

Home Truths

16 September 2014

Take a closer look

There has been a lot of commentary recently about the “slowing” housing market. This conclusion appears to chime with annual house price inflation, which has dropped from 10% to 6.9% according to Quotable Value. But assessing a market via annual data is like driving through the rear-view mirror – the latest developments are lumped in with eleven months of history.

In this month’s edition of Home Truths we take a closer look at the market by interrogating *monthly* data. We reach a more nuanced conclusion. The market certainly slowed sharply in early-2014. But it rebounded in mid-2014. There was regional variation in the intensity of both the slowdown and the recovery. The market is currently displaying little directional momentum, and may be suffering from a case of pre-election jitters, but it isn’t really accurate to describe this as a “slowing” market.

The most reliable gauge of monthly house price movements is Quotable Value’s Monthly House Price Index, charted in figure 1. This index did register a very sharp slowdown in early-2014 – house price inflation slowed almost to zero for the three months to March 2014. But the index is equally clear that house prices rose rapidly through the middle period of the year – at an eight percent annualised pace, compared to ten percent last year. The recovery varied widely by region, with the hot-spots once again concentrated around Auckland and Christchurch.

The Real Estate Institute’s monthly House Price Index is normally a useful gauge, but it has been compromised by sharp swings in the composition of sales over the past year or so. The REINZ index is calculated from the median sale price in each area. But late last year the Reserve Bank’s mortgage restrictions caused an unusual drop in sales of smaller/less desirable houses, while upscale houses continued to sell. This bias towards flasher houses caused the REINZ index to register an increase in median selling prices, even though house prices were actually stagnant on a like-for-like basis. This bias towards flasher houses caused the REINZ index to register an increase in median selling prices, even though house prices were actually stagnant on a like-for-like basis.

In recent months this situation has reversed. Sales of houses valued under \$400,000 have been recovering towards their previous trend (see figure 2). This has had the effect of reversing the House Price Index’s previous bias. Increasing sales of smaller houses is now biasing the House Price Index down a little (see chart 3). In light of these data concerns, we are not drawing any strong conclusion from the trajectory of the REINZ House Price Index at present.

Figure 1: Quotable Value Residential Price Movement Index: three month price change

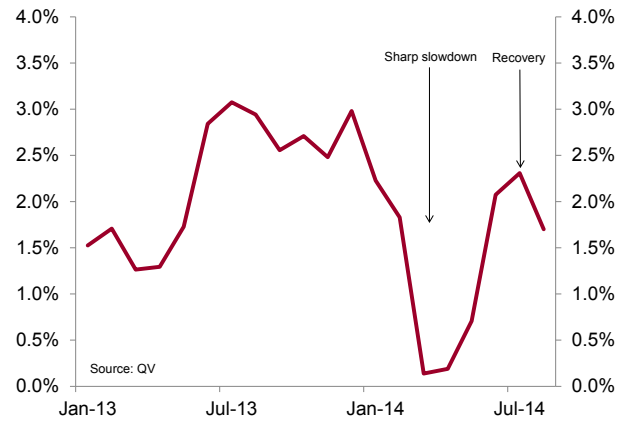


Figure 2: Proportion of house sales under \$400k

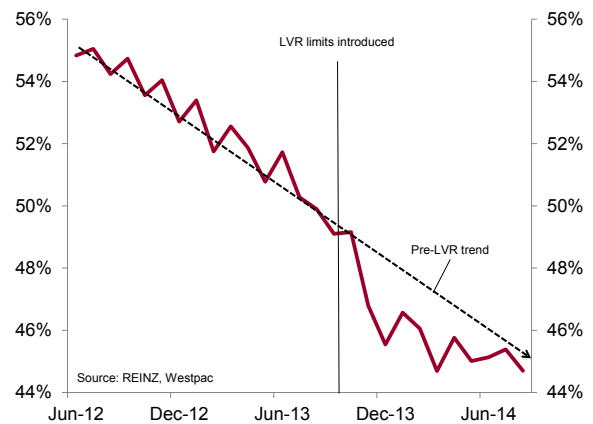
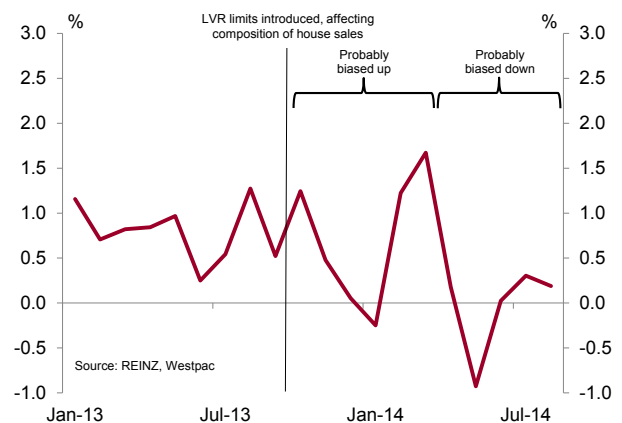


