

Economic Note

April housing market update

23 May 2019

Softer April market may not last

- The housing market appeared to soften in a number of regions over April. The housing market was particularly weak in Auckland, with prices continuing to decline. The Northland, Otago, Bay of Plenty and Nelson housing markets were also notably quieter in April.
- Across most of NZ, the housing market remains tight and price growth strong. We expect lower mortgage rates and the Government decision to rule out a capital gains tax entirely will likely boost housing demand and result in elevated house price growth in the tighter regions. We expect firmer demand will put a floor under Auckland house prices.
- However, looking beyond 2019, we expect high levels of housing construction will alleviate areas with tight housing markets, and house price growth will gradually moderate.

This report is split into two parts. First, we provide a **rundown of key trends in the housing market by region**. The second section (click [here](#)) discusses the **key drivers influencing NZ housing market conditions**.

The statistics referred to in this report are listings data from realestate.co.nz, REINZ house sales, REINZ days to sell and the REINZ House Price Index figures (ASB seasonally-adjusted estimates).

REINZ:	Apr-19	Mar-19	Apr-18	realestate.co.nz	Apr-19	Mar-19	Apr-18
House Sales, s.a.	5,741	5,834	6,426	New Listings, actual, s.a.	9,095	9,584	10,267
% mom	-1.6%	-6.4%	-2.2%	% mom	-5.1%	4.5%	-1.8%
% yoy	-11.5%	-10.1%	9.7%	% yoy	-11.4%	-8.3%	-0.3%
HPI, s.a.	2,741	2,773	2,705	Total Inventory, s.a.	26,069	25,539	24,952
% mom	-1.0%	-0.3%	0.0%	% mom	2.1%	3.9%	0.7%
% yoy	1.3%	2.4%	3.7%	% yoy	4.5%	3.1%	-0.2%
Days to Sell, s.a.	38.3	38.8	37.0	Weeks of Inventory, s.a.	20	19	16

Regional rundown:

Auckland

- The **Auckland housing market** was weak over the first four months of 2019, tilting more firmly towards a buyers' market.
- Housing market turnover slowed, with April house sales falling to the lowest level since 2010 (on a seasonally-adjusted basis, ASB estimates).

Auckland	Apr-19	Apr-18
House Sales, s.a.	1,540	1,833
House Sales, % yoy	-16.3%	6.1%
HPI, %yoy	-4.4%	0.9%
Weeks of Inventory, s.a.	29	21

- Meanwhile, as buyer interest dwindled relative to supply, houses sat on the market for longer. The median number of days to sell settled at 44 days in April (seasonally-adjusted, ASB estimates). While this is the highest number of days to sell since 2009, it remains below previous peak of 56 days in late 2008.
- The total number of houses available for sale continues to edge higher, sitting around historical-average levels. Potential buyers are likely waiting on the side-lines until policy uncertainties have been resolved. In mid-April, the Government announced it would not introduce a capital gains tax and this may see demand return to the market from May.
- **Soft Auckland housing market conditions in April** would suggest further declines in Auckland house prices (the REINZ House Price Index for April is down 4.4% from year-ago levels). However, we expect the fall in mortgage rates over April and May, along with the Government ruling out a capital gains tax, will lift demand sufficiently to provide a floor under Auckland house prices.

Canterbury

- **The Canterbury housing market** appears to have tightened slightly in the early months of 2019 with house prices nudging higher (up 1.3% in April compared to a year earlier).
- Housing turnover remains muted in the Garden City, with the number of house sales falling 13% over the six months to April 2019.
- However, turnover in recent months may have been constrained by the slowing rate of new supply, with the number of new listings in April 16% below new listings from six months earlier. Overall, inventory levels remain relatively steady.
- We expect Canterbury house price growth to maintain recent momentum, and it's possible house price growth accelerates in coming months on the back of lower mortgage rates and greater buyer demand.
- In addition, the Canterbury housing market appears comparatively affordable compared to other South Island regions, adding another support to housing market momentum. Median sales prices in Nelson and Otago are now higher than in Canterbury – a reversal from a few years ago.
- However, Canterbury residential building consents started to pick up in recent months, and if this lift is sustained the increase in housing supply may limit the extent of further price growth later in 2019/early 2020.

