

Housing Confidence

Three months to April

May 2019



Proposed capital gains tax impacts housing views

- House price expectations fell across the country in the three months to April 2019, with Auckland house price expectations turning negative for the first time since 2009.
- Interest rate expectations reveal most respondents expected interest rates to remain unchanged, or rise, ahead of the RBNZ's *cut* to the Official Cash Rate in May.
- On balance, it's a slightly better time to buy in Auckland, but most have no strong view either way.

Summary

House price expectations fell over the three months to April. The fall in price optimism was felt nationwide but the decline was particularly pronounced in Auckland. Auckland price expectations turned negative for the first time since 2009, with a net 12% expecting a decline. With the net balance of Auckland-based respondents now expecting prices to fall, it was also seen as a slightly better time to buy. However, for the most part, most respondents see it as neither a good nor bad time to buy.

The **Tax Working Group released its recommendation in late February that a capital gains tax should be introduced on residential investment properties.** However, in late April, the Government unexpectedly announced it would not introduce any capital gains tax at all. The latest ASB housing confidence survey largely captures the period in between these announcements, and **the results imply that most respondents expected a capital gains tax on residential investment property would have a fairly material impact on the housing market.**

Respondents' interest rate expectations eased over the three months to April, with most respondents expecting interest rates to either remain unchanged or to rise over the year ahead. **Very few respondents correctly picked the fall in mortgage rates sparked by the RBNZ's May Official Cash Rate (OCR) cut.** We expect lower mortgage rates will stimulate housing demand over the rest of the year.

ASB Housing Confidence Survey			
Net percent who believe (3 months to April 2019) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	6%	-12%	6%
Rest of North Island	2%	25%	13%
Canterbury	8%	10%	16%
Rest of South Island	-2%	27%	7%
TOTAL NZ	4%	11%	10%
<i>Compare 3 months to Feb 2019</i>	1%	23%	14%

Source: Camorra

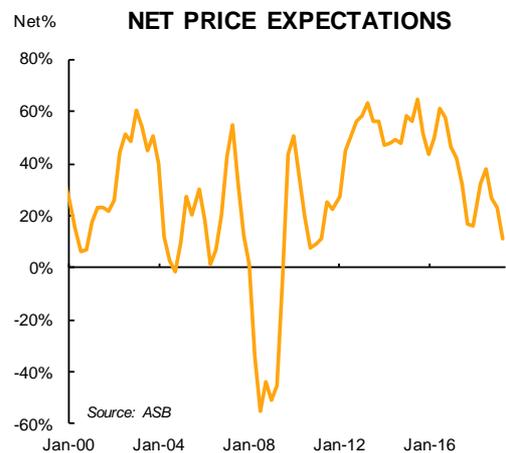
Price Expectations: Auckland price expectations turn negative

The net balance of respondents expecting house prices to increase over the next year fell to the lowest level since April 2011, to just a net 11% of respondents expecting higher prices in the latest survey (three months to April). A breakdown of the nationwide figures for the most recent quarter showed:

- 34% of respondents to the ASB survey expect higher prices, while 23% expect prices to fall (compared to 40% and 17% in last quarter);
- On balance, a net 11% expect higher prices (was 23% last quarter);
- 28% expect no change in prices (unchanged from last quarter), while 16% don't know (was 15%).

House price expectations shifted lower between February and April 2019. The weak result was led by a large fall in Auckland house price expectations – which fell into negative territory for the first time since 2009. A net 12% of respondents now expect house prices to fall in Auckland, versus the net 8% that expected higher house prices to rise just one quarter ago. The results became increasingly pessimistic over the three-month survey period, with the April month survey results seeing a net 23% expecting a decline in Auckland house prices.

The weak result in Auckland was unsurprising, given the **Auckland housing market clearly softened over these months** and with the media drawing much attention to weak Auckland housing statistics. Furthermore, since late last year many media commentators have drawn parallels between the Auckland and Australia's housing markets, highlighting the sharp house price declines in Australia and implying declines can be expected in Auckland. Nonetheless, we are surprised by the extent of the weak results from the ASB survey. The Auckland housing market has softened, but the balance of indicators suggest the Auckland housing market is not (yet) in dire straits. The number of houses listed for sale in Auckland is only around historic average levels. Meanwhile, Auckland's housing market is fundamentally undersupplied; a contrast to Sydney's housing market.



The other surprise from ASB housing confidence survey results was that **the fall in house price expectations was broad-based across New Zealand**. House price expectations in the North Island excluding Auckland moderated to a net 25% expecting an increase (down from a net 32% in the previous survey). Meanwhile, South Island house price expectations moderated to just net 18% expecting a house price increase, down from a net 29%. This is despite most regional housing markets (with a few exceptions) being very tight and recording strong house price growth during the months the survey was conducted.

