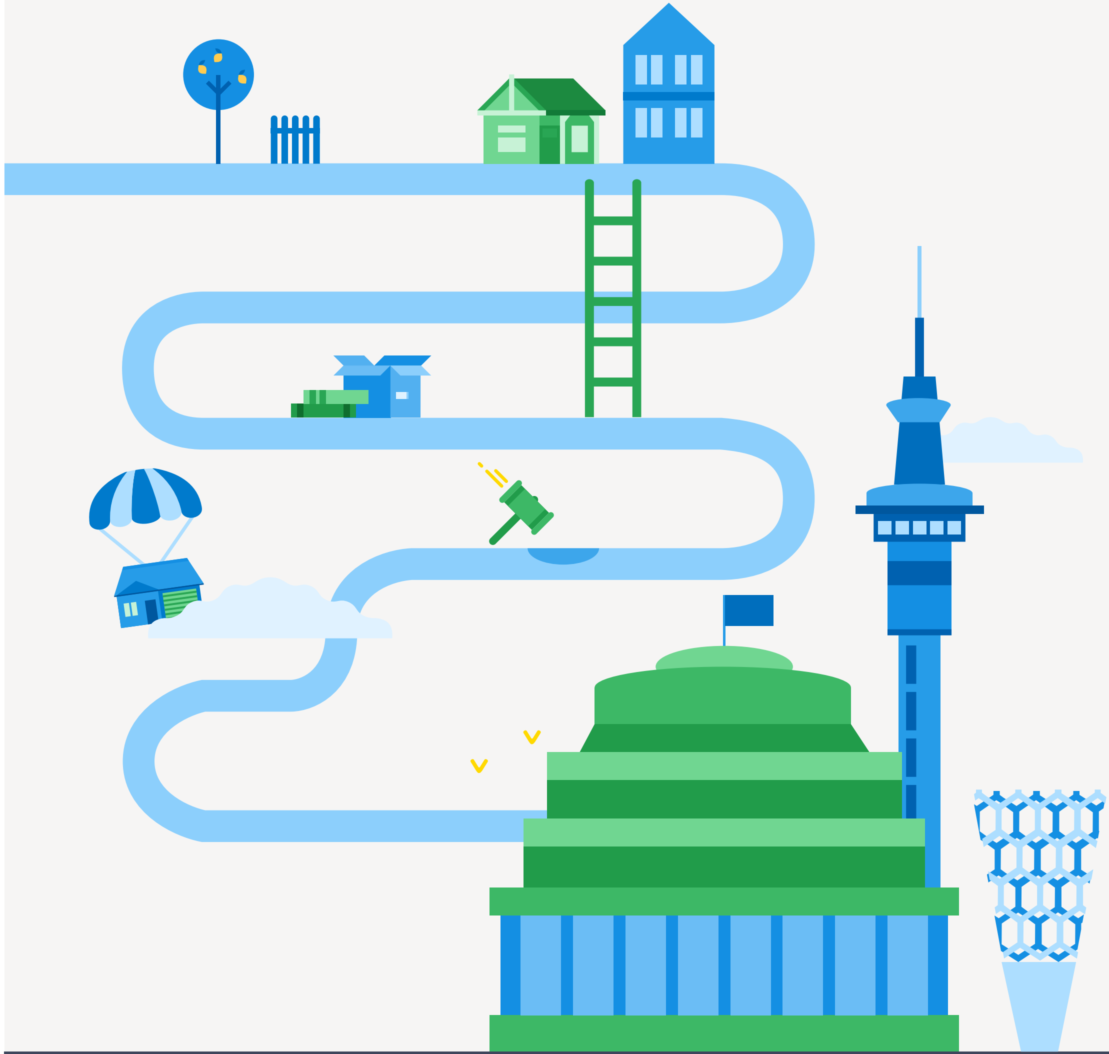

State of the Nation Property Report

September 2023

Powered by trademe property

Introduction

We're coming to the end of unprecedented volatility in the Aotearoa housing market as prices, most will agree, have largely stopped their descent.

In the last three to four years, we've had a massive housing boom post-Covid lockdowns, followed by a correction, and we can now look forward to a period of some stability. The markets will welcome this, they hate uncertainty, it drives a lack of activity among buyers and sellers which is not what any of us want.

But the life reasons people have for moving are still there – teens needing more space, changing jobs, becoming empty nesters – we're all experiencing it. This report shows that 30% of homeowners believe it's either a good time to sell or they're not sure. More than 50% of those we surveyed think it's a good time to buy, with 40% of property seekers planning to buy in the next six months, a substantial rise.

