October 2024

Property Market *Update*



Loan Market™

In partnership with CoreLogic

Executive Summary

End of a downturn doesn't always *mean the start of a boom*

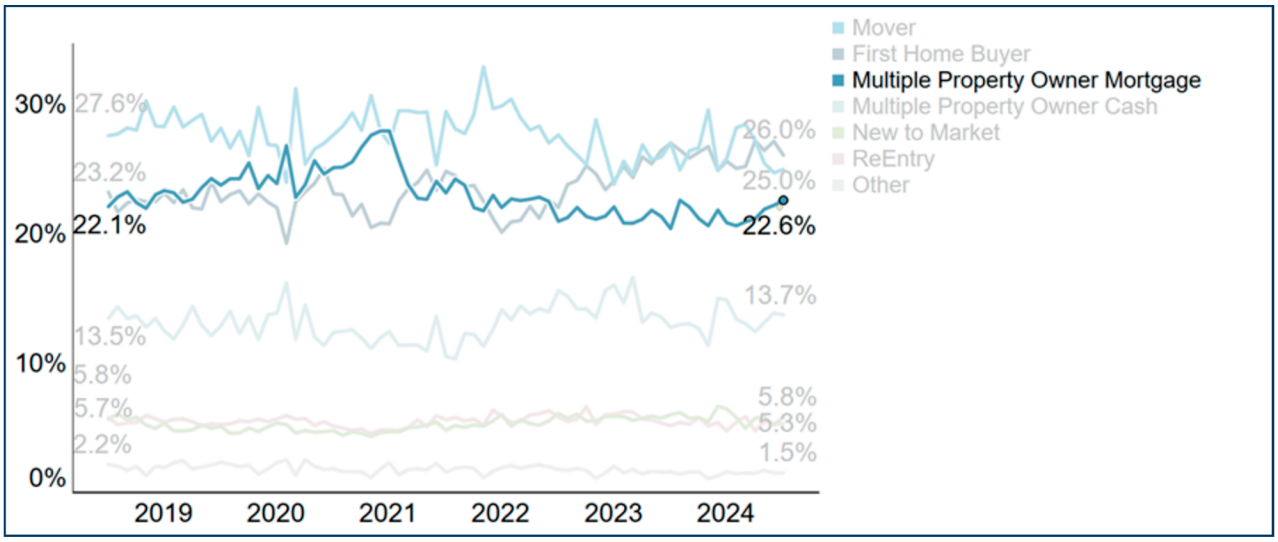
- Property sales activity increased by around 8% in September compared to the same month a year ago, which was the 16th rise in the past 17 months. However, volumes remain 10-15% below normal for the time of year. There are plenty of listings available on the market, so the relatively low levels of sales are more about buyers those who still feel confident about their jobs and can get the finance are in a position to take their time and secure a deal in their favour.
- Indeed, the CoreLogic Home Value Index (HVI) fell by a further 0.5% in September, the seventh decline in a row, taking the drop from February's 'mini peak' to nearly 5%. Auckland fell again in September, and alongside Wellington, it has seen values drop by more than 3% since June. By contrast, Christchurch and Dunedin are proving a little more resilient.
- First home buyers (FHBs) have remained a solid presence in the market, with a 26% share of property purchases in September, and nearly 27% over Q3 as a whole. Access to KiwiSaver for at least part of the deposit and making strong use of the low deposit lending allowances at the banks are solid supports for FHBs at present.
- Mortgaged multiple property owners remain quieter than normal, but there are now tentative hints that some are starting to return. That's likely to reflect lower mortgage rates (which are reducing the required cashflow top-ups on a typical rental property purchase), but also the reinstatement of mortgage interest deductibility and reduced deposit requirements under the LVR rules.
- Mortgaged MPOs/investors are going to be a very interesting group to watch in 2025. We estimate that a 'typical' mortgage rate of around 5.5% could start to entice growing numbers of investors back to the market, but that's also potentially a rate at which debt to income ratio limits start to have a more noticeable impact. It remains to be seen what the net impact will be.
- In the economy, clearly the activity data has remained pretty soft lately across a wide range of sectors, and of course the headline CPI inflation rate is now back inside the 1 3% target band. Further cuts to the OCR and mortgage rates lie ahead.
- Overall, although falling mortgage rates mean property values might stop falling very soon, a fresh boom seems unlikely when affordability remains stretched, listings are abundant, the labour market is weakening, and DTI limits are looming.

Source: CoreLogic

Chart of the Month

Keeping a close eye on *mortgaged investors*

NZ monthly % share of property purchases



Source: CoreLogic

Residential real estate is a *key part* of NZ's household wealth



RESIDENTIAL REAL ESTATE
$1.62 TRILLION



NZ SUPER & KIWISAVER
$196 BILLION



NZ LISTED STOCKS
$177 BILLION



COMMERCIAL REAL ESTATE
$330 BILLION

NUMBER OF DWELLINGS
1.68 Million

OUSTANDING MORTGAGE DEBT
$363 Billion

HOUSEHOLD ASSETS HELD IN RESIDENTIAL REAL ESTATE (JUNE 2021)
43% (+4% since 2018)

TOTAL SALES LAST 12 MONTHS
76,530

GROSS VALUE OF SALES LAST 12 MONTHS
$67 Billion

Source: CoreLogic, Reserve Bank of NZ, Stats NZ, NZX, NZ Super Fund

New Zealand Property Values
Overview

3 MONTHS

-2.4%

Taking the three months to September combined, there was a 2.4% drop in median property values across NZ.

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12 MONTHS

-1.2%

Values dipped by 1.2% in the year to September, with the small upturn in late 2023 now close to being reversed.

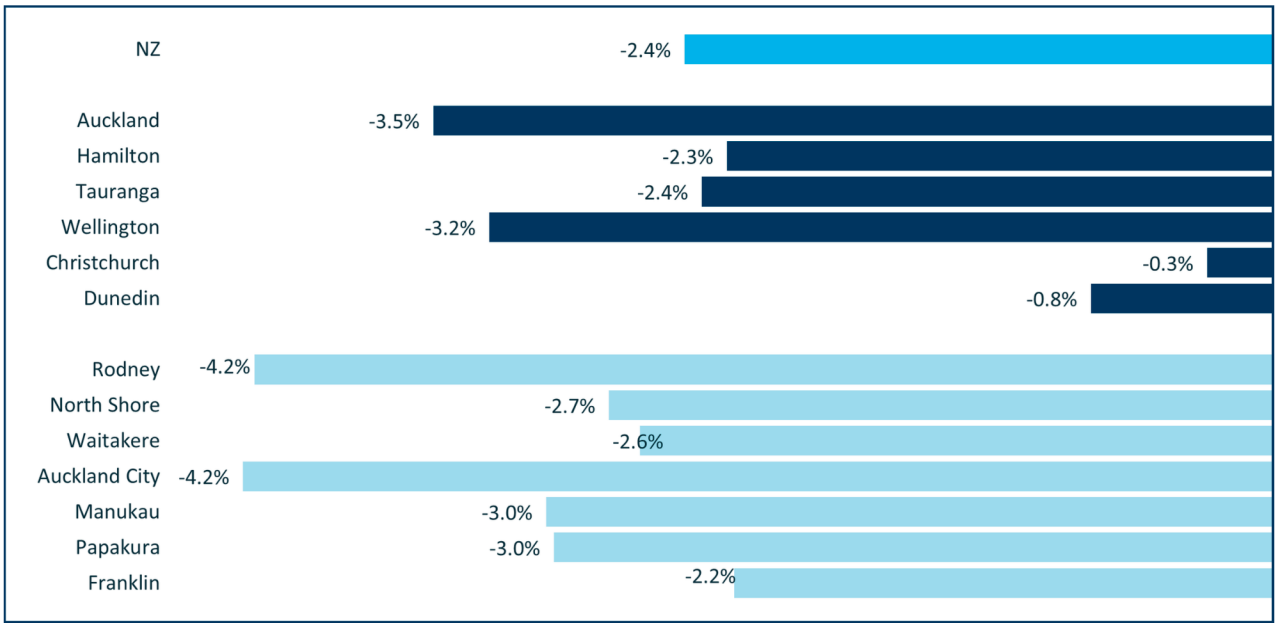
FROM PEAK

-17.6%

Falls from the peak are now sitting at nearly 18% nationally, with some areas significantly larger.

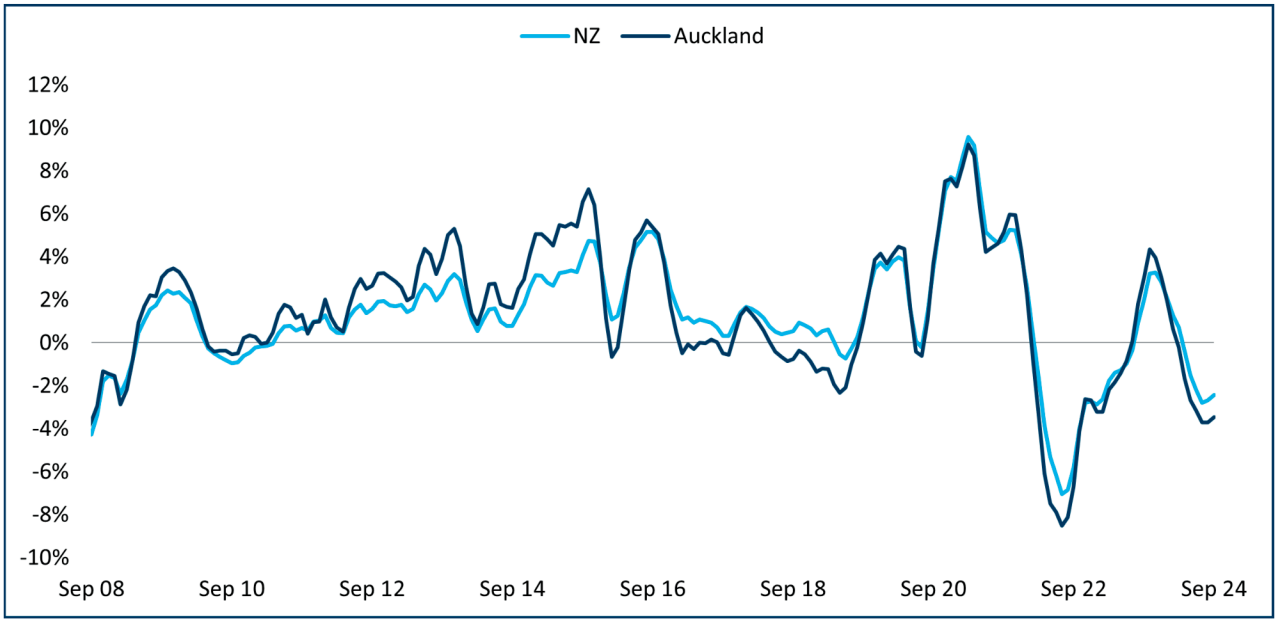
New Zealand Property Values
3 month *changes*

