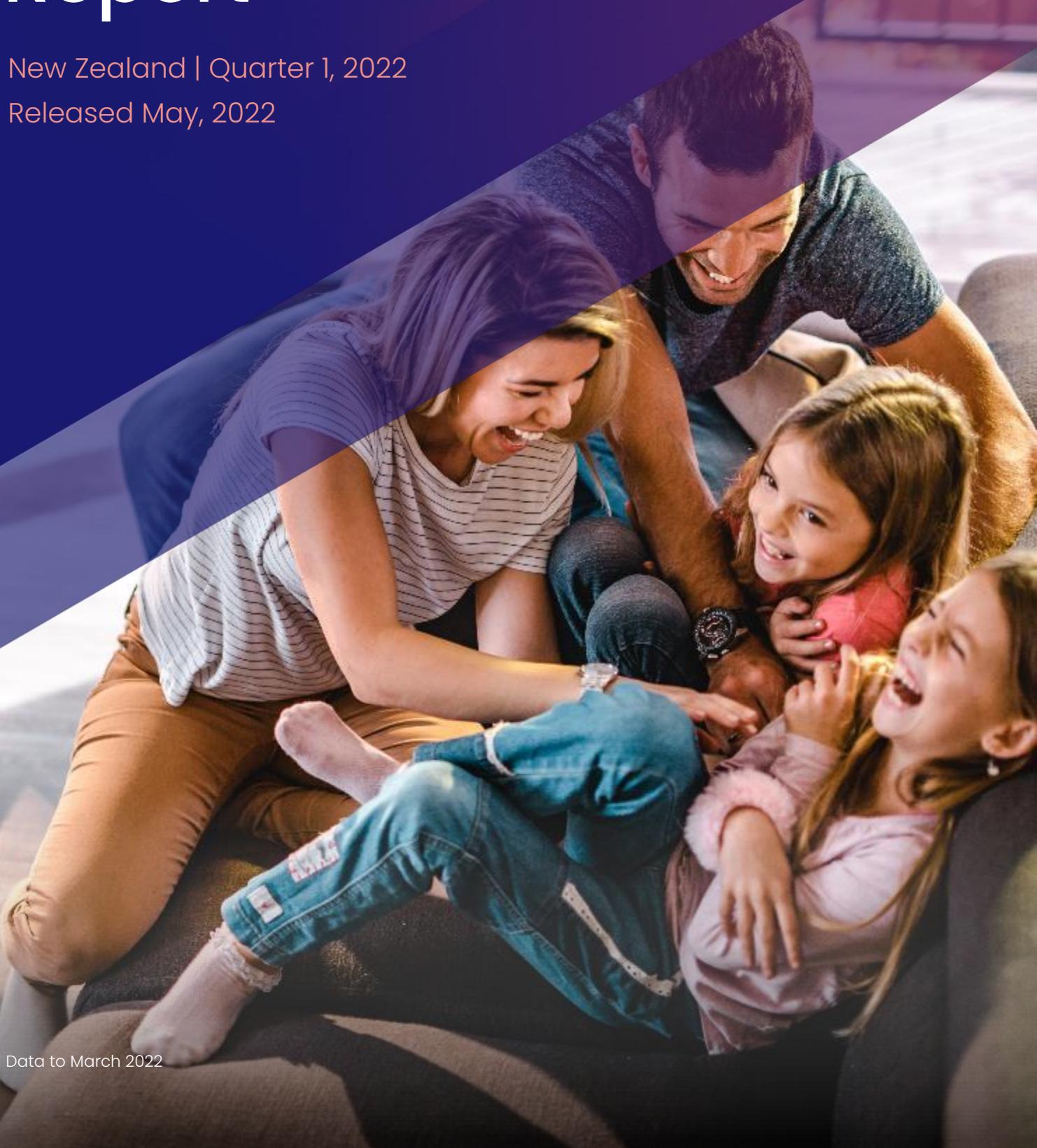


First Home Buyer Report

New Zealand | Quarter 1, 2022

Released May, 2022



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New Zealand
Quarter 1, 2022

About CoreLogic

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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.

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Executive Summary



Based on the CoreLogic Buyer Classification series, we've long provided figures on the share of property purchases being made by first home buyers (FHBs) in each part of the country. The fourth edition of this more detailed report, however, takes a deeper look at the figures and covers what types of properties FHBs have been buying lately and also the prices they've been paying. For clarity, we define a first home buyer purchase to be where all parties involved haven't owned property in NZ before and are using a mortgage to make the deal.

Some key insights from this report include:



Despite the clear signs that the wider housing market has turned the corner and is into a slowdown phase, first home buyers (FHBs) have arguably suffered in the turnaround rather than being in a strong position to take advantage of it. Indeed, the FHB market share of property purchases in Q1 2022 was just 22.5%, down sharply from the record highs of 26% seen across the second half of 2021.



It's also important to note that the drop in FHB % market share has also occurred within the overall slowdown in the number of sales too. Indeed, in terms of raw numbers, FHB activity lately has been its lowest since 2014, with the % market share back down at 2017 levels (except for the lockdown-affected period in early to mid-2020).



Of course, that's not a major surprise, given that housing affordability is still very stretched (11-12 years to save a deposit), mortgage interest rates have risen sharply, and the tightening of lending criteria have bitten hard for those with low deposits and/or less disposable income. Indeed, the halving of the loan to value ratio speed limit for owner occupiers from 20% to 10% on 1st November last year has significantly hampered FHBs – with the changes to the Credit Contracts and Consumer Finance Act not helping either.