For our market, it's looking like we may enter Goldilocks territory; not so hot that every property is snapped up quickly and buying becomes difficult, but not so cold that sellers won't list. The complicating factor is the election though. When does the porridge make it to the table? Our research tells us 16% of homeowners are waiting until after the election to sell.

If the pattern follows previous close elections, we expect it will go quiet immediately before the election in mid-October and then in November it will be a busy time with a wave of homes coming to the market. Agents we're talking to are telling clients that September would be a great time to sell before things freeze immediately before the election and that tsunami of listings crowds the market in November and December.

A fast take-off of selling activity in November assumes that there will be a definite, clear result at the election and that it will be known which policies the newly-formed Government will be bringing in, which hasn't always been the case in previous governments under the MMP system.

What will happen to the economy in the coming months will impact the housing market of course and there are some expectations that the country will go in and out of recession in 2023. On the positive side, our expert commentators in this report don't expect unemployment to rise hugely as employers prefer to keep hold of valuable staff they have hired against steep competition in the last couple of years. This means forced sales due to redundancies shouldn't be a problem for the housing market. At the same time, Trade Me Job listings are down in July and August, so the prospect of hopping to a new job and earning substantially more money, is far less likely for job hunters in 2023, impacting their spending power when house hunting.

The road ahead is still a big unknown for sellers and buyers wanting to upsize, downsize, invest, and purchase a home for the first time. Homeowners who have held back bringing their properties to the market, and now want to push the start button (our study tells us 14% plan to sell in the next six months) will be treading very carefully in the coming months. They will have seen neighbours sell in the last couple of years at prices substantially below their expectations after weeks or months on the market.

As such, we at Trade Me Property believe that there will be a flight to quality in 2023 into 2024, with vendors looking for agents who have a great track record for achieving good prices for their clients.

A successful sale can have a huge impact on people's lives so homeowners will be looking for an agent who is seen as that respected expert in their suburb, can navigate the still choppy waters, target the right buyers, manage price expectations, and make the deal happen. And with 9 out of 10 buyers searching on Trade Me Property, which is why we drive five times more open home attendees than any other portal, we hope you'll take us on the journey too.

ALAN CLARK
HEAD OF CLASSIFIEDS AT TRADE ME

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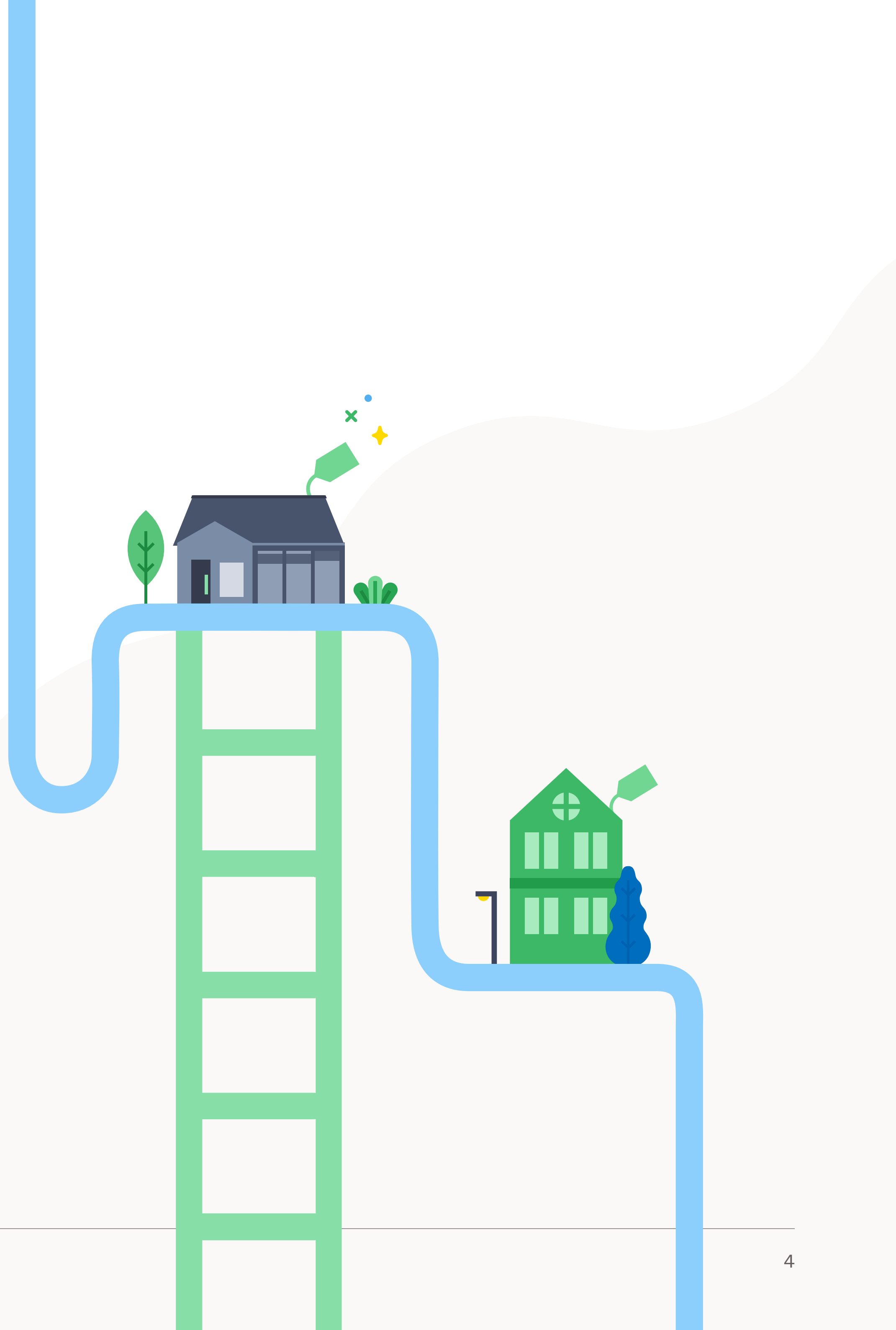


