Home Economics

July 2020

Doom or Boom? A post-lockdown housing stocktake

- Recent housing commentary appears to encapsulate everything from doom to boom. We stocktake the post-lockdown state of house prices, rents, turnover, and inventory to try and provide some clarity.
- We're left happy occupying the less pessimistic end of the house price forecasting spectrum. In fact, if anything the recent run of data and anecdotes have come in on the stronger side of our view. Still, it's early days and we suspect pent-up demand will fade in coming months.
- Our overall view remains unchanged. We continue to expect a modest 6% fall in NZ national house prices.

Welcome to Home Economics, our regular wrap on all things NZ housing. If you're interested in signing up for future publications, you can do so here.

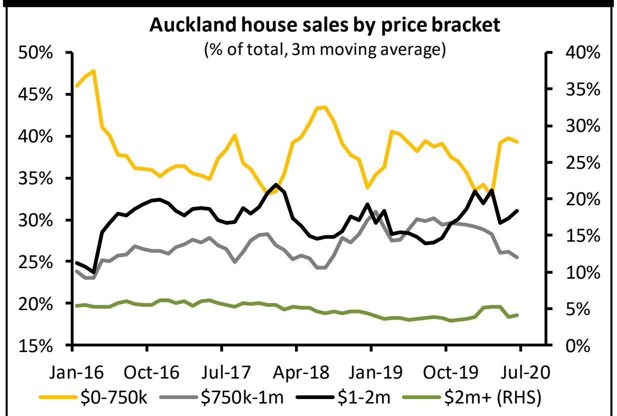
Our view

We've been forecasting a 6% peak-to-trough decline in nationwide house prices ever since the COVID crisis took hold in March. The economic adjustment to date been less severe than most expected. But recessions almost always produce housing market corrections in NZ and we don't expect this cycle to be any different. Rising unemployment and a sharp slowing in population growth are housing bugbears that will loom large over the second half of the year. Government and RBNZ stimulus will cushion the market to some degree, and we're seeing more signs of it working. Activity amongst first-home buyers, for example, has ticked up (see Chart 'o' the Month).

Over 2021, we expect house prices to stabilise, before gradually recovering as the unemployment rate begins to decline. Our forecasts are for a fairly gradual recovery, but if mortgage rates continue to fall and LVR restrictions are not restored the risk is probably for a brisker upturn.

Chart 'o' the Month

First Home Buyers More Active



Source: ASB, Barfoot & Thompson

Forecasts

ASB House Price Forecasts
(annual % change)

	Sep 2020	Mar 2021	Dec 2021
Auckland	1.8%	-7.0%	1.5%
Christchurch	1.2%	-3.3%	2.5%
Wellington	3.7%	-5.0%	1.2%
Other Regions	2.7%	-6.7%	1.0%
National	**2.4%**	**-6.2%**	**1.3%**

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Please refer to the important disclosures at the end of this document.

We've been forecasting a 6% peak-to-trough decline in nationwide house prices ever since the COVID crisis took hold in March. We covered off the drivers of such in our last note. However, it is worth reiterating a few key aspects of our view:

- **The ill effects of the COVID crisis will take time to filter through to NZ's housing market**. In part, this is because the housing market went into lockdown in strong shape. But it also reflects the close relationship between the housing market and the labour market, and the fact the deterioration in the latter is mostly a story for the second half of 2020. Indeed, over the next six months the winter winds of rising unemployment, reduced job security, slowing population and household income growth are going to blow a little harder. Uncertainty around the upcoming general election and a wobbly global economy won't help confidence in the market either.

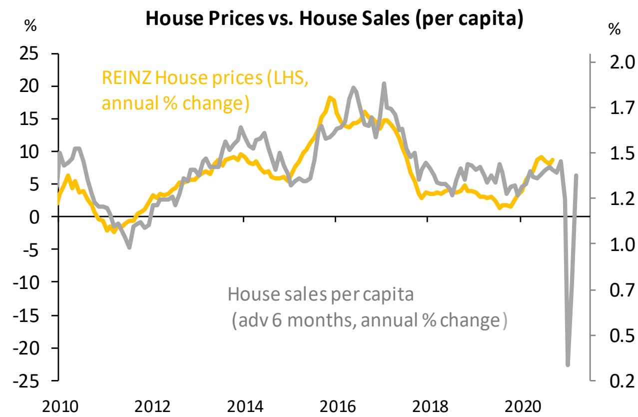
- **Regional variation around the national average will be much larger than past cycles** given the disparate way the COVID crisis has impacted on the economy. House prices in Otago have already fallen 4% since February even as the Hawke's Bay/Gisborne markets continue to fire. Our house price forecasts for the main centres are displayed on Page 1. To date, the data have been falling broadly in line with our regional view – Auckland slightly underperforming the national average, Wellington and Canterbury outperforming, and the rest of the country, in aggregate, somewhere in the middle. Check out our regional Housing Heatmap at the end of the document.