Change in median property values, 3 months to September 2024



NEW ZEALAND	AUCKLAND	CHRISTCHURCH
-2.4%	-3.5%	-0.3%

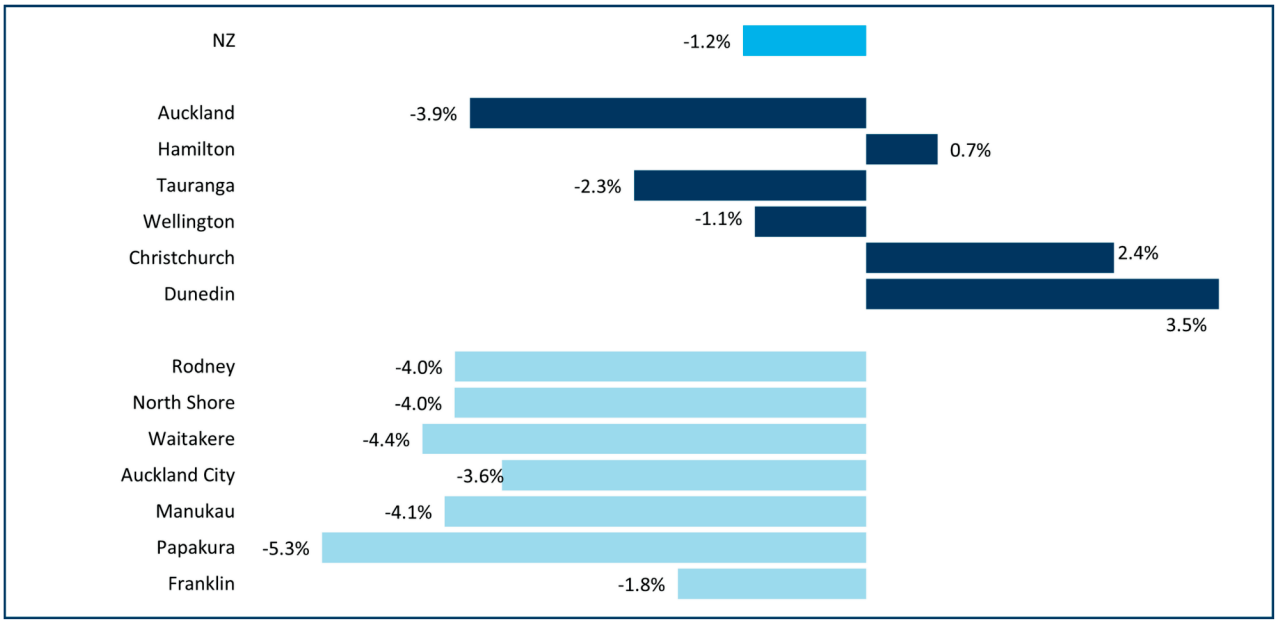
Rolling quarterly change in median values



Source: CoreLogic

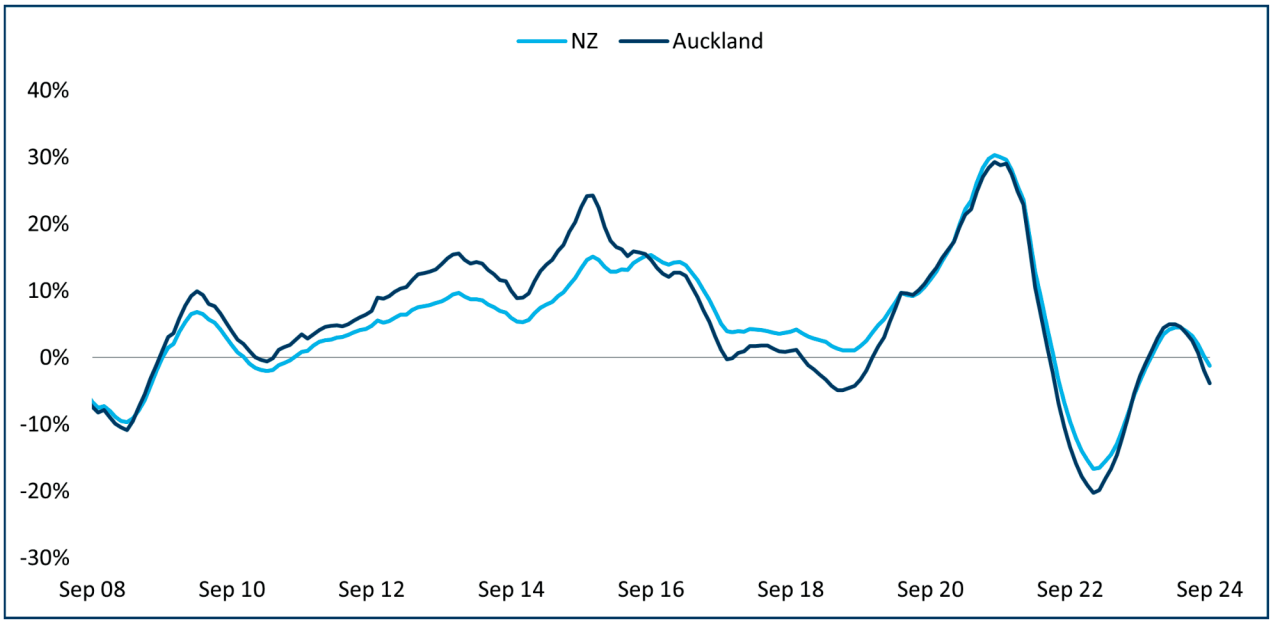
New Zealand Property Values
12 month *changes*

Change in median property values, 12 months to September 2024



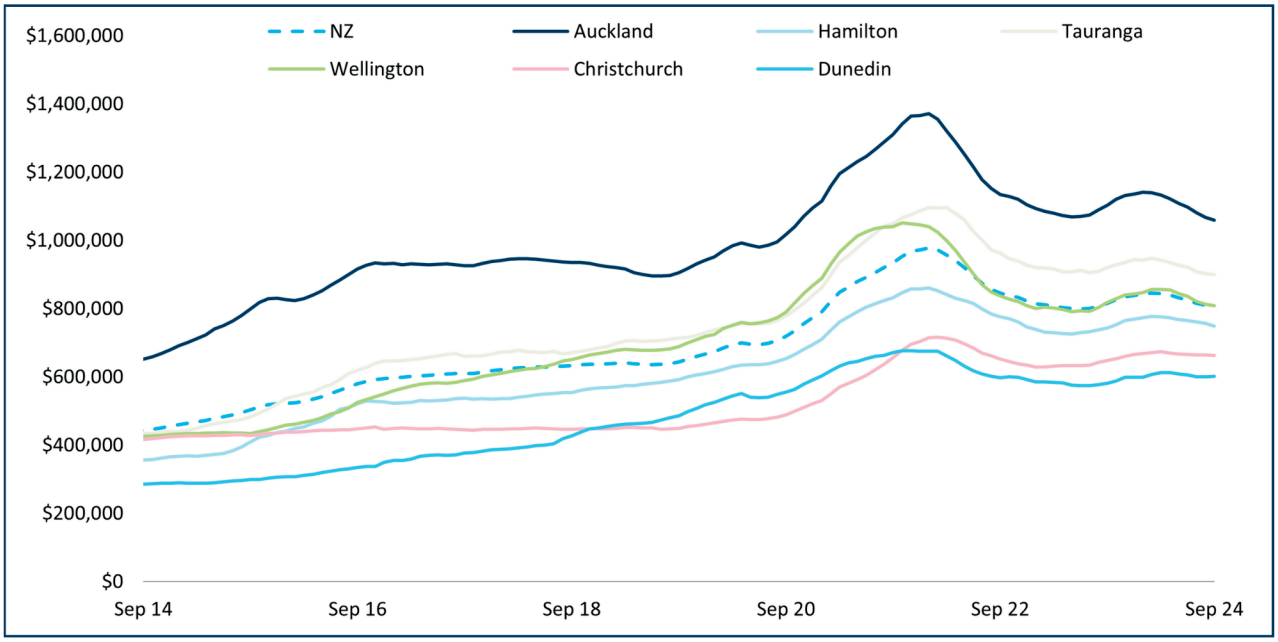
NEW ZEALAND	AUCKLAND	CHRISTCHURCH
-1.2%	-3.9%	2.4%

Rolling annual change in median values



Source: CoreLogic

New Zealand Property Values
Main centres *median values*



NZ FALL FROM PEAK
-17.6%

LARGEST MAIN CENTRE DECLINE: WELLINGTON
-23.0%

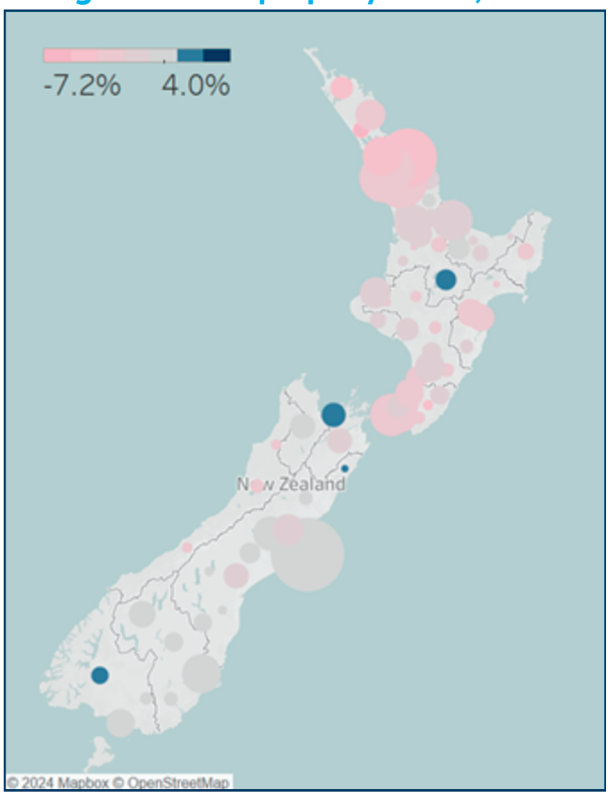
SMALLEST MAIN CENTRE DECLINE: CHRISTCHURCH
-7.4%

Source: CoreLogic

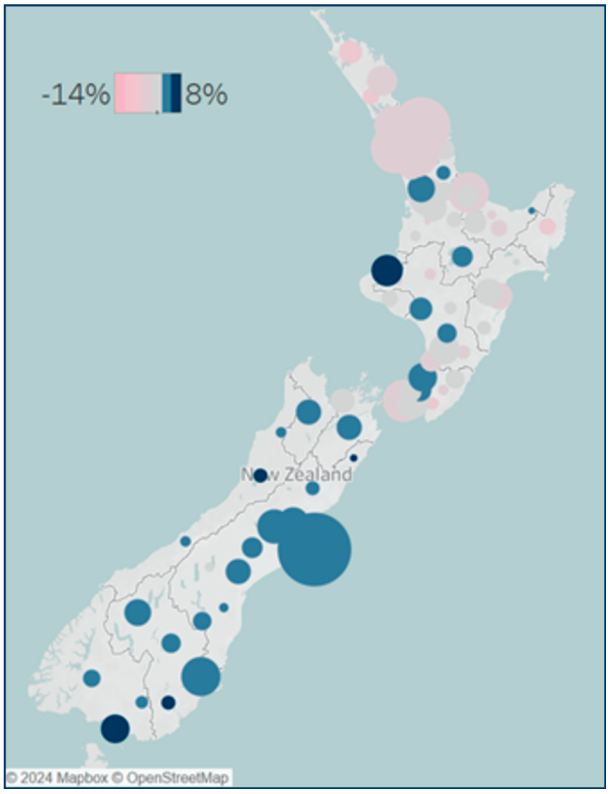
New Zealand Property Values

Regional *changes*

Change in median property values, 3 months to September 2024



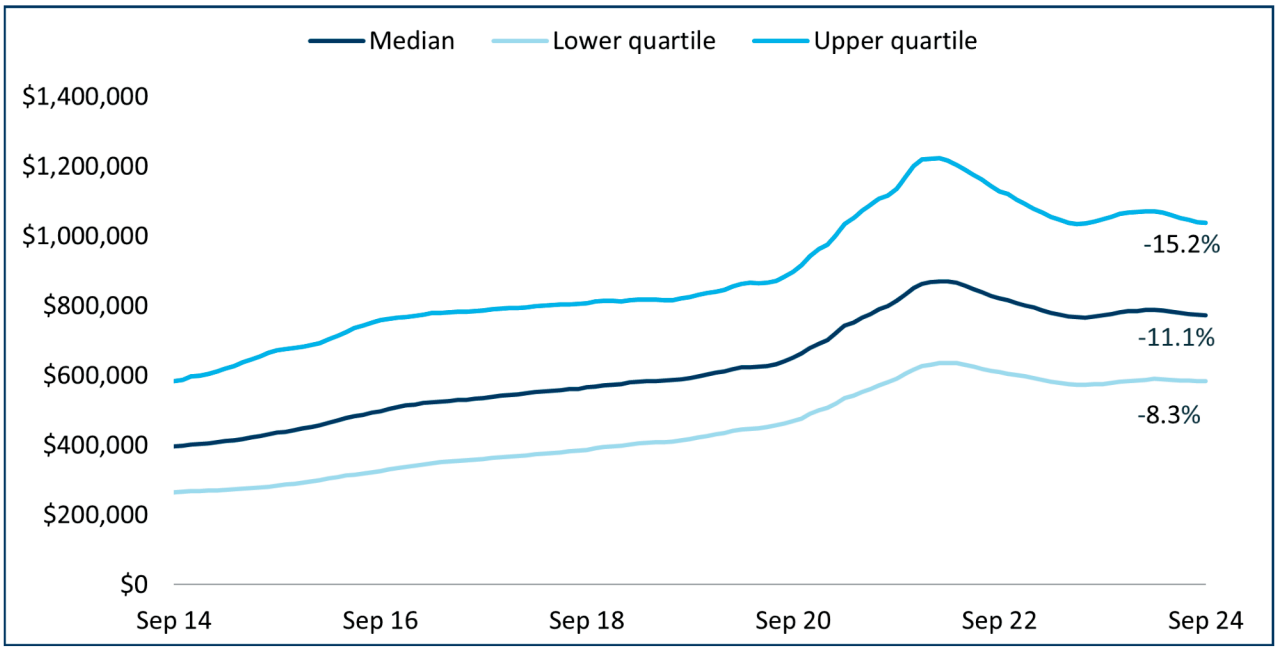
Change in average property values, 12 months to September 2024