To be fair, some would-be FHBs may have willingly pulled back from the market, with the aim of securing a lower purchase price later. However, we suspect that's only a small part of the explanation – it's much more likely that their market share has fallen on the back of the tighter credit environment and the increased cost of servicing a mortgage.



By property type, 73% of FHB purchases in Q1 2022 were houses, with 18% flats¹, and 3% each for apartments, lifestyle, and 'other'. That might seem like a high share for houses, but back in 2019, they represented about 80% of FHB purchases, hinting at the compromises (e.g. on property size/cost) that this group have had to make to keep accessing the market.



In terms of purchase price, the median paid by FHBs in Q1 2022 was \$752,007, up from \$680,000 in 2021, but still well below the median for all buyers so far this year of \$860,000. Indeed, there are signs of strain here too. Over the course of the past 4-5 years, the FHB price has been a fairly stable 91-92% of the all-buyer price. But so far in 2022, this ratio has slipped to 87% – hinting that FHBs haven't been able to keep pace with the wider market.



Looking at the data across Auckland, Hamilton, Tauranga, wider Wellington (i.e. combined City, Lower Hutt, Upper Hutt, Porirua), Christchurch, and Dunedin, the national trends can also be seen at the more granular level – indeed, each of these areas has seen the % market share of purchases going to FHBs drop over the first few months of 2022.

¹ Often a property with shared wall that isn't an apartment

Executive Summary (continued)



However, FHBs haven't disappeared altogether. Indeed, across wider Wellington they still account for more than 30% of activity, which is about two percentage points higher than average for that area. Dunedin's figure of about 25% is also still above normal, as is Hamilton, and Christchurch. However, Auckland's FHB share (25%) has pretty much returned to normal in Q1 2022, while Tauranga's figure is also back down to average.



As was the case at the national level, each of the main centres saw FHBs pay a median price in Q1 2022 that was lower than for all buyers. The gap was largest in Auckland, with FHBs paying a median of \$1.04m, versus the overall figure of \$1.23m. The next highest FHB price paid was in Wellington (\$890,000), followed by Tauranga (\$800,000), with Hamilton around the \$750,000 mark, and both Christchurch and Dunedin closer to \$600,000.

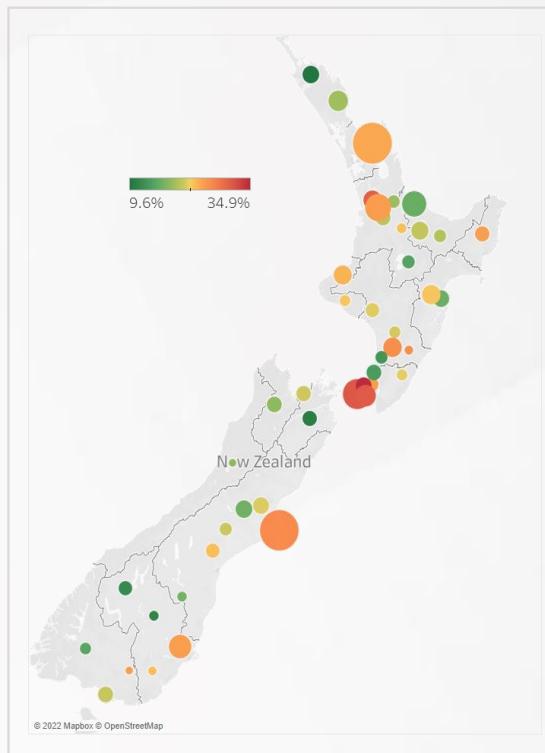


Digging deeper into the next 12 key centres around New Zealand, first home buyers' market share in Q1 2022 was generally close to its average or a bit below – this included Queenstown (12% versus average of 15%) and Kapiti Coast. However, there were also some areas of relative strength for FHBs in the first quarter of 2022, including Hastings (23% versus average of 20%). Around NZ's provincial property markets, it was a fairly even spread of areas that had an above average FHB % market share in Q1 2022 versus those that were below normal (with a minimum criteria applied for number of FHB deals, which strips out the very small areas). In Tararua, for example, the FHB market share in Q1 was 26%, about 5%-points higher than average.

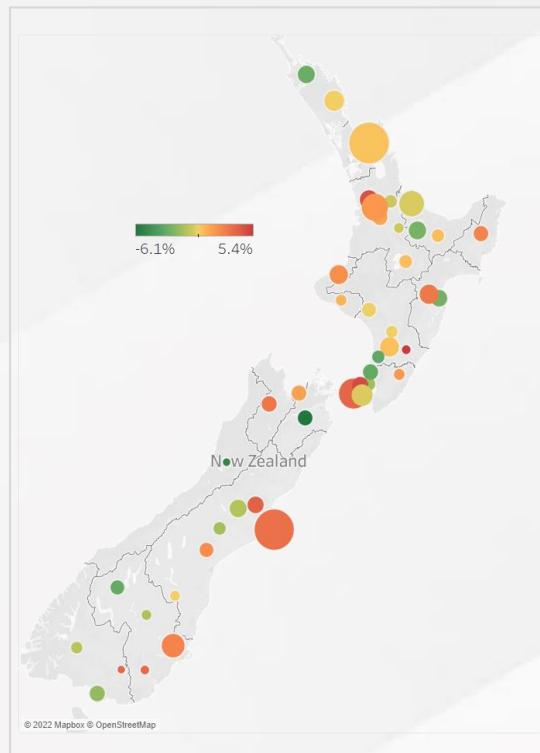


Looking ahead, some FHBs will no doubt be able to secure some bargains in a market where the supply/demand balance has tipped in favour of buyers. The looming relaxation of the CCCFA rules may help too. But others will continue to struggle with the LVR rules and higher mortgage rates, meaning that the overall FHB % market share may stay more subdued this year. Indeed, with the cost to rent now probably looking more favourable than buying (because of the sharp rise in mortgage rates) for many would-be FHBs, some may choose to sit on the sidelines for longer.

