

# Home Truths

13 December 2013

## Right on cue

Three months ago, the September edition of Home Truths predicted that the housing market would slow from “around November” in response to a sudden jump in fixed mortgage rates and the RBNZ’s mortgage lending restrictions. We said that “the first symptoms of a slowdown would be a small reduction in turnover, a lengthening of the average time to sell, and an increase in the number of properties available on the market.” We noted that house price inflation tends to have a bit of momentum, and wouldn’t begin slowing until early-2014.

The latest data shows that the market slowdown has arrived right on cue. The seasonally adjusted number of house sales fell 6% in November, after a 4% decline in October. This was the sharpest two-month drop in house sales since December 2009 (the eve of the 2010 house price downturn).

The drop in sales was concentrated at the bottom end of the market, which is most exposed to the high-LVR mortgage restrictions. Northland, Taranaki and Nelson have been hit particularly hard, but sales fell in every region of the country except Queenstown Lakes.

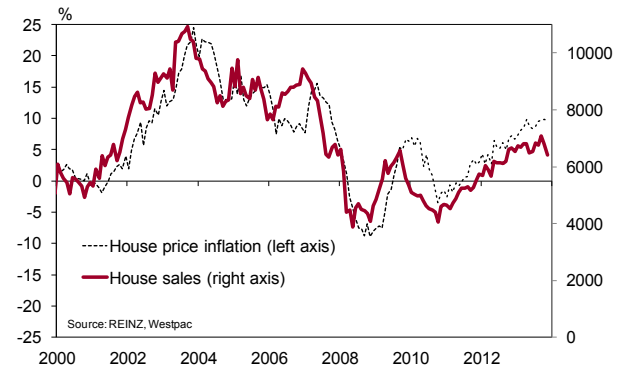
One doesn’t have to look far for corroborating evidence of a market slowdown. The inventory of unsold homes rose from 38,500 to 40,000 (seasonally adjusted) according to the NZ Property Report. The BNZ/REINZ survey of real estate agents shows that first homebuyer interest has hit a brick wall and auction clearance rates have fallen, although investor interest has waned less noticeably.

Admittedly, the time it takes to sell a house has not yet lengthened – it actually fell on a seasonally adjusted basis. We’ll keep an eye on this, but at this stage we’d suggest that time to sell will lengthen over the next few months.

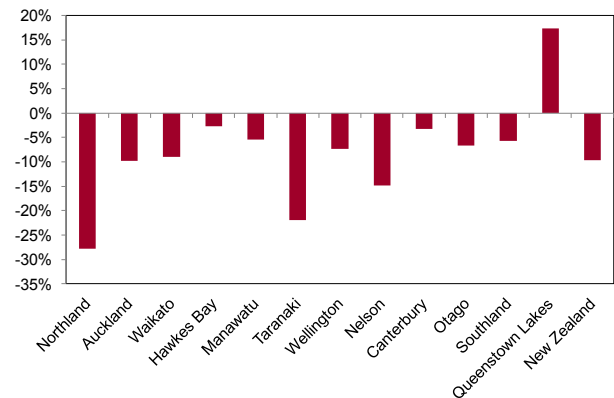
We were flabbergasted by yesterday’s media reporting on the November data. The emphasis was on the median sale price, which rose to a new record of \$425,000. But that figure was heavily skewed by the fact that far fewer low-end properties are selling, meaning those that did sell were disproportionately from higher price brackets. The House Price Index is a better indicator of where house prices are heading on a like-for-like basis. It was up 0.5% in the month of November.

The fact is, house sales bear a tight relationship with house price inflation (see chart). Prices may be rising strongly right now, but the drop in house sales is a strong signal that prices are about to cool. We expect the rate of house price inflation will start slowing from early-2014.

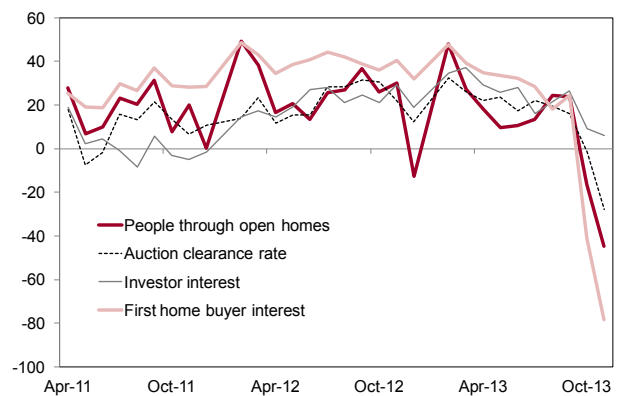
**House sales and annual house price inflation**



**Change in house sales from Sep to Nov 2013**



**REINZ – BNZ Survey of Real Estate Agents**



We are not suggesting that the sky is about to fall in. Our long-standing forecast is that house prices will rise 6.5% next year, compared to almost 10% this year. We have not changed that forecast.

We have always said that the RBNZ's LVR mortgage restrictions would cause a short, sharp shock to the market as the first homebuyers drop out. However, in time we expect investors will come into the market, limiting the fallout for prices.

Rising interest rates will eventually prove a much more potent headwind for house prices. But it will take years for mortgage rates to throttle this market. It is not until 2016 that we expect high interest rates to cause house prices to decline.

In the mean time, we expect the ever-strengthening economy and inward migration will remain offsetting positive forces for house prices over 2014.

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**REINZ housing data, November 2013**

	Nov-13	Oct-13	Nov-12
<b>House sales, number, s.a.</b>	6404	6811	6656
Mth % chg	-6.0	-4.0	0.8
Ann % chg	-6.6	2.1	24.1
<b>Days to sell, sa</b>	34.1	34.5	36.3
<b>House Price Index (s.a.)</b>	3845.3	3825.3	3505.6
Mth % chg	0.5	1.4	0.8
Ann % chg	9.6	9.9	7.3

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