What buyers and sellers are saying

We surveyed over **1,800** Kiwi about selling*

30% think it's either a good time to sell, or just aren't sure either way.
(+3 points compared to Q1)

16% of homeowners are specifically waiting until after the election to sell.

14% of homeowners plan on selling their property in the next six months (+2 points compared to Q1) and a further **7%** plan to sell in six to twelve months.

Only 17% of homeowners think house prices will continue to **decrease** in the next 12 months, a huge drop from 38% in Q1. The majority of homeowners think house prices are going to increase.

and over **1,400** Kiwi about buying across Aotearoa.**

53% think now is a good time to buy.
(-2 points compared to Q1)

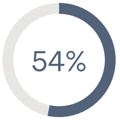
17% of property seekers are waiting until after the election to buy.

40% of property seekers plan on buying a property in the next six months.
(+19 points compared to Q1)

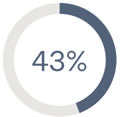
25% of buyers think house prices will **decrease** in the next 12 months, another huge drop from 47% in Q1. The majority of property seekers think house prices are going to increase.

*Homes.co.nz seller survey, July 2023 | **Trade Me Property buyer survey, July 2023

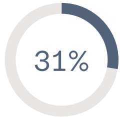
Cost of living continues to influence buyer and seller behaviour



are spending more than they were two years ago
(+2 points compared to Jan 2023)



said the rising cost of living is having a significant impact on their spending decisions
(+5 points compared to Jan 2023)

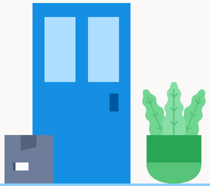


say their house buying budget has decreased in the past 12 months
(+7 points compared to Jan 2023)

TOP #2 CONCERNS WHEN BUYING:

Buyers are hungry for decent properties and while high interest rates are still a concern, now that we've likely reached the peak this is less of a worry when compared to earlier in the year.

1. Lack of suitable properties on the market **27%** (up from 13%)
2. High interest rates **22%** (down from 31%)



TOP #2 MOTIVATORS WHEN BUYING:

Falling prices and a desire to relocate is the main motivation for buyers with upgraders and upsizers holding back a bit more compared to earlier in the year.

1. Falling/fallen house prices **23%**
2. Relocating to another part of Aotearoa **18%**

Has the race for space ended?

The #1 thing property seekers are willing to compromise on to stay within their budget is the size of a property (number of bedrooms, bathrooms etc.). In our previous survey, only 28% were willing to compromise on size, whereas this has now grown to 41%.

Property market pulse

Insight into how consumer confidence has impacted supply and demand.