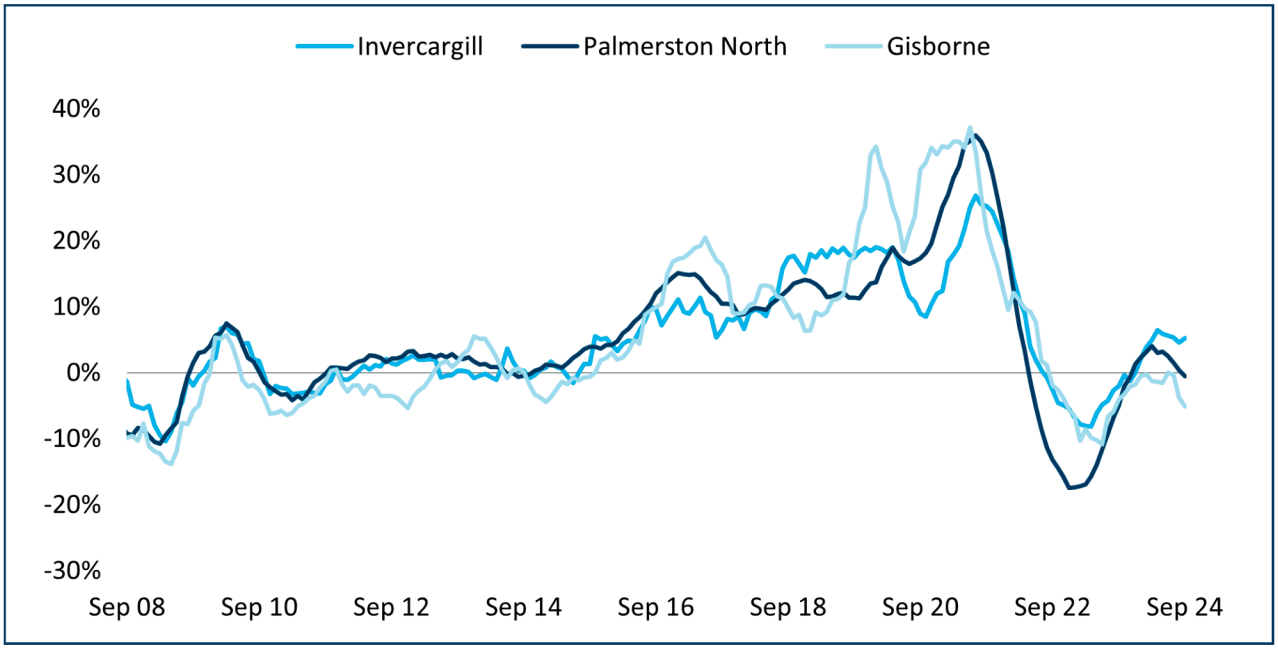
Source: CoreLogic

New Zealand Property Values
By value band *and selected markets*

NZ $ values median and upper & lower quartile*



Rolling annual change in average property values in selected markets



* % labels on chart indicate the change relative to peak. These figures are taken from our automated valuations model, whereas elsewhere in this report we use the hedonic home value index.

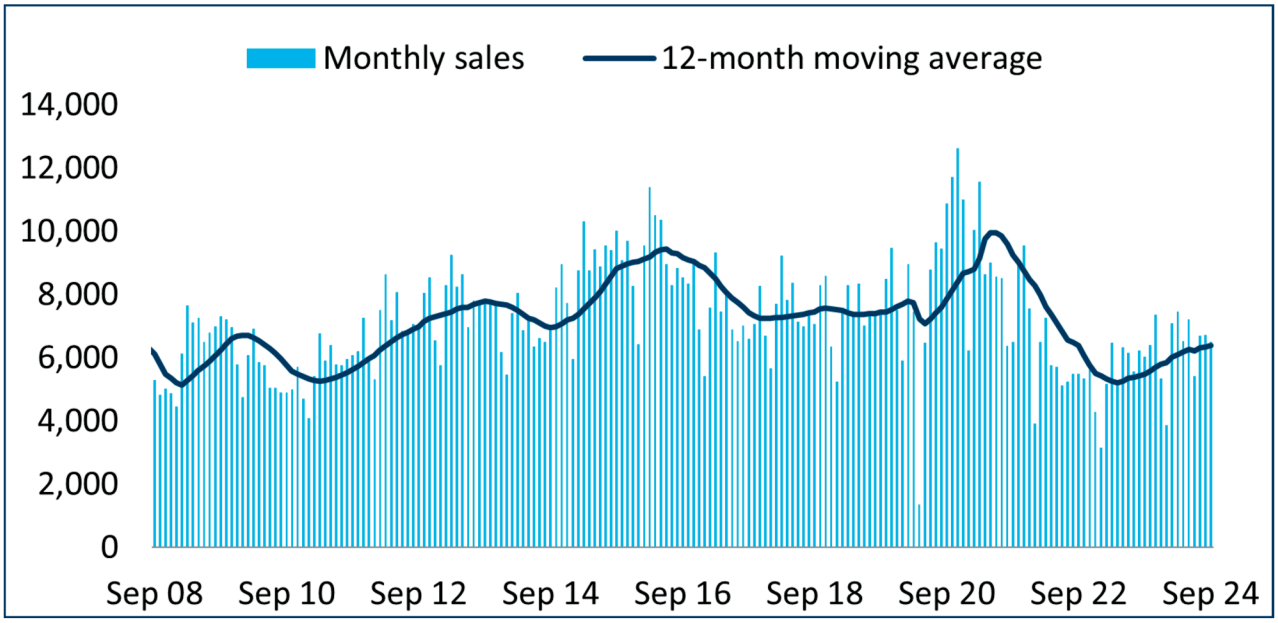
Source: CoreLogic

Sales and Listings

National Sales

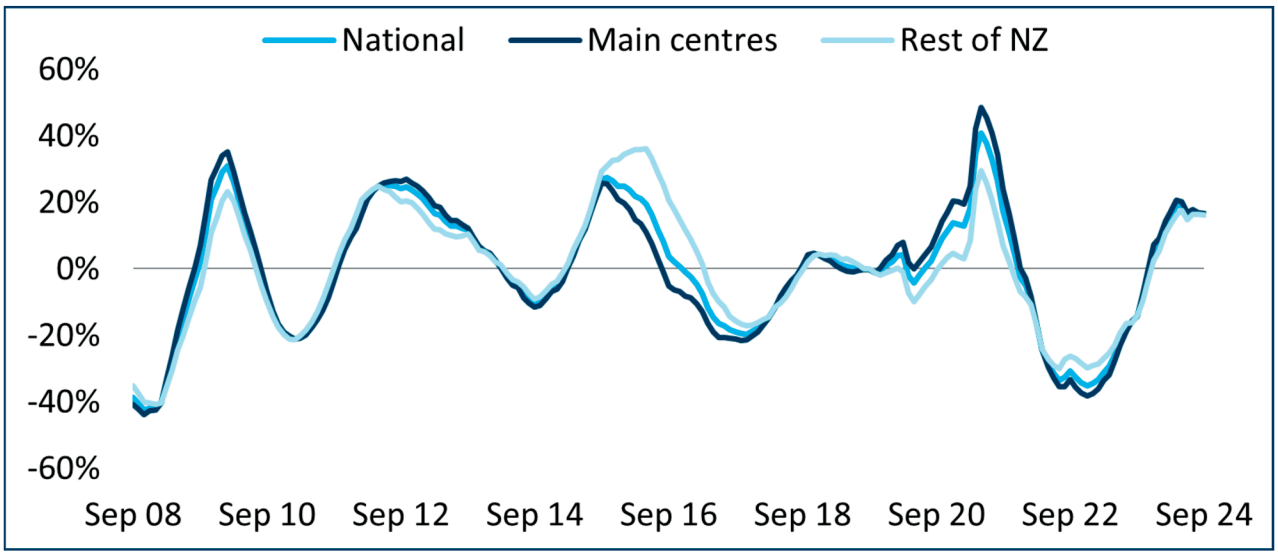
Sales volumes in September, measured across both private deals and real estate agents, were 7.8% higher than the same month last year, which was the 16th rise in the past 17 months. However, volumes remain well below normal levels for the time of year (about 10-15% below average), and it's not due to a lack of choice. Indeed, with listings on the market still high, the sluggishness of sales is solely about buyer demand still being limited by high (albeit falling) mortgage rates, and those buyers with finance still taking their time and being selective.

Monthly sales with 12-month moving average, national



NEW ZEALAND*	MAIN CENTRES*	REST OF NZ*
16.4%	16.5%	16.1%

Change in sales volumes, 12 months to September 2024



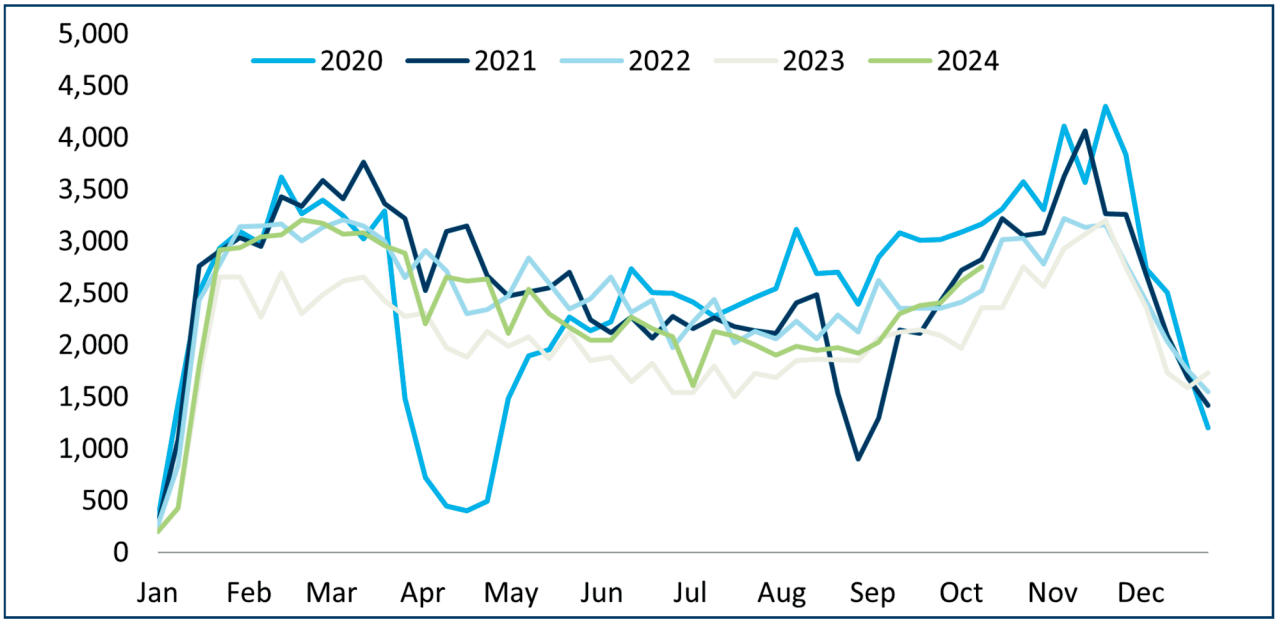
* % change in 12-month sales total compared to a year earlier