Canterbury	Apr-19	Apr-18
House Sales, s.a.	780	871
House Sales, % yoy	-11.8%	16.5%
HPI, %yoy	1.3%	-0.3%
Weeks of Inventory, s.a.	21	20

Wellington

- **The Wellington housing market is supply constrained** with population growth outstripping the pace of new housing construction growth over recent years, resulting in a housing shortage.
- **Competition between buyers remains fierce**, with prices growing at around 2% per quarter.
- Housing turnover remains constrained by the lack of houses to sell. New listings and total houses available for sale remain very low by historical standards. In saying that, inventory does appear to be tentatively turning higher in Wellington.
- Over 2018, Wellington residential building consents lifted to high levels and new housing construction will gradually increase the supply of housing onto the market.
- We expect Wellington house price growth to remain strong over the rest of the year, with lower mortgage rates likely to fuel buyer demand in an already tight market.
- From 2020, we expect the rate of house price growth will gradually slow as **new housing construction starts to alleviate the housing supply shortage which has arisen in the past two years.**

Wellington	Apr-19	Apr-18
House Sales, s.a.	629	695
House Sales, % yoy	-11.9%	2.7%
HPI, %yoy	9.6%	8.7%
Weeks of Inventory, s.a.	10	8

Manawatu/Whanganui and Hawkes Bay/Gisborne

- House prices in these regions are growing at a very strong rate, with price growth of 4.2% in the three months to April in Manawatu/Whanganui, and 2.5% growth in the three months to April in Gisborne/Hawkes Bay.
- Price growth appears to be fuelled by the lack of choice for potential buyers, with total houses available for sale at very low levels of between 10 to 12 weeks of sales.
- **Without a material and sustained lift in new listings, and along with increased demand due to lower interest rates, we expect house price growth to remain strong in these areas.**

Manawatu/Whanganui	Apr-19	Apr-18
House Sales, s.a.	400	403
House Sales, % yoy	-2.4%	26.1%
HPI, %yoy	17.1%	12.2%
Weeks of Inventory, s.a.	11	11

Hawkes Bay	Apr-19	Apr-18
House Sales, s.a.	233	225
House Sales, % yoy	5.4%	6.3%
HPI, %yoy	11.2%	14.7%
Weeks of Inventory, s.a.	10	9

Bay of Plenty

- **Bay of Plenty housing data have been mixed of late.** The housing market tightened in the Bay of Plenty over late 2018/early 2019 after showing some signs of cooling over mid-2018. House price growth picked up strongly over February and March.
- However, in the **April month the Bay of Plenty housing market suddenly cooled** again, with house sales falling and the number of homes available for sale lifting. Annual house price growth slowed to 6.6% from 8% in March.
- **Nonetheless, the Bay of Plenty housing market is still supply constrained**, with new listings remaining low.
- Furthermore, from May, we expect demand to firm due to lower interest rates and the Government's decision against implementing a capital gains tax. We expect the Bay of Plenty housing market to remain reasonably hot over 2019.

Gisborne	Apr-19	Apr-18
House Sales, s.a.	59	54
House Sales, % yoy	9.7%	0.0%
HPI, %yoy	11.2%	14.7%
Weeks of Inventory, s.a.	12	10

Bay of Plenty	Apr-19	Apr-18
House Sales, s.a.	347	467
House Sales, % yoy	-25.5%	12.1%
HPI, %yoy	6.6%	5.8%
Weeks of Inventory, s.a.	17	14

Taranaki and the Waikato

- These areas gained **some momentum over late 2018 and early 2019**, with price growth accelerating strongly after a modest slowdown over mid-2018.
- However, **indicators suggest this burst of price growth is unlikely to be sustained.** Demand appears to have softened, with housing turnover falling in both regions. Meanwhile, supply has lifted with total listings increasing in both regions, but particularly so for the Waikato.
- There are mixed forces in play for the Taranaki and Waikato. Lower interest rates and a strong agri-economic performance over the past year will help prop up demand. However, these markets do not appear as supply-constrained as other regions and a supply response will likely keep future house price growth in check.

Taranaki	Apr-19	Apr-18
House Sales, s.a.	154	156
House Sales, % yoy	-3.2%	-4.9%
HPI, %yoy	7.5%	4.3%
Weeks of Inventory, s.a.	19	16

Waikato	Apr-19	Apr-18
House Sales, s.a.	653	647
House Sales, % yoy	-0.9%	8.0%
HPI, %yoy	5.7%	5.6%
Weeks of Inventory, s.a.	21	15

Nelson/Tasman/Marlborough/West Coast

- House price growth in the Top of the South had picked up strongly in late 2018, but **price growth has slowed over the early months of 2019**. Annual house price growth has slowed from 8.8% at the end of 2018 to 5.7% in April.
- Supply in Nelson is tight**, with total listings available for sale at low levels. **However, new listings in Nelson have picked up slightly** and appear to be contributing to some cooling in Nelson housing market conditions over recent months. We expect this cooling may be brief, as **lower interest rates boost housing demand from May**.
- Conditions appear less tight in Marlborough with a lift in total listings in recent months.
- Meanwhile, the West Coast has seen a steady improvement in housing market conditions, with house sales lifting over the past year, contributing to a gradual decline in the stock of houses available for sale (albeit from very high levels).

