Housing Update Nov 2018 – Tony Alexander

Recently a presentation was given to a conference of mortgage advisors in the South Island.

For the mortgage advisors my message was I think a reasonably good one in that unlike a year earlier I was not suggesting that some would do best to find other jobs because of falling real estate turnover. Turnover has fallen in the past year but only down to a low of 74,113 sales by licenced real estate agents in the year to July from 90,000 at the start of 2017. I thought sales might get down to 65,000 but the market has held up very well with assistance from a rise in new house construction, falling mortgage interest rates, good strength in the regions, and net migration inflows falling only slowly.

Over the coming year turnover may be similar to the past year because the main factors influencing housing activity are not threatening in any large way.

The Reserve Bank have indicated they don't think they will need to raise interest rates until late-2020 and are prepared to cut them if necessary. Tightening US monetary policy has had no impact on our floating rates and fixed rates seem similarly unaffected.

The annual net migration flow has fallen from 72,000 just over a year ago to just below 63,000 now. Further decline is highly likely, but the pace of reversal is very gradual and no cause for concern.

The NZ economy itself remains very well supported by low interest rates, a lower exchange rate, slightly stimulatory fiscal policy with more easing to come, underlying growth in sectors like tourism, healthcare, aged care, digital, good prices for most of our exported commodities, strong house building and continuing firm expenditure on infrastructure.

There will likely be some restraint on house prices from tightening rules facing landlords but the impact is likely to be minor with far fewer investors being "speculators" as described incorrectly by the politicians and most of them looking like long-term holders.

Maybe there will be some restraint from the ban on foreign buying from October 22. But we received data this week showing that only 2% of property transfers during the September quarter were to non-residents. The net proportion will of course be lower as some people selling will be non-residents offloading to locals. Note that this proportion is substantially less than the sensationalist headlines used in media this week regarding one in ten sales in Auckland Central going to foreigners. These are largely high density apartments favoured by students.

Some restraint may come from tightening bank lending criteria as a tendril of what is happening in Australia reaches across to ourselves. But note that it would be wrong to extrapolate what is happening to apartment prices in Australia's eastern state capitals to NZ. Prices are falling but they have built too many apartments, the federal Labour opposition are proposing ending negative gearing, and lending to investors which had previously ballooned is now being reined back in quite aggressively. Similarly lending to low income families had been too aggressive before and that also is

being reined in with proper expense calculations now being made for mortgage serviceability equations.

Blindly extrapolating changes in offshore housing markets to NZ proved very misleading from 2008-09 when many pundits picked collapses in Ireland and the US to be repeated here. Conditions here are different, most notably with regard to a lack of housing supply and lack of irresponsible lending surges as happened elsewhere.