Source: CoreLogic

Listings

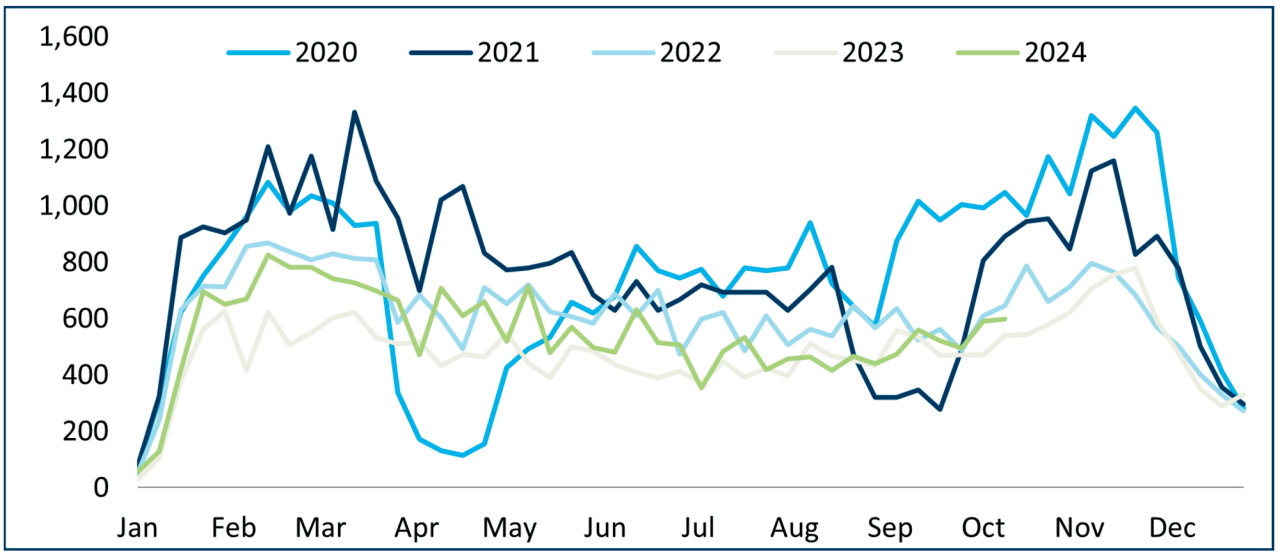
New listings activity has been solid so far in 2024, and it would appear that some 'pent up' reluctance to list in the latter stages of last year and first few months of this year has now fully come forward and turned into available stock this year. That's creating more choice for buyers, and it wouldn't be a surprise to see listings continue to flow pretty nicely in the coming months (at least compared to normal seasonal patterns), especially if, as we expect, the shorter Brightline Test that started from 1st July prompts some investors to sell.

New listings national



NEW LISTINGS OVER THE 4-WEEKS ENDING 6TH OCT	SAME TIME LAST YEAR	FIVE YEAR AVERAGE
10,154	8,562	10,363

New listings Auckland

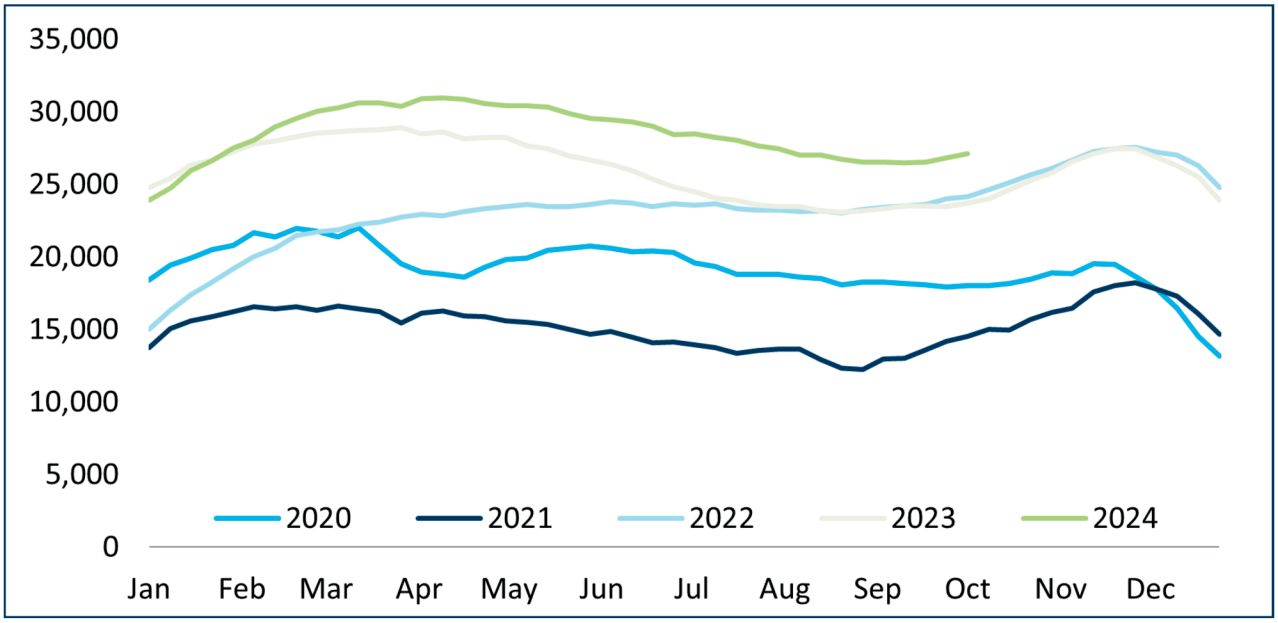


Source: CoreLogic

Listings

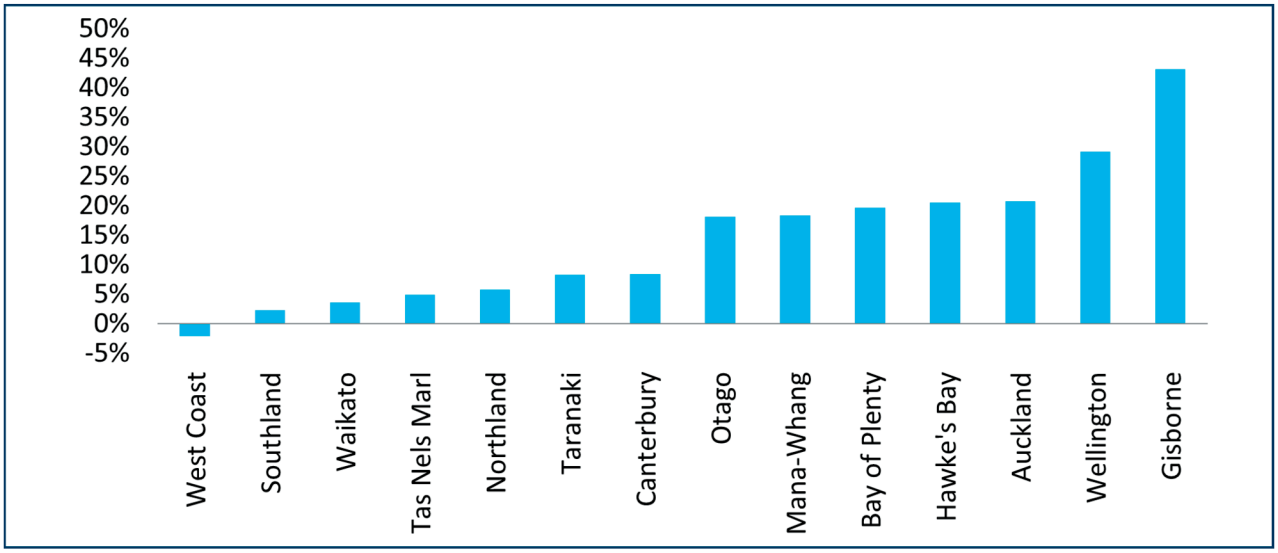
The total number of properties on the market remains higher than in previous years, as more new listings have been made, and have begun to exceed (slowly rising) sales volumes. West Coast is lower than last year in terms of total listings on the market, but key regions such as Wellington, Bay of Plenty, Auckland, and Otago have all risen by at least 20%. That will tend to dampen price pressures to some degree.

Total listings national



TOTAL LISTINGS ON THE MARKET	SAME TIME LAST YEAR	FIVE YEAR AVERAGE
27,096	23,704	21,408

Latest total listings count vs same time last year



Source: CoreLogic

Buyer Classification

Percentage Market Share of Property Purchases

Buyer *classification*

- First home buyers (FHBs) remain a strong presence in the property market, with a 26% share of purchases in September, and almost 27% for Q3 as a whole. The number of FHB deals is also solid.

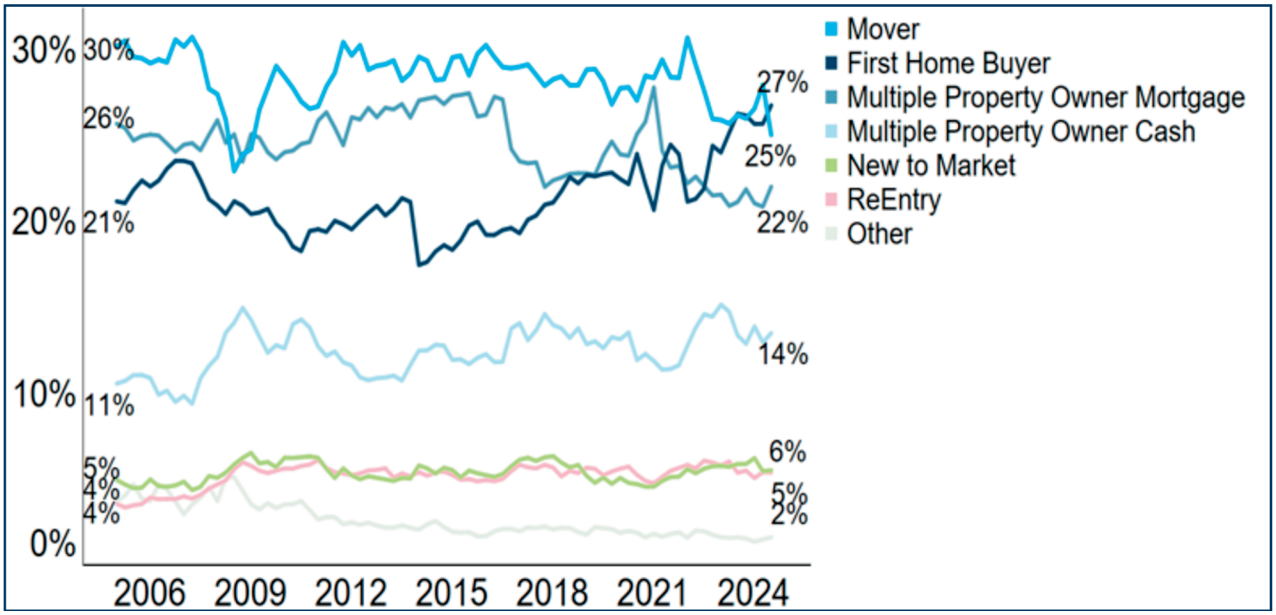
- FHBs are enjoying lower house prices than at the peak, less competition from other buyer groups, and also some other supports such as KiwiSaver for the deposit and access to low deposit finance at the banks.

- Meanwhile, although the share of purchases going to mortgaged multiple property owners (MPOs, including investors) remains low by past standards, there have been hints in the past 3-4 months that this group is just starting to return one to watch.

- That would be consistent with falling mortgage rates, the easing in the LVR rules from 1st July, and interest deductibility being back at 80% this tax year.

- Finally, relocating owner occupiers ('movers') remain quieter than normal. That said, we suspect there might be some pent up demand to move, so this is a group to watch in the coming months.