Nelson/Tasman	Apr-19	Apr-18
House Sales, s.a.	76	89
House Sales, % yoy	-16.7%	31.5%
HPI, %yoy	5.7%	9.5%
Weeks of Inventory, s.a.	16	12

Marlborough	Apr-19	Apr-18
House Sales, s.a.	72	91
House Sales, % yoy	-14.0%	32.3%
HPI, %yoy	5.7%	9.5%
Weeks of Inventory, s.a.	24	14

West Coast S.I.	Apr-19	Apr-18
House Sales, s.a.	44	41
House Sales, % yoy	2.7%	68.2%
HPI, %yoy	5.7%	9.5%
Weeks of Inventory, s.a.	44	69

Otago and Southland

- The **Southland housing market remains hot**, with house price growth running at an annual pace of 16% in April. Inventory remains tight, with new listings and total houses available for sale at very low levels.
- With the Southland housing market showing no sign of slowing, lower interest rates may see strong rates of house price growth continue.
- Meanwhile, the **Otago housing market has softened** along with the rest of the country in April. Housing inventory has begun to trend higher (albeit from very low levels) and house price growth appears to have slowed materially in recent months. Lower interest rates may provide some support to Otago housing market demand over the rest of the year and, with supply still relatively tight, underpin moderate rates of price growth over the rest of the year.

Otago	Apr-19	Apr-18
House Sales, s.a.	334	374
House Sales, % yoy	-11.5%	3.7%
HPI, %yoy	7.1%	9.8%
Weeks of Inventory, s.a.	11	10

Southland	Apr-19	Apr-18
House Sales, s.a.	162	174
House Sales, % yoy	-14.0%	37.8%
HPI, %yoy	15.5%	11.6%
Weeks of Inventory, s.a.	13	14

Northland

- The **Northland housing market has slowed rapidly in recent months**, and appears to be the only housing market in NZ that has cooled significantly in the wake of the foreign buyer restrictions.
- Total listings have steadily lifted since the foreign buyer restrictions took effect.
- With growing supply and soft demand, house prices have been under pressure since the end of 2018. Northland house prices are now just 0.7% above year-ago levels.
- We expect demand to remain somewhat muted over 2019, although lower interest rates may provide some support and keep a floor under **Northland house prices over 2019**.

Northland	Apr-19	Apr-18
House Sales, s.a.	183	208
House Sales, % yoy	-11.0%	9.0%
HPI, %yoy	0.7%	6.4%
Weeks of Inventory, s.a.	39	26

Housing supports and headwinds

Housing demand strong

The NZ housing market has been subjected to a number of different drivers over the past few years, and we have seen relatively high variation in housing market performance across different regions (see the regional rundown).

Fundamentals supporting housing demand include:

- Strong population growth and a sluggish housing supply response.
- The strong labour market, which supports household investment appetites.
- Improving household incomes.
- Low mortgage interest rates.
- The gradual relaxation of the RBNZ's high loan-to-value lending restrictions (for both investors and owner-occupiers).

Mortgage rates fall before the OCR

In late March, the Reserve Bank of New Zealand (RBNZ) Governor surprised financial market watchers by delivering an unexpectedly downbeat economic assessment at the March Official Cash Rate (OCR) announcement. The RBNZ then followed through on its easing bias, with a 25 basis point rate cut in May. As a result, mortgage rates have fallen over April and May. We expect the RBNZ will deliver a follow-up 25 basis point rate cut over the second half of 2019 and for mortgage rates to remain low and provide a boost to housing demand over 2019.

Housing supply slow to catch up

Auckland's housing shortage has now spread across the country, with some regions now experiencing a shortfall in housing supply as the pick-up in regional population outpaces regional dwelling construction. There has been a sharp pick-up in dwelling rents in parts of the country with stretched supply (e.g. Wellington). We expect these regional shortfalls will be relatively short-lived as new house building demand has been relatively quick to respond. As new housing construction is completed over 2019, we expect the housing supply to catch up to new demand from population growth and reduce some of the upward pressure on house prices outside of Auckland and Christchurch.

Policy impacts

The Labour Government's housing policies have reduced investor demand at the margin, including the Healthy Home Bill, ring-fencing tax losses on rental properties, the extended "bright line" investor tax, and restrictions on foreign buyers. The potential for the introduction of a capital gains tax may have weighed on investor price expectations. The Tax Working Group released its final recommendations in late February, but the Government did not make a decision on the recommendations until mid-April. This period of policy uncertainty may have dampened housing demand in March and April. As the Government ultimately decided to not introduce a capital gains tax, we expect housing demand may pick up slightly heading into winter.

Affordability

In most regions, housing affordability has deteriorated over the past year, with house price growth outstripping income growth. Auckland is an exception, where flat house prices vs. growing household incomes has seen an improvement in affordability – albeit from extremely-stretched levels. We expect Auckland house prices to remain flat over the next few years, while incomes continue to lift. This should continue to see the house price-to-income ratio gradually fall, with the Auckland market achieving a 'soft landing' as opposed to the more disruptive adjustment seen in the Sydney and Melbourne housing markets.

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