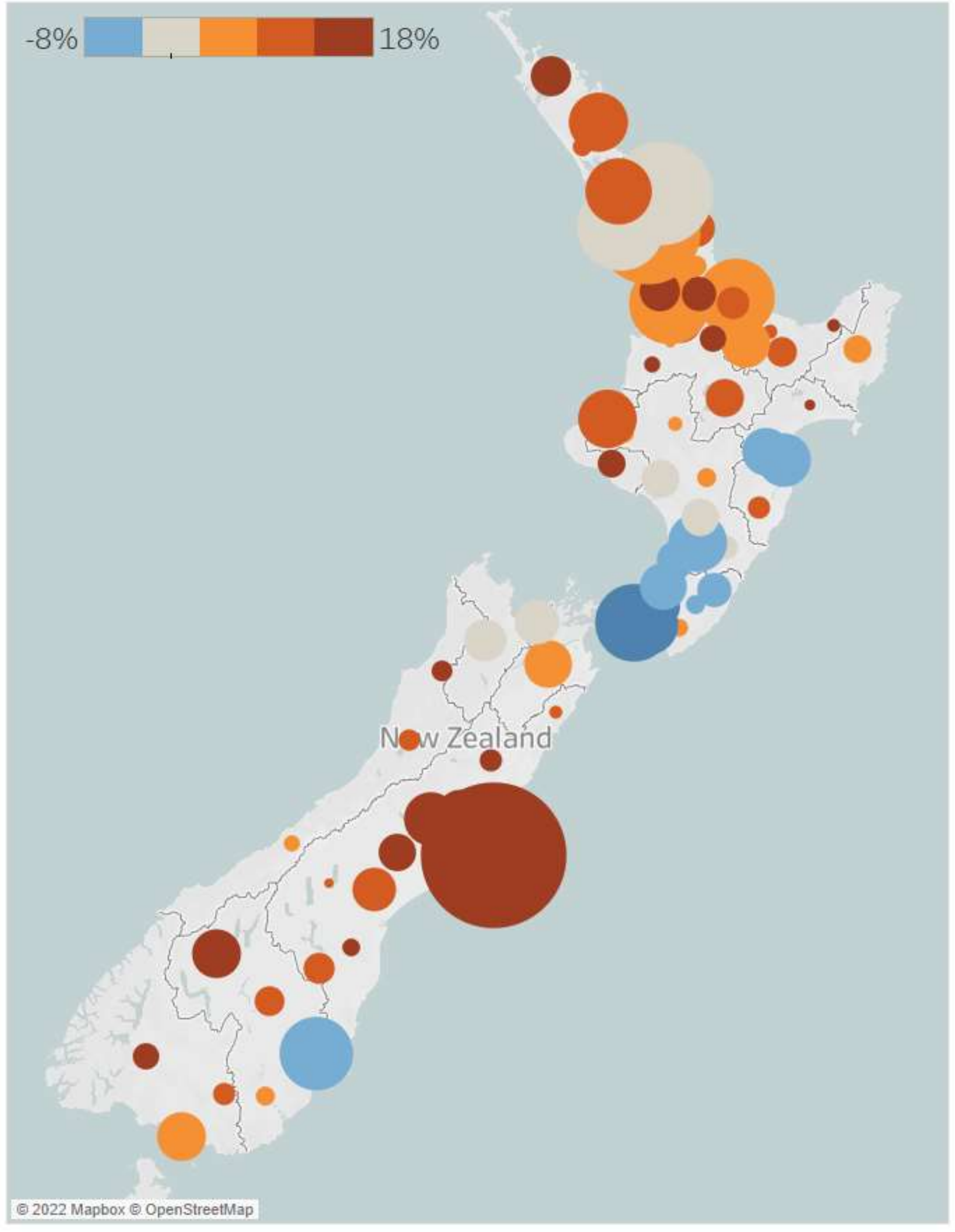
Looking ahead, it seems likely that all parts of the country will experience falling house prices to a degree – it's just that some will be more affected than others (as is also the case when the wider market is rising). However, those that fall faster in the near term will see affordability improve earlier, which could set the scene for a timelier rebound.

Average Dwelling Value ($)



	September 2022				
	Current value	1 month	3 months	12 months	5 years
New Zealand	$977,158	-1.5%	-4.1%	2.8%	49.7%
Auckland	$1,387,767	-1.3%	-4.0%	3.0%	33.6%
Hamilton	$856,829	-0.8%	-2.7%	4.1%	56.8%
Tauranga	$1,104,155	-3.1%	-5.2%	5.5%	60.8%
Wellington	$984,640	-2.5%	-8.5%	-9.1%	58.5%
Christchurch	$756,695	-0.6%	-3.4%	13.6%	53.9%
Dunedin	$645,376	-1.7%	-5.4%	-4.0%	69.5%

