Pain and Gain Report

New Zealand | Quarter 4, 2021

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Data to December 2021

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Quarter 4, 2021

About CoreLogic

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Executive Summary

The Pain and Gain Report is an analysis of homes which were resold over the previous quarter (excluding leasehold). It compares the most recent sale price to the home's previous sale price, determining whether the property resold at a gross profit ('gain') or gross loss ('pain'). It provides a proxy for the performance of the housing market and highlights the magnitude of profit or loss the typical seller of a home makes in each area.

Key findings from this report (for resales between 1 October 2021 and 31 December 2021) include:

Across New Zealand as a whole, the proportion of properties being resold for more than the original purchase price (i.e. a gross profit, or "gain") in Q4 2021 was 99.3% – another fresh new high, just surpassing the previous peak that was only set three months ago (99.2%). This has been a high and sustained peak for the share of resellers making gross profits, consistent with the recent upswing in values.

On the flipside, the minimal 0.7% of resellers that didn't make a gross profit is also consistent with other market indicators, showing that mortgage distress across NZ is negligible. For example, banks' non-performing loan ratios are low and mortgagee sales are almost non-existent – where mortgage distress arises, both parties are currently working hard to rectify it without a sale.

In terms of the scale of profits and losses in Q4 2021, the median resale gain was $420,000, a new record high, up from the previous mark of $377,500 just three months earlier. Back in Q2 2020 (i.e. around about the time that COVID grabbed hold of NZ), that figure was 'only' $223,000 – which again simply illustrates the sheer scale of property value growth in the past two years or so. On the flipside, the median resale loss in Q4 was $20,000.

The strength of the resale figures was also evident in Q4 2021 across different locations (whether that's a main centre or a small provincial district), for both owner-occupiers and investors, and for both houses and apartments too.

However, it's also important to note that for owner-occupiers, these resale gains are not generally cash windfalls (unless they're downsizing or moving to a cheaper location). After all, in most cases, any equity accumulated needs to be recycled straight back into the next property purchase, with 'trade ups' actually likely to involve higher debt levels in many cases too.

Moreover, it would not be a surprise to see these 'pain & gain' figures soften next quarter (i.e. the Q1 2022 results due in May), given that there are now much clearer signs that the property market itself has passed its peak growth phase. We suspect that a shift in the balance of pricing power away from vendors and towards buyers is now in progress, which will dampen resale performance in 2022.

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.

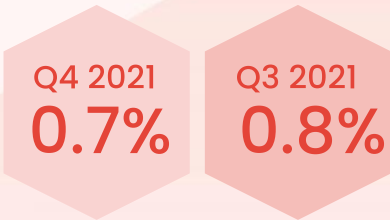
National Overview

Across New Zealand as a whole, the proportion of properties being resold for more than the original purchase price (i.e. a gross profit, or "gain") in Q4 2021 was 99.3% – another fresh new high, just surpassing the previous peak that was only set three months ago (99.2%). This figure was also above 99% in Q2 2021 too. In other words, across the 25-year history of this data series, never before have we seen such a high and sustained peak for the share of resellers that are making gross profits.

Of course, that shouldn't really come as much of a surprise. Over the 2021 calendar year, property sellers held the pricing power, amidst an environment of still-low (but rising) mortgage interest rates and a tight supply/demand balance for listings on the market. The lack of power for buyers and a continued willingness to meet vendors' expectations saw average values rise by another 5.9% in the final three months of the year, leaving the annual change at 27.6%. This has fed through to strong 'gain' figures at resale, especially for owners who had held their property for several years.

Even so, there were still a handful (0.7%) of resellers in Q4 2021 that sold for less than they originally paid. But that's clearly a very small share and is consistent with other evidence that mortgage distress across NZ is negligible. For example, banks' non-performing loan ratios are low and mortgagee sales are almost non-existent – where mortgage distress arises, both parties are currently working hard to rectify it without a sale.

