Economic Note

Housing Insights

4 March 2020

Runnin' on Empty – when will home listings rise?

- Housing inventory is at rock bottom levels right around the country
- We find some evidence to suggest listings, at least in Auckland, should rise from here
- A failure to do so could see prices bust through our house price inflation forecasts

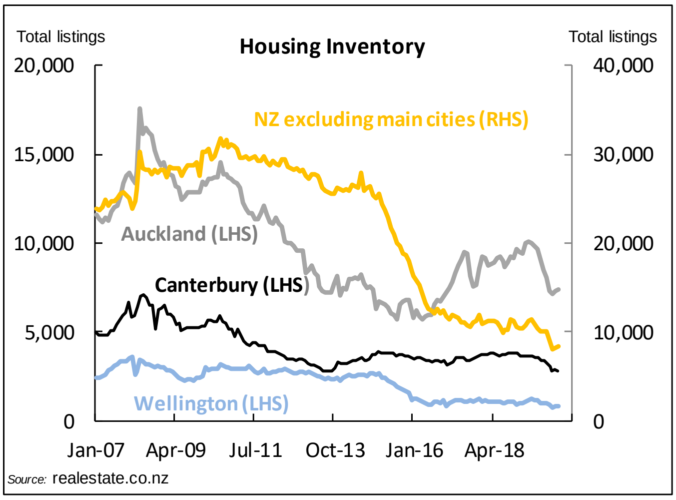
Summary and key take outs

Housing inventory is extraordinarily low across the country. At a time when housing demand is clearly picking up, this "supply squeeze" is putting extra pressure on house prices to rise. In Auckland, the sales-to-listings ratio – an excellent predictor of Auckland house prices – has been rising since May and now suggests the market is in outright "tight" territory. The upshot is that where listings go from here is important.

We find that the trends in housing turnover are a good indicator of future listings. This is the "encouraged seller" effect. Given the jump in housing turnover we've seen since mid-2019, we're looking for new listings to lift back towards more "normal" levels over the next few months. This should increase available inventory and temper the degree of excess demand currently pervading the Auckland housing market.

However, the risks are clear. If we don't see listings rise, or if turnover continues to run ahead of listings, prices could easily bust through our 7.5% mid-year Auckland house price inflation forecast. We're happy to treat this as a risk for now. We still think the supressing effects of the foreign buyer ban and the recent stabilisation in mortgage rates will exert some restraint. Increasingly, there's also broader economic volatility related to the coronavirus, as well as upcoming election uncertainty, to think about. We'll be watching the next few months' worth of listings data closely for confirmation the supply side is responding.

Supply critical to house price outlook



It's now pretty clear NZ's housing market is accelerating. Sales activity picked up around the middle of last year and prices have followed with the usual lag. National house price inflation is now running at 7%. Still, none of this has been particularly surprising - we've been expecting a turn in the market ever since the Capital Gains Tax was shelved and mortgage rates began sliding in autumn of last year.

Our view, as regularly espoused in our Home Economics series, is that there's enough mortgage rate fuel in the market's tank to keep things chugging through to around the end of the year. Our forecasts have

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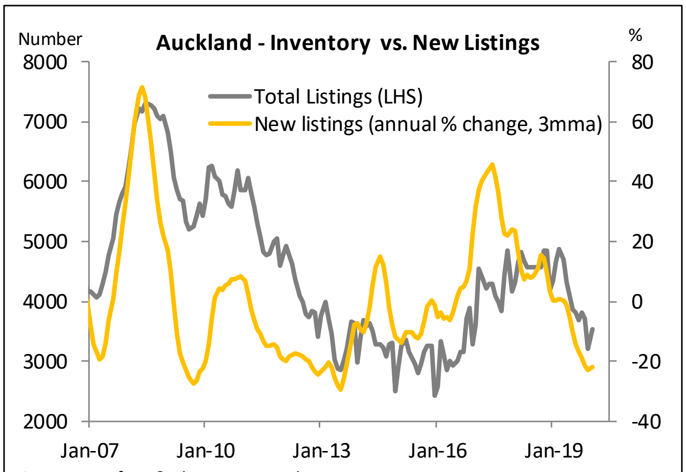
national house price inflation topping out in the high single digits.

