Auckland House Prices Stabilizing or still Falling?

We don't feel that any commentator can really make a definitive call on either of these house price issues that we are currently facing in this Pre-Election Market, but Paula and I are also noticing the following,

- The net proportions of agents seeing more people attending auctions and open homes are at their highest levels in over two years.
- **FOOP** – the fear of overpaying – has fallen to its lowest level since January 22.
- **FOMO** is trending up but remains low with 10% of agents noting buyers displaying this worry.
- Buyers are becoming less relaxed about listings being plentiful.

Property values across Aotearoa NZ continued to fall in May, down 0.7%, but the annual rate of change has eased, providing tentative evidence the current downturn is winding up.

Nationally, average values are 10.2% lower than the same month last year and $121,000 below their peak, but still $194,000 higher than the pre-COVID level (March 2020) with the annual rate of change easing slightly from -10.3% in April.

CoreLogic NZ Head of Research, Nick Goodall said various indicators such as moderating house price falls and the latest RBNZ forecasts for the Official Cash Rate, which is expected to have now peaked, were positive signs for home owners.

"While the OCR is at a relatively high level of 5.5% following a total increase of 525 basis points over the last 20 months, this expected ceiling for interest rates reinforces our view that a possible floor in prices is approaching," he said.

"This has been an exceptionally fast and impactful monetary policy tightening cycle and the RBNZ has effectively said now is the time to pause, and wait and see how this plays out, as mortgage holders continue to adjust to increased mortgage payments, reducing spending elsewhere in the economy.".

Mr Goodall suggests a peak in the cash rate, at least in the short term, will help provide a bit more comfort and certainty to the borrowers of almost 50% of existing loans by value, who are part of the refinancing wave due to roll off current interest terms within the next year.

"Mortgage holders and aspiring home owners should now be able to quantify the worst-case scenario for their mortgage repayments which will give both them and their bank confidence in assessing serviceability test rates," he said.

Additionally, while NZ credit bureau Centrix has observed a lift in mortgage arrears to 1.31% in March, up from the recent low of 0.94% at the end of 2021, the NZ Bankers Association reported at the end of 2022 almost 45% of mortgage holders were ahead on their repayments.

This is consistent with estimates from mortgage advisors that through the period of falling interest rates, roughly half of all borrowers opted to keep their repayments at the same level as their old schedule when refixing at lower rates.

“It seems the majority of borrowers are well placed to adjust to the higher repayments likely due to growth in wages and reduced spending elsewhere,” he said.

“More vulnerable sectors are likely to include first home buyers who purchased around the peak of the cycle who haven’t had the benefit of time to accrue equity in their home or a savings buffer, along with lower income households where balance sheets are likely to be more thinly stretched.”

Franklin is a part of Auckland which has performed very differently to the rest of the Super City. Mr Goodall said this could be due to the relative affordability of the area, along with lifestyle preference with an increasing share of next home owners picking up property here.

“Values in Franklin are 4.5% higher over the last three months and ‘only’ -8.2% down over the last year. Similarly, Auckland City has seen values fall -8.0% over the last year, and are essentially flat (-0.1%) over the last three months,” he said.

“Meanwhile, the rest of Auckland generally saw values fall by around -1% over the month, with the exception of Rodney, where average vales dipped -1.9%. Interestingly, Papakura, the most affordable part of Auckland, has fallen the furthest over the past three months (-5.8%) and -17.5% over 12 months. It’s possible an over investment in new developments could be driving the larger falls.”

Property market outlook

As evidence mounts that NZ’s housing market is approaching a trough increased consideration is now being given to what happens next here.

“Amid a stabilisation in the cash rate, slightly loosened loan-to-value ratio limits, reduced supply with fewer people listing their property for sale, strong net migration and a positive turn in Australia’s housing market, there’s confidence that the bottom is approaching,” Mr Goodall said.

“Affordability, hindered by high prices and contractionary monetary policy will likely keep a lid on demand for the foreseeable future. More than 50% of the average income is required to service an 80% LVR mortgage in Aotearoa compared to 43% in Australia and if property values and interest rates now start to plateau, this is unlikely to improve.”

Anticipation of a National-led Government could bring some investors out of the woodwork sooner rather than later, while a similar concern about the very likely introduction of debt-to-income limits in early 2024 could also encourage determined investors to get in prior.

However, Mr Goodall said the property investment landscape has changed, with the phased removal of interest deductibility impacting profits, increased regulation favouring tenants and land supply reform potentially impacting the appetite for property investment.

"Indeed, there appears to have been a change in investor behaviour due to the interest deductibility exemption for new builds. During the first quarter of this year, 34% of settled new builds went to mortgaged investors, while only 19% of existing properties went to the same group," he said.

"After years of relative consistency between these two property types, the diversion appeared from Q1 2021, when the share was 28% for both. For properties acquired before 27 March 2021 interest deductibility is being phased out over a four-year period, for properties acquired after 27 March 2021 any interest incurred (from 1 October 2021) will no longer be deductable."