Proportion of total resales at a loss



	Median Difference	Total Value
Pain	-$20,000	-$7,243,256
Gain	$420,000	$7,467,634,688

In terms of the scale of profits and losses in Q4 2021, the median resale gain was $420,000, a new record high, up from the previous mark of $377,500 just three months earlier. Back in Q2 2020 (i.e. around about the time that COVID grabbed hold of NZ), that figure was 'only' $223,000 – which again simply illustrates the sheer scale of property value growth in the past two years or so. On the flipside, the median resale loss in Q4 was $20,000.

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Looking ahead, it would not be a surprise to see these 'pain & gain' figures soften next quarter (i.e. the Q1 2022 results due in May), given that there are much clearer signs now that the property market itself has passed its peak growth phase. However, the softening for 'gain' may be gradual, given that long hold periods strongly influence the data.

Median Hold Period

Across New Zealand as a whole, properties resold for a gross profit in the three months to December 2021 had been owned for a median of 7.1 years, unchanged from the previous quarter and consistent with the typical range over the past two years or so (7-7.5 years).

The median hold period for gains peaked at 8.5 years in late 2015, with this downwards trend since 2015 perhaps reflecting the strong increases in property values, meaning any 'target' growth that owners (e.g. investors) might have been looking for can be reached sooner than before. For context, you have to go back to mid-2010 to find a time when the median hold period for resale gains was notably less than seven years.

For loss-making resales in the three months to December, the median hold period was 2.5 years, down pretty sharply from 3.8 years in Q3 2021. This illustrates that essentially the only loss-makers in the final three months of 2021 were 'short holds', perhaps with the owners never intending to sell so quickly but being forced into it (and accepting a weaker price) by a change in life or financial circumstances.

Across the main centres, hold periods for resale gains were generally longer than losses – again reflecting the fact that often resale losses reflect unexpected/non-market circumstances (e.g. break-up, inheritance), and hence a shorter hold period than might have been anticipated.

The longest hold period for resale gain was 9.5 years in Christchurch, although Wellington wasn't too far back at 8.5 years. Tauranga, Auckland, and Dunedin were all in the vicinity of 6.5-7.5 years, with Hamilton a little lower at 5.9. Meanwhile, the shortest hold periods for resale losses were to be found in Christchurch (1.1 years) and Dunedin (1.3), with Auckland and Hamilton both also below the three mark.

	Pain	Gain
New Zealand	2.5	7.1
Auckland	2.7	7.2
Hamilton	2.7	5.9
Tauranga	5.1	6.5
Wellington	13.9	8.5
Rest of NI	1.0	6.5
Christchurch	1.1	9.5
Dunedin	1.3	7.6
Rest of SI	4.5	6.4

Property Types

It remains very uncommon for houses (as opposed to other property types such as flats or apartments) to make a gross loss at resale. Having gone below 1% in Q1 2021, the share of house resales made for less than the original purchase price has stayed below that mark ever since, and in Q4 2021 actually ticked down even further to just 0.5% (from 0.6% in Q3 and 0.7% in Q2). In other words, 99.5% of houses resold in Q4 got a price above what was originally paid. For context, in 2011, 80-85% of house resales made a gross profit.

Turning to apartments, the figures were also pretty solid. Granted, the share of apartments being resold for a gross profit dipped slightly in Q4, from Q3's figure of 94.6% to 93.8%). But that's still a strong figure by past standards. At various stages in the past, we've sometimes only seen about 50% of apartments resold for a gross profit (e.g. 2008), and even as recently as 2019, the share was down in the 80-85% range.