Trade Me Property

Many regions around the country saw price rises in August, with listing days on site also down. Add to this a shuffle in the share of market for methods of sale, with auctions on the rise, and we have some promising indications that the market is turning.

Average asking price August 2023

	Price	% change year-on-year	% change month-on-month
Nationwide	$837,400	▼ -6.9%	▲ +0.4%
Auckland	$1,023,000	▼ -9.3%	▼ -1.1%
Wellington	$795,950	▼ -9.1%	▼ -1.8%
Canterbury	$691,250	▼ -1.8%	▲ +1.1%
Northland	$787,600	▼ -6.2%	▼ -2.6%
Waikato	$794,950	▼ -7.1%	▲ +0.8%
Bay of Plenty	$882,650	▼ -5.9%	No change
Gisborne	$567,250	▼ -9.3%	▼ -3.4%
Hawke’s Bay	$738,800	▼ -5.1%	▲ +3.3%
Taranaki	$645,100	▼ -6.0%	▲ +0.2%
Manawatū-Whanganui	$579,050	▼ -5.2%	▼ -2.7%
Nelson/Tasman	$836,350	▲ +1.3%	▼ -0.9%
Marlborough	$719,950	▼ -4.9%	▲ +2.5%
West Coast	$442,400	▲ +2.9%	▲ +6.0%
Otago	$816,300	▼ -4.6%	▲ +4.7%
Southland	$471,600	▼ -5.8%	▼ -0.9%

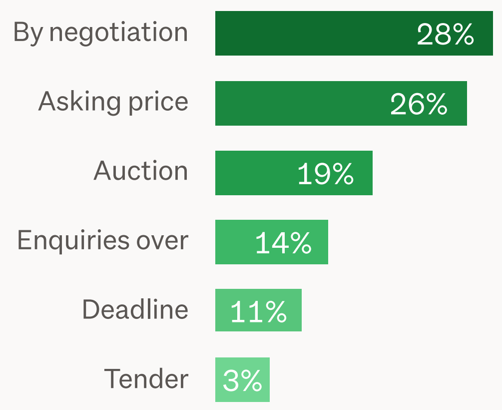
Supply & demand August 2023

	Supply	Demand
Nationwide	+2%	+1%
Auckland	+4%	+2%
Wellington	-1%	+1%
Canterbury	+3%	+2%
Northland	-2%	-1%
Waikato	+1%	0%
Bay of Plenty	-3%	-1%
Gisborne	+8%	+3%
Hawke's Bay	-2%	+5%
Taranaki	-2%	-3%
Manawatū-Whanganui	-1%	0%
Nelson/Tasman	+5%	+4%
Marlborough	0%	-8%
West Coast	-12%	-18%
Otago	+3%	-3%
Southland	+3%	+6%

Average days onsite*
August 2023

68 days
-9.5% compared to the month prior

Method of sale** August 2023



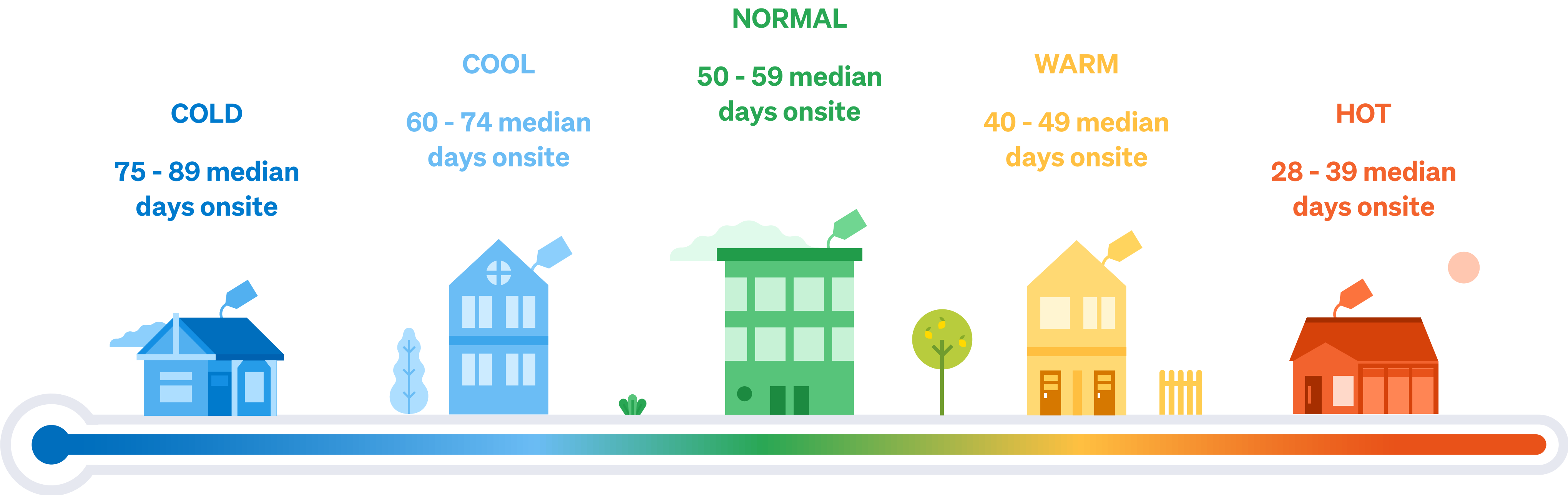
* For listings that ended during this period. ** For listings that started during this period.