FHB % market share Q1 2022



**FHB % market share Q1 2022
vs long term average**



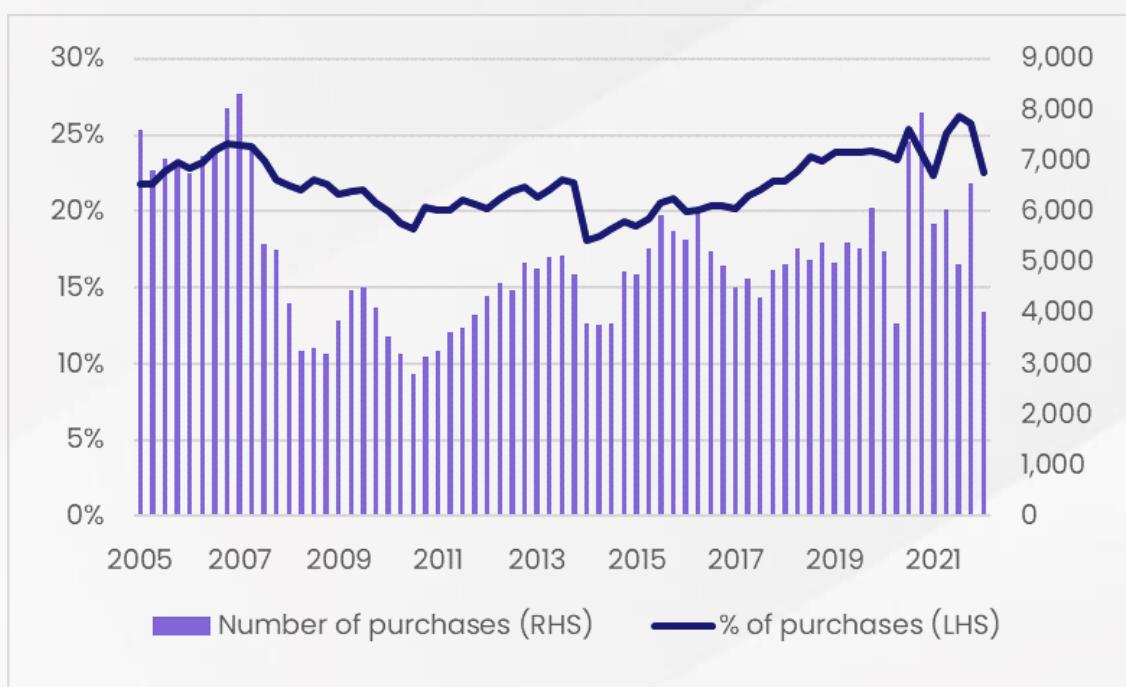
The national picture

The wider slowdown in NZ's residential property market has now well and truly arrived, with sales volumes falling, value growth slowing sharply (and even turning negative in some areas), and the balance of pricing power shifting towards buyers as the amount of stock/listings available on the market increases. In this environment, you might ordinarily think that first home buyers (FHBs) would be enjoying a higher presence in the market, and potentially snapping up 'bargains'.

However, it's also important to point out that housing affordability is still stretched right across the country, with the average deposit taking more than 11.5 years to save at a national level – and significantly longer than that in Tauranga (15.8) and Auckland (13.5) as examples. Meanwhile, mortgage interest rates have risen sharply, and the tougher Credit Contracts and Consumer Finance Act changes – although now set to be relaxed again – have bitten hard for many would-be FHBs.

And on top of all of that, November's tightening of the loan to value ratio rules for owner-occupiers has also significantly impacted FHBs – who previously absorbed almost all of the higher 20% allowance for low deposit lending (which of course has now been halved to 10%). Prior to the rule change, roughly two in five FHBs took out a low deposit/high LVR mortgage. But that figure has recently fallen to about one in five.