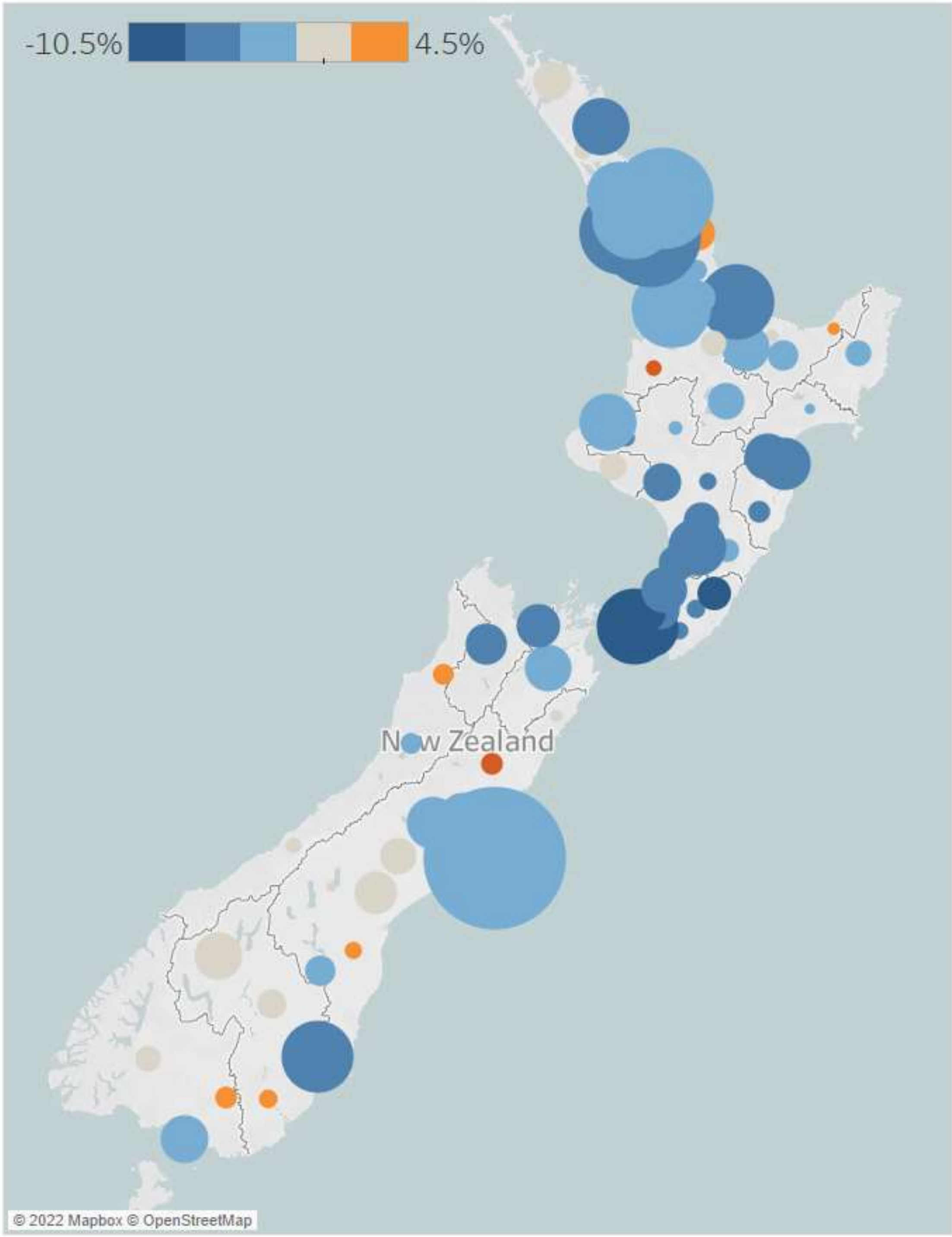
House Price Index



Annual Value Change (%)

Over a 12 month horizon, the weakness of the wider Wellington area is now starting to become much clearer, along with Dunedin and parts of Hawke's Bay.

House Price Index

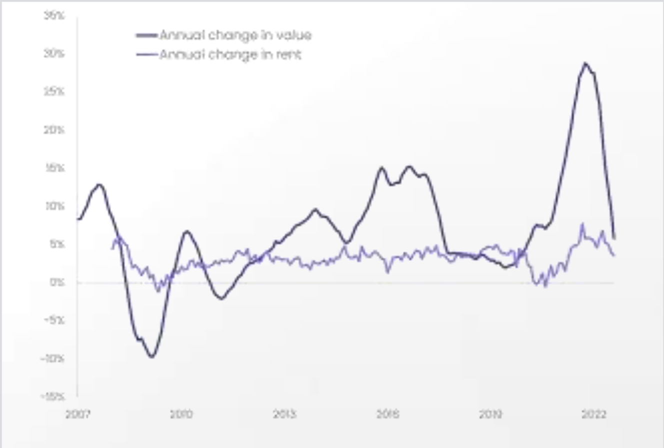


Three Month Value Change (%)

However, when you hone in on the timelier, three-month change in values, it's easy to see that the market is now in a downturn almost everywhere. Some parts of Canterbury and Otago have been flat in the past few months, but it's generally been falls across the board since June.

Rent

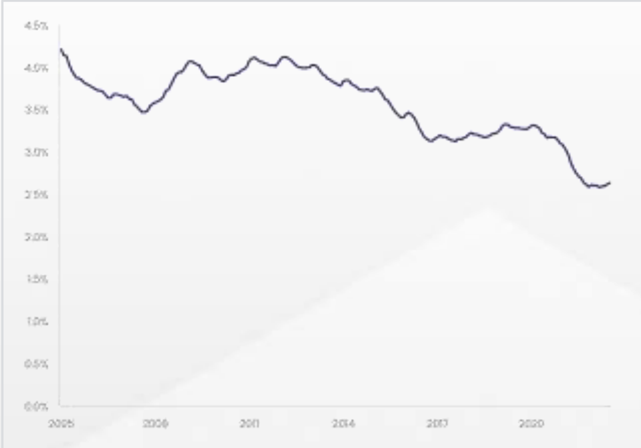
National Annual Change in Value and Rent (%)



According to the Stats NZ rental price index, the growth in rents for new tenancies has clearly turned a corner in recent months and the long-awaited slowdown has arrived.

After peak growth of 6.9% in the year to April, rents have slowed back to a pace of 3.6%, much closer to the normal range of 3-3.5% (which has historically been governed by wage growth). Clearly, given factors such as higher mortgage rates, landlords would be still be looking to increase rents where they can, but there are signs that this is not as easy anymore, as net migration remains negative and potential pool of tenants shrinks a bit.

Gross Rental Yield – National (%)

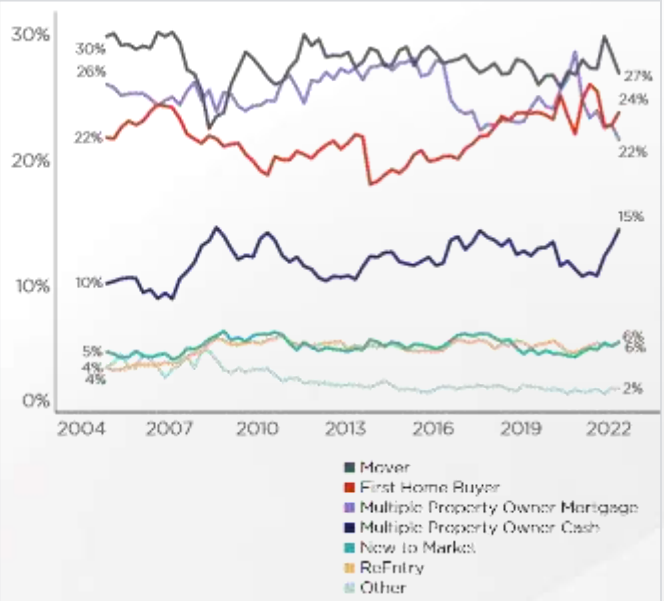


Looking ahead, it wouldn't be a surprise to see rental growth drop a bit below average over the next 6-12 months, although at the same time it's not very common for rents to fall outright. It looks more likely that rental affordability is restored closer to normal for tenants by a period where rents themselves only grow slowly and incomes outperform.