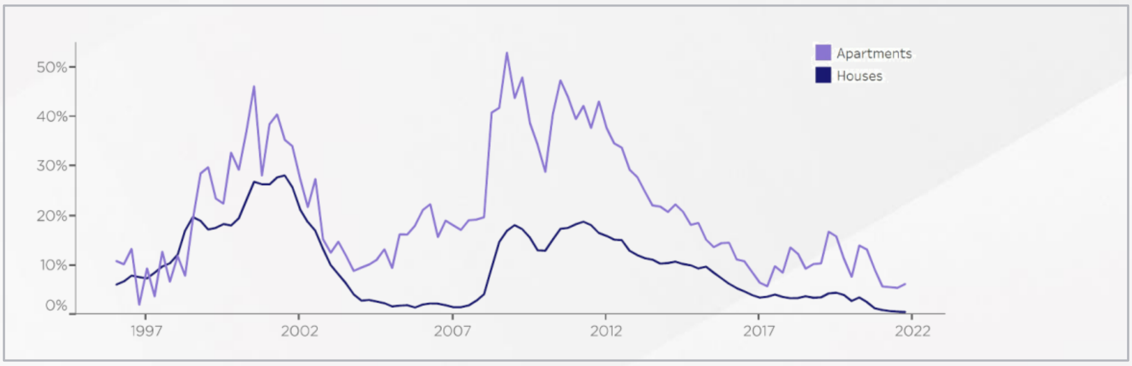
So the resale performance of property has remained strong in the past three months, regardless of whether it's a house or apartment. Macroeconomic factors such as low unemployment (now back down to a record low of 3.2%) and low mortgage rates have recently boosted the property market, both across regions and property types, while there's also of course been the tight/supply demand balance.

However, there's no doubt that conditions are now changing fast. In particular, as sales activity slows down but new listings flows tick over, we're now seeing the available stock of listings on the market rise more significantly across many parts of NZ, giving buyers more choice, and taking some of the heat out of prices.

On top of that, of course, mortgage rates have already risen pretty sharply, and there's more to come this year, as the Reserve Bank steadily raises the official cash rate to try to quell inflation. And with 60-65% of debt in NZ either floating or on a short-term fixed rate, many borrowers will see mortgage costs rise shortly. Owner occupiers, and first home buyers especially, are also dealing with the recent halving of the low deposit lending speed limit, and of course the Credit Contracts and Consumer Finance Act (CCCFA) changes too.

Accordingly, while it's not clear that over the coming quarters the resale performance of any particular property type will necessarily weaken relative to another, it is looking increasingly likely that resale profits will cool in general, as the wider property market slows down.

Proportion of total resales at a loss



In Q4, the median resale profit for a house was $420,000, and apartments saw $195,435. In terms of losses, houses saw a median of $7,000 and apartments $32,000.

HOUSES

Q4 2021 **0.5%**

Q3 2021 **0.6%**

APARTMENTS

Q4 2021 **6.2%**

Q3 2021 **5.4%**

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Apartments	-$32,000	-$1,588,690	$195,435	$133,247,015
Houses	-$7,000	-$5,542,566	$420,000	$6,754,940,344

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Main Centres

The national trend of strong property 'gain' and minimal 'pain' was replicated in all of the main centres in Q4 2021, consistent with the continued strong upturn that we've seen for property values in recent months (albeit with signs of a slowdown now coming though more clearly). In fact, in each main centre, at least 99% of property resales from October to December last year were made above the original purchase price, with Tauranga the highest at 99.8%, a touch above Dunedin at 99.6%.