National FHB activity



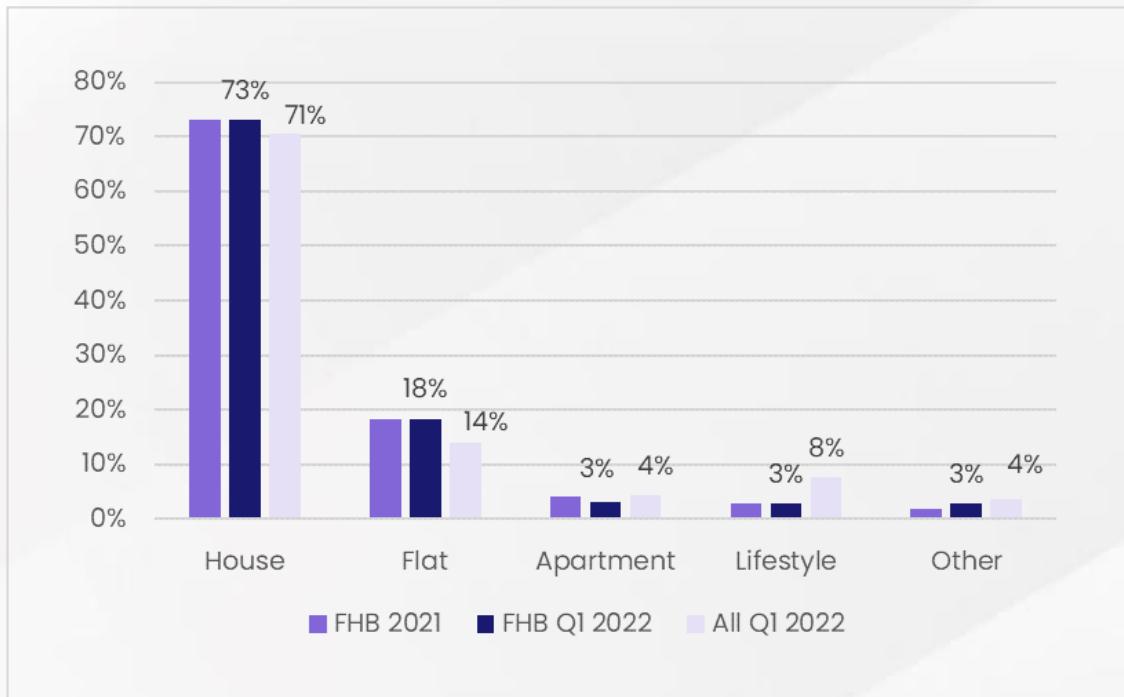
When all of this is balanced out, what we're left with is a reduced % market share for FHBs, and that's within an overall fall in the raw number of purchases/sales across the market too. In Q1 2022, FHBs accounted for just 22.5% of property purchases across NZ, down sharply from the record levels of 26% across the second half of last year and – apart from the first lockdown period in 2020 – their lowest presence in the market since 2017. In terms of the number of purchases, FHBs haven't been this quiet since 2014.

To be fair, some would-be FHBs may have willingly pulled back from the market, with the aim of securing a lower purchase price later. However, we suspect that's only a small part of the explanation – it's much more likely that their market share has fallen on the back of the tighter credit environment and the increased cost of servicing a mortgage.

Looking at those FHBs that have been successful, however, our data shows that 73% of their purchases in Q1 2022 were houses, with 18% flats, and 3% apiece for apartments, lifestyle blocks, and ‘other’ properties. Compared to all buyers in Q1 2022, FHBs bought relatively more houses and apartments, but fewer of the other property types. However, there is still evidence of a compromise here, with FHBs over time having shifted away from larger dwellings in order to keep accessing the market – back in 2019, about 80% of FHB purchases were houses, with 2020’s figure more than 77%.

So what have FHBs actually been paying? So far in 2022, their median purchase price across all dwellings has been \$752,007, up sharply from the 2021 figure of \$680,000 – but still comfortably below the median for all buyers in 2022 of \$860,000. The upper quartile FHB price is also below the all-buyer equivalent, although the gap at the lower quartile end is relatively small.

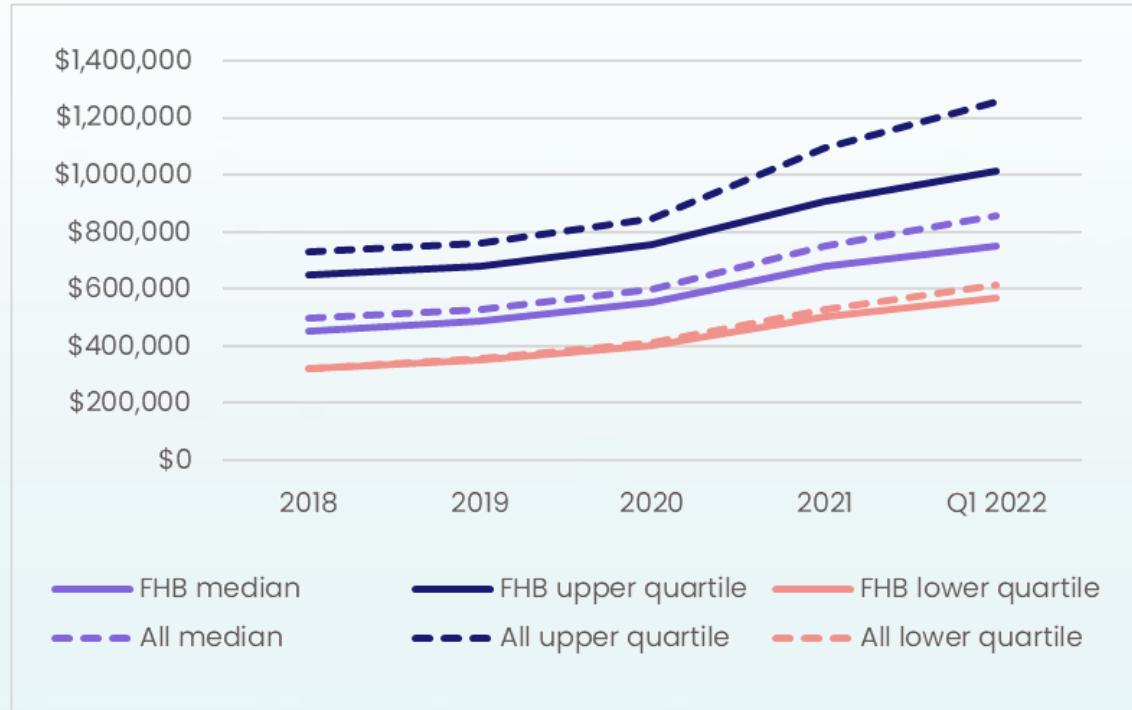
Property type % of purchases



In addition, although the FHB median price paid is higher in 2022 so far than it was in 2021, there are signs of strain here too. Over the course of the past 4-5 years, the FHB price has been a fairly stable 91-92% of the all-buyer price. But so far in 2022, this ratio has slipped to 87% – hinting that FHBs haven’t been able to keep pace with the wider market.