- **COVID uncertainty means all forecasts should be taken with a grain of salt**. Be wary of precise estimates. We've been couching our housing view as a 5-10% fall in prices. Our last epistle made the point that this is roughly consistent with historical precedent around NZ recessions and labour market cycles. But the COVID shock, as we're all now tired of hearing, is without precedent!

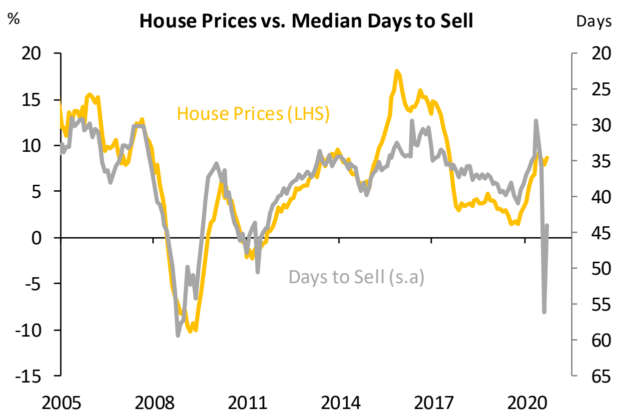
In the next section we dig a little deeper into the data to see what the key impacts of COVID have been on the residential property market to date. It's our attempt to provide a bit more clarity on the situation given the vast number of, frequently conflicting, property stories flying around. We single out (in particular) house prices, turnover, rents, and inventory.

Overall, the exercise leaves us happy to occupy the less pessimistic end of the spectrum when it comes to house price predictions. In fact, if anything the recent run of data and anecdotes have come in on the stronger side of our view. The latest indicators are generally consistent with a clear decline in the rate of house price increases, but not necessarily a decline in house prices in an absolute sense. However, we're cognisant it's still early days in the post-COVID economic adjustment, particularly with respect to the labour market. And we also strongly suspect the pent-up demand overstating June housing data will fade in coming months.

Key short-term charts



Source: REINZ, ASB



Source: REINZ, ASB

A post-lockdown housing stocktake

Summary Table

	House Prices Prior to COVID	House Prices	Listings	Rents*
		Change since COVID (February)		
	12 months to Feb (%)	% change	% change	% change
Hawke's Bay	14.6	3.3	24%	-1.5
Gisborne	14.6	3.3	-13%	7.3
Manawatu-Whanganui	21.3	3.1	26%	0.6
Bay of Plenty	6.5	2.3	28%	-6.1
Nelson/Tasman	6.9	1.9	32%	16.7
Marlborough	6.9	1.9	0%	1.5
West Coast S.I.	6.9	1.9	-6%	11.5
Canterbury	4.3	1.4	6%	-2.4
Northland	9.8	1.4	-1%	2.3
Wellington	11.1	0.8	9%	-10.8
Waikato	9.8	0.5	14%	-1.5
Taranaki	13.6	0.1	-3%	-4.3
Southland	23.0	-0.2	16%	11.6
Auckland	6.9	-0.5	15%	-1.3
Otago	13.1	-4.1	20%	-1.6

Source: ASB, REINZ, MBIE, realestate.co.nz *Rents based on bond lodgments from new tenancies

Prices – June bounce unlikely to be sustained

NZ house prices are actually 0.3% higher now than in February, before COVID-19 and the associated lockdown disrupted the market and belted the economy. Prices fell through April and May. But a somewhat surprising 1.0% lift in June recovered all of this lost ground.

The table shows that those markets that went into lockdown the hottest have also been those that have emerged the strongest. Hawke's Bay/Gisborne, Bay of Plenty, and Manawatu-Whanganui are the most obvious examples of such with 2-3% house price gains from February to June.

