

Home Truths

Monthly analysis of New Zealand's housing market



February 2013

The January round of data portrayed a housing market that has continued to heat up. The seasonally adjusted number of REINZ house sales was up 3.5% in January, and is 21% higher than a year ago. And house price inflation has continued to accelerate. The REINZ's House Price Index is now 7.2% higher than a year ago, and Quotable Value's index is 6.2% higher. There have been further signs that markets are becoming more buoyant across New Zealand, not just in Auckland and Canterbury. The volume of house sales has risen at least 10% over the past year in all regions of New Zealand except Taranaki (last three months of sales compared to same period a year earlier). And on a monthly basis, January's price increases were concentrated in the North Island outside Auckland.

This is the key sign that physical shortages not the only driver of today's house prices. Physical shortages should affect both rents and prices (witness Canterbury, where rents went through the roof following the earthquakes). By contrast, financial factors such as low interest rates or speculation affect only prices. Today's high-and-rising house price to rent ratio indicates that financial factors are at play. Our finger is pointed firmly at low interest rates.

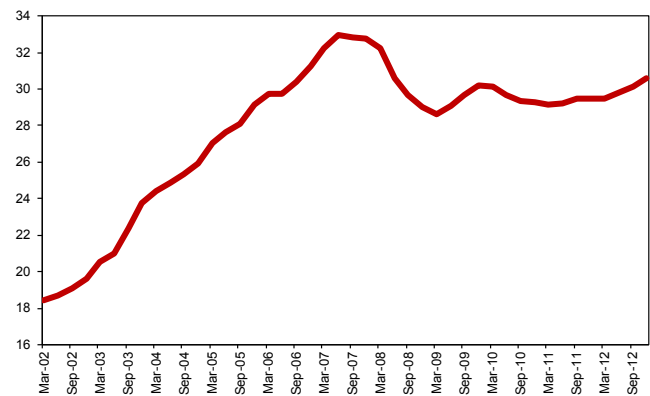
The implication of all this is that house prices will keep rising so long as interest rates remain low - but they could fall again when interest rates rise.

REINZ housing data

	Jan-13	Dec-12	Jan-12
House sales, number, s.a.	6781	6554	5725
Mth % chg	3.5	-0.5	-0.3
Ann % chg	21.1	8.2	25.2
Days to sell, sa	35.4	35.8	40.5
House Price Index (s.a.)	0.0	3511.4	3311.5
Mth % chg	-100.0	0.2	0.7
Ann % chg	7.2	6.7	4.3

House prices are once again becoming divorced from rents. Back in 2002, a New Zealand house might have sold for 18 years' rent on average. By mid-2007, a fit of speculative exuberance had seen house prices blow out to 33 years' rent. A correction was necessary, and for a few years one seemed on the cards. House prices did dip below 30 years' rent for a while. But in recent years the correction has stalled. House prices are now rising faster than rents, and house prices are once again selling for more than 30 years' rent.

Number of years' average rent required to purchase median house in New Zealand*



*Prices measured by median house price according to REINZ, rents calculated from Household Economic Survey and Consumer Price Index.

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