Percentage share of property purchases, New Zealand



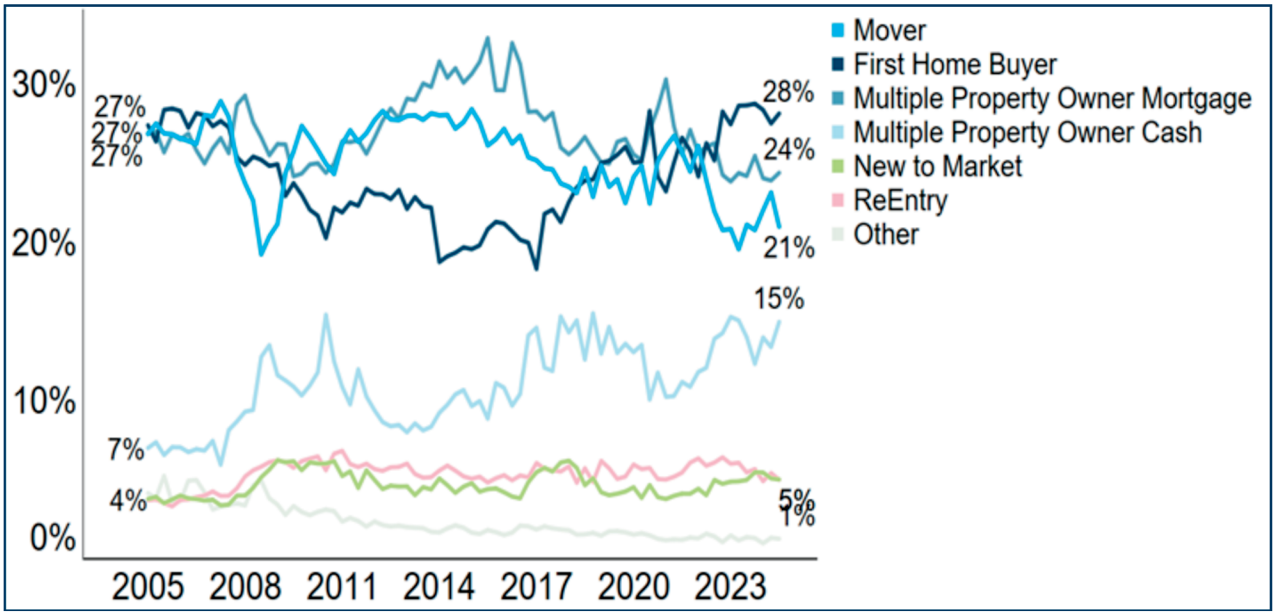
Source: CoreLogic

Percentage Market Share of Property Purchases

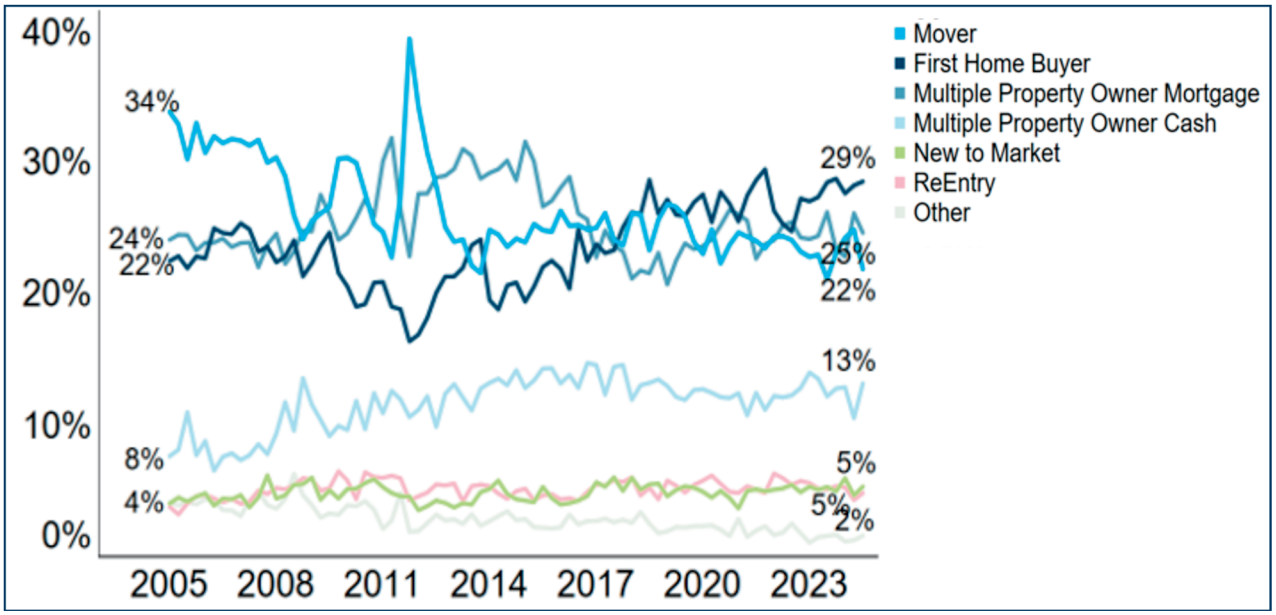
Buyer *classification*

Selected main centres

Auckland



Christchurch



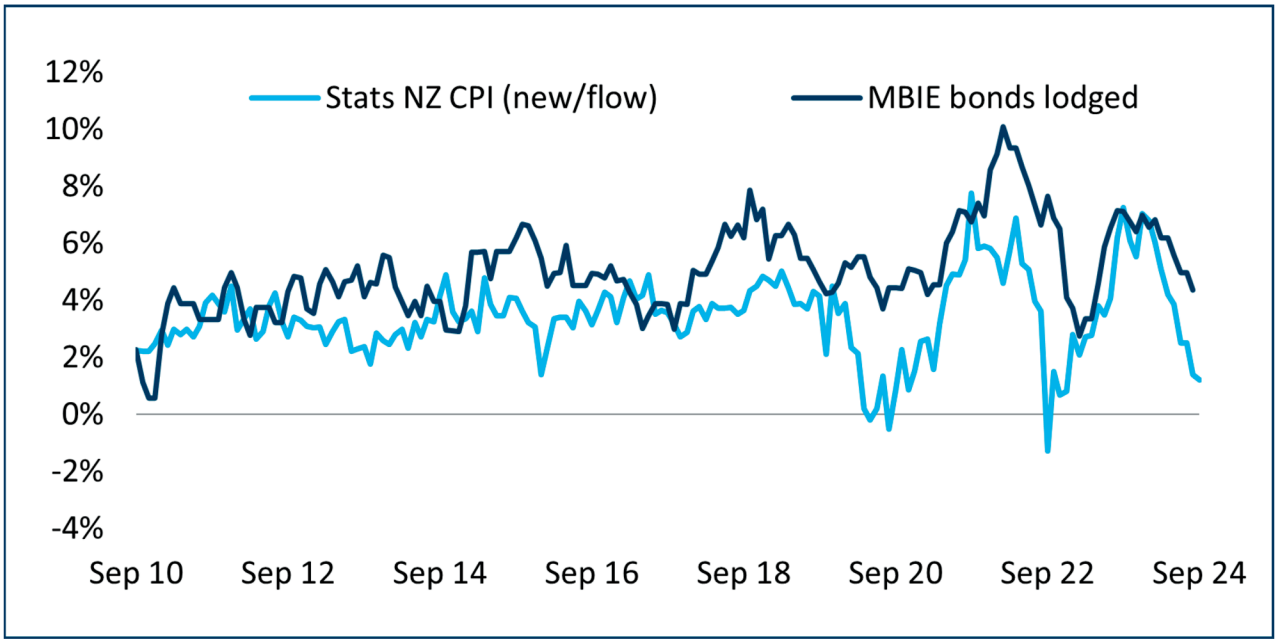
Source: CoreLogic

Rental Market

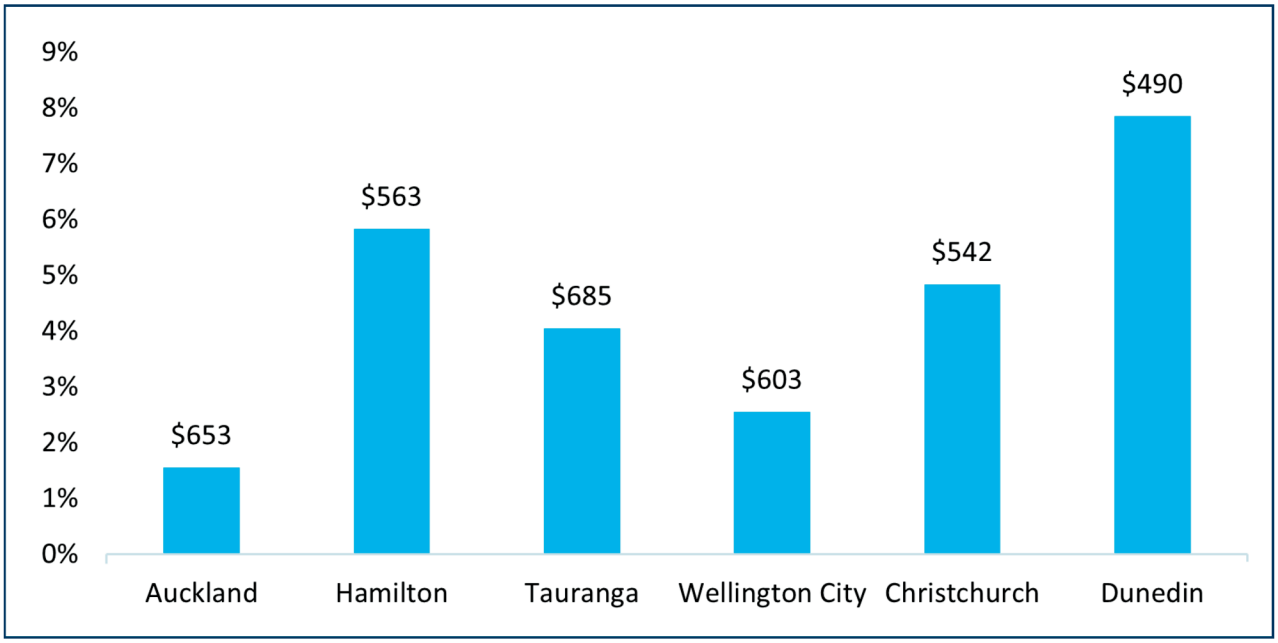
Rental Rates

Rental growth has now clearly settled into a more subdued phase, and was only 1.2% in the year to September on the Stats NZ flow/new tenancy measure. That's comfortably below the long term average of 3.2%. Rents are already high in relation to household incomes, so a slowdown was always likely at some stage. But subdued rental demand (from slowing net migration) and more available listings on the market are also adding to the slowdown too.