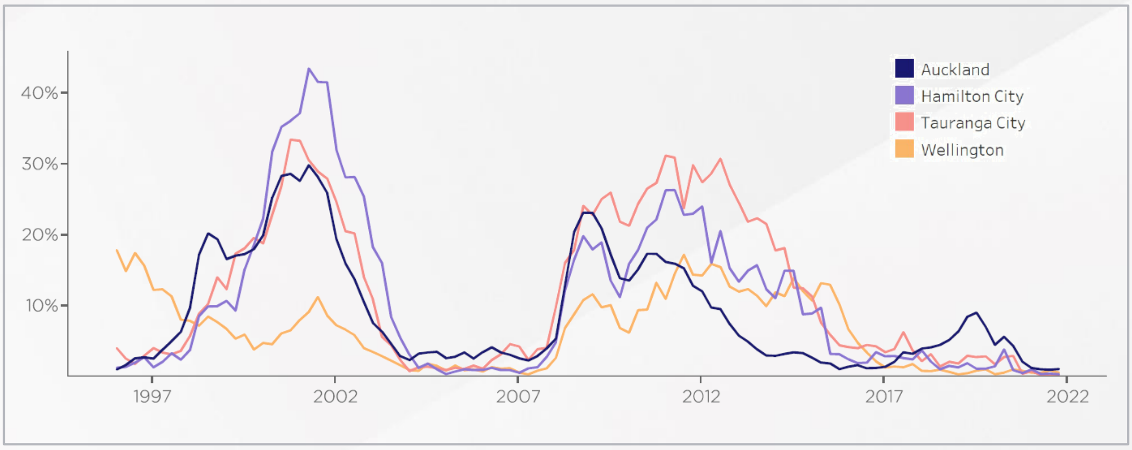
Auckland and Christchurch have been the most interesting main centres in the past few years in terms of the pain & gain performance. In 2019, each city 'only' had about 90% of resales made above the original purchase price. But as property values themselves have accelerated again, these resale figures have also perked up – and although Auckland's affordability has deteriorated again to concerning levels, Christchurch still has some appeal. Accordingly, it wouldn't be a surprise to see the 'gain' figures stay higher for longer in Christchurch than some of the other main centres.

In terms of the size of resale gains and losses, the most notable figures come on the gain side of the equation. Wellington's median resale profit remained the largest amongst the main centres in Q4 2021, at $593,000. That was just ahead of Auckland ($585,000), with Tauranga also above the $500,000 mark, at $529,200. Hamilton had a median resale gain in Q4 2021 of $418,000, with Dunedin and Christchurch below the $400,000 mark, but still with significant gains.

Clearly, these figures look very good on paper for anybody that owns a property. However, we reiterate again that for owner occupiers these equity gains would often just be put straight back into the next property (which has also gone up in value). And it's often the case that for many owner occupiers who are looking to trade up, the next property has increased by even more than theirs, meaning more debt is also required too.

Looking ahead, all main centres will be affected to some degree by tighter lending regulation for both investors and owner occupiers, as well as sharply higher mortgage rates. But with unemployment low and mortgages already tested not only at current rates but also theoretical peak future rates, these should prove to be a challenge not a crisis.

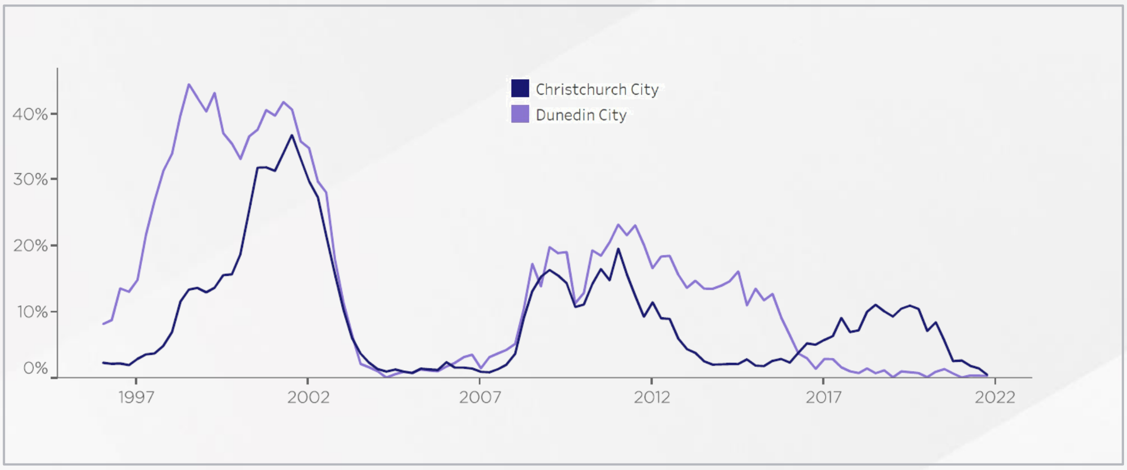
Proportion of total resales at a loss



Proportion of total resales at a loss

	Q4 2021	Q3 2021
Auckland	1.2%	1.1%
Hamilton City	0.5%	0.5%
Tauranga City	0.2%	0.4%
Wellington	0.7%	1.0%
Christchurch City	0.6%	1.6%
Dunedin City	0.4%	–