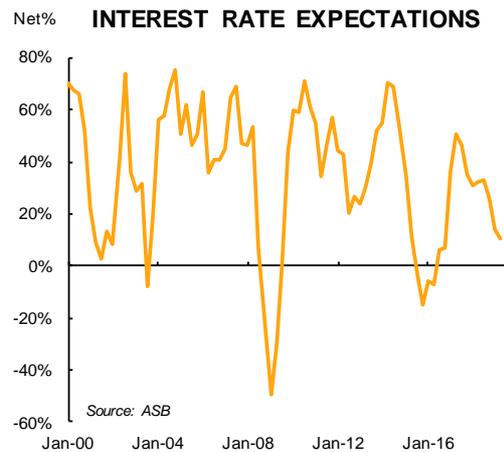
All up, **the extent of the fall in Auckland house price expectations, along with the decline being witnessed at a nation-wide level, suggests that the survey respondents may have been influenced by the Tax Working Group recommendations released in late February**. These included a recommendation that a capital gains tax should be introduced on residential investment properties. Over February and March, it was widely expected that the Government would, at a minimum, pursue a capital gains tax on residential investment properties. However, in mid-April, the Government unexpectedly announced that a capital gains tax was off the table entirely. We will be keenly watching our next quarter's housing confidence survey to see how much (if any) of the fall in house price expectations is reversed.

Rate Expectations: RBNZ May rate cut was widely unexpected

Interest rate expectations continued to edge lower following the previous quarter's sharp fall. On balance, interest rate expectations remained skewed to expecting increases. A breakdown of the net quarterly figures shows:

- 23% expect higher interest rates over the coming year, while 13% expect lower interest rates (was 26% and 12% last quarter);
- On balance, a net 10% expect higher interest rates, down from a net 14% figure in January;
- 36% expect interest rates to stay the same (35%), while 28% don't know (26%).

Over a third of respondents surveyed between February and April expected interest rates to remain unchanged over the coming year. These results show that very few respondents anticipated the RBNZ OCR cut at the May Monetary Policy Statement - with some fixed-term mortgage rates falling in early April ahead of the move. Indeed, in the months preceding the RBNZ decision to cut the OCR, more people had expected rates to lift (23%) rather than to fall (just 13%). These results confirm just how unexpected the RBNZ's change in monetary policy stance was between the February Monetary Policy Statement and the shift to an easing bias in late March.



We expect the RBNZ will need to cut the OCR once more in 2019, although the RBNZ does not appear to be in any hurry to make a second move and the timing of a follow up rate cut is likely to be highly data dependent. For borrowers, some fixed-term mortgage rates could possibly fall a little further if the RBNZ cuts the OCR again, although we note that recent declines in most the fixed-term mortgage rates already reflect an expectation of this easing.

Buying Sentiment: still on the sidelines

Respondents are broadly balanced on whether now is a good time to buy, with sentiment continuing to gradually improve from recent years when respondents perceived it to be a bad time to buy a house. Breaking down the nationwide figure shows:

- 19% say it is a good time to buy, while 15% say it is a bad time (was 17% and 16% last quarter);
- The difference is a net 4% (was 1% last quarter);
- 50% say it is neither good nor bad (51% previous), and 15% don't know (unchanged).

The majority of respondents saw February to April as neither a particularly good nor bad time to buy, with the net balance tipping to be slightly more positive than the previous quarter's (up to a net 4%). Cantabrians remain the most optimistic across NZ on now being a good time to buy. But with the housing market in Canterbury heating up and housing market conditions starting to tighten, we were unsurprised to see buying sentiment gradually waning in Canterbury, with just a net 8% seeing it as a good time to buy – down from 12% in January.

The softer Auckland housing market has bolstered enthusiasm for home buyers, with a net 6% seeing now as a good time to buy, up from a net 0% in January. Over the early months of the year, the Auckland market tipped slightly back towards a buyers' market, with demand softening and prices starting to fall again. Despite the capital gains tax being ruled out, we still expect that many investors may remain on the sidelines this year as investors navigate a variety of recent policy changes that will impact investment property ownership.

We are surprised how balanced sentiment remained throughout the rest of the country, where the housing market in most regions is very tight and very hot. A net 2% of respondents see now as a good time to buy in the North Island

(excluding Auckland) and a net 2% see now as a bad time to buy in the South Island (excluding Canterbury). There has been a steady improvement in buying sentiment throughout the country over the past year, despite markets in many regions remaining very competitive and house prices growing strongly. We expect lower interest rates will increase the demand for housing in these areas and for market conditions to continue favouring sellers outside of Auckland, Canterbury, Northland and the West Coast of the South Island.