Annual change in national rents to August/September 2024



Annual change in median rents (MBIE)*



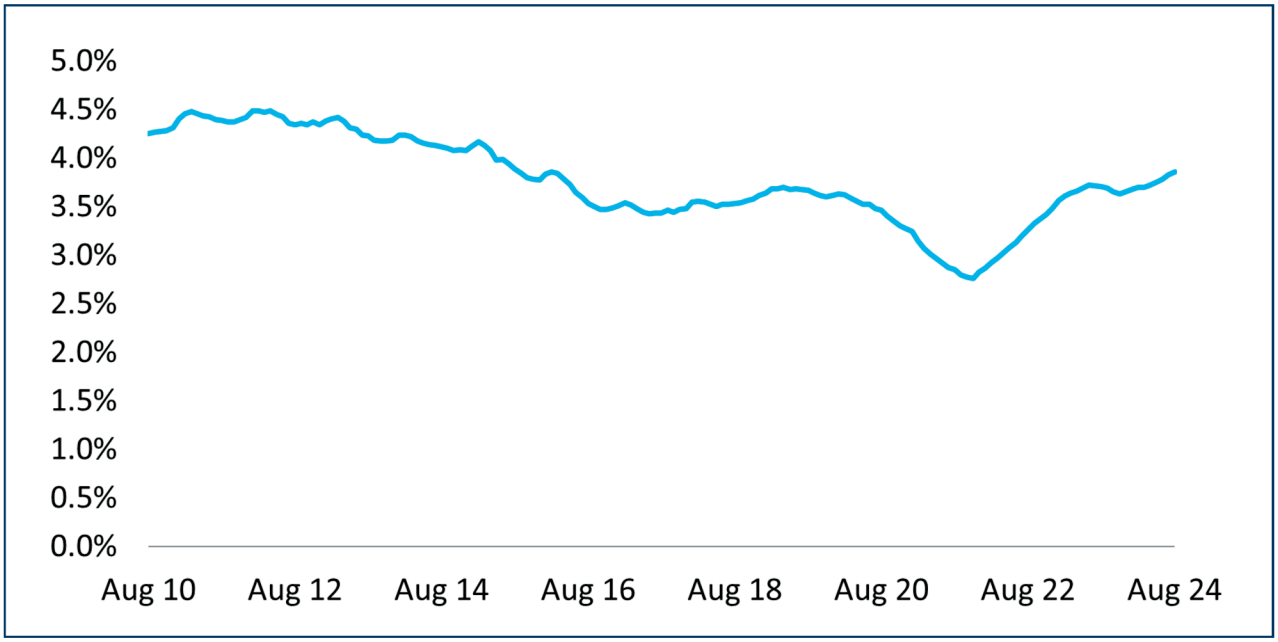
* Labels on the bars are the latest levels for weekly rents

Source: Stats NZ, MBIE

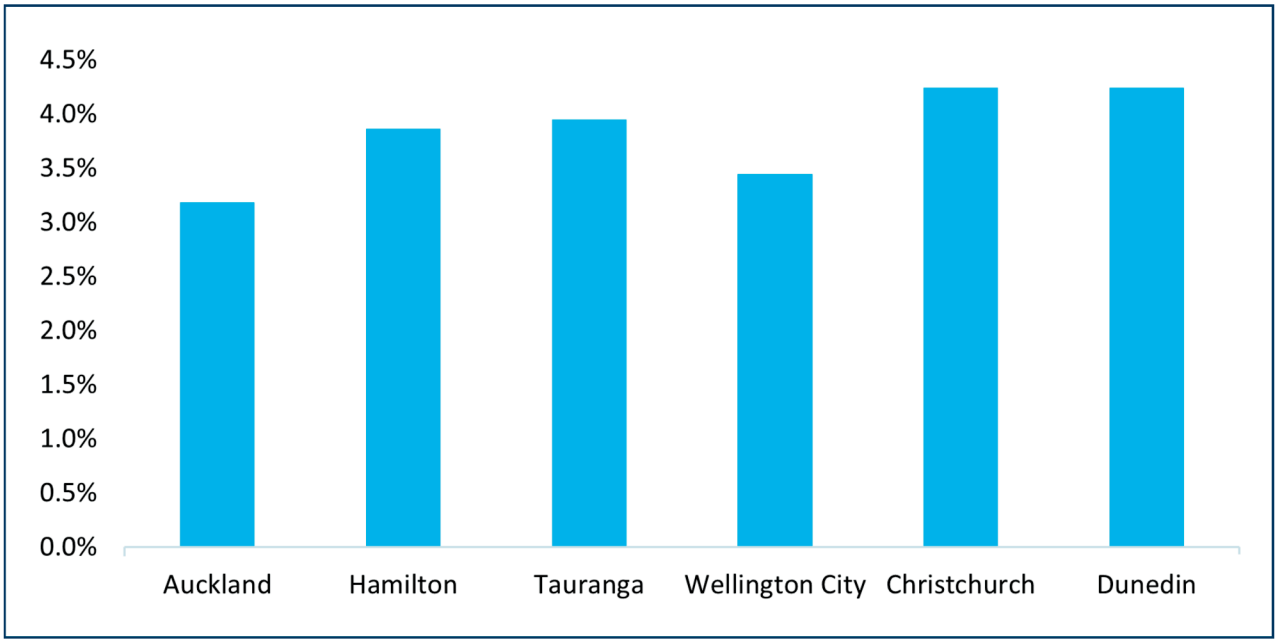
Rental Yields

Over the past 2-3 years, gross rental yields have been trending slowly higher, as values have weakened and rents have risen. From a floor of 2.8% in late 2021, they now stand at 3.9%, which is the highest level since early 2016. Auckland and Wellington City are hovering in the 3 3.5% range, with Hamilton and Tauranga closer to 4%, and Christchurch and Dunedin a bit above 4%. Even though rental yields have trended higher, they're still quite low compared to mortgage rates, so no doubt some would be property investors are watching and waiting for interest rates to start falling to a more favourable level.

Gross rental yields, national



Gross rental yields, main centres



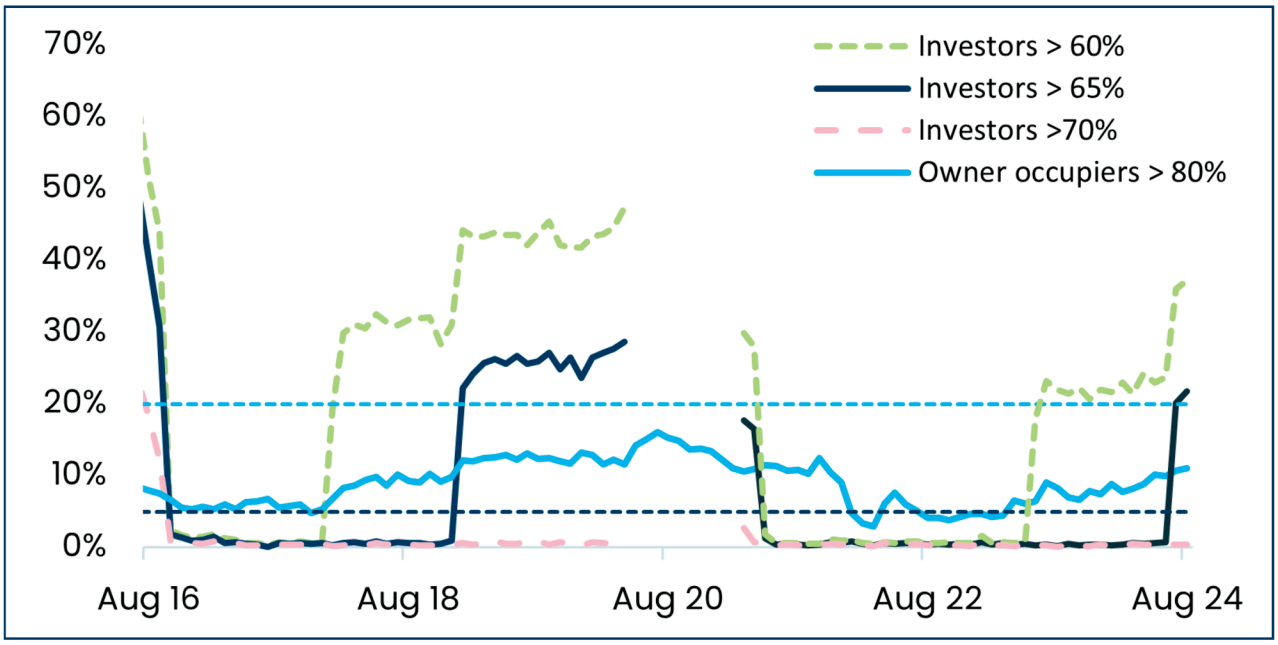
Source: CoreLogic, MBIE

Credit Conditions

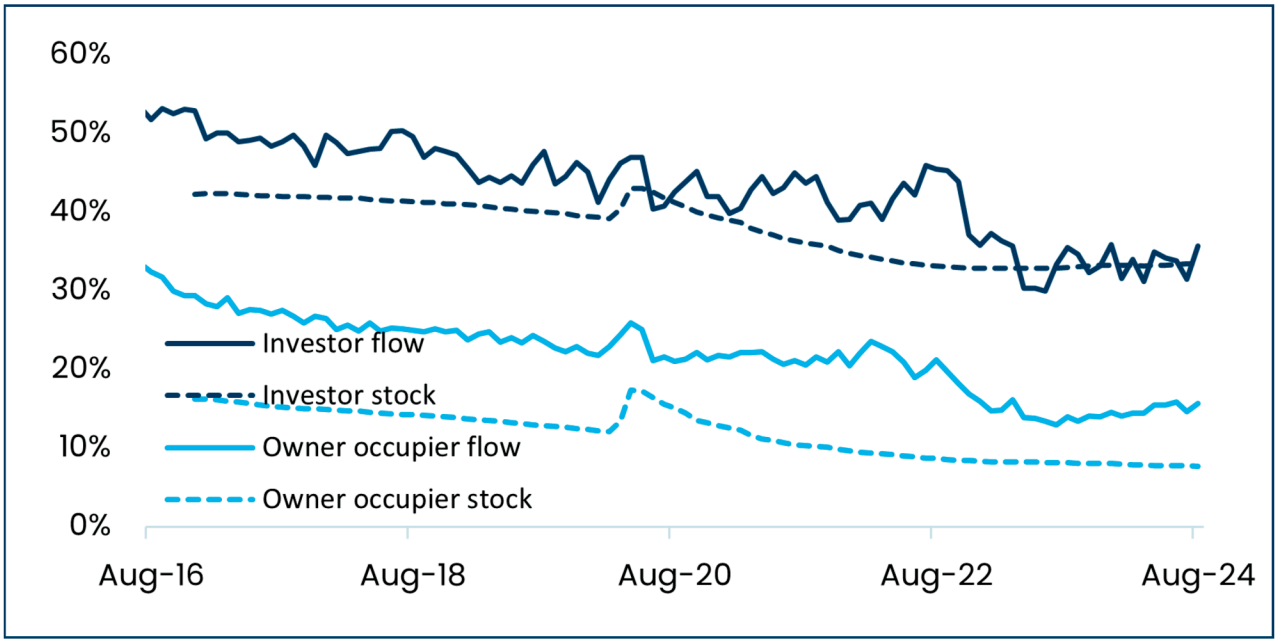
Credit Conditions
Lending *flows*

Buyers for existing properties (as opposed to new builds) without the required deposit are still finding it tough to get around the loan to value ratio rules, with banks keeping a buffer between actual high LVR lending and the maximum allowance. Interest only lending remain s relatively low, although there has been tentative evidence of an upwards trend again for owner occupiers; something worth watching.

