The Property Market in this post Election Void

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Paula and Keith feel that Saving Kiwis Financial Solutions' Post-Election Newletter sums up the current mood in the property market admirably,

'As a tough year draws to a close, most in the New Zealand property and finance markets are looking forward to better times ahead. While the cost of living and interest rates remain eye-wateringly high, property prices have stabilised, and the National-led coalition should increase business confidence and inject renewed energy into the property market'.

With this quote in mind we invite you to read the rest of their Newsletter in our Market Commentary section for November, 2023, below, and check out our New Listings & Sales.

Saving Kiwis Post-Election Newsletter

As a tough year draws to a close, most in the New Zealand property and finance markets are looking forward to better times ahead. While the cost of living and interest rates remain eye-wateringly high, property prices have stabilised, and the National-led coalition should increase business confidence and inject renewed energy into the property market.

Our Christmas newsletter of 2022 made for grim reading, and, sure enough. The market did end up dropping nearly 20% from its peaks of early 2021. Prices bottomed out in the middle of this year, taking us back to the same levels as March 2021, though they were still 18% higher than prices in May 2023. An average growth rate of 6% over 3 years sounds pretty good, though tough on those new homebuyers of 2022 who hadn't enjoyed the benefits of the rising market.

Rates to stay high and modest price increases expected

Better times are beginning for homeowners, with prices recovering around 3% over the last three months in Auckland and 2.5% for the rest of New Zealand (ref. REINZ Housing Price Index to the end of September). The major banks' chief economists are predicting prices will increase another 3% in the final quarter of 2023, and, depending on who you believe, prices are picked to increase 5% to 8% in 2024.

This is an impressive forecast given we're also facing predictions of 'higher for longer' inflation and interest rates. Until last week, the market was forecasting the OCR staying at 5.50% until early 2025. Some much-better-than-expected unemployment news (namely that unemployment increased, which is good for bringing inflation down), on the back of the improving inflation picture from a few weeks back, has created a huge shift in the rate outlook. Wholesale rates have dropped 25 points across most fixed terms. The major banks are now forecasting an OCR of around 5.00% by the end of 2024 – though this outlook is changing weekly and could easily go the other way depending on the next lot of inflation data.

At the time of writing, none of these wholesale drops have been passed on to borrowers in the form of lower retail rates. This is on the back of most banks increasing their rates by around 0.60% over the last few months after wholesale rates jumped 30 points in the second half of September. While the banks have called this 'restoring margin', the rest of us call it 'profit taking', and I personally find these increases disappointing given that interest rates are at record highs and many households are struggling with these higher rates and the everincreasing cost of living.

Watch out for immigration

As we picked earlier in May, immigration has been a major theme of the last six months, with net immigration of nearly 120,000 in the year to September 2023. This has not only been a big contributor to the property market recovery but has also been a big contributor to the 'higher for longer' inflation and interest rate forecasts. It's been a massive swing from 'Fortress NZ' during Covid times to the floodgates opening in 2023, so here's hoping that Luxon and his new buddies can create a middle ground for immigration numbers. This will help minimise the likelihood of the property market overheating, as well as helping bring inflation under control sooner – that would be a real win-win right now!

Watch this space for 2024

Looking forward to 2024, some new themes should emerge:

- The Return of the Investor – Over the next two years, National looks set to reduce the bright-line test from ten to two years and reinstate the tax deductibility on investment properties, bringing residential property back in line with other asset classes. This, along with prices bouncing off lows and interest rates decreasing slowly over the next few years, suggests that 2024 could be a good time for investors to start or add to their portfolios.

- Household Affordability to Worsen – Although maybe that's not a bad thing! Increasing prices and interest rates staying at similar levels will worsen household affordability. One of the big risks in the New Zealand market is prices bouncing back too quickly and causing another FOMO buy-up and possible price bubble. The 'higher for longer' rate outlook could end up being a blessing in disguise by keeping the property market under control.

- Longer-Term Rates to Fall Sooner than Short-Term – While all the talk is about when the OCR will fall, the OCR impacts mainly the floating rate and short-term fixed rates up to 18 months. Medium- to long-term rates are driven by offshore rates and our inflation expectations – if inflation is tracking well in late 2024, then we can expect to see fixed rates for two years and longer heading down sooner than the OCR.

Congrats, thank you, and wishing you and yours all the best

We're a little early to wish you all Merry Christmas but we'd just like to say congrats on getting through a tough year, thanks for choosing Saving Kiwis, and we hope you all have a great run to the end of 2023.

All the very best from the Saving Kiwis team.
Nick, Kurt, Lawrence and Hyacinth

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