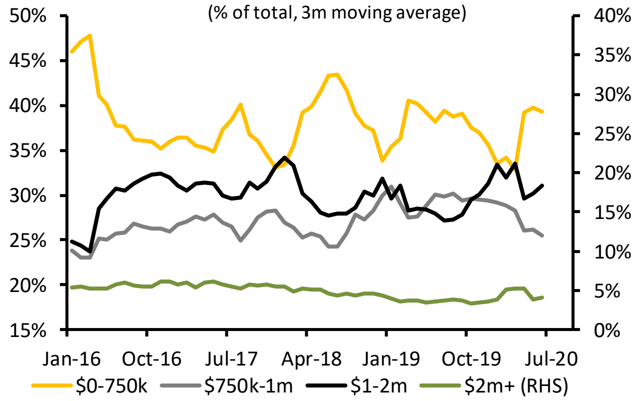
Auckland (-0.5%) and particularly Otago (-4.1%) have, as expected, underperformed the national average over the same period. The Southern Lakes region is clearly suffering from the halting of tourism to the region and the associated economic difficulties. The Auckland situation may reflect the sudden halt in the flow of international migrants, historically most of which remain in Auckland. Prices in Auckland also started at much more stretched levels relative to the rest of the country.

Turnover – first home buyers becoming more active

Housing activity in most parts of NZ sprang back to life in June. The shift down to Alert Level 1 on June 9 saw activity quickly catch-up to normal levels following the heavy restrictions on housing activity (open homes, auctions, inspections etc.) in place through Alert Levels 2-4. National house sales, at 6,647 (s.a.) in June, were actually 12% above the average for the past 12 months. W e expect sales to slow again in coming months as pent-up demand fades and broader economic fragility restrains market activity.

Auckland house sales by price bracket

(% of total, 3m moving average)



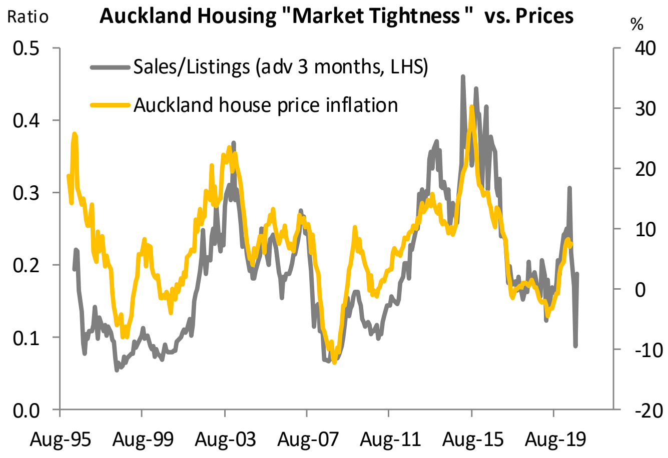
Source: ASB, Barfoot & Thompson

One interesting trend that is starting to shine through in the data is a lift in the amount of housing activity occurring in the lower price brackets. This may be the first-home buyer boost many have been expecting. The combination of a levelling off in house prices and rock-bottom mortgage rates has been a boon for those first-home buyers that haven't had their jobs and incomes impacted by the recession. The RBNZ's (temporary) ditching of loan-to-value restrictions will also be assisting borrowers with lower than average equity.

Looking at Auckland – for which we have the best data – house sales in the $0-750k price bracket have risen to account for around 40% of the market, up from 33% in the three months before COVID struck. At the same time, the share of activity in what could be thought of as the "existing home owner" brackets of $750k-1m and $1-2m has fallen. Uncertainty about the valuation of an existing home, as well as fixed-rate mortgages delaying mortgage relief, might explain some of the *relative* reluctance amongst these cohorts.

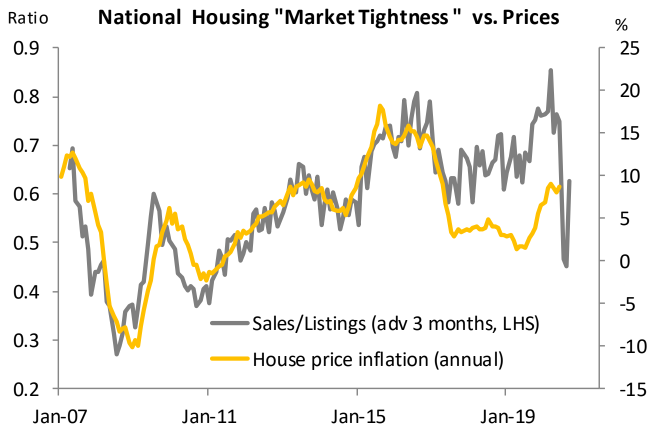
Inventory – supply shortage easing

Housing inventory (i.e. total houses available for sale) fell to extraordinarily low levels in 2019. Not only were new listings oddly light for most of the year, but solid buying interest quickly chewed up most new properties that did come to market. As we wrote about in March, this clear imbalance of supply relative to demand was the makings of the pre-COVID house price acceleration.



Source: ASB, Barfoot & Thompson; REINZ

During lockdown, many houses were unsurprisingly pulled off the market. New listings also slowed to a trickle. But the hit to listings and inventory was not nearly as marked as what might have been expected. New listings in April still numbered around 3000 across the country ("normal" is around 8500) and total houses for sale across the country fell only 6% across March and April combined.



