

Economic Note

May housing market update

18 June 2019

Regional crosswinds intensify

- The housing market stabilised in May. But regional differences became even more marked. Auckland remained a clear weak spot. In contrast, conditions in a number of other regions such as Wellington, Gisborne, Hawke’s Bay, and Southland remained very tight.
- We expect nationwide house price growth to pick up to a modest 5-6% annual pace by the end of the year as falling mortgage rates and the removal of tax-related uncertainty bolster demand. Regions more heavily exposed to the foreign buyer ban, most notably Auckland, will underperform.
- 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:	May-19	Apr-19	May-18	realestate.co.nz	May-19	Apr-19	May-18
House Sales, s.a.	5,993	5,990	6,523	New Listings, actual, s.a.	9,448	9,095	9,981
% mom	0.0%	1.3%	1.3%	% mom	3.9%	-5.1%	-2.8%
% yoy	-7.8%	-7.7%	5.3%	% yoy	-5.3%	-11.4%	-0.1%
HPI, s.a.	2,749	2,743	2,701	Total Inventory, s.a.	26,243	26,069	24,988
% mom	0.4%	-1.0%	0.0%	% mom	0.7%	2.1%	0.1%
% yoy	1.8%	1.4%	3.6%	% yoy	5.0%	4.5%	0.6%
Days to Sell, s.a.	40.0	37.3	37.1	Weeks of Inventory, s.a.	20	20	17

Regional rundown:

Auckland

- **The Auckland housing market remains weak.** Turnover continues to slow. House sales have been in decline for all of 2019 and, in May, slumped to the lowest level since late 2010 (seasonally adjusted).
- New listings, at just over 3000 in May (s.a.), remain below average levels. And with turnover

Auckland	May-19	May-18
House Sales, s.a.	1,514	1,942
House Sales, % yoy	-21.8%	11.4%
HPI, %yoy	-3.3%	0.5%
Weeks of Inventory, s.a.	28	21

insufficient to clear the market, houses are sitting on the market for longer. The total inventory of houses available for sale in Auckland held at the equivalent of 28 weeks of sales in May, up from around 20 weeks at the end of 2018. Meanwhile, median days to sell have been slowly trending higher and reached 44.2 days in May.

- **It's a good-old fashioned stand-off.** It appears sellers are waiting for market conditions to improve before listing while buyers are happy to remain on the side-lines awaiting lower prices.
- **We expect the Auckland property market to continue to underperform.** Smoothing through the past five months' worth of data suggests Auckland house prices are drifting lower by around 0.5% a month. They're around 4.5% below the February 2018 peak. It's hard to make the case for an imminent turnaround in prices based on recent softness in turnover and days to sell. Recent falls in mortgage rates and the Government's Capital Gains Tax back-down should provide some support, but recent policy changes designed to cool investor demand are weighing particularly heavily in Auckland. We expect flat house price growth for the remainder of the year.

Canterbury

- **The Canterbury housing market appears to have tightened slightly over the first half of 2019** with house prices nudging higher (up 1.7% in May compared to a year earlier).
- Housing turnover remains muted, with the number of house sales slipping 6.2% in the year to May. However, turnover in recent months may have been constrained by the slowing rate of new supply, with the number of new listings in May 15% below new listings from a year earlier. Overall, inventory levels remain slightly below average at 22 weeks' worth (vs. long-run average of 24).
- **We expect Canterbury house price growth to continue slowly picking up**, and it's possible house price growth accelerates in coming months on the back of lower mortgage rates and greater buyer demand.

Canterbury	May-19	May-18
House Sales, s.a.	814	871
House Sales, % yoy	-6.2%	3.8%
HPI, %yoy	1.7%	-1.0%
Weeks of Inventory, s.a.	22	21

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.
- As a result, **prices have surged**. Since January 2018, Wellington house prices have risen 13%, even as Auckland prices have fallen 4.3%. That is, Auckland's price premium has narrowed significantly.
- **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. However, we have seen tentative signs of inventory beginning to turn higher over the past few months.
- 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	May-19	May-18
House Sales, s.a.	711	716
House Sales, % yoy	-0.4%	-0.2%
HPI, %yoy	7.4%	9.4%
Weeks of Inventory, s.a.	10	8

Manawatu/Whanganui and Hawkes Bay/Gisborne

- **House prices in these regions have been growing at a very strong rate, although there were some signs of a cooling in May data.** Price growth eased back to single-digit rates in Gisborne and the Hawke's Bay (9.5%/y) and cooled from 17%/y to 15.5% in Manawatu-Whanganui.
- **However, with most of the drivers of strong house prices remaining in place, we don't expect the cooling to last.** Price growth has been fuelled by low levels of inventory, and the latest data show weeks of inventory actually fell further in May. Total houses available for sale are running at a very low 9-10 weeks of sales.
- Sharp falls in mortgage rates will add further demand pressure into the mix.

