

Are the good times over?

- More people than ever before think now is a bad time to buy a house.
- Net expectations of house prices moderated but remain high, and fewer people are expecting interest rates to fall.
- The latest LVR restrictions could be weighing on both buyer sentiment and house price expectations.

ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to October 2016) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-33%	51%	7%
Rest of North Island	-24%	64%	7%
Canterbury	-17%	47%	1%
Rest of South Island	-22%	66%	10%
TOTAL NZ	-26%	58%	7%
<i>Compare 3 months to July 2016</i>	<i>-20%</i>	<i>61%</i>	<i>6%</i>

There has never been a greater proportion of people who think it is a bad time to buy a house than now, according to the latest ASB Housing Confidence Survey. Interestingly, the latest drop in sentiment has been centred outside of Auckland, although Auckland sentiment remains low. Continued expectations of house price increases, as well as higher debt servicing costs, appear to have subdued respondents' sentiment around buying a house.

The latest loan-to-value ratio (LVR) restrictions could also be playing a part. Investors around NZ are now required to have a 40% deposit to buy an investment property. This represents a 100% increase in the size of the minimum deposit for investors outside of Auckland compared to a 33% higher deposit for Auckland investors. As a result, ex-Auckland investors could well have had their confidence knocked more than Auckland investors.

On the other hand, if the new restrictions slow market activity and house price growth over time, potential first home buyers might begin to look more favourably on the housing market. However, first home buyers may remain cautious given recent house price appreciation and are also likely to be wary of perceived changes in borrowing costs. As a result, high house prices and a higher deposit threshold for investors are likely to weigh on sentiment this year.

More people than ever think it's a bad time to buy

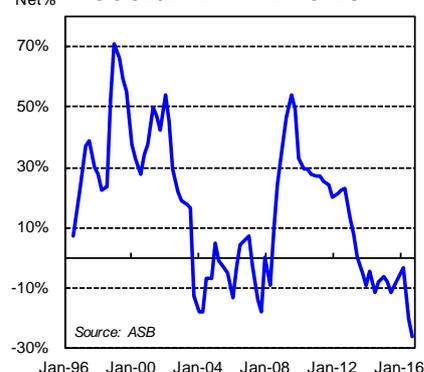
Since 1996, there has never been a greater proportion of people who think it is a bad time to buy a house than now. While sentiment remains lowest in Auckland, other regions registered the sharpest falls this quarter. A breakdown of the net quarterly figure for New Zealand is:

- 10% say it is a good time to buy, while 35% say it is a bad time (was 13% and 33% last quarter);
- The difference is the net -26% plotted opposite (was -20% last quarter);
- 42% say it is neither good nor bad (was 41%) and 13% don't know (13%).

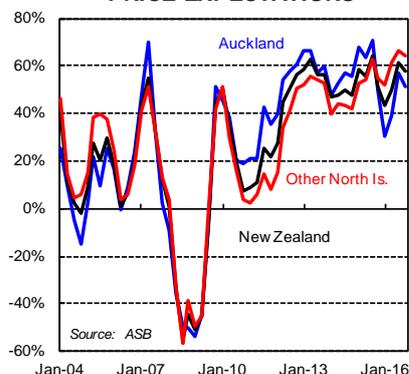
In Auckland, sentiment was reasonably steady with a net -33% thinking it was a good time to buy (a negative result represents more people thinking it's a bad time to buy than good). However, outside of Auckland, a net -24% thought it was a good time to buy (from -16% last quarter) in the North Island. In the South Island excluding Canterbury, sentiment fell from a net -7% last quarter to a net -22% this quarter.

The fact that the latest LVR restrictions are having proportionately larger impact on investors outside of Auckland, could explain why sentiment dropped more

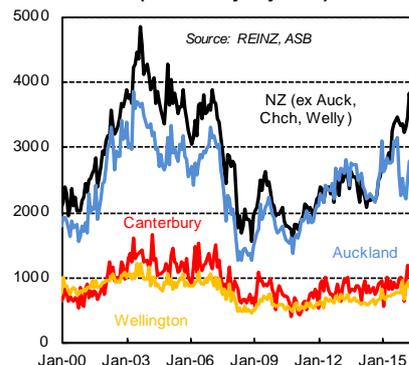
Net% GOOD/BAD TIME TO BUY



Net% PRICE EXPECTATIONS



No. MONTHLY DWELLING SALES (seasonally adjusted)



outside of Auckland this quarter.

Tempered house price expectations

The majority of respondents are still expecting house prices to rise. However, net house price expectations were off recent highs in the latest survey. The South Island excluding Canterbury was the only region where net expectations of house price increases lifted. Breaking down the net quarterly figure:

- 64% of respondents to the ASB survey expect higher prices, while only 7% expect prices to fall (was 68% and 7% last quarter);
- On balance, a net 58% expect higher prices (was 61% last quarter);
- 15% expect the same (was 12%) while 14% don't know (was 13%).