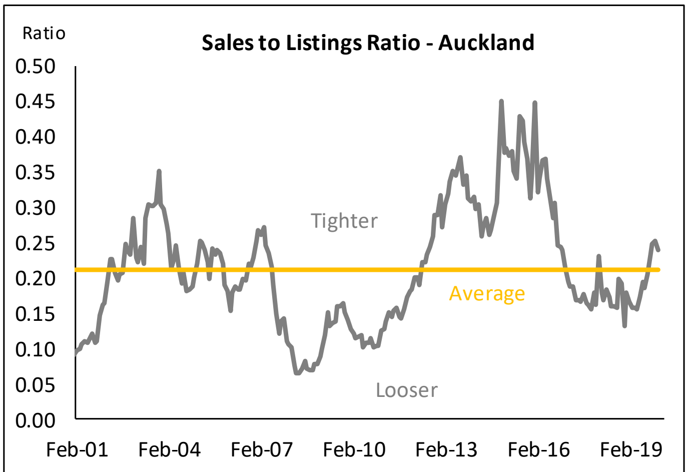
One of the key risks to this view relates to the supply of new listings to the market. After all, now that demand is clearly picking up, supply needs to rise to meet it otherwise we'll quickly have an even more rapid squeeze in prices on our hands.



Source: Barfoot & Thompson, realestate.co.nz

What's going on with listings?

Against this background, it's notable just how extraordinarily low property listings are in most parts of the country. They range from 30% below average levels in Auckland to a whopping 75% below average in Gisborne and the Wairarapa. National listings are close to the lowest since realestate.co.nz began collecting data in 2007. And bear in mind that NZ's population has expanded by around 15% since 2007, so the real (i.e. per-capita) picture is even worse.



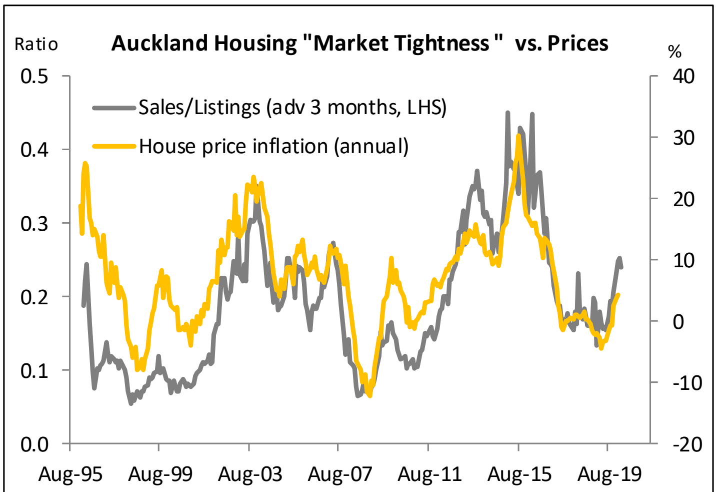
Source: ASB, Barfoot & Thompson

So what is going on? Will we see listings soon pick up? And what does it all mean for the outlook for prices?

A closer look at Auckland

One of the issues with nationwide listings figures is that they don't go back particularly far. But we do have a longer time series for Auckland courtesy of real estate agency Barfoot & Thompson, which accounts for about 50% of Auckland listings. We've run something of an Auckland case study using these data, the findings of which will broadly apply to the rest of the country.

