

Housing Confidence

Three months to January

March 2021



All that glitters is not gold

- Kiwis have never been more confident house prices will keep rising.
- But buying sentiment is crumbling as affordability is stretched further.
- It's a challenging mix for policy-makers. But we think housing momentum is likely to level off soon.

Summary

As NZ housing market heat has ratcheted up to 11, so has the public's housing confidence.¹ A net 73% of kiwis expect house prices to keep rising over the coming 12 months – the highest in the 25-year history of our Housing Confidence survey.

But the bitter-sweet theme of last quarter has intensified, as we suggested it might. Alongside soaring house price expectations has come increased pressure on affordability, and this has pulled down perceptions of whether it's a good time to buy a house. Buyer sentiment hit 3-year lows in the three months to January. We're surprised it isn't even lower. All that glitters is not gold.

Admittedly, it's not hard to see why the public is so housing confident. The excess-demand coursing through the residential property market looks set to remain in place for all of 2021. And most – including ourselves – expect this to keep prices rising. We're forecasting a further 15% lift over calendar 2021.

The public's solidifying confidence in rising house prices also illustrates the nature of the challenge facing policy-makers eager to restore some balance to the market. The housing genie is notoriously difficult to get back into the bottle. Still, we suspect momentum will soon level out, if it isn't already. The banks have restored loan-to-value ratio (LVR) restrictions ahead of time, and some parts of the market are likely to burn themselves out as affordability constraints become binding. Don't be surprised to see confidence creak a little next quarter.

ASB Housing Confidence Survey			
Net percent who believe (3 months to Jan 2021) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-11%	69%	-20%
Rest of North Island	-6%	75%	-11%
Canterbury	-5%	71%	-8%
Rest of South Island	-7%	80%	-8%
TOTAL NZ	-8%	73%	-13%
<i>Compare 3 months to October 2020</i>	12%	45%	-29%

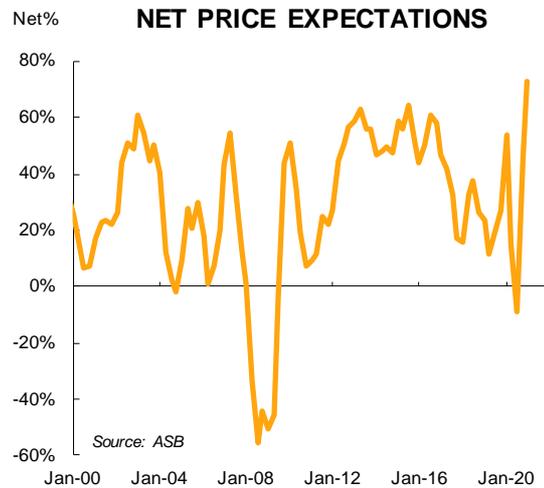
Source: Camorra

¹ Apologies to *This is Spinal Tap*

Price Expectations: Above the Clouds

The NZ public’s house price expectations hit a new record high in the three months to January. And it certainly wasn’t a case of pipping the old record at the post. A net 73% of respondents now expect house prices to rise over the coming 12 months (78% expect prices to increase, 4% decrease, 9% stay the same). That’s miles ahead of the previous 65% record high in July 2015.

It’s been an astonishingly quick return to confidence. No wonder more than a few have been caught on the hop by the housing market’s resurgence. Only two quarters ago, a net 9% of respondents expected house prices to *fall*.



Confidence is riding high nearly everywhere. All of the main centres and regions recorded net confidence readings between 69-80% this quarter. Auckland, the previous laggard, caught up to the rest with a 31-percentage point lift in house price expectations, to 69%. The South Island-excluding Canterbury posted the biggest jump though, and interestingly is now NZ’s most housing confident region – a net 80% of respondents there expect house prices to keep rising. Relief that some of the more dire housing market predictions for the Otago region didn’t pan out may well be part of the story here.

Buying Sentiment: Aaaaand It’s Gone

Blink and you would have missed it. According to our survey’s respondents it was a good time to buy a house in the middle of last year, but the opportunity has vanished.

A net 8% of respondents now believe it’s a bad time to buy a house, a big fall from last quarter when a net 12% of people still thought it was a good time to buy. A quarter before that, a net 21% thought it was a good time to buy.

- Underlying this quarter’s result, 20% of people think it’s a good time to buy, with 27% of people thinking it’s a bad time. 43% think it’s neither and 10% don’t know.
- It’s regarded as a bad time to buy everywhere, but particularly in Auckland where a net 11% of people think it’s a bad time to buy. Cantabrians are the least downbeat, with a net 5% believing it’s a bad time to buy.

So, it’s a seller’s market. But why is buying sentiment so low if respondents are also seemingly convinced that house prices are going to keep roaring higher? Mortgage rates are also plumbing new lows and the employment market has recovered.

The answer is affordability. We made this point last quarter and suggested buyer perceptions were likely to come under further pressure, and they have. Actually, we’re surprised buyer perceptions haven’t fallen even further given the affordability crunch imposed by soaring house prices and flattish incomes.

Average house prices in NZ are now about eight times the average income. In Auckland, the ratio is closer to 10. As we pointed out in our recent housing insights [piece](#), only three out of 92 major global housing markets currently have house price to income ratios north of 10.



Rate Expectations: Winding Up

With house prices going crazy, the economy rebounding, and the global vaccine rollout beginning, the general public seems to have recognised that the days of interest rates sliding ever lower are numbered.

Interest rate expectations scraped off their recent lows in the three months to January. The share of respondents expecting rates to drop further fell from 40% to 29%, and the share expecting rates to increase rose from 11% to 17% (37% expected them to stay the same and 17% didn't know). On net, 13% still expect rates to fall, but we suspect we'll see this figure continue to creep back toward zero next quarter. That's if our prediction that mortgage rates are about as low as they can go proves correct.

It's not that the Reserve Bank's Official Cash Rate is going to be moved anytime soon. It's more than wholesale interest rates are now clearly trending higher as financial markets look forward to brighter days ahead. And if this continues, mortgage rates can't keep falling.

That is one thing that may test the public's Housing Confidence next quarter.

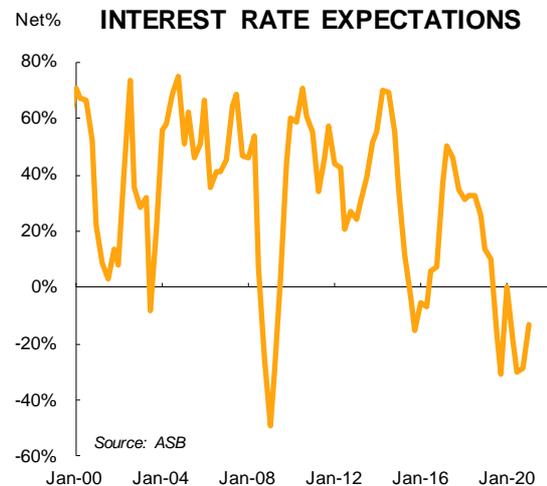
Additional housing commentary

For more commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Home Economics](#)
- [Home Loan Rates](#)
- [Weekly Economic Reports](#)

For general reference, the reports are included within the online Information Centre (<https://reports.asb.co.nz/index.html>).

For specific reference to housing, reports that include housing commentary can be accessed via a Search page (<https://reports.asb.co.nz/search/keyword.html>) by selecting the keyword "Housing".



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