Proportion of total resales at a loss



	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Auckland	-$39,000	-$4,683,556	$585,000	$3,030,070,603
Hamilton City	-$36,475	-$72,950	$418,000	$198,418,699
Tauranga City	-$27,000	-$27,000	$529,200	$267,067,993
Wellington	-$4,000	-$214,000	$593,000	$579,133,539
Christchurch City	-$3,500	-$716,500	$328,250	$677,857,013
Dunedin City	-$168,625	-$337,250	$375,000	$185,349,615

Type of Owner

The share of property resales made for a gross profit increased a bit for investors in Q4 2021 and faded ever so slightly for owner occupiers. However, both owner types resold for a gross profit in Q4 on more than 99% of deals, so in reality, the figures were basically flat at a very high level – as was the case throughout 2021.

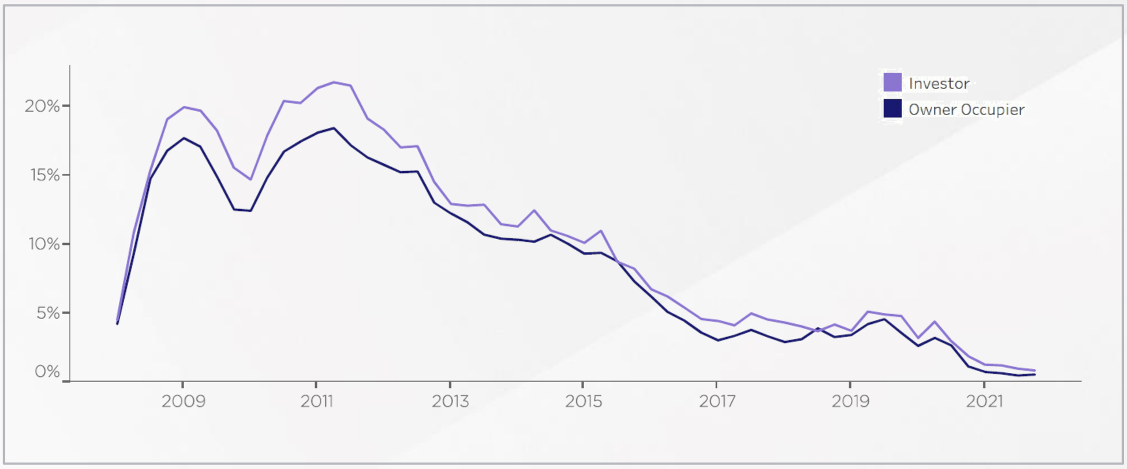
For both owner types, the high percentage of resales made for a gross profit reflects the gains accumulated not only during the most recent 2020-21 upswing, but also simply from typical hold periods that go back 5-7 years. It has helped in the past few quarters that most resellers would have found themselves in a strong bargaining position amidst the low level of listings and lack of choice for buyers.

Often investors are perceived to be more fleet-footed and/or prepared to sell for a small loss more readily than owner-occupiers, but in the strong market conditions of the past 12-18 months, this hasn't been the case. However, as the balance of power switches from sellers to buyers over the coming quarters, it'll be interesting to see if the resale performance by investors weakens just a touch faster than owner occupiers again.

One particular concern for investors (over and above factors such as rising mortgage rates and more listings – which will affect all sellers) could be any debt to income (DTI) ratio system that might get enforced by the Reserve Bank (RBNZ) later in 2022. To be fair, nothing is set in stone yet, and a wider market slowdown over the coming months may mean that the RBNZ feels comfortable leaving DTIs off the table in this cycle. But if not, the fact that investors are more likely to borrow at a high DTI means they are most in the firing line.