Bay of Plenty

- Bay of Plenty housing data have been a little mixed and hard-to-read of late. After a strong start to the year, the market suddenly cooled in April.
- In May, house sales surged 19% but this was set against an increase in weeks of inventory to 19 weeks and a slight slowing in house price inflation to 6.5%.
- **Overall this suggests to us that some of the fizz has gone out of the market.** Still, the overall supply of new listings remains relatively low and mortgages rates are falling. **As such, we expect the market to hold up well over the remainder of the year.**

Taranaki and the Waikato

- These areas gained **some momentum over early 2019**, with price growth accelerating strongly.
- However, more recent indicators have painted a picture of slowing momentum. Demand appears to have softened. Supply has also lifted with total listings slowly increasing in both regions.
- May data also showed house price inflation throttling back to under 5%/y, down from the 7-7.5% pace of 12 months ago.
- **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.

Manawatu/Whanganui	May-19	May-18
House Sales, s.a.	352	406
House Sales, % yoy	-13.1%	7.2%
HPI, %yoy	15.5%	14.5%
Weeks of Inventory, s.a.	10	11

Hawke's Bay	May-19	May-18
House Sales, s.a.	246	237
House Sales, % yoy	3.9%	13.7%
HPI, %yoy	9.5%	14.3%
Weeks of Inventory, s.a.	9	10

Gisborne	May-19	May-18
House Sales, s.a.	58	57
House Sales, % yoy	1.5%	19.3%
HPI, %yoy	9.5%	14.3%
Weeks of Inventory, s.a.	9	11

Bay of Plenty	May-19	May-18
House Sales, s.a.	440	461
House Sales, % yoy	-3.8%	8.5%
HPI, %yoy	6.5%	4.9%
Weeks of Inventory, s.a.	19	13

Waikato	May-19	May-18
House Sales, s.a.	671	634
House Sales, % yoy	6.1%	-3.3%
HPI, %yoy	4.5%	7.5%
Weeks of Inventory, s.a.	19	17

Taranaki	May-19	May-18
House Sales, s.a.	179	165
House Sales, % yoy	7.3%	2.7%
HPI, %yoy	4.1%	6.9%
Weeks of Inventory, s.a.	18	18

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 eased over the first half of 2019**. Annual house price growth has slowed from 8.7% at the end of 2018 to 6.9% in May.
- Supply in Nelson is tight**, with total listings available for sale at low levels. However, new listings in Nelson have picked up over the past few months, as good price growth pulls in new sellers. Lower interest rates should help keep the momentum going in coming months.
- 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).

Marlborough	May-19	May-18
House Sales, s.a.	82	86
House Sales, % yoy	-2.8%	-7.8%
HPI, %yoy	6.9%	8.7%
Weeks of Inventory, s.a.	22	14

Nelson/Tasman	May-19	May-18
House Sales, s.a.	88	94
House Sales, % yoy	-5.8%	25.3%
HPI, %yoy	6.9%	8.7%
Weeks of Inventory, s.a.	14	12

West Coast S.I.	May-19	May-18
House Sales, s.a.	34	52
House Sales, % yoy	-32.3%	44.2%
HPI, %yoy	6.9%	8.7%
Weeks of Inventory, s.a.	40	71

Otago and Southland

- The **Southland housing market remains hot**, with house price growth running at an annual pace of 14% in May. 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.
- In contrast, the **Otago housing market has lost some steam**. Along with Auckland, the Otago Lakes market appears to be feeling the impact of the foreign buyer restrictions. Dunedin, meanwhile, remains strong. Otago house price growth has levelled off completely over the past three months, having previously been growing strongly.

Otago	May-19	May-18
House Sales, s.a.	380	373
House Sales, % yoy	2.7%	-2.8%
HPI, %yoy	9.9%	8.4%
Weeks of Inventory, s.a.	10	10

Southland	May-19	May-18
House Sales, s.a.	168	166
House Sales, % yoy	1.5%	3.7%
HPI, %yoy	14.1%	12.4%
Weeks of Inventory, s.a.	13	14

Northland

- The Northland housing market has been gradually slowing in recent months**.
- Total listings have steadily lifted since the foreign buyer restrictions took effect.
- Turnover has fallen significantly too. The average number of sales per month has dropped to 185 houses (past three months, seasonally adjusted), compared to an average of 270 sales per month over 2016.
- Against this backdrop, house price inflation has cooled to around a 5%/y pace. 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	May-19	May-18
House Sales, s.a.	196	194
House Sales, % yoy	1.3%	-2.5%
HPI, %yoy	5.5%	8.1%
Weeks of Inventory, s.a.	41	28

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 and falling 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

Having primed the market in March, the RBNZ followed through on its easing bias in May, cutting the official cash rate by 25 basis points to 1.50%. Offshore interest rates have fallen appreciably as well. As a result, mortgage rates have declined 30-50bps over April and May. We expect the RBNZ will deliver a follow-up 25 basis point rate cut in August and for mortgage rates to remain under downward pressure. This should provide a powerful 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, including the Healthy Home Bill, ring-fencing tax losses on rental properties, the extended "bright line" investor tax, and restrictions on foreign buyers. Regions with a higher concentration of investors, such as Auckland, have been hit harder. The potential for the introduction of a capital gains tax (CGT) may have weighed on investor price expectations and dampened housing demand through March and April. But with the Government having backed-down on the CGT, we expect housing demand may pick up slightly through the second half of 2019.

Affordability

In most regions, housing affordability has deteriorated over the past year, with house price growth outstripping income growth. Auckland is a clear exception, where falls in house prices have 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.

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