Percentage share of lending at high LVR



Percentage share of lending on interest-only terms

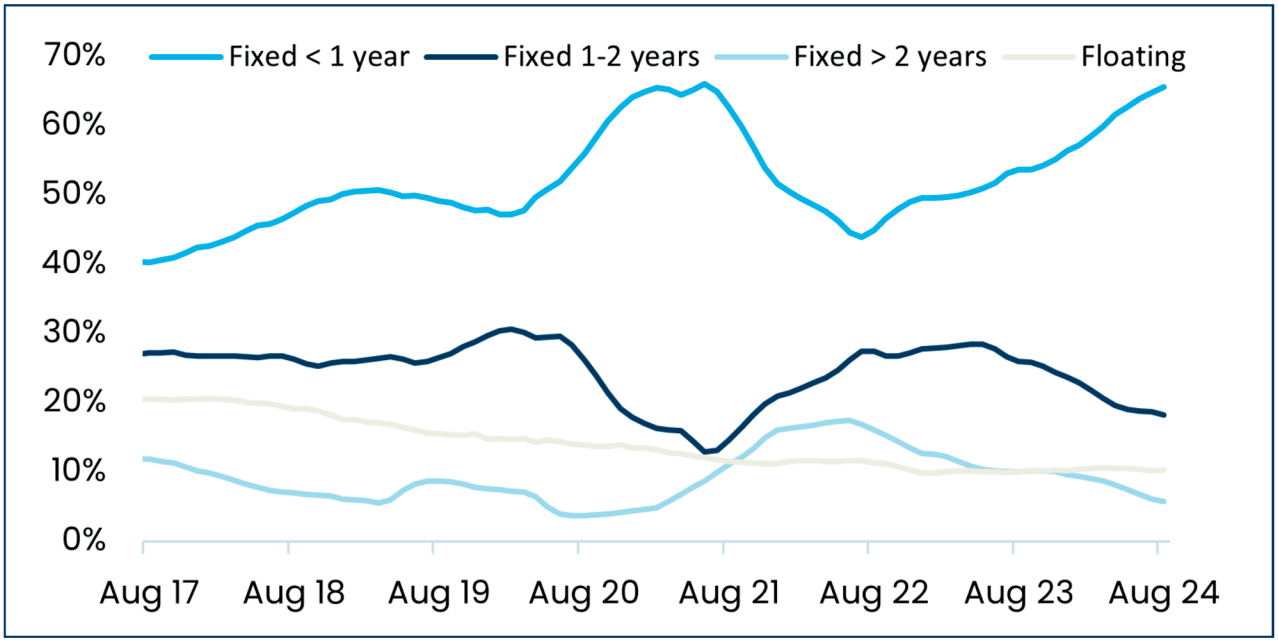


Source: Reserve Bank NZ

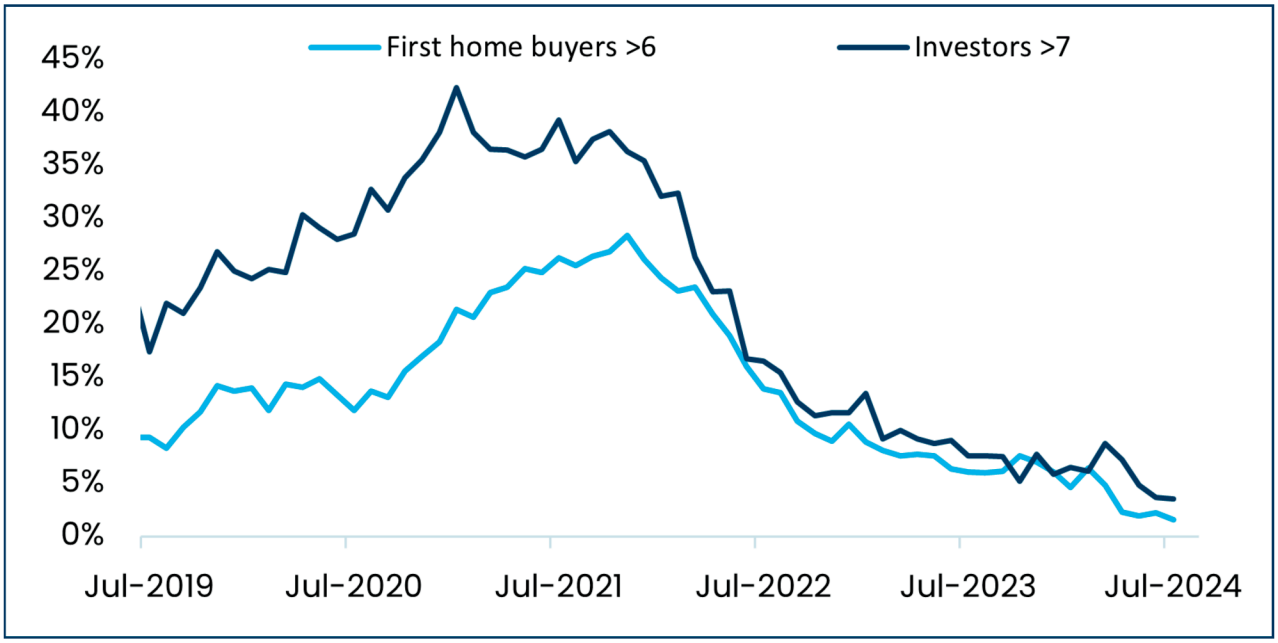
Credit Conditions
Lending *flows*

Around 66% of NZ's existing mortgages by value are currently fixed but due to reprice onto a new mortgage rate over the next 12 months. For the past 2-3 years these repricing events have generally meant a higher mortgage rate, but in the coming months more borrowers are going to start seeing their rates fall. It may not necessarily be a dramatic or fast process, but any fall in rates will be welcomed by cash strapped borrowers.

Percentage share of existing loans on various terms to repricing



Percentage share of lending at high DTI

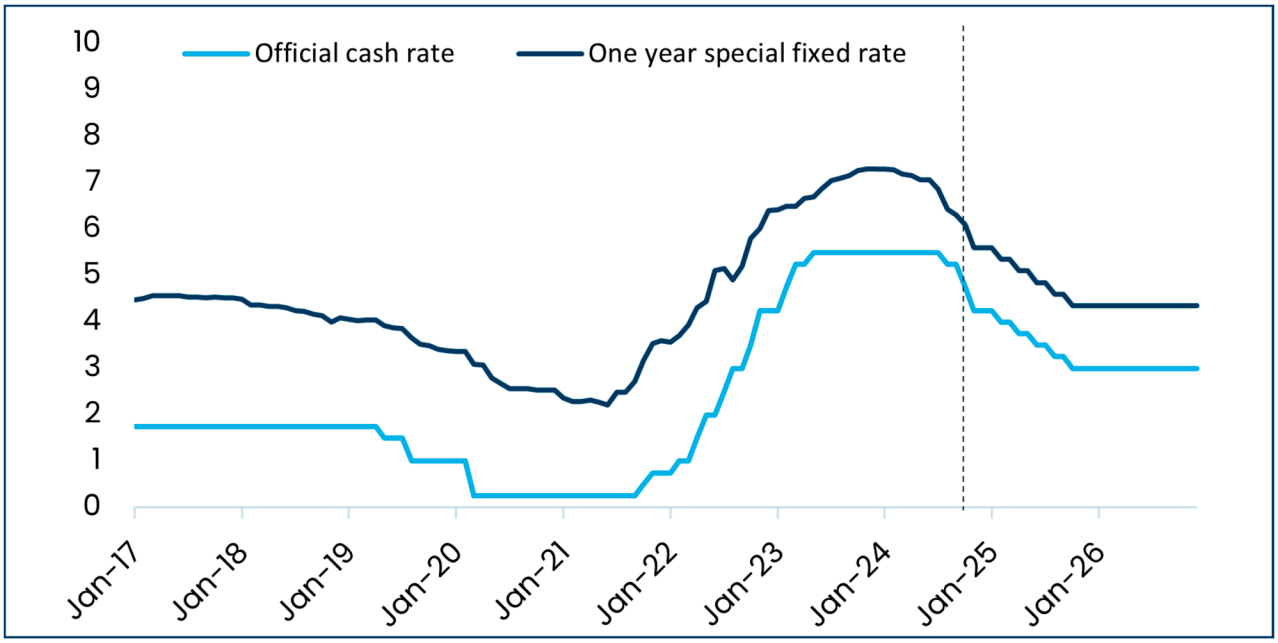


Source: Reserve Bank NZ

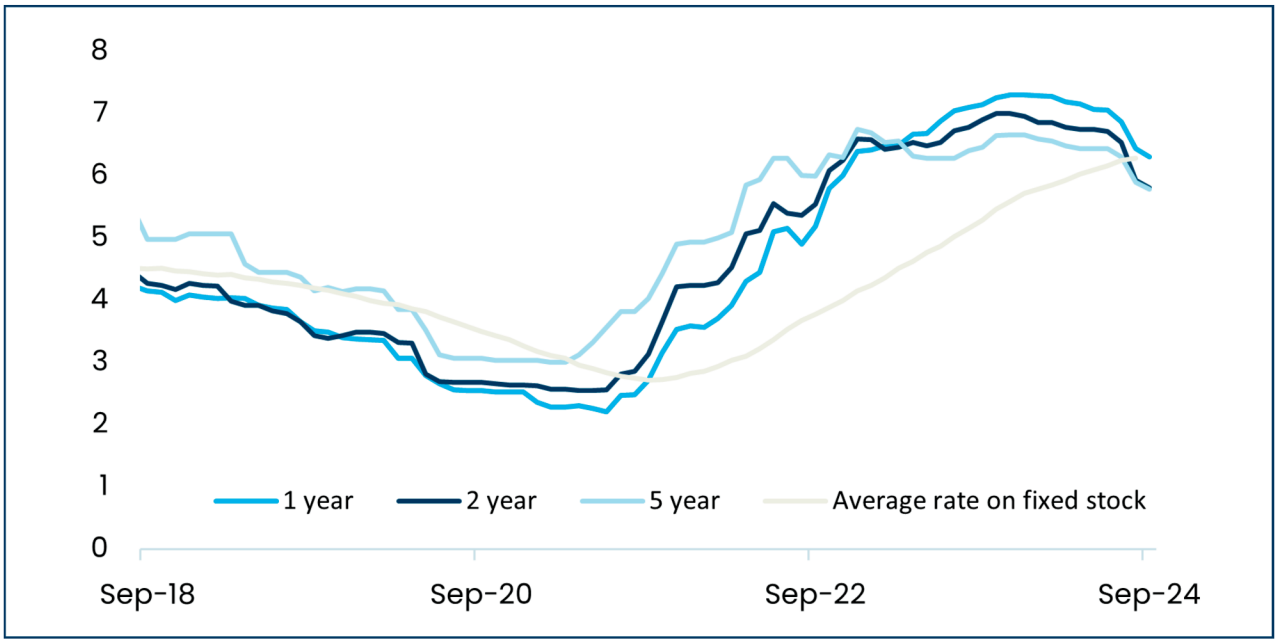
Credit Conditions
The OCR *and mortgage rates*

The economy continues to struggle and, with headline inflation (2.2%) now back inside the policy target, it's no surprise to see that the Reserve Bank has already cut the official cash rate by 0.75% since mid-August. It seems likely that the OCR will be cut again on 27th November (potentially by another 0.5%), and the outlook is for mortgage rates themselves to keep falling too.