Overall, then, it's clearly been a tough start to 2022 for FHBs, with the restrained credit environment hampering their activity. On a positive note, at least the worst may have passed, with the CCCFA rules set to be eased, and the banks generally now making a bit more low-deposit finance available. However, mortgage rates are still rising, and we suspect that the rest of the year is likely to remain pretty challenging for would-be FHBs.

Purchase prices paid

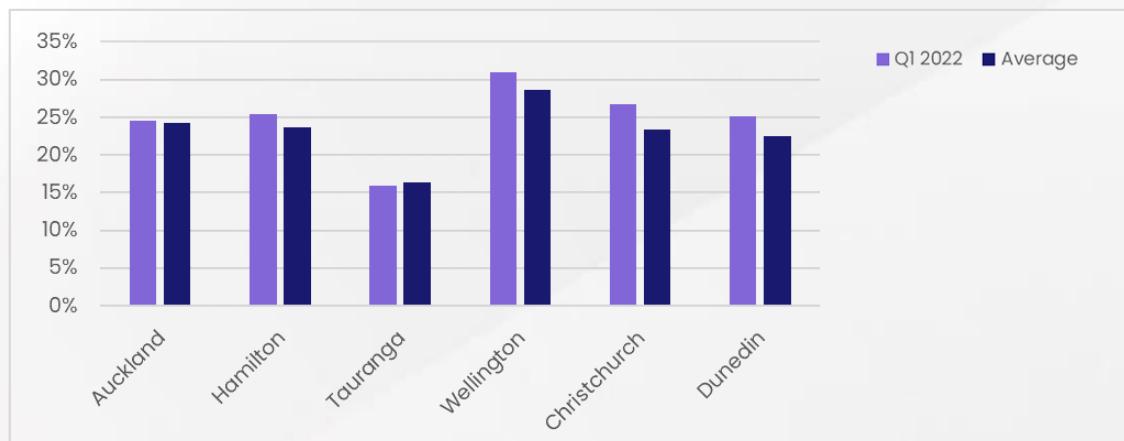


The main centres

Looking at the data across Auckland, Hamilton, Tauranga, wider Wellington (i.e. combined City, Lower Hutt, Upper Hutt, Porirua), Christchurch, and Dunedin, the national trends can also be seen at the more granular level – indeed, each of these areas has seen the % market share of purchases going to FHBs drop over the first few months of 2022.

However, we also need to acknowledge that FHBs haven't abandoned the market altogether. Indeed, across wider Wellington they still account for more than 30% of activity, which is about two percentage points higher than average for that area. Dunedin's figure of about 25% is also still above normal, as is Hamilton, and Christchurch. The latter in particular has a good selection of 'FHB stock', such as new townhouses and also some older/cheaper standalone properties that have been sold by previous FHBs who have now traded up (and sometimes out to Selwyn for a new-build).

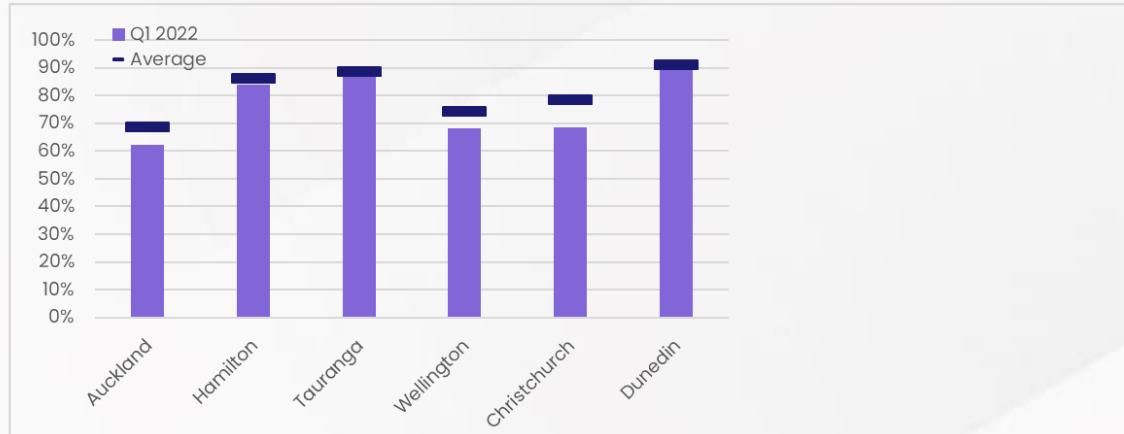
FHB % share of purchases



However, Auckland's FHB share (25%) has pretty much returned to normal in Q1 2022, while Tauranga's figure is also back down to average – which itself is comparatively low (16% versus the national average through time of 21-22%).

