

Housing Confidence

Three months to July

August 2020



Seeing light at the end of the tunnel

- Views on whether it is a good or a bad time to buy a house are the most optimistic since 2012.
- House price expectations have partly recovered from lockdown depths.
- Unsurprisingly, a greater proportion of respondents expect interest rates will fall further.

Summary

It's been a wild ride for NZ, the housing market – and for people's perceptions of the housing market outlook. The original lockdown sparked huge swings in the outlook for house prices and people's views on whether or not it is a good time to buy a house. In the immortal words of Janis Joplin, New Zealanders took the view that freedom's just another word for nothin' left to buy except a house.

Overall price expectations were down over the quarter, but heavily skewed by grim views during the deepest parts of lockdown. As surveying proceeded over the three months to July, there was a clear lift in views to the point when in July price expectations were on balance back in net positive territory. Views on whether it was a good or bad time to buy a house swing sharply back into positive territory once the Level 4 lockdown was over. Impressively, respondents see now as the best time to buy since 2012. For those with job security, buying conditions are buoyed by ever-lower interest rates and the potential to find the right house without being in a boom-time bidding war.

We have for some time had one of the most optimistic (or least pessimistic!) outlooks for house prices, having since lockdown begun expected a 6% overall decline in NZ-wide house prices. We now [expect](#) the housing market will perform better than that, with 'only' a 3% fall for the year to March 2021. We were pleased to see how quickly the housing market bounced out of lockdown, though noted that there has been an element of pent-up demand to be satisfied. The second lockdown may also briefly curb people's enthusiasm. Nevertheless, the results of our latest Housing Confidence Survey and the prospect of further mortgage rate falls (if the RBNZ indeed pushes the OCR down further) all point to the housing market remaining very resilient – despite the economic challenges that abound.

ASB Housing Confidence Survey			
Net percent who believe (3 months to July 2020) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	18%	-17%	-34%
Rest of North Island	21%	-4%	-28%
Canterbury	24%	-19%	-31%
Rest of South Island	25%	-9%	-32%
TOTAL NZ	21%	-11%	-31%
<i>Compare 3 months to April 2020</i>	-1%	14%	-19%

Source: Camorra

Price Expectations: degrees of freedom matter

Over the three months to July, price expectations were weaker than in the three months to April. A net 11% of respondents expected price *falls* over the coming 12 months (25% said up, 35% said down). That net response was down from a net 14% still expecting price *increases* in the three months to April and the very strong net 55% expecting increases for the three months to January.

The outlook for house prices is – nevertheless – more encouraging at this point in time than the quarter’s overall result suggests. It is pretty evident in the finer details of survey responses that the state of lockdown had a material impact on people’s perceptions. The survey is conducted on a rolling basis over the quarter. February’s monthly results had a net 66% of respondents expecting price increases – the strongest individual month since we started surveying in 1996 (although over time there have been several months at 65%). From that heated momentum price expectations plunged to a net 39% and 38% expecting price *falls* during surveying done over April and May, the depths of NZ’s lockdown. For the month of July, expectations were back to a net 12% expecting *increases*. That is still a long way shy of respondents’ outlook at the start of the year and no doubt reflects how the outlook has been changed by the COVID-19 pandemic. But it does tie in with the shift back to a freer environment for personal actions, commerce – and real estate.

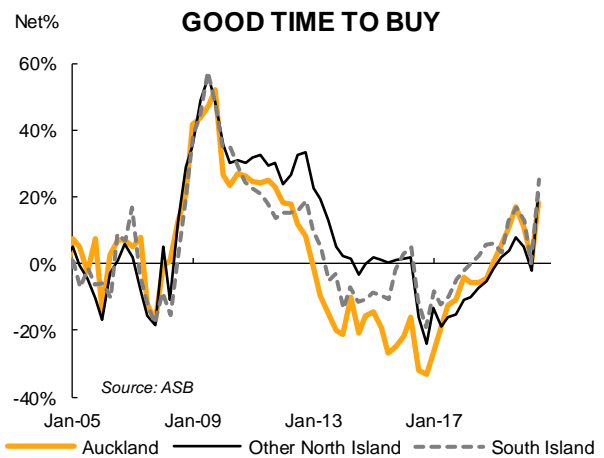
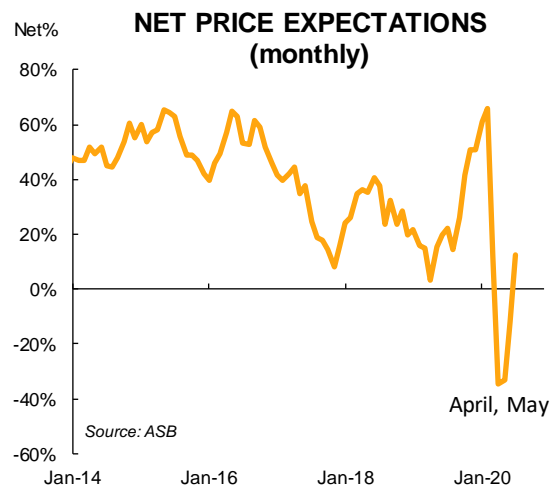
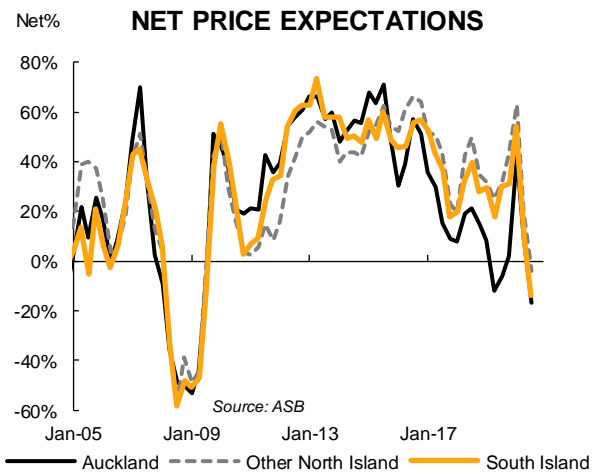
The most durable market throughout this period has been the North Island outside of Auckland. Not only was the rest of the North Island carrying more price optimism into the lockdown disruption, it has been leading the charge out. Over the month of July price expectations in the rest of the North Island recovered to net 25% positive, with responses in the rest of the country ranging across net 1% to 6% expecting prices to increase over the next year.