Trade Me Property, total listings, and total views, Aug 2023 compared to Jul 2023.

Market trends

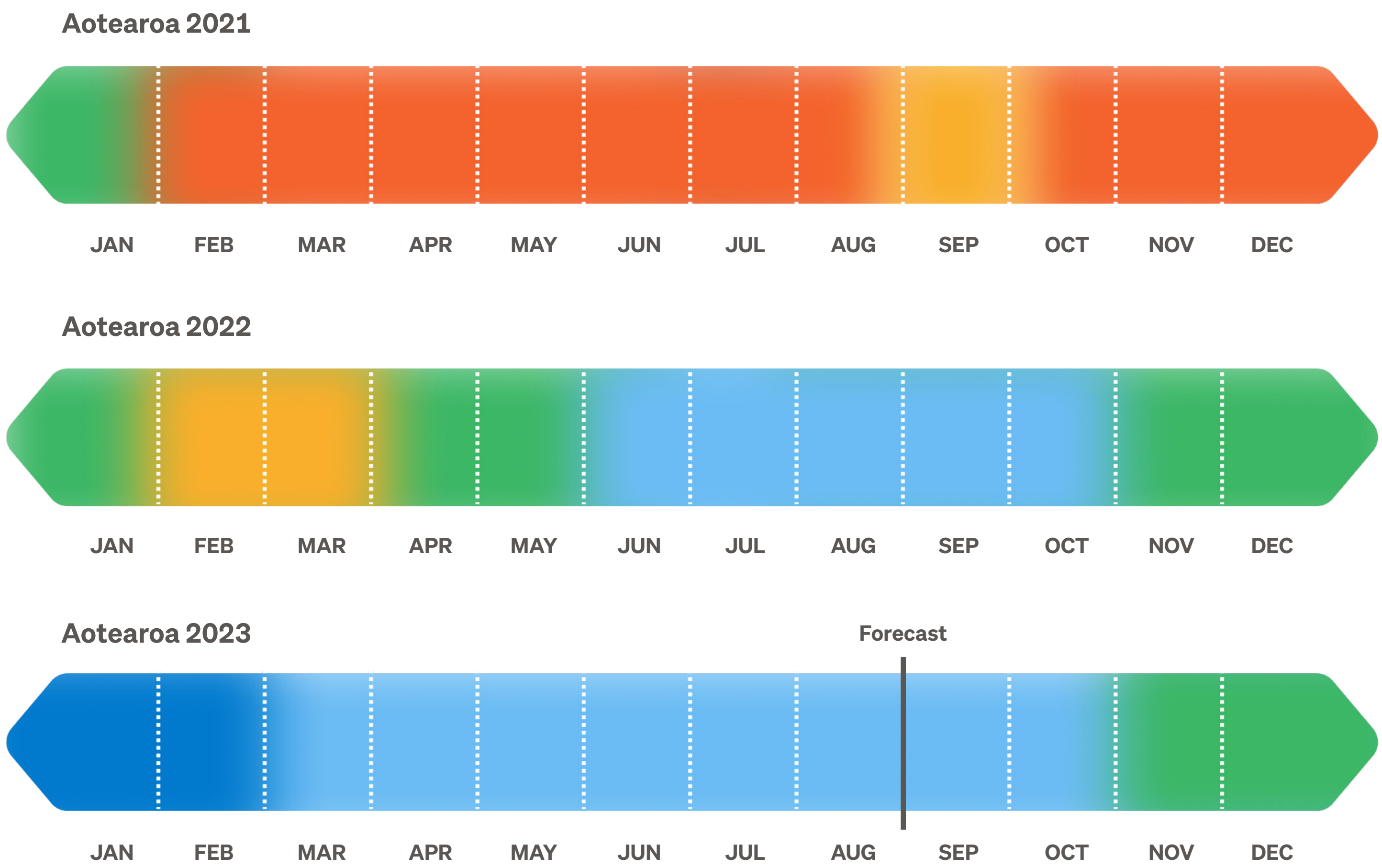
The tipping point

We well and truly hit the bottom of the market this winter with 2023 shaping up to be the coolest market in over 10 years. The good news, however, is that time onsite is retreating and auctions are bouncing back as a method of sale. Both of these key indicators suggest the market is in the early stages of recovery.



A closer look at changing market conditions

While it may be awhile longer before we can comfortably say we're in a consistent, normal market again, we expect to see a boost in activity late spring – post-election period – and continued improvement as we head into 2024.