In terms of the scale of resale profits and losses, the median loss in Q4 2021 for investors was $52,000 (but across only a handful of deals), while for owner occupiers it was only $3,000. Meanwhile, the resale gains were a little larger for investors than owner-occupiers in Q4 2021, at $446,000 and $412,750 respectively. And of course, most owner-occupiers need to recycle that equity gain straight back into their next property.

Proportion of total resales at a loss



Around the main centres, there was broad-based strength for resales, regardless of owner type. Of note was that no owner occupiers sold for a gross loss in Q4 in Hamilton or Tauranga, while no investors in Dunedin saw resale pain.

Proportion of total resales at a loss

	Owner Occupier		Investor	
	Pain	Gain	Pain	Gain
Auckland	0.9%	99.1%	1.5%	98.5%
Hamilton		100.0%	0.6%	99.4%
Tauranga		100.0%	0.8%	99.2%
Wellington	0.5%	99.5%	0.7%	99.3%
Rest of NI	0.3%	99.7%	0.4%	99.6%
Christchurch	0.5%	99.5%	0.8%	99.2%
Dunedin	0.7%	99.3%		100.0%
Rest of SI	0.5%	99.5%	0.7%	99.3%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Investor	-$52,000	-$3,924,486	$446,000	$2,546,101,261
Owner Occupier	-$3,000	-$2,016,440	$412,750	$4,344,032,038

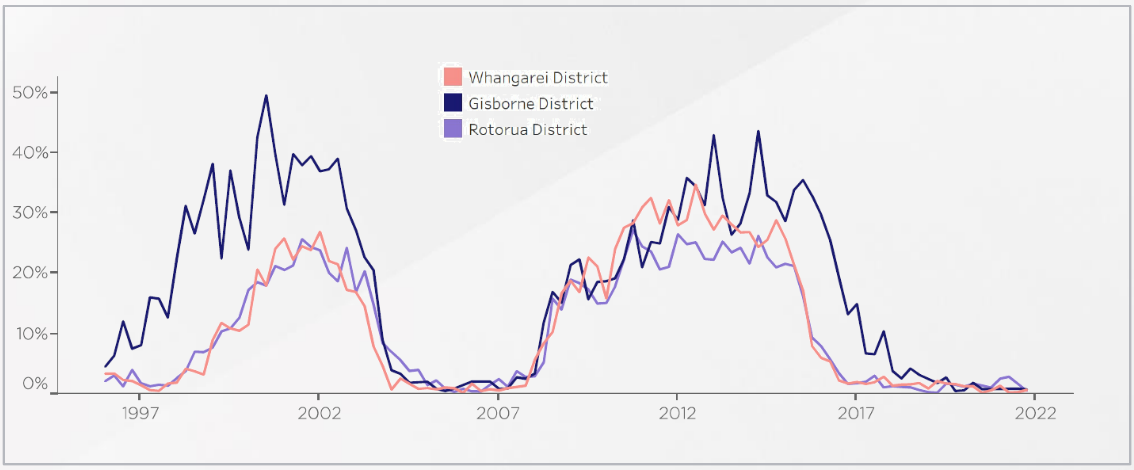
Main urban areas

Upper North Island

The widespread upturn in property values across the country over the past 12-18 months, and the flow-on effects that this has had on resale performance, can also be seen across the main urban areas in the top of the North Island. Indeed, for the final three months of 2021, Gisborne, Whangarei, and Rotorua all had at least 99% of resales made for a gross profit.

Alongside the high frequency of resale profits, the gains in dollar terms have also been high (and the losses low). Indeed, in each of these three areas, the median resale profit topped $380,000 in Q4 2021, and up to $410,000 in Rotorua, with the totals ranging from around $52m (Gisborne) up to $124m in Whangarei.