By property type, the affordability strains and the need for FHBs to look at smaller dwellings (given their cheaper prices) can be seen in many of the main centres. Indeed, for Q1 2022, the share of houses amongst all FHB purchases was below average in Auckland, Hamilton, Wellington, and even Christchurch – and only on a par with normal in Tauranga and Dunedin. Auckland and Wellington have a higher share of apartments and flats amongst their existing housing stock, so the share of FHB purchases comprised of houses will naturally tend to be lower.

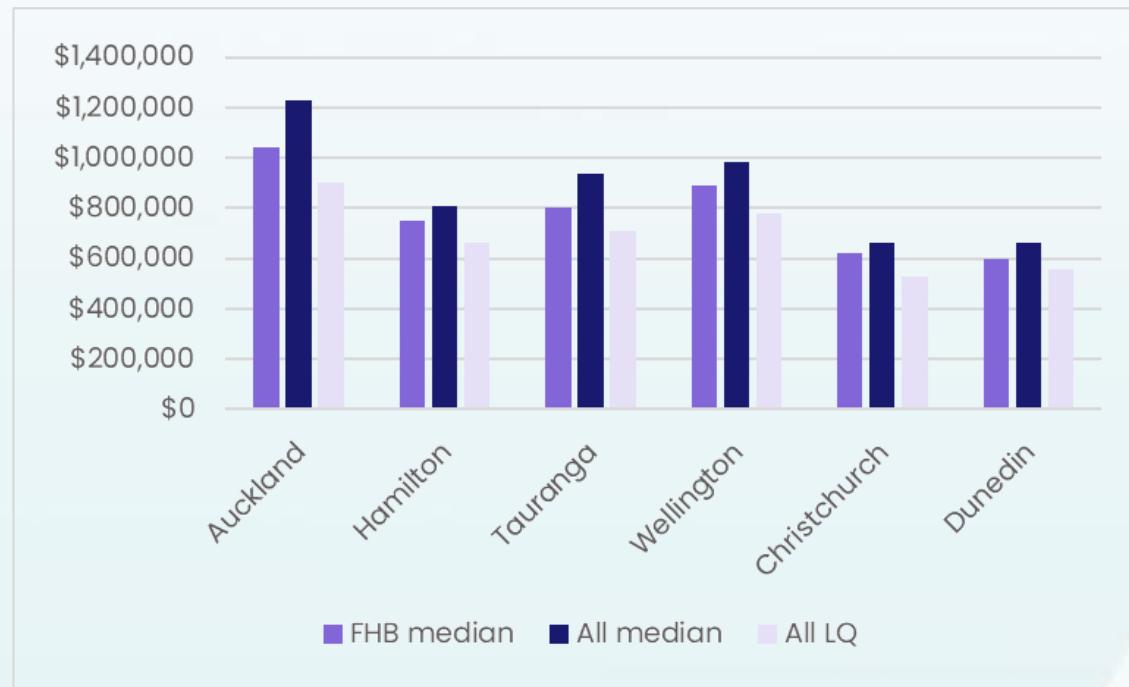
House % share of FHB purchases



As was the case at the national level, each of the main centres saw FHBs pay a median price in Q1 2022 that was lower than for all buyers. The gap was largest in Auckland, with FHBs paying a median of \$1.04m, versus the overall figure of \$1.23m. The next highest FHB price paid was in Wellington (\$890,000), followed by Tauranga (\$800,000), with Hamilton around the \$750,000 mark, and both Christchurch and Dunedin closer to \$600,000.

However, as was also the case at the national level, FHBs in each of the main centres paid a median price higher than the all-buyer lower quartile. In other words, the ‘typical’ FHB does not always enter at the lower end of the market and work their way up, which goes against the popular perception.

Purchase price paid Q1 2022

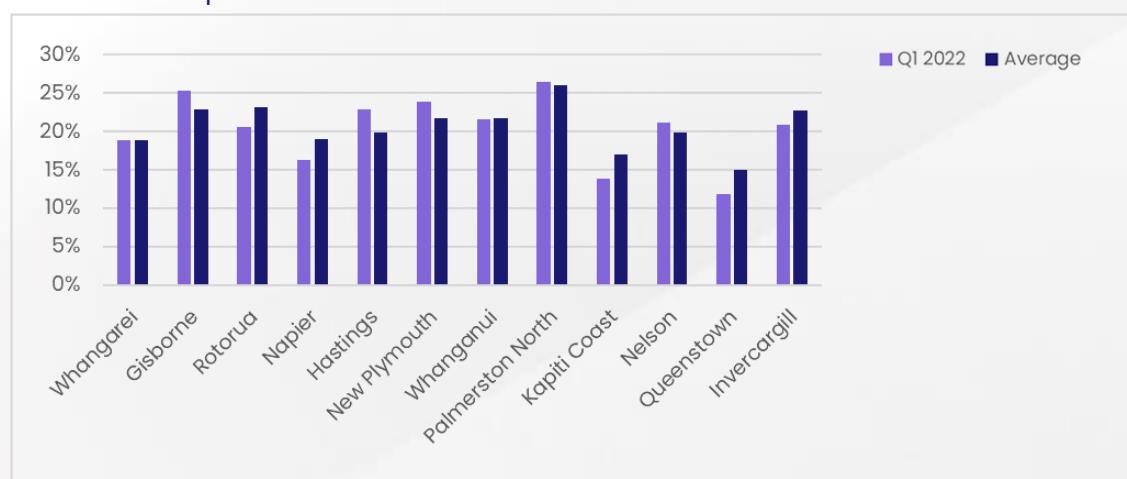


The main urban areas

Digging deeper into the next 12 key centres around New Zealand, first home buyers' market share in Q1 2022 was generally close to its average or a bit below – this included Queenstown (12% versus average of 15%), Kapiti Coast (14% vs 17%), Napier (16% vs 19%), Rotorua (21% vs 23%), and Invercargill (21% vs 23%). Areas on par with normal included Whangarei (19% FHB share), Whanganui (22%), and Palmerston North (26%).

