

Home Truths

12 October 2015

Shifting centre of gravity

This month's housing data has continued recent themes – the overall market remains strong, but the house price boom's centre of gravity is shifting – and is set to shift further, in our view.

Nationwide house sales were up just 0.1% in seasonally adjusted terms for September, but that comes after strong gains in previous months and leaves the market boasting its strongest rate of turnover since 2007. The regional pattern of turnover was consistent with the shift in market heat that we identified two months ago – turnover was down in Auckland and Canterbury, but up very strongly in Waikato / Bay of Plenty. A plethora of other information accords with a shift in the market towards Hamilton and Tauranga, including realestate.co.nz data, which showed a rise in unsold inventory on the Auckland market but a sharp decline outside Auckland. Quotable Value price data showed that Hamilton has taken over the mantle of “fastest rising prices in New Zealand”, with a 9.0% gain over the three months to September compared to Auckland's 6.7%.

The Home Truths team has seen interesting evidence, presented by Core Logic, showing that Aucklanders are increasingly buying houses in Hamilton and Tauranga, helping to explain some of the heat in those markets.

Back in July, Home Truths argued that the house price outlook was a tussle between three factors – falling interest rates, the slowing economy, and changing tax and mortgage rules. We argued that these factors would play out differently by region. It is time to assess and update the regional views we expressed back then.

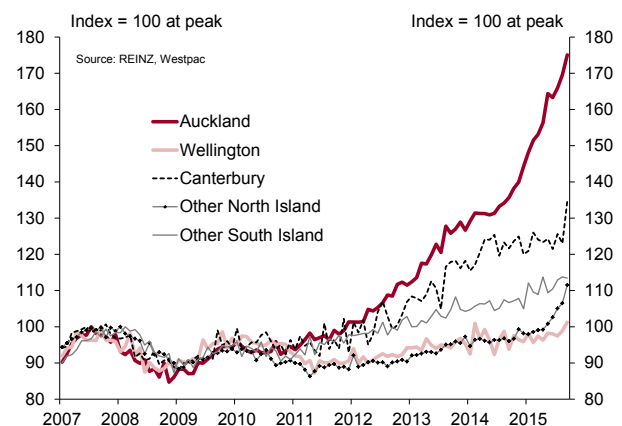
We argued that the **Auckland** market would slow because Auckland will suffer tighter lending rules and is probably the market most driven by speculation, making it sensitive to economic conditions. So far there has been no slowdown in Auckland prices, but we still feel on track with this prediction – the straws of a modest slowdown are in the wind, and we are yet to see how the market responds to those tax changes and lending restrictions, which come into force in October and November respectively.

We suggested that **dairy dominated regions like Waikato, Taranaki and Southland** could experience slower markets as fallout from the dairy downturn dominated the impact of lower interest rates. That was clearly wrong in the case of Hamilton. The outlook has probably also improved for other dairying regions, because payouts for dairy farmers now look likely to be more generous than we feared a few months ago.

We said **Tauranga** would be a special case and would experience rising prices. Tick.

REINZ housing data

	Sep-15	Aug-15	Sep-14
House sales, number, s.a.	8458	8448	6021
Mth % chg	0.1	5.8	1.7
Ann % chg	38.3	41.7	-12.0
Days to sell, sa	33.4	31.0	37.7
House Price Index (s.a.)			
Mth % chg	2.6	2.0	0.1
Ann % chg	20.1	17.3	3.3

REINZ house price indexes, seasonally adjusted

We said **Christchurch** prices would start slipping backwards as housing supply came online to erode the price premium that built up following the earthquakes. This has proved broadly correct – the Christchurch market has been a distinct underperformer. (The latest REINZ house price index suggested that Christchurch prices rose extremely sharply in September, but the REINZ itself cast doubt on the figures, so we will ignore them for now.)

Finally, we argued that **other regions including Wellington** could experience a bit of a lift in their housing markets as lower interest rates and more lenient lending restrictions dominated the economic slowdown. There has been a pickup in market turnover for the likes of Dunedin, Nelson and Wellington, and there are signs of prices picking up a little in many centres, so this prediction looks on track.

Our latest nationwide house price inflation forecasts were 10% for 2015, and 4.5% for 2016. Putting all of the above together, it looks as though we may have to lift those forecasts a little.

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