Proportion of total resales at a loss



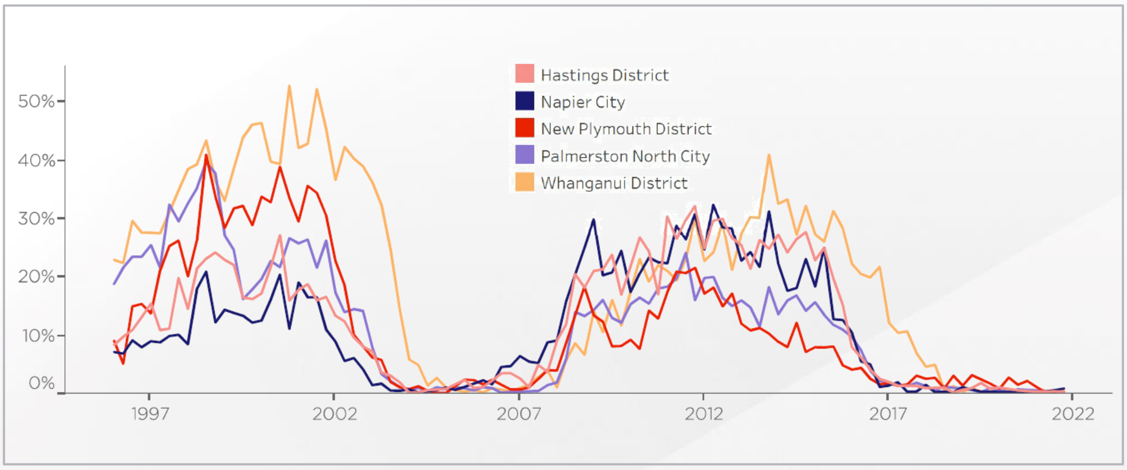
	Q4 2021	Q3 2021
Whangarei District	0.7%	0.3%
Gisborne District	0.8%	0.9%
Rotorua District	0.6%	-

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Whangarei District	-$70,000	-$140,000	$386,250	$124,301,985
Gisborne District	-$4,000	-$4,000	$383,000	$52,298,472
Rotorua District	-$65,000	-$65,000	$410,000	$75,190,523

Lower North Island

Generally speaking, some of the strongest increases in average property values across the country in the past year or so have been in areas around the central and lower North Island, and this is showing through clearly in the pain & gain stats. In New Plymouth, for example, all (100%) resales in Q4 2021 were made above the original purchase price, while Hastings and Palmerston North saw figures in excess of 99.5%.

Proportion of total resales at a loss



	Q4 2021	Q3 2021
Hastings District	0.4%	0.5%
Napier City	1.0%	
New Plymouth District		0.4%
Palmerston North City	0.3%	
Whanganui District	0.6%	0.6%

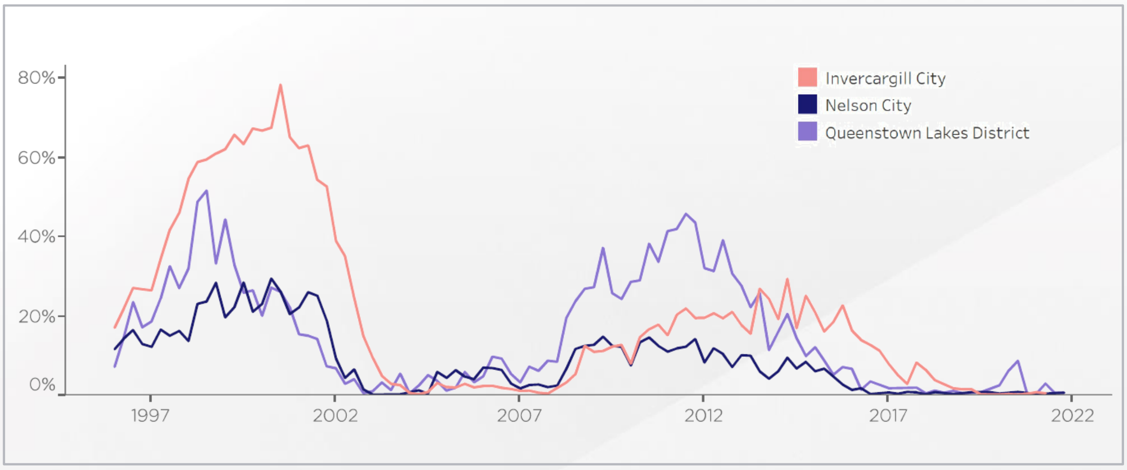
The high frequency of resale profits in these areas in Q4 was matched by the size of the gains. The median gains were $497,500 in Hastings, and only a little lower in Napier ($479,000), with Palmerston North also topping $400,000. New Plymouth and Whanganui were both in excess of $300,000.