Buying Sentiment: better times are here

A swing towards a higher proportion of respondents seeing now as a good time to buy was clearly evident after sentiment was hit over March and April. For the three months to July:

- 32% say it is a good time to buy, while 11% say it is a bad time (was 21% and 22% last quarter), giving a net 21% saying now is a good time to buy – a sharp lift from a net 1% saying it was a *bad* time to buy in the three months to April;
- 46% say it is neither good nor bad (42% previous), and 11% don’t know (from 15%).

That 21% net balance of ‘good times’ is the strongest quarter since late 2012, when the housing boom back then was



just getting started. Sentiment has been night and day between the dark depths of Level 4 April and relative lightness of May onwards. Month by month, April to May was a transition from net -4% to +26% as the toughest restrictions ended, and viewings and transactions could resume. There was some tempering of this burst of optimism late in the quarter, but even so the mood points to people eyeing up the housing market as an opportunity for the taking.

Why would people be so optimistic about purchasing? There are likely to be a variety of reasons at play. Mortgage rates have fallen steadily since COVID-19 took hold, and respondents expect further falls over the coming year (see below). That means debt servicing costs are lower and look more favourable compared to rents. Borrowing to invest in property also may appeal to those eyeing up the steady decline in term deposit rates. Muted house price growth and expectations that the market will not be as strong as people viewed prior to COVID-19 means more perceived chance of finding a ‘bargain’. And, with New Zealanders ‘trapped’ within their own borders, it is also possible we will see people suffering from cabin fever contemplate buying a second cabin in which to feel feverish.

Rate Expectations: going down

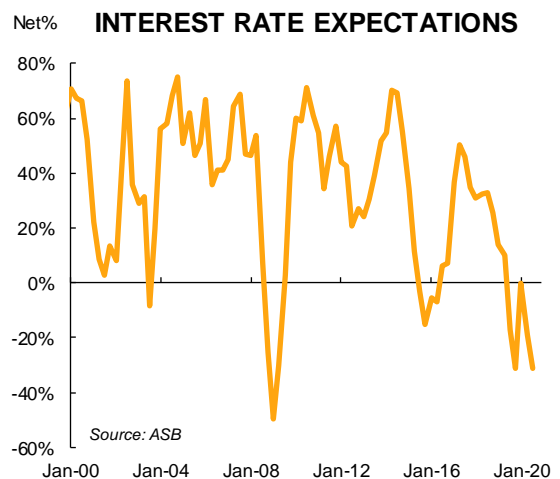
Unsurprisingly, COVID-19 has turned interest rate expectations on their head, with net 31% of respondents over the three months to July expecting mortgage rates will fall over the next year, down further from the previous quarter’s net 19% expecting falls.

A breakdown of the net quarterly figures shows:

- 10% expect higher interest rates over the coming year and 41% expect lower interest rates (14% and 33% last quarter);
- 32% expect interest rates to stay the same (32% last quarter), while 16% don’t know (20%).

In the month of May over 50% of respondents expected interest rates would fall further. As the latest three-month period progressed, the proportion of people expecting interest rate declines reduced in favour of expecting steady interest rates.

Since July, the economics teams at all the major banks have moved to forecast that the RBNZ will cut the OCR next year to a negative rate. The impact on mortgage rates will be for them to drop even further (although still be above zero!). The public commentary about the prospect of even lower interest rates may show up in the next round of survey results.



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”.

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