Total Auckland real estate listings are approaching the 2015-16 all-time lows. As shown in the chart above, the monthly pace of new listings has also been anaemic, contributing to this low inventory. But listings are not just low in an outright sense. Increasingly, a stronger pace of housing activity (i.e. sales) is chewing up available inventory on the market. The sales-to-listings ratio has been moving steadily higher since May 2019 (chart above). It is now at above-average levels, suggesting the Auckland housing market is in outright "tight" territory. Simply put, there's not enough supply to satiate the pick-up in demand we've seen over the past nine months.



Source: ASB, Barfoot & Thompson; REINZ

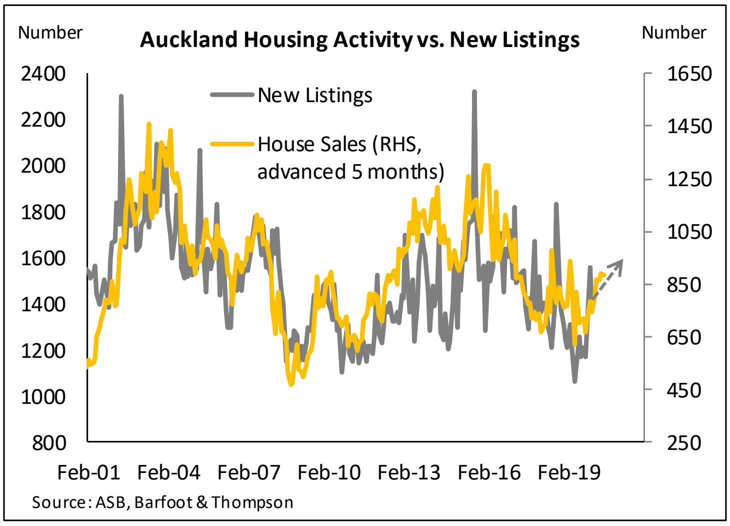
This is important. The sales/listing ratio – or the degree of "market tightness" – turns out to be an excellent predictor of Auckland house prices. This is clear in the chart opposite where Auckland house price inflation tracks the sales/listings ratio closely with around a three-month lag.

Given the relevance of listings for the house price outlook, the question then becomes where do we think listings will go from here? There are a few things to check.

First, the housing supply pipeline. There's been plenty of attention on the fact residential construction in Auckland has gone nuts over the past few years. Residential building consents are running at the highest level since the 1970s. Typically, around 70% of these consents result in a net new dwelling (allowing for demotions and consents not being acted on). However, there appears to be very little relationship between consents and new listings, even allowing for the lags involved. Our strong suspicion is that most new housing construction is purchased off the plan and hence doesn't hit real estate listings.

The implications are 1) those waiting for a surge in listings from the recent bulge in new home construction may be disappointed, and 2) real estate listings perhaps understate slightly the true level of housing supply hitting the market.

We find a much more reliable indicator for future listings growth to be the level of turnover in the market. This is the "encouraged seller" effect. Potential vendors witness a rising level of housing activity (which is usually associated with rising prices as well) and, wanting a piece of the action, decide to list. Our testing confirms there is a statistical 'leading' relationship between the level of housing turnover today, and new listings in five months' time.



As the chart suggests, if this relationship holds, we should see new listings continue to lift in coming months, following the jump in turnover we've seen since mid-2019. Something more akin to the long-run average of 1500 listings/month looks reasonable. This should increase available inventory and temper the degree of excess demand currently pervading the Auckland housing market.

However, the risks are clear. If we don't see listings rise, or if market turnover continues to run ahead of listings, prices could easily bust through our 7.5% mid-year Auckland house price inflation forecasts and head into double digits. The same is true in respect of listings growth across the rest of the country.

We haven't yet changed our view. We still think the supressing effects of the foreign buyer ban and the stabilisation (to date) in mortgage rates will be enough to prevent an outright boom in national house price inflation. Increasingly, there's also broader economic volatility related to the coronavirus, as well as upcoming election uncertainty to think about. But we'll be watching listings closely in coming months.

Check out our upcoming issue of [Home Economics]for more.

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