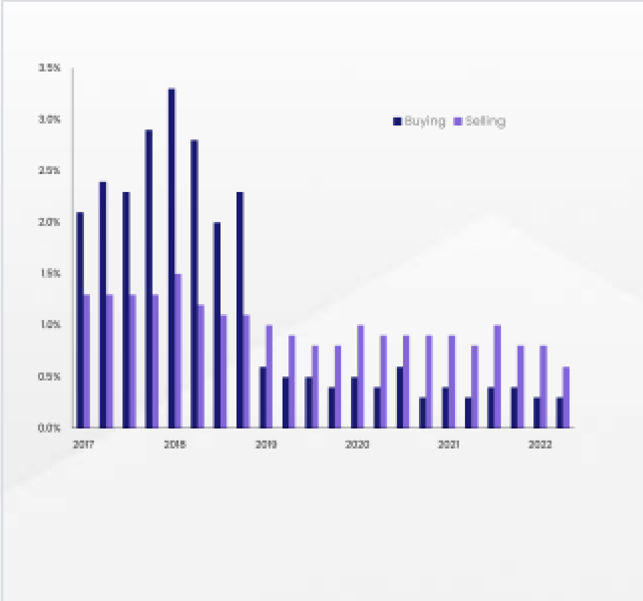
This will be another challenge for investors, and although existing landlords are unlikely to sell en masse, it may cause a few more would-be new investors to think twice.

Buyer Classification

Buyer Classification – New Zealand (% of purchases)



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



The patterns from quarter to quarter for the Buyer Classification data are always interesting, and Q3 2022 has been no exception.

After a subdued first 3-6 months of 2022, first home buyers are showing signs of a turnaround for sentiment and actual buying activity. To be fair, amidst the wider context of still-low sales volumes, this needs to be treated with caution. But even so, it's worth noting that FHBs' market share of purchases has risen in Q3, to now sit at 24-25%.

The changes to the CCCFA rules have no doubt played some kind of role here, alongside the easing of the price caps for First Home Grants and the removal of the caps for First Home Loans. But perhaps most importantly, some would-be FHBs who had previously been waiting for prices to fall further, now seem to see value again and have decided to re-enter the market. It's hard to pick the trough for values precisely, so their view seems to be 'close enough is good enough'.

Meanwhile, cash multiple property owners have also had a solid share of the market lately, sitting at around 14-15% - historically a high number for this buyer group. 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 increasing debt on other properties in a portfolio.

Even so, 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.

On the flipside, mortgaged multiple property owners have seen their market share drop to record lows, of around 21-22%. In many ways, this isn't surprising. After all, low gross rental yields, slowing rental growth, higher mortgage rates, tight LVR rules, and the removal of interest deductibility are all challenges for this buyer group. The current falls in values themselves may be deterring some would-be investors too. On the other hands, new-builds are still popular with some investors.

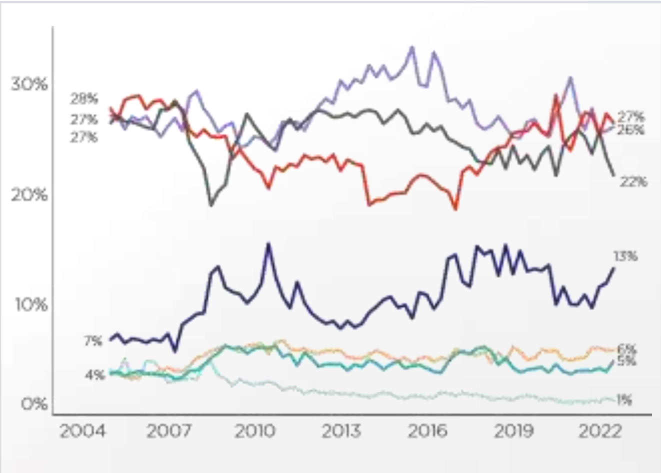
And finally, after a strong start to 2022, the market share for movers (or relocating owner-occupiers) has just dipped back a little more recently. No doubt higher mortgage rates may be prompting some homeowners to stay put rather than try to move house and potentially incur more debt. Indeed, the gap in price between three bedroom and four bedroom properties remains large, and a potential barrier for many people looking to 'trade up'. There may also be concerns about whether or not they can sell their current property too, especially with bridging finance harder to get and conditional offers more common.

 Source: Statistics New Zealand

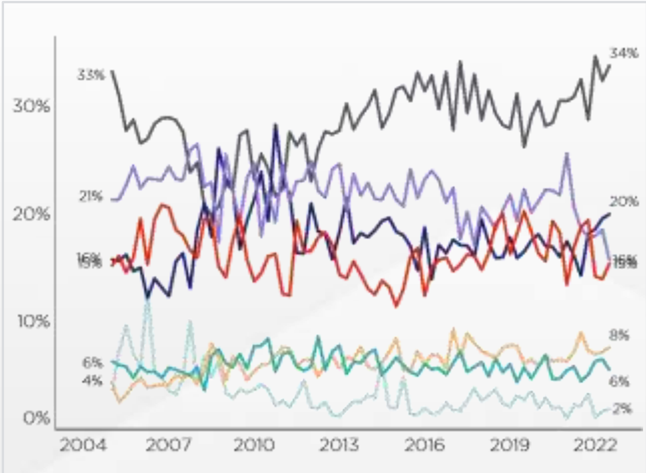
Main Cities Housing Market Indicators

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, two buyer groups that are more reliant on the credit market have still held on to decent market shares lately.

In particular, first home buyers continue to tick along at 26-27% of property purchases in Auckland (admittedly in a quiet market in terms of the *number* of deals) – higher than the national share of 24-25%. In Auckland, the need/willingness to compromise on property type and/or location may still be working in favour of FHBs in that market.

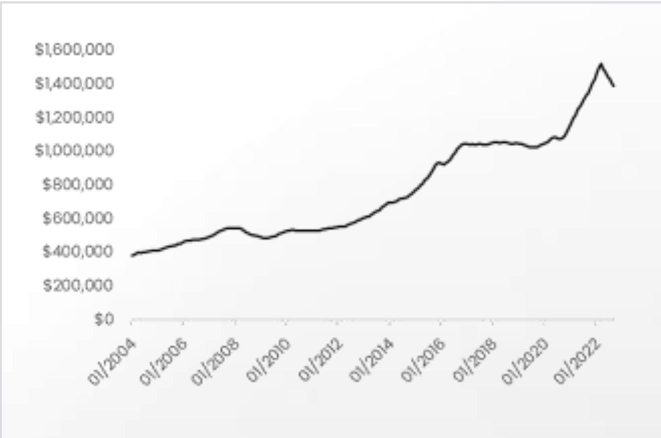
Meanwhile, mortgaged multiple property owners have also retained a decent market share of 26% - again, above the national figure of 22%. Gross rental yields are very low across Auckland, but the plethora of new townhouses coming to the market (with their mortgage interest deductibility and LVR advantages) remain a drawcard for investors.

Cash multiple property owners have also had a solid presence in Auckland in terms of market share of purchases, sitting at around 13%, the highest for a couple of years.

