Westpac
Institutional Bank

Home Truths

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More mortgage restrictions

There has been a decidedly mixed tenor to housing market data recently. Seasonally adjusted house sales rose 4.1% in February, but that followed a 12.4% fall in January. Market activity has clearly been slower in early-2015 than it was in late-2014, probably because the post-election rush of activity has faded. Meanwhile, data coming from the banking system such as mortgage approvals and housing credit growth has accelerated. And inventory levels on realestate.co.nz are extremely low. At this stage we remain comfortable with our forecast for 7.5% increase in nationwide house prices this year – Auckland will probably exceed that figure, while the rest of New Zealand is a little more subdued (including Christchurch).

The main driver of this year's house price inflation is low fixed mortgage rates – these are among the lowest mortgage rates New Zealanders have seen in a generation. And we see no scope for the Reserve Bank to push mortgage rates higher again this year. Consumer price inflation is awfully low, and that obliges the RBNZ to keep interest rates low.

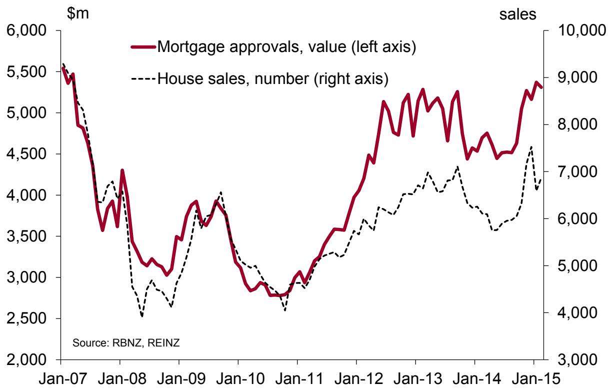
For some time we have been predicting that the Reserve Bank would take the only remaining available option for dealing with the overheating housing market – further restrictions on mortgage lending. Earlier this month an important step was taken in that direction. The RBNZ announced that it was consulting with banks on requirements that would require banks to set aside more capital if they lend to property investors. In and of itself this regulatory change would have only a modest impact on the interest rates that property investors actually face, and therefore the impact on the housing market will be small.

However, the RBNZ also stated that the purpose of identifying property investors as a separate class of borrower *"is partly to facilitate the introduction of a macro-prudential property investor policy, should that become necessary."* In other words, the RBNZ's next move might be to tighten the availability of mortgage lending to property investors, over and above the restrictions that already apply to all borrowers.

REINZ housing data

	Feb-15	Jan-15	Feb-14
House sales, number, s.a.	6864	6591	6109
Mth % chg	4.1	-12.4	-2.3
Ann % chg	12.6	2.6	-7.6
Days to sell, sa	35.2	34.9	35.1
House Price Index (s.a.)	4113.9	4109.2	3875.2
Mth % chg	0.1	0.9	1.3
Ann % chg	6.1	7.5	8.2

Housing turnover



If those restrictions are significant, there could well be a noticeable impact on the housing market. We consider property investors the marginal buyer in the lower end of the housing market – meaning they are the most important drivers of the price. Property investors enjoy tax deductible mortgages, whereas first homebuyers do not, and they have plenty of access to capital. This means that property investors set a price-floor at auctions – if a first homebuyer wants to buy a particular house, they must pay more than that house is worth to a property investor, tax deductions included. (No wonder young people are opting to rent for longer!)

Dominick Stephens
Chief Economist (09) 336 5671

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Satish Ranchhod, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

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