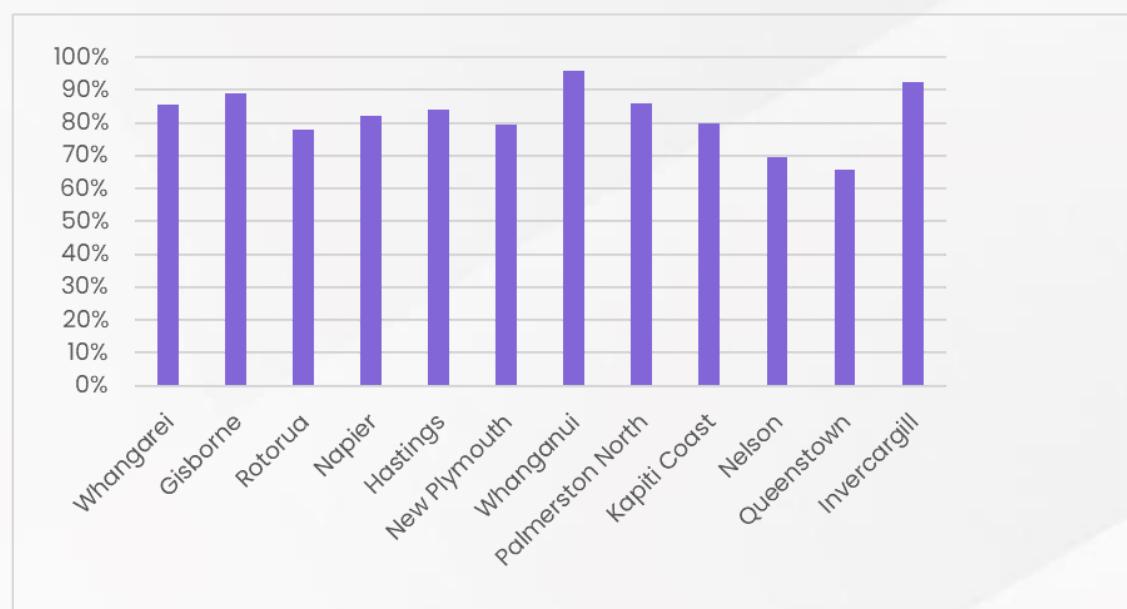
However, there were also some areas of relative strength for FHBs in the first quarter of 2022, including Hastings (23% versus average of 20%), Gisborne (25% vs 23%), New Plymouth (24% vs 22%), and Nelson (21% vs 20%).

FHB % share of purchases



In these 12 'main urban areas', houses tend to be the dominant type of property amongst the existing housing stock, and therefore also account for a high share of FHB purchases. In Whanganui, that figure in Q1 2022 was 96%, with Invercargill (92%) also topping the 90% mark. And apart from Nelson (69%) and Queenstown (66%), each of the other ten areas saw the figure for houses as a % of FHB purchases in Q1 2022 come in the range of 80-90%.