A net 51% of people in Auckland expect house prices to rise in the next 12 months, down from 57% in the July quarter. In the rest of the North Island the balance dipped to a net 64% from 66%. However, in the South Island excluding Canterbury, a net 66% of respondents expect house prices to increase, up from a net 56% last quarter.

The new LVR restrictions could be behind this quarter's tempered expectations of price rises in most of the country. The last restrictions were associated with a slight fall in house prices (notably in Auckland) and respondents may be wary of this happening again. However, this doesn't appear to be the case in the South Island. The Otago Lakes District could have provided some offset. It has been humming to its own tune as a highly sought-after location with limited supply, which is continuing to push house prices higher.

People see interest rates as largely steady

Recently, fewer respondents have been expecting interest rates to fall. While many respondents think interest rates will stay the same, there was also a lift in the number expecting interest rates to rise in the latest ASB Housing Survey. A breakdown of the net quarterly figure is:

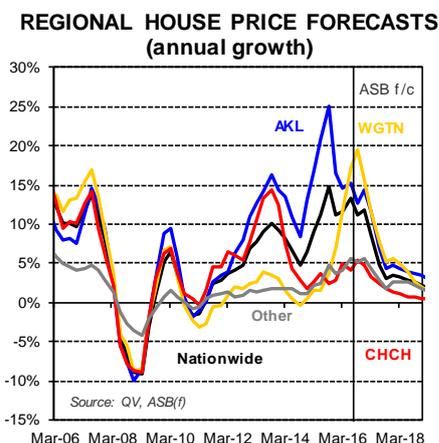
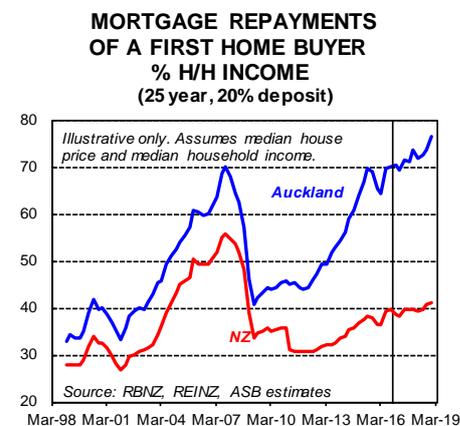
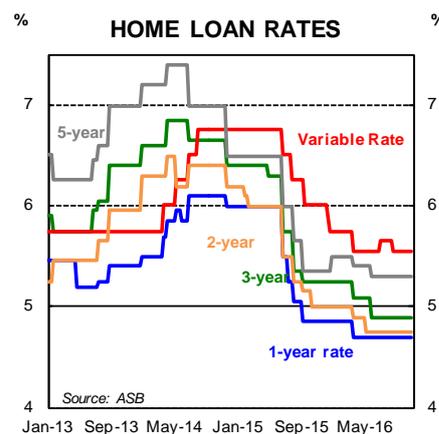
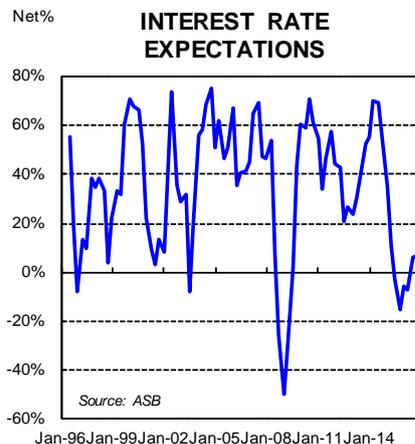
- 25% expect higher interest rates over the coming year, while 18% expect lower interest rates (was 24% and 17% last quarter);
- the difference being the 7% plotted opposite (was 6% last quarter);
- 32% expect rates to stay the same (32%); while 25% don't know (27%).

Over the last six or so months there have been two OCR cuts, but little movement in mortgage rates. Bank funding dynamics have muddied the relationship between the OCR and short-term interest rates. The lack of substantial mortgage rate falls could have respondents questioning whether interest rates will fall any further.

We continue to expect the RBNZ to cut the OCR by 25bp on November 10, but due to funding issues, do not expect floating mortgage rates to move to the same extent. Term mortgage rates have started to creep up.

In summary:

- Sentiment regarding whether it's a good time to buy tumbled to a historical low in latest ASB Housing Confidence Survey.
- The fall in sentiment was centred outside of Auckland; however, the majority of Aucklanders still believe it's a bad time to buy.
- Expectations of house price increases moderated slightly this quarter, except for the South Island excluding Canterbury.
- On balance, respondents expect interest rates to either remain steady or increase. This is likely due to the fact that the previous two OCR cuts were associated with little downward movement in mortgage rates.
- The latest LVR restrictions appear to have impacted on respondents' answers this quarter. The LVR restrictions were likely to have made respondents more wary about house price increases. At the same time, the 40% investor deposit requirement could be making respondents decide now is not a good time to buy, especially outside of Auckland.



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>).

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