

Home Truths

14 December 2015

Fall from grace

After the latest round of housing market data, we can finally close the file on what is happening in the Auckland housing market. There can now be no doubting that the erstwhile star market has suffered a fall from grace. Meanwhile, markets in the rest of New Zealand continue to tick along without too much fuss.

According to the Real Estate Institute's data, seasonally adjusted by Westpac, house prices rose modestly in most parts of New Zealand in November. Of particular interest was the fact that Christchurch house prices seem to be rising again, after a long period of remaining essentially unchanged. Market turnover ticked a little higher in some regions, a little lower in others.

It was a different story for Auckland. House sales in Auckland fell 13% in November, after a 17% drop in October. And house prices fell 1.9% in November, after a 4.4% in October (all figures seasonally adjusted). Auckland house prices and are now lower than they were in July. These are very weak numbers indeed, and confirm what the anecdotes have been screaming for the past three months – the Auckland housing market has slowed with a thump.

Home Truths has, for a number of months, been of the view that the Auckland market would slow in late-2015 and early-2016. Our thinking has been that the Auckland market was speculative in nature, and would therefore be particularly impacted by the tax rule changes that occurred on October 1, the restrictions on mortgage lending to Auckland landlords that took effect in November, and waning economic confidence and rising unemployment. The added kicker was an apparent withdrawal of foreign buying interest.

In the event, the actual downturn has occurred sooner, and has been more severe, than anticipated.

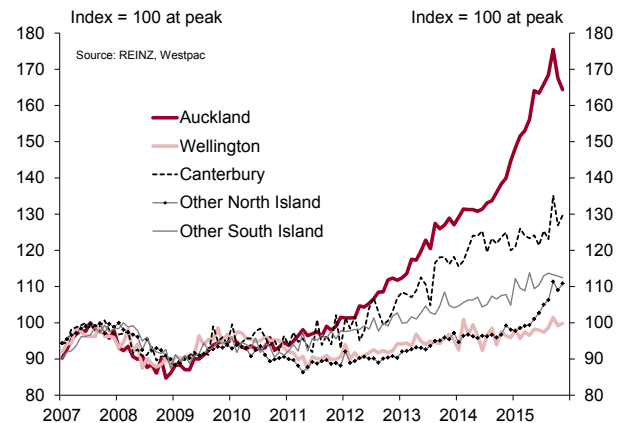
Judging where the Auckland market heads from here is tricky, but on balance we don't expect the data to remain this dire for long. Experience suggests that regulatory changes like the new mortgage lending restrictions tend to have only temporary impacts on housing markets. So we do not expect that Auckland house prices will continue falling at their current pace for much longer. But neither do we anticipate a return for the helter-skelter of earlier this year. Rather, we expect a much more subdued market over 2016 than we experienced in 2015.

The downturn in Auckland house prices is crucial for our thinking on interest rates. Those who follow our economic commentary will know that we have long predicted that the OCR would fall to 2.0% in 2016. But we were the first to admit that for the OCR to fall that low, the Auckland housing market would first have to slow. Now that a housing slowdown is confirmed, we are one step closer to the OCR falling to 2.0%.

REINZ housing data

	Nov-15	Oct-15	Nov-14
House sales, number, s.a.	7546	7694	7275
Mth % chg	-1.9	-6.3	15.0
Ann % chg	8.5	18.6	6.5
Days to sell, sa	34.9	34.0	37.1
House Price Index (s.a.)			
Mth % chg	0.5	-4.4	2.0
Ann % chg	12.5	14.1	4.7

REINZ house price indexes, seasonally adjusted



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