Figure 3: REINZ House Price Index: monthly change



Market turnover is often a good leading indicator of house prices. In this area, the Real Estate Institute's data is trumps. Close interrogation of monthly sales data casts further doubt on the idea of a "slowing" market. Seasonally adjusted house sales fell 19% between September 2013 and April 2014. But they have risen 4% over the past three months (figure 4).

True, the recovery in market turnover has not been as stark as the recovery in house price inflation. This juxtaposition is most marked in Auckland, where prices have been rising rapidly but sales have continued to slide according to at least one major real estate agency. One possible explanation is that the election, combined with the November revaluation of Auckland properties for rating purposes, has caused both buyers and sellers to pause for thought. If so, we should expect a pickup in house sales late this year and early next year, without any associated change in price trends.

In any case, the current rate of housing turnover is consistent with annual house price inflation in the mid-single-digits, based on past relationships.

Second-tier market indicators have been mixed. Available stock on realestate.co.nz rose steadily between September 2013 and May 2014, consistent with the cooling market at that time. But available stock has subsequently fallen, indicating that the market is tightening (there was an odd-looking but temporary spike in this series in July). And finally, Real Estate Institute data indicates that the number of days it takes to sell a house has been steadily rising since May 2013. This probably does qualify as a piece of evidence that favours the "slowing market" camp. The difficulty is that days to sell is a lagging indicator. When house sales pick up, stock that has lingered on the market for a long time starts to move. The result is that days to sell usually peaks just after the market has started to recover. The rise in days to sell is noteworthy, but it can't really overturn the overall conclusions about the remainder of the market.

Bringing all this evidence together, we think it is inaccurate to describe this as a "slowing" housing market. The market slowed sharply in early-2014, and rebounded sharply in mid-2014. The worst that can be said about the latest data is that the market is showing no clear directional trend.

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Figure 4: Seasonally adjusted house sales, monthly

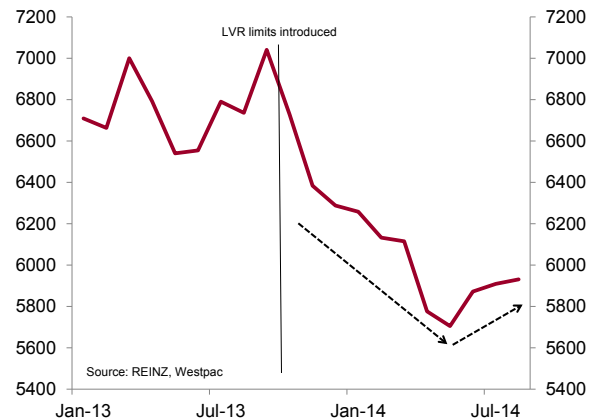
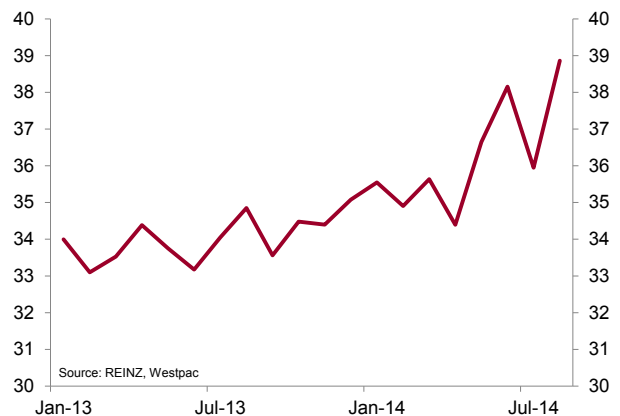


Figure 5: realestate.co.nz available listings



Figure 6: Seasonally adjusted days to sell a house



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