Outlook:

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. 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).

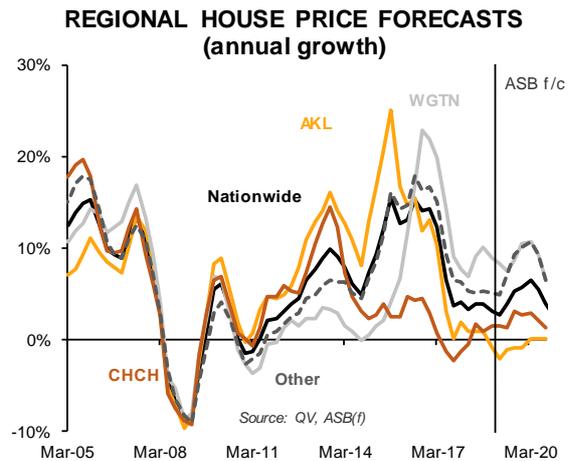
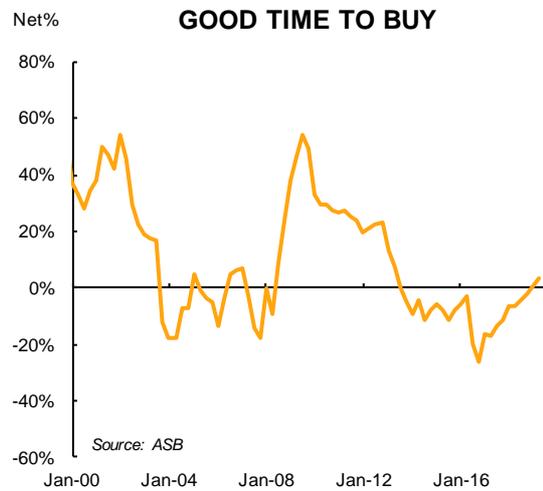
Over early April, mortgage rates fell sharply (up to 30-60 basis points for some fixed-rate mortgage terms) due to weak economic data and a growing expectation in financial markets that the Reserve Bank of New Zealand (RBNZ) will cut the Official Cash Rate (OCR) by 50 basis points over 2019. The RBNZ delivered a 25 basis point OCR cut at the May MPS and we expect the RBNZ will follow up with another cut in the second half of 2019. **Lower mortgage rates are likely to boost housing demand and house price growth across NZ.**

Across most of NZ, the housing market remained hot over the first quarter of 2019. Prices continued to grow strongly as the market remains supply constrained. **Lower mortgage rates will see house price growth remain firm over 2019.** Nonetheless, we continue to expect house price growth will gradually moderate over 2020 once housing supply catches up.

Auckland’s housing market softened over the early months of the year, with prices recording a small decline over Q1 2019. **Lower interest rates will likely provide a floor under Auckland house prices.**

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, and restrictions on foreign buyers. Reduced investor demand will likely impact the Auckland housing market the most, and we expect the Auckland housing market trends to remain driven by first home buyer appetite.

In Auckland flat house prices vs. growing household incomes has seen an improvement in affordability – albeit from extremely stretched levels. We expect Auckland’s house-price-to-income ratio to continue to gradually fall, with the Auckland market achieving a ‘soft landing’.



In summary

- House price expectations fell over the three months to April; the fall was felt nationwide but the decline was particularly pronounced in Auckland. Auckland price expectations turned negative for the first time since 2009.
- In late February, the Tax Working Group released its recommendation that a capital gains tax is introduced on residential investment properties. In late April, the Government unexpectedly announced it would not introduce any form of capital gains tax.
- Respondents' interest rate expectations eased over the three months to April, with most respondents expecting interest rates to either remain unchanged or rise over the year ahead. Very few respondents anticipated the fall in mortgage rates sparked by the RBNZ's May rate cut.
- Respondents' sentiment about now being a good time to buy remained broadly neutral. However, weak price expectations in Auckland contributed to an increased proportion of respondents seeing now as a good time to buy in Auckland.

Additional housing commentary

For more commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Housing Confidence](#) (this report)
- [Home Loan Rates](#)
- [Weekly Economic Reports](#)
- [Home Economics](#)

For general reference, the reports are included within the online Information Centre (<https://reports.asb.co.nz/index.html>).

For specific reference to housing, reports that include housing commentary can be accessed via a Search page (<https://reports.asb.co.nz/search/keyword.html>) by selecting the keyword "Housing".

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Rural Economist
Senior Economist, Wealth
Data & Publication Manager

Nick Tuffley
Mark Smith
Jane Turner
Nathan Penny
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
mark.smith4@asb.co.nz
jane.turner@asb.co.nz
nathan.penny@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5657
(649) 301 5853
(649) 448 8778
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

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