By contrast, the group that's seen their market share slide back lately has been movers, or relocating owner-occupiers. The strain on household budgets from higher mortgage rates and the general rise in the cost of living may be keeping some homeowners where they are. But the 'trade up' gap in Auckland is also quite large, so finding the extra equity and also being approved for more debt may be proving tricky too.

Auckland Values

Average Value of Housing Stock Auckland ($)



Annual & Quarterly Value Change Auckland (%)

Property values are now falling pretty much everywhere across the country, but Auckland remains one of the weaker markets.

In September, average values dropped by 1.3%, taking the quarterly fall to 4% - which equates to values having dropped by around $58,000 since June, and by almost $133,000 from the peak (roughly 9% drop).

Within the sub-market of Auckland, some areas that had previously been a little more resilient didn't fare so well in September – e.g. Rodney was down by 2.4% and Papakura dropped by 2.1%.

However, looking at the three-month horizon, the drops in those areas have been a little smaller than Manukau and Waitakere, as examples, with declines of 5% and 4.8% respectively since June.

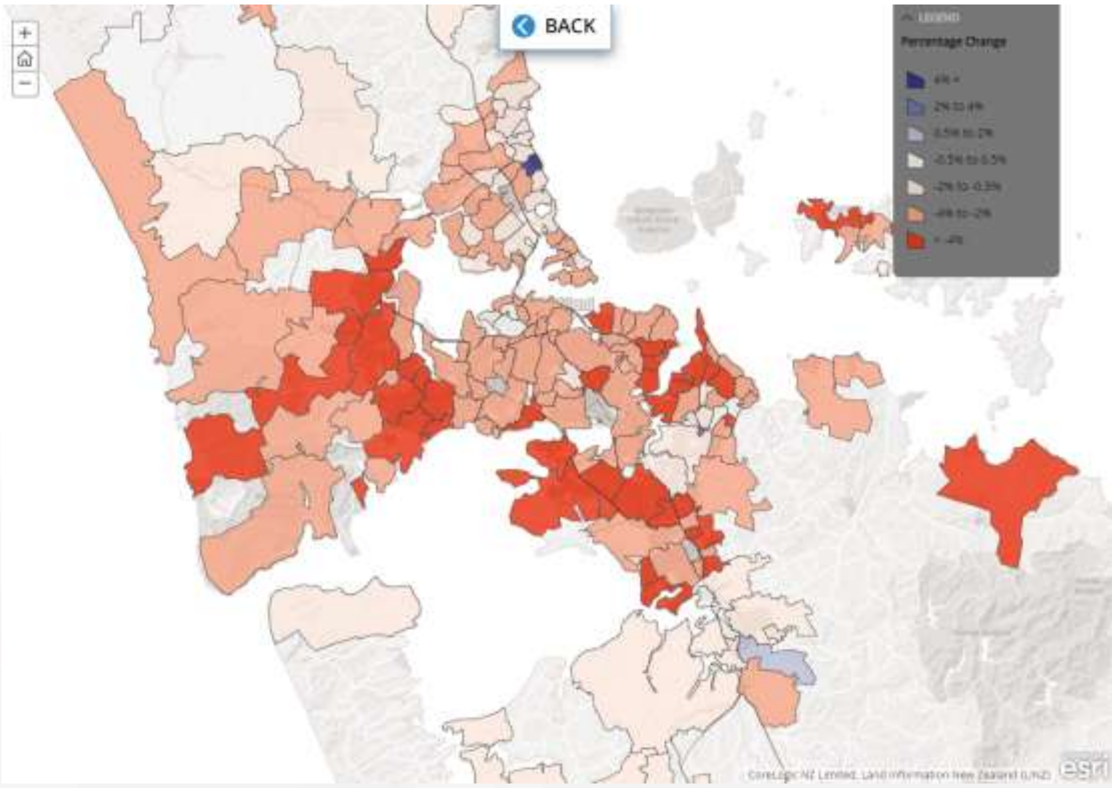
On an annual comparison, average property values across Auckland remain higher than they were in September 2021, but not by much (<1%) in areas such as Waitakere and Auckland City. Moreover, with affordability pressures still a problem, credit harder to secure, and mortgage rates rising, it seems inevitable that values will soon drop below the levels of a year earlier in wider parts of Auckland.

An additional consideration for the Auckland market is the continued large pipeline of new townhouse developments. It's important to note that just because construction volumes are high, there's not necessarily going to be an oversupply emerge. But there does seem to be a risk that the longer the boom in townhouse development continues, the more delayed any eventual recovery might be for prices in that segment.

	September 2022				
	Current value	1 month	3 months	12 months	5 years
Rodney	$1,354,206	-2.4%	-3.9%	9.7%	44.1%
North Shore	$1,542,769	-1.1%	-3.8%	2.2%	29.1%
Waitakere	$1,103,143	-1.4%	-4.8%	0.8%	35.1%
Auckland City	$1,600,394	-1.0%	-3.4%	0.7%	30.5%
Manukau	$1,239,933	-1.5%	-5.0%	4.9%	38.1%
Papakura	$1,024,967	-2.1%	-4.3%	10.2%	50.9%
Franklin	$994,054	-1.3%	-3.1%	11.2%	49.9%

CoreLogic

Current Suburb Values: ‘Mapping the Market’



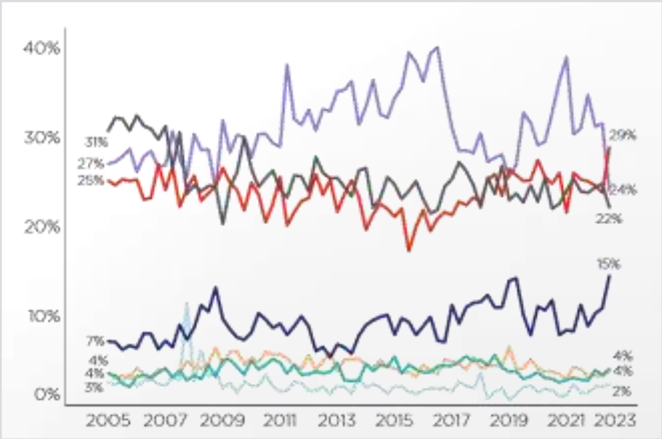
Auckland suburb median values September 2022 ($)

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.**

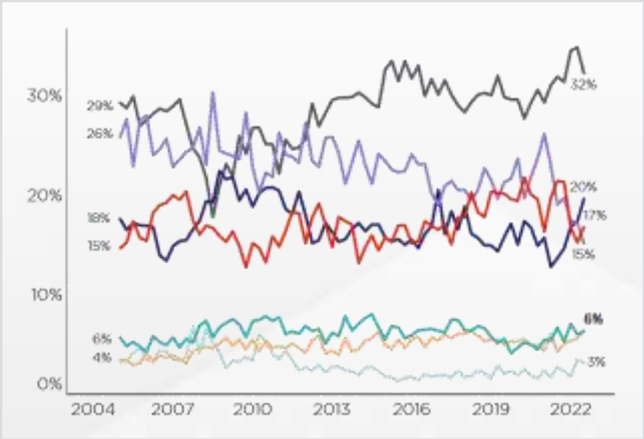
Auckland is illustrated in the heatmap here. Over the past three months, 97% of Auckland suburbs have seen their median property value drop (or 194 out of 201). Almost 180 of those saw falls of at least 1%, and in 14 suburbs, the drops were 5% or more. Suburbs with >5% drops included Glen Eden, Papatoetoe, Henderson, and Panmure. The falls over the past three months topped $100,000 in seven Auckland suburbs, all of them ‘upper end’ areas (median value at least $2m) – including Omaha, Shamrock Park, Onetangi, Palm Beach, Herne Bay, Oneroa, and Orakei.