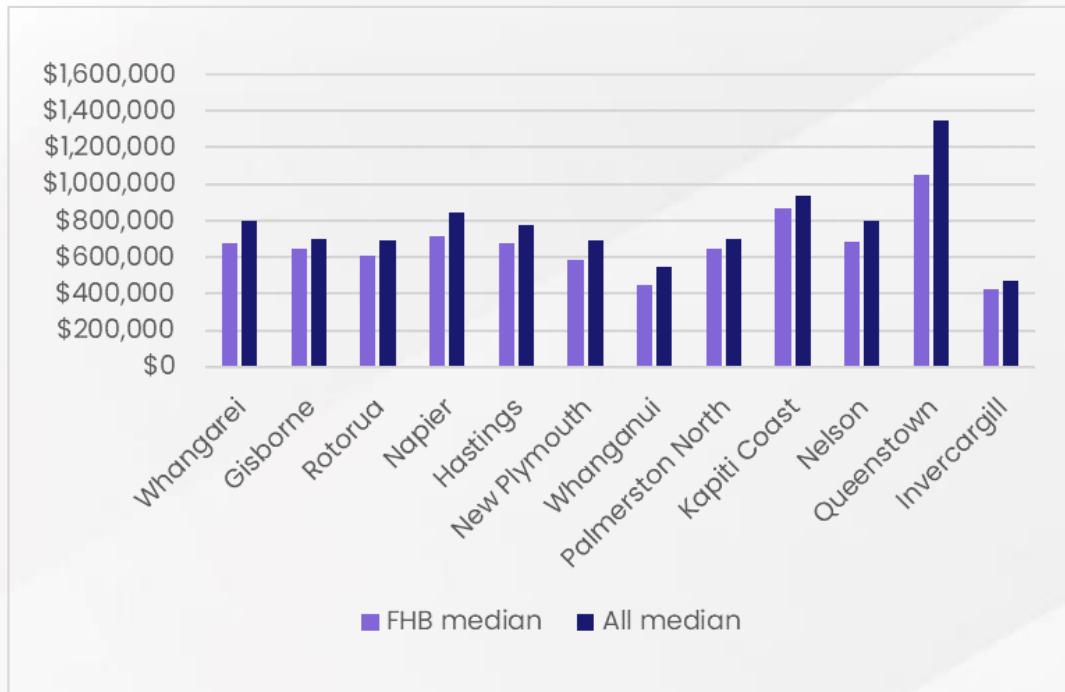
House % share of FHB purchases Q1 2022



The median price paid by FHBs in Q1 2022 was lower than the median for all buyers in each of the 12 main urban areas, with the smallest gap (\$48,000) in Invercargill – i.e. a median FHB price of \$425,000 versus all buyers at \$473,000. The highest median price paid by FHBs was in Queenstown, at \$1.05m. But it also had the highest gap up to the all-buyer price, which was \$1.35m.

The median price paid by FHBs in Whanganui in Q1 2022 was still sub-\$500k (at \$450,000), but a number of other areas bunched in the range of \$600–\$700,000. Kapiti Coast stood out a little more, however, with a median FHB price paid of \$870,000. Once again, note that the median FHB price paid was higher than the all-buyer lower quartile in each of these areas – showing that FHBs don't always enter at the bottom end of the market.

Purchase price paid Q1 2022



The provincial areas

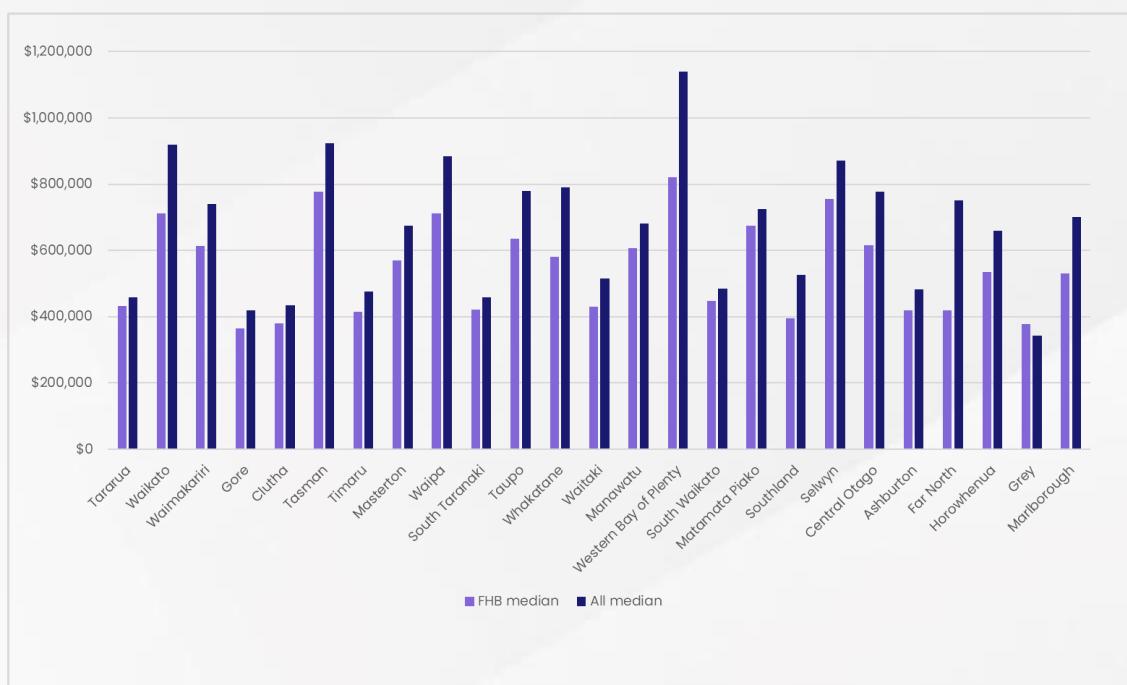
Around NZ's provincial property markets, it was a fairly even spread of areas that had an above average FHB % market share in Q1 2022 versus those that were below normal (with a minimum criteria applied for number of FHB deals, which strips out the very small areas). In Tararua, for example, the FHB market share in Q1 was 26%, about 5%-points higher than average. Waikato District, Waimakariri, Gore, Clutha, Tasman, and Timaru, all also stood out as areas of relative strength for FHBs in Q1 2022.

By contrast, FHBs weren't as active as normal in areas such as Marlborough (11% versus average of 17%), Grey District, Horowhenua, and Far North. Overall, the highest FHB share of these areas in Q1 was more than 30% in Waikato District, and the lowest was less than 10% in Far North.

Around the provincial areas, the highest median price paid by FHBs in Q1 2022 was in Western Bay of Plenty (\$820,000), followed by Tasman (\$777,000) and Selwyn (\$755,000). In Southland District, Gore, Clutha, and Grey, the median FHB price paid in Q1 2022 was less than \$400,000.

However, the median FHB price for Grey (\$377,500) was still striking in the sense that it was higher than the all-buyer median of \$343,500. In each of the other provincial markets, FHBs paid a median less than the all-buyer equivalent, ranging from a gap of \$330,000 in Far North and \$319,500 in Western Bay of Plenty, to \$25,000 in Tararua.

Purchase price paid Q1 2022



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