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Hastings District	$0	$0	$497,500	$142,999,059
Napier City	-$12,500	-$25,000	$479,000	$100,902,622
New Plymouth District			$373,775	$95,078,737
Palmerston North City	$0	$0	$414,250	$124,334,393
Whanganui District	$0	$0	$346,250	$58,891,543

South Island

Across the key South Island centres, property resellers generally remained in a very strong position in the fourth quarter of the year. In fact, in Invercargill, all resellers made a gross profit in Q4 (as they also did in Q3 too), while the figures exceeded 99% in both Nelson and Queenstown too. Despite the absence of international tourists, Queenstown's economy is obviously still robust enough to support a solid property market.

Proportion of total resales at a loss



	Q4 2021	Q3 2021
Invercargill City	-	-
Nelson City	0.8%	-
Queenstown Lakes District	0.8%	0.7%

Consistent with those figures, the scale of gains was also high (and scale of losses low). Indeed, Queenstown's median resale profit was $581,000 in Q4, with Nelson at $365,500, and Invercargill $235,000.

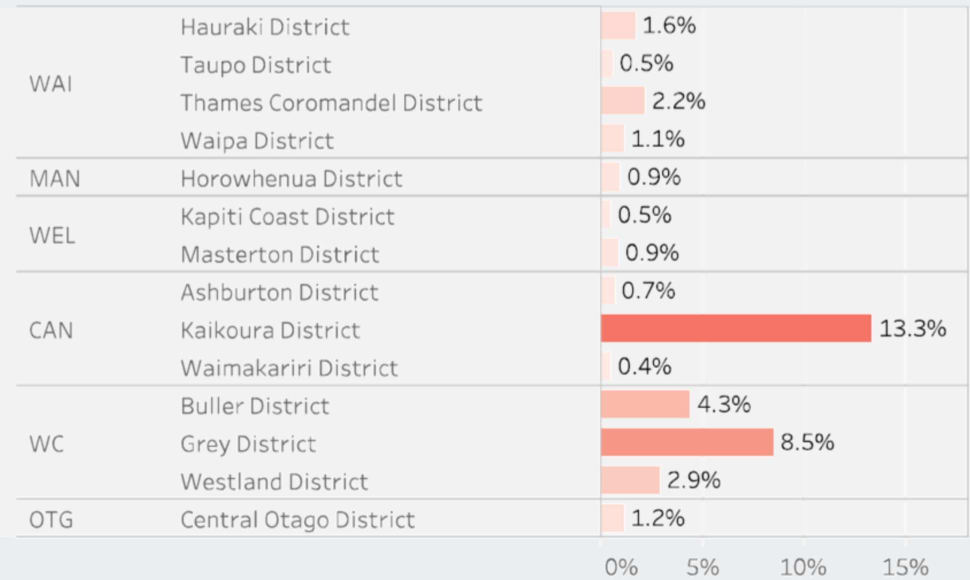
	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Invercargill City	-$60,000	-$60,000	$581,000	$89,906,070
Nelson City			$235,000	$64,348,376
Queenstown Lakes District	$0	$0	$365,500	$54,087,615

Outside the main urban areas

Generally speaking, property markets around regional NZ fared well in the fourth quarter of the year, with profit-making resales common. Indeed, the bulk of the provincial markets had no loss-making property resales at all in Q4 2021, with the rest only seeing one or two isolated cases. This reflects the fact that the property market upswing over the past 12-18 months has been broad-based across the country, reflecting common drivers such as a tight supply/demand balance and low mortgage rates.

Proportion of total resales at a loss

Minor regions



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