Source: ASB, Barfoot & Thompson; REINZ

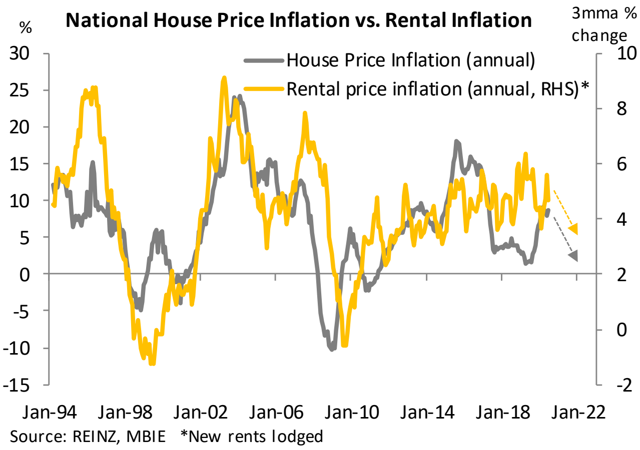
What's more, housing inventory has bounced back rapidly post-lockdown. We might have expected a little more reluctance on the part of vendors. There were 21,890 (seasonally adjusted) total homes for sale in NZ in June according to realestate.co.nz. That's the highest since October 2019. As the table above shows, the biggest post-February increases have been in Hawke's Bay, Bay of Plenty, Nelson-Tasman, and Manawatu-Whanganui. There will be an element of catch-up at play here, as vendors that couldn't sell during lockdown get their homes onto the market. But that won't account for all of the lift. The supply shortage may be starting to ease.

A look at sales/listings ratios points to the lift in supply outpacing that of demand over the past few months. Sales/listing ratios are a good gauge of overall market balance, and thus pressure on house prices to rise or fall. As the charts above show, they've been falling recently, but certainly not to levels indicative of a slump in prices. It's more a story of supply rising to ease some of the prior pressure on prices to rise. We expect some further mild declines in the months ahead.

Rents – pressure coming out

Rent increases were frozen by the Government for six months on 26 March as part of the COVID-19 support package. The freeze has started to show up in Stats NZ rental data as a slowdown in rental inflation from the 3½% annual pace prevailing prior to lockdown (it hasn't show up as a complete stalling in rental inflation, but Stats has had some trouble measuring it).

Rents data from MBIE capture rents at the time a new tenancy is agreed. Newly-agreed rents are, by definition, not affected by the rental freeze and thus should provide a cleaner read on the true state of the supply/demand balance in the rental market.



On this measure, nationwide rents have dropped about 2% since February. The data can be very volatile month-to-month (check out some of the numbers in the table!) so this probably overstates the cooling in rents, but it does seem clear that some of the prior pressure is coming out of the market. There is a massive amount of variation amongst the regions though, as can be seen from the table. Our rough expectation outlined in April was for about a 5% fall in new rents as falling household income growth and rising supply reduce tightness in the market. This still feels about right to us.

Appendix – Regional housing heatmap

ASB Housing Market Heatmap

	Sales (s.a)	Prices	Days to Sell	Rents		Inventory
	%3m/3m	%yoy	Dev from avg	%yoy	Yield (%)	Dev from avg
Auckland	-44.2	7.7	18	3.3	3.1	-21%
Canterbury	-37.8	5.2	7	2.4	4.0	18%
Wellington	-33.2	10.8	-2	5.6	3.8	-32%
Northland	-44.3	9.7	11	8.1	3.7	-41%
Waikato	-37.9	8.5	9	7.1	3.4	-7%
Hawke's Bay	-40.6	17.8	-12	5.8	3.8	-64%
Bay of Plenty	-46.3	8.8	21	4.9	3.6	-20%
Gisborne	-40.3	17.8	-4	12.8	4.3	-34%
Manawatu-Whanganui	-38.8	19.4	-16	10.8	4.2	-44%
Taranaki	-28.7	10.9	-9	8.7	4.5	-36%
Nelson/Tasman	-38.4	8.0	0	3.9	3.4	18%
Marlborough	-39.2	8.0	6	4.5	4.5	-42%
West Coast S.I.	-17.8	8.0	16	3.7	8.4	-51%
Otago	-32.9	6.1	-7	3.4	4.1	-16%
Southland	-28.8	12.2	-6	8.4	4.5	-16%

Brrr

Sizzling

Sources: ASB, Corelogic, REINZ, MBIE, realestate.co.nz

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