Housing downturn gathers steam again

Property prices dropped again last month after a relatively flat period, according to the latest CoreLogic House Price Index.

Values fell 1% in February, which is the largest monthly decline since October last year (-1.3%). The steeper fall followed a relatively mild couple of months in December (-0.2%) and January (-0.3%).

Home values are now 8.9% below this time last year.

Slight easing of the crunch

Each month mortgage advisers are invited around the country to give insights into developments in the residential real estate market from their unique perspective. The latest survey, undertaken last week and yielding 75 responses, shows that while investors continue to remain out of the market, the extent to which first home buyers are withdrawing has eased somewhat.

Listing numbers Fall as the Seasons Change

Each year at the start of Autumn with the change-over of Daylight Saving in March/April, we track the variations in the supply of New listings to the market. This year there is quite a marked change with new listings with Barfoot & Thompson reaching the market remaining strong, and at 1,309 for the month of February were 21.5 percent higher than in February last year. At month end we had 4,873 properties on our books, the highest number in a February for 10 years. With our borders open to the world, the spike in demand will deplete our current stock levels quite rapidly, so there's no better time to buy or list, but Now!

CoreLogic NZ Chief Property Economist, Kelvin Davidson said the larger drop in home values continued the weakening trend that has been in place for 12 to 15 months.

“Despite mortgage rates being at or close to a peak, the RBNZ’s grim outlook for inflation and the economy more broadly was always going to weigh further on property values. February’s 50 basis point rate hike is also likely to dampen demand,” said Mr Davidson.

Each of the main centres saw values drop in February, apart from Christchurch, where they increased by 0.4%.

Wellington, Dunedin, and Auckland were the softest of the main centres, with Hamilton and Tauranga seeing milder declines.

Regional House Price Index results

Outside the main centres, there are some divergent trends in property values that are becoming very clear.

Mr Davidson said in February itself, values fell sharply in some areas – such as Whanganui, Gisborne, Rotorua, and Whangārei – but more mildly elsewhere (e.g. Palmerston North, Napier), and edged higher in Nelson.

“However, regional variability doesn’t come as any major surprise, given the different local factors that apply at any point in the cycle. Indeed, just to emphasise the relative differences, take Queenstown for example – values there have actually risen by 10.2% over the past 12 months, despite the existing high level of prices and wider credit restraints across the market. This highlights yet again cash wealth, as opposed to local incomes, is a key driver in the Queenstown housing market.”

A year of two halves?

Looking ahead, Mr Davidson said the property market still has significant near-term challenges – just as mortgage rates appear to be fading a little as a drag on activity and prices, the next hurdle (i.e. an economic recession) starts to emerge.

“Around 50% of existing mortgages in NZ are currently fixed but due to reprice onto a higher rate in the next year or so – and that change in rates could typically still be in the range of two to three percentage points.

“So far, this repricing process has been handled reasonably successfully, with non-performing loans still low. However, it’s also too early to sound the all-clear.”

Mr Davidson said there is also a case building for property sales activity to start to lift mildly again in the second half of the year and for property values to find a floor. These factors include the peak for mortgage rates, the possibility that any recession proves short-lived, the resurgence in net migration, and also the prospect of some investment demand returning in advance of a possible National election victory and reversal of Labour’s property tax changes.

“Our forecasting model points to a mild rebound in property sales volumes in the second half of 2023, and the Reserve Bank’s projections for the CoreLogic House Price Index point to an effective trough late this year, followed by broadly flat prices in 2024 and only a mild rise in 2025.”

Please contact Paula or Keith to get a good steer on the present market conditions no matter whether you’re buying or selling! Here's a video of our latest listing at 11 Siota Cres, Kohimarama.