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

After a long period where mortgaged multiple property owners have been the key buyer group in Hamilton, it's interesting to see that their market share has dropped quite sharply in the past few months. Indeed, from more than 30% in the first half of 2022, the figure for Q3 itself was just 24%. That was the lowest figure since late 2008.

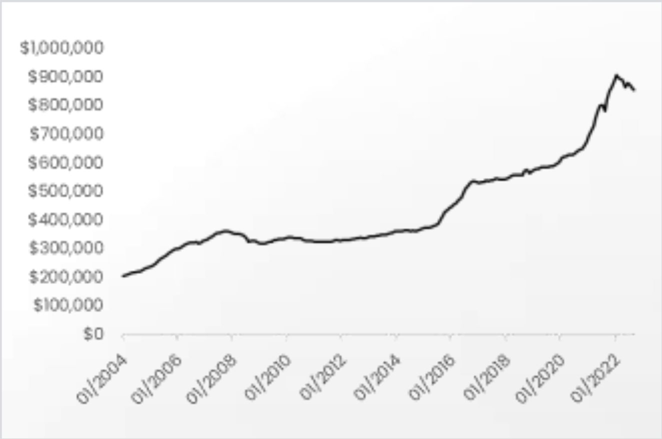
Gross rental yields in Hamilton remain a little higher than some of the other main centres, but they've still fallen over time, and the latest drop in market presence for mortgaged multiple property owners just highlights the challenges currently being faced by this buyer group – amidst higher mortgage rates and tight deposit requirements.

Meanwhile, movers have retained a fairly steady market share in Hamilton, of around 21-22%. The upshot is that the drop in share for mortgaged multiple property owners has been recouped by two other groups – cash multiple property owners (up to 15%) and first home buyers, with a record 29% of the market in Q3 (admittedly, it needs to be noted again that the *number of deals* is still low.)

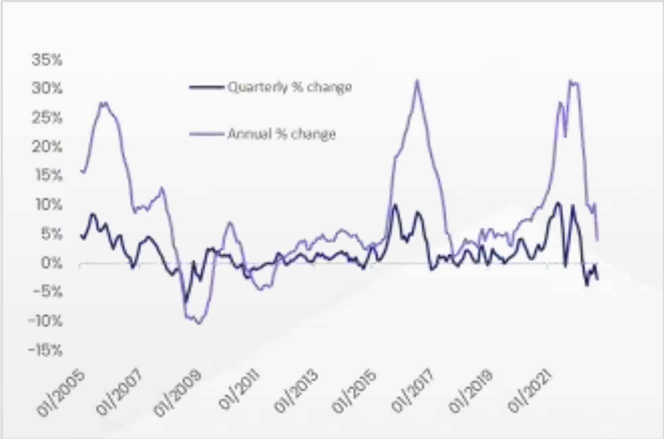
In the case of first home buyers, we suspect that some people previously sitting on the sidelines waiting for a bargain later have now decided that it's time to re-enter – before any chance of having to buy into the next upswing becomes reality.

Hamilton Values

Average Value of Housing Stock Hamilton ($)



Annual & Quarterly Value Change Hamilton (%)



Hamilton's average property values fell by a further 0.8% in September, with a drop of 2.7% since June. Values remain 4.1% higher than a year ago, but this annual growth rate looks set to turn negative shortly.

Indeed, average values have fallen fairly consistently since January's peak, and are now down by a total of 5.7% (equating to almost $52,000).

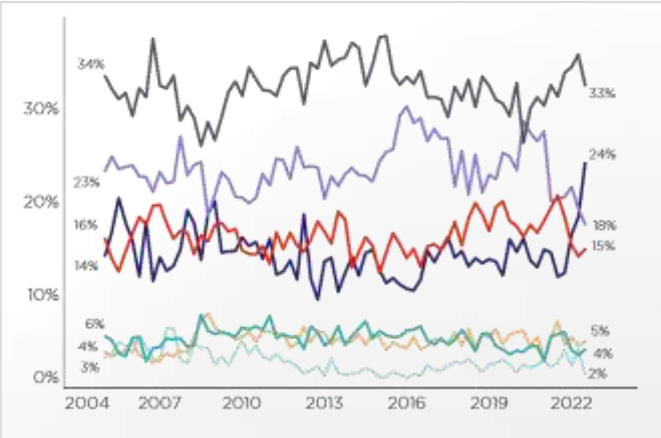
The falls in September were the largest in Hamilton Central & North West, as well as South East. However, over the past three months as a whole, the declines in each part of the city have been fairly closely bunched around 2.5-3%.

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.

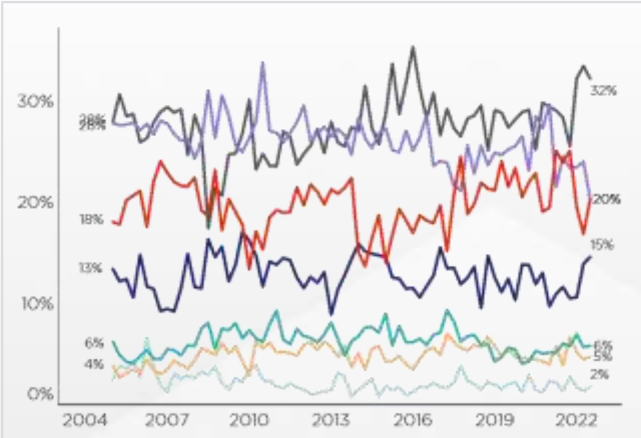
	September 2022				
	Current value	1 month	3 months	12 months	5 years
Hamilton Central & North West	$795,471	-1.6%	-3.2%	3.9%	57.3%
Hamilton North East	$1,060,828	-0.3%	-2.6%	5.3%	53.4%
Hamilton South East	$789,569	-1.6%	-2.7%	2.8%	59.8%
Hamilton South West	$757,860	-0.4%	-3.2%	2.7%	55.6%

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

Movers remain the key buyer group in Tauranga, accounting for 33% of property purchases in Q3, down a bit from 36% in Q2, but still a high share. This illustrates how important a greater equity/cash base is in terms of buying property in Tauranga, which is an expensive market for somebody trying to purchase on local wages without too much of deposit.