Official cash rate and 1-year special fixed rate



Current special mortgage rates and average on existing stock

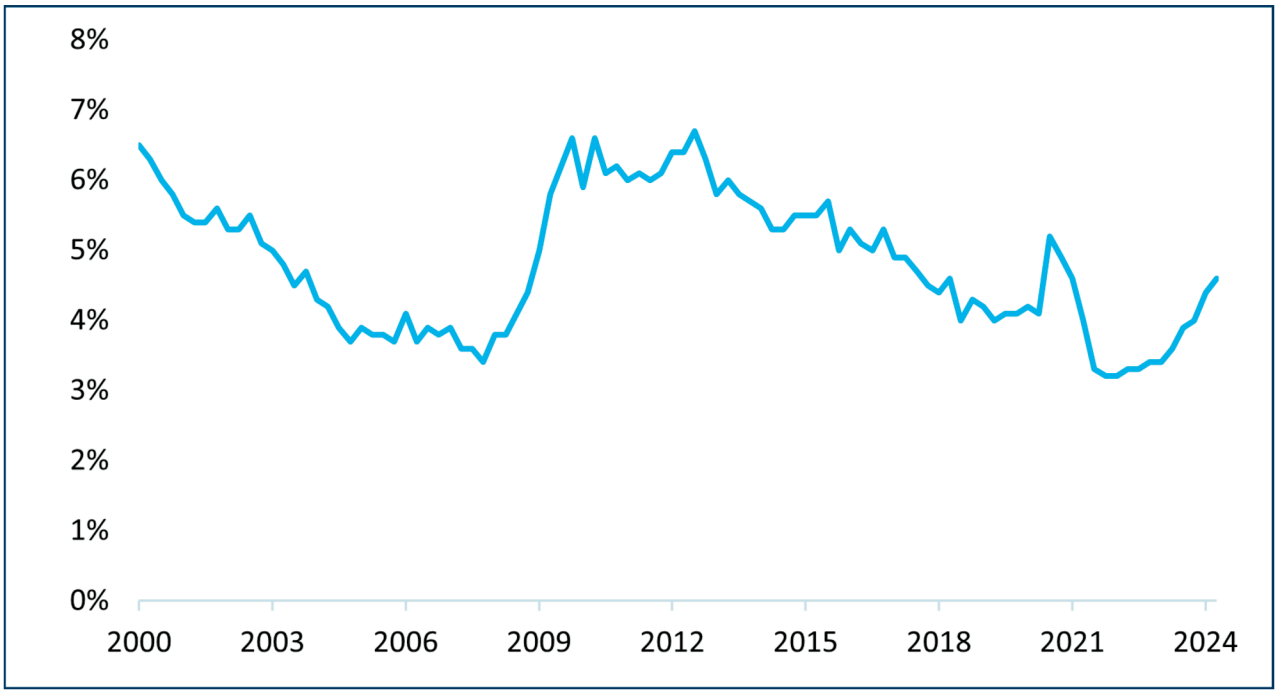


Source: Reserve Bank NZ

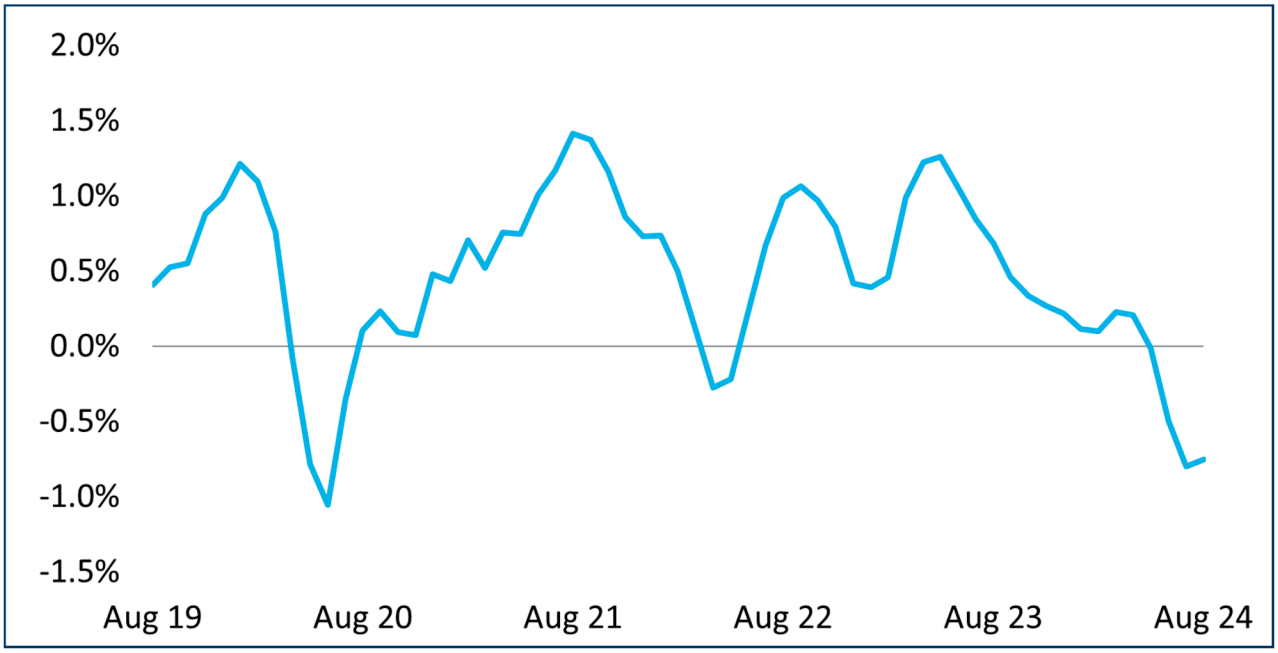
Economic Indicators

Economic Indicators

Unemployment rate percentage



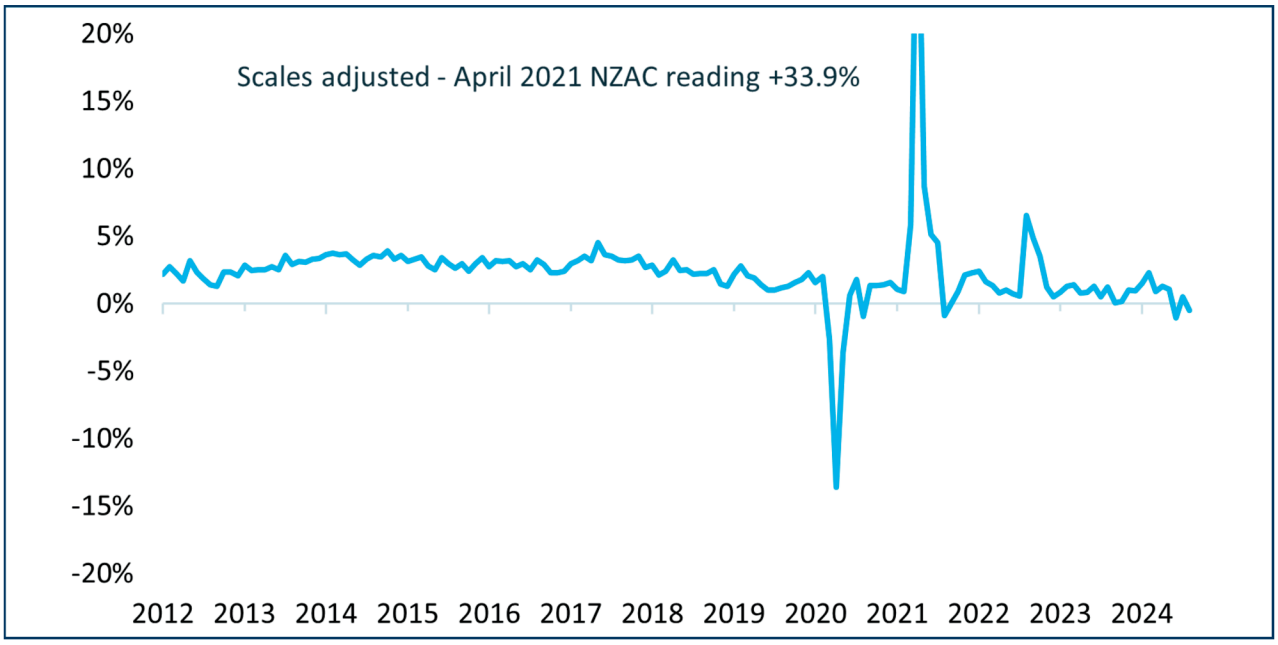
Percentage three month change in filled jobs



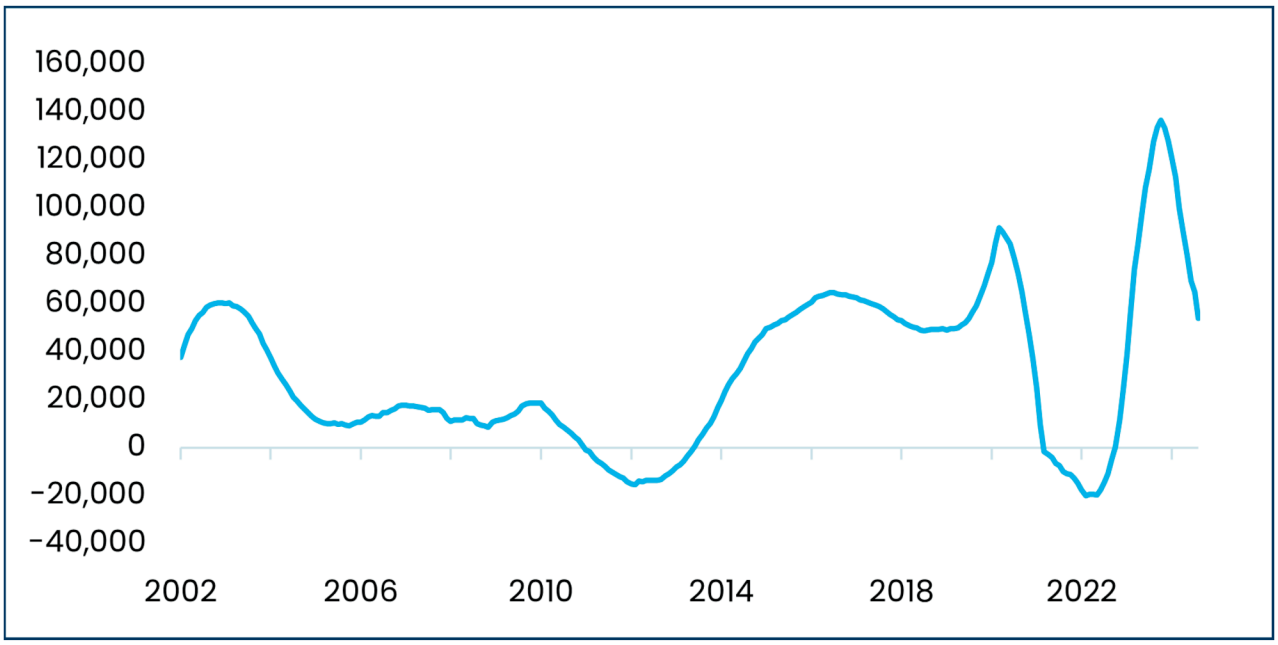
Source: Stats NZ

Economic Indicators

Percentage annual change NZ Activity Index



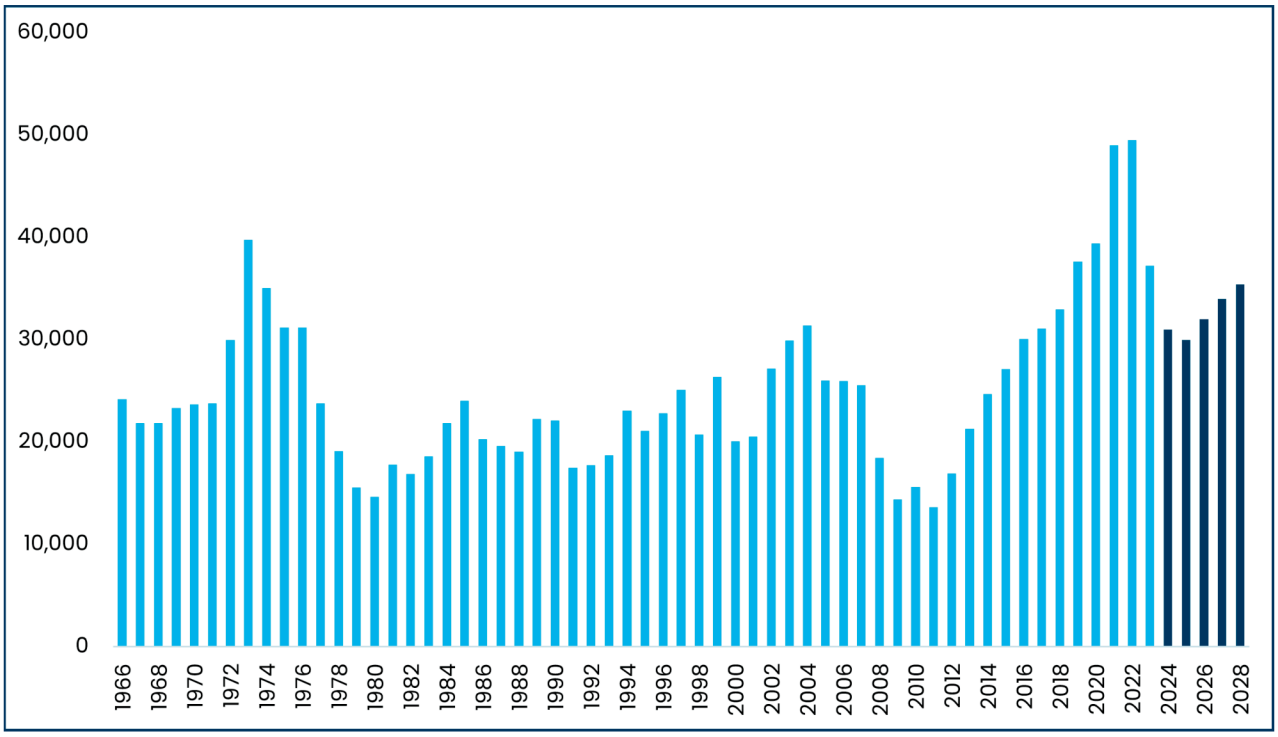
Annual net migration flow



Source: Stats NZ

Economic Indicators

New dwelling consents, annual totals – history (light blue) and forecast (dark blue)



Source: Stats NZ

Get *in touch.*

For more information, reach out to your local Loan Market adviser today.

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