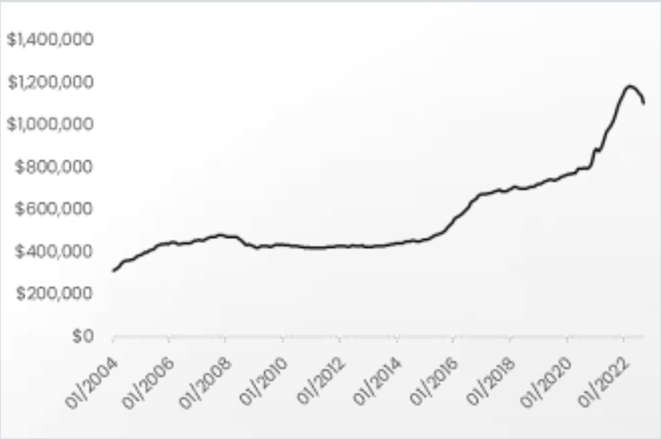
Indeed, the share of purchases going to first home buyers remained low in Q3, at 15%. That's well below the levels from a year ago (21% in Q3 2021), and also the latest national figure of closer to 25%. In other words, Tauranga is a difficult market for first home buyers.

The same can be said for mortgaged multiple property owners, who have seen their market share drop to only 18% lately, down from 25-30% in 2020 and into 2021. Low rental yields and higher mortgage rates are a tough combination.

On the flipside, cash multiple property owners don't need to worry as much as the mortgage environment and their share of activity in Tauranga has spiked higher recently, rising to 24% in Q3 2022. Some of these buyers may have previously been sitting on the sidelines, but judging by the latest figures, they're now seeing value and perhaps some 'bargains' emerging.

Tauranga Values

Average Value of Housing Stock Tauranga ($)



Annual & Quarterly Value Change Tauranga (%)

Average property values in Tauranga fell by 3.1% in September alone, taking the quarterly fall to 5.2%. The drop from the peak now stands at 6.9% in Tauranga, or nearly $82,000.

At just a little more than $1.1m, average values in the city are now back down at the levels last seen in October 2021.

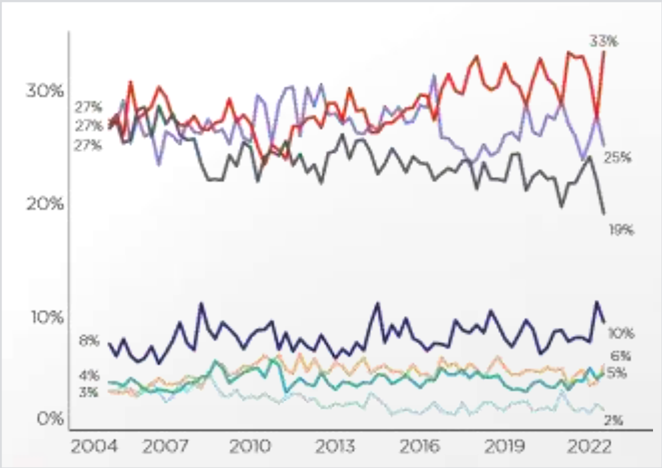
Looking ahead, Tauranga is still one of the most stretched parts of NZ in terms of housing affordability, especially for first home buyers looking to get on the ladder. Low rental yields make it tough for investors too.

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.

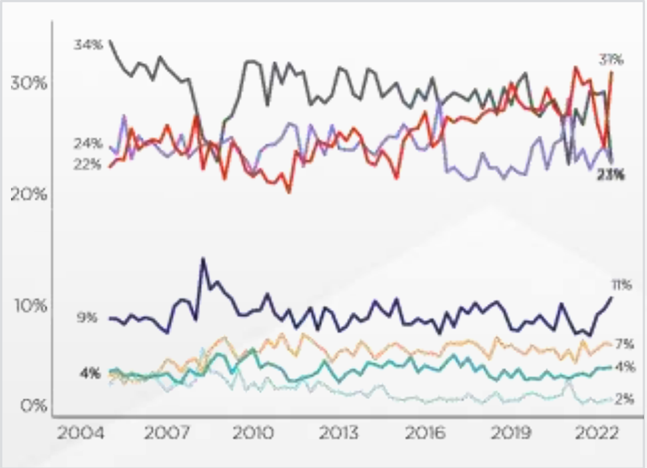
CoreLogic

Wellington Market Activity

Buyer Classification – wider Wellington (% of purchases)



Buyer Classification – Wellington Region (% of purchases)



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

Around the wider Wellington area (City, Lower Hutt, Upper Hutt, and Porirua), first home buyers remain a key presence in the market. Previously there had been some evidence that some would-be first home buyers were actively withdrawing from the market, on the idea of getting a cheaper property later and/or a better property for the same money.

However, the latest rebound in market share to 33% (well above the national figure of 24-25%) suggests that those first home buyers have now returned, given that property values around Wellington have already fallen quite a bit.

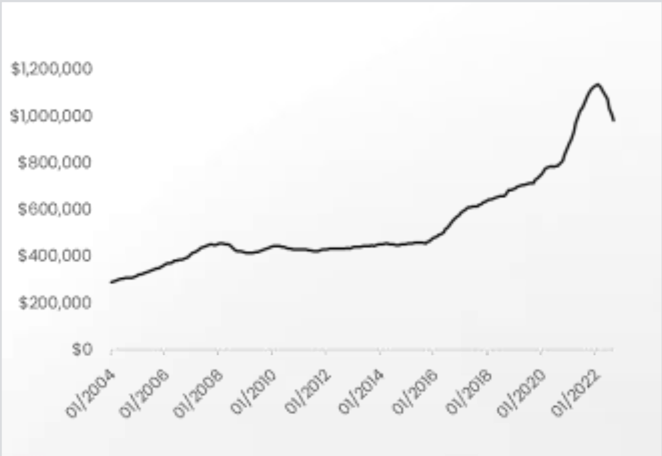
Meanwhile, mortgaged multiple property owners are also holding on to a reasonable share around Wellington, sitting at 25% in Q3 2022 – perhaps with some investors finding opportunities by looking at new-builds.

By contrast, cash multiple property owners haven't really moved too far in either direction in terms of their share of purchases lately, while movers (i.e. relocating owner-occupiers) have actually fallen back – and that's amidst the wider market context where the *number* of deals is down too.

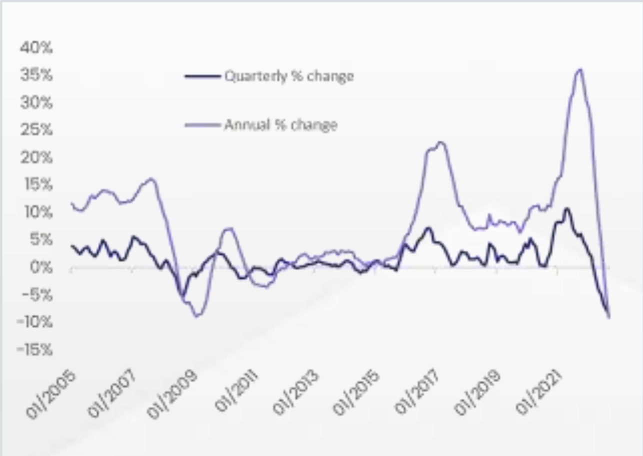
The costs to move house are likely to remain a barrier for some would-be movers, but the large sum of extra money required to actually 'trade up' in Wellington (either debt or equity, or both) will also be a lingering challenge.

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, across the wider area, average values dropped by 2.5% in September alone, and by a total of 8.5% since June. Values also now stand 9.1% lower than a year ago. The drop from the peak has been 13.5%, or almost $154,000.

In the sub-markets, the weakness of property values has been pretty widespread, with the drops since June ranging from around 5% in Carterton, South Wairarapa, and Kapiti Coast, up to about 11% in Masterton.

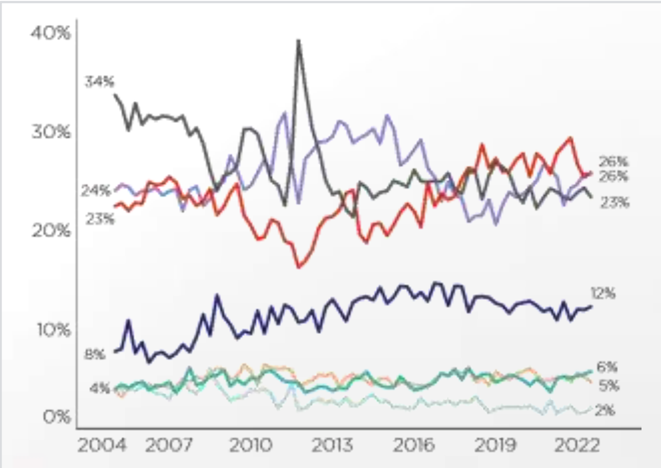
Compared to a year ago, South Wairarapa has still seen an increase in average values (6.3%), but the other areas are down – ranging from a drop of 3-4% in Carterton, Kapiti Coast, and Masterton, up to 10% in Upper Hutt and about 12% in the Lower Hutt market. Wellington City itself sits somewhere in the middle, with an annual drop of 7.6%.

With listings higher 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.

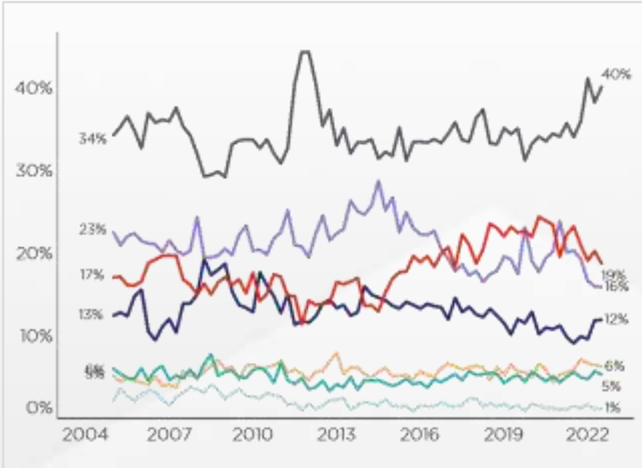
	September 2022				
	Current value	1 month	3 months	12 months	5 years
Porirua	$878,982	-2.9%	-8.6%	-9.6%	68.6%
Upper Hutt	$804,216	-4.1%	-7.3%	-10.0%	75.7%
Lower Hutt	$848,336	-3.6%	-8.2%	-11.9%	63.3%
Wellington City	$1,120,909	-1.7%	-8.7%	-7.6%	53.0%
Carterton	$693,541	-2.1%	-5.1%	-3.6%	101.7%
Masterton	$616,212	-5.1%	-10.7%	-4.6%	96.9%
South Wairarapa	$862,834	-3.0%	-4.7%	6.3%	97.7%
Kapiti Coast	$913,322	-1.8%	-5.0%	-3.7%	73.7%

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 (within the wider context of a drop in the number of deals).

First home buyers have held on to a market share of around 25-26% of property purchases lately, a touch above the national figure. Better affordability in Christchurch is a factor in favour of FHBs in that part of the country.

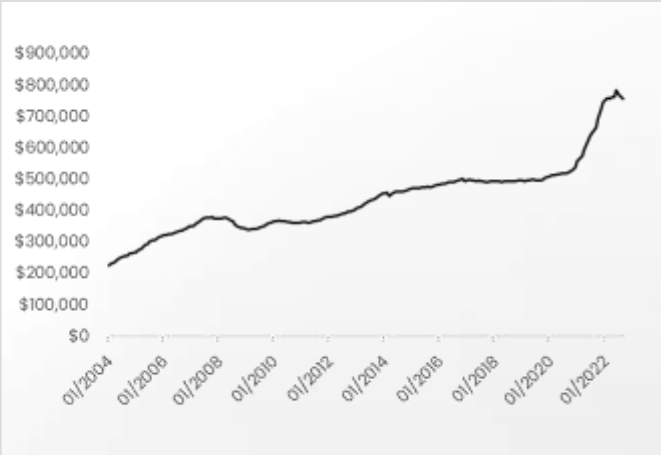
Meanwhile, mortgaged multiple property owners have also held fairly steady at 26% of the market too. The mirror image of decent affordability for owner-occupiers is a relatively higher gross rental yield, and this may be attracting the continued flow of investors in the Christchurch market.

Movers have retained a 22-23% share of the Christchurch market, as has generally been the case for the past 2-3 years – a slightly lower presence than for NZ as a whole. And finally, cash multiple property owners has also been stable, at 12-13%.

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 generally held up a little better in recent months.

Even so, Christchurch's average value declined by 0.6% in September and is down by 3.4% since June (albeit still 13.6% above September 2021). Selwyn and Waimakariri have also seen values fall since June, but by a relatively mild 2.2% and 1.5% respectively.

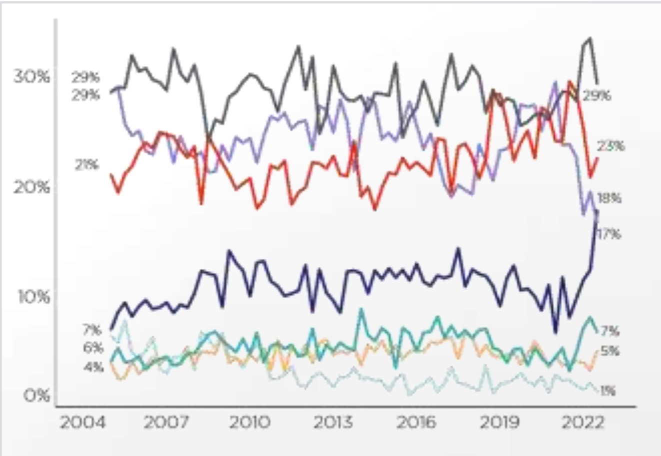
Looking ahead, we doubt that the wider Christchurch market will be totally immune to the changes in key housing drivers, such as higher interest rates and cautious mortgage lending attitudes at the banks.

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.

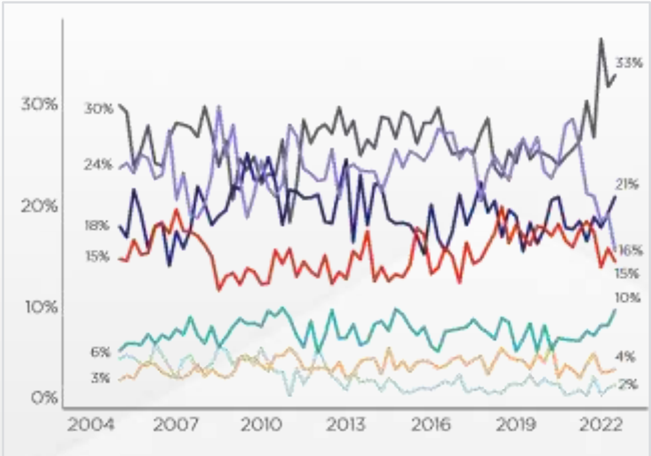
	September 2022				
	Current value	1 month	3 months	12 months	5 years
Banks Peninsula	$799,711	-2.5%	-7.3%	12.2%	55.8%
Christchurch Central & North	$867,084	-0.7%	-3.6%	12.2%	49.5%
Christchurch East	$586,821	-0.4%	-3.3%	14.4%	58.3%
Christchurch Hills	$1,044,551	1.0%	-3.8%	15.1%	60.9%
Christchurch Southwest	$720,919	-0.9%	-3.2%	13.7%	52.9%
Selwyn	$850,179	-1.0%	-2.2%	14.4%	56.8%
Waimakariri	$719,862	-1.3%	-1.5%	17.4%	66.4%

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

Movers remain the key buyer group across Dunedin, with a 29% share of property purchases in Q3 2022 – down from 33% in Q2, but still a solid presence. In other words, owner-occupiers are still relocating within Dunedin fairly regularly.

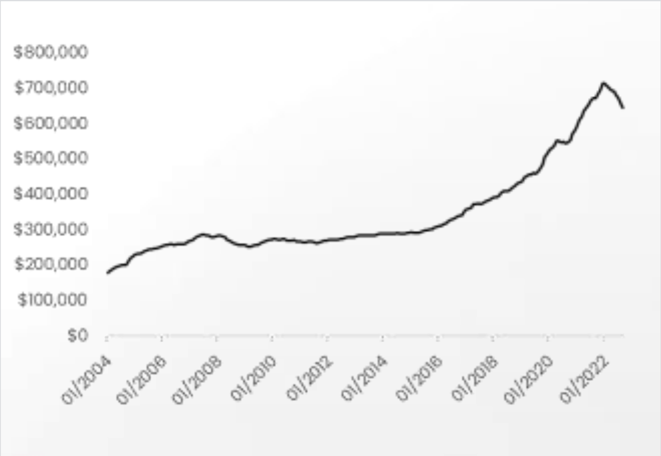
Meanwhile, cash multiple property owners have seen their market share rise steadily over the past year or so, to hit 18% in Q3 2022 – a record high. In the current credit-restrained environment, this investor group which is less reliant on the banks has evidently been seeing buying opportunities (even in a slower overall market in terms of number of deals).

By contrast, mortgaged multiple property owners have recently become less of a presence in Dunedin, with their share of purchases dropping to 17%. Tighter credit, higher mortgage rates, and lower gross rental yields are all factors making it challenging for investors to get the sums to stack up.

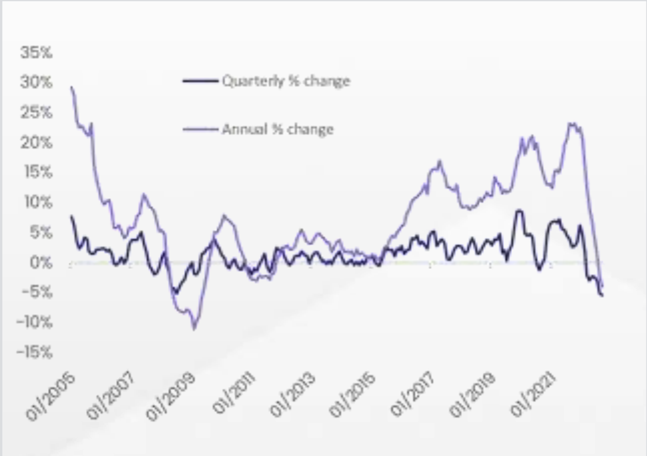
And finally, first home buyers did see their market share rise in Q3, from 21% in Q2 to 23%. That's encouraging, but this buyer group is still much less active in relative terms than they were about a year ago, when market share hit 30%. Clearly, first home buyers still have some challenges in terms of securing and affording a mortgage, but some are no doubt also waiting for prices to potentially fall further.

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 1.7% in September, and have fallen by a total of 5.4% since June. They're now also 4% lower than a year ago, which equates to almost $27,000.

In recent months, Peninsula & Coastal has been the weakest part of Dunedin, with a fall in average values of 10% since June. Its values are also now 5.2% lower than a year ago, pretty close to the fall of 4.8% for Taieri (and 3.9% for Central & North), but a bit worse than 2.5% for Dunedin South.

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.

	September 2022				
	Current value	1 month	3 months	12 months	5 years
Dunedin Central & North	$664,571	-1.0%	-4.6%	-3.9%	66.8%
Dunedin South	$612,585	-1.5%	-5.6%	-2.5%	72.1%
Peninsula and Coastal	$592,577	-2.8%	-10.0%	-5.2%	71.8%
Taieri	$675,311	-2.1%	-4.5%	-4.8%	69.3%

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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