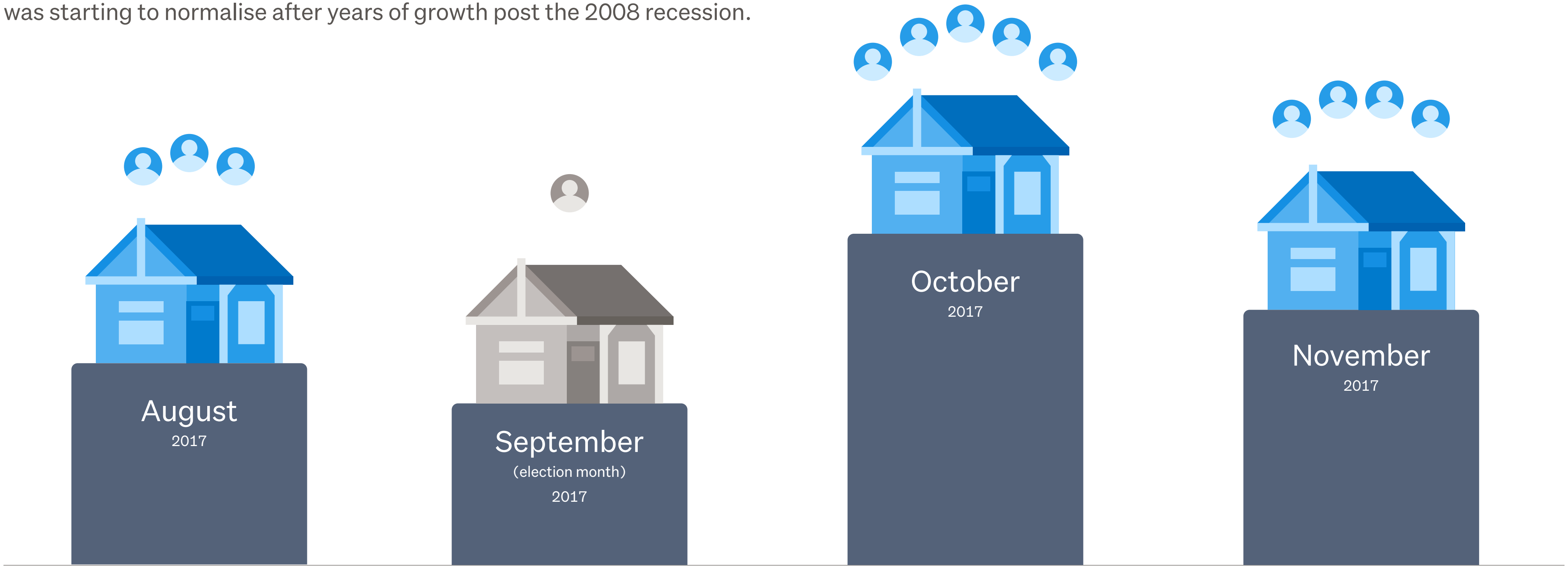
The impact of elections on the property market

Typically we see listing views grow steadily month-on-month as we head from winter into spring, with activity generally peaking in October. But how does this change during an election year?

When we look back at the previous two general elections in Aotearoa, the 2020 election cycle had minimal to no effect on the property market at all. However, this election was during the peak of Covid-19 when we were experiencing never before seen highs in the property market.

So let's take a look at 2017. This was the year we changed from a National government to a Labour government, and when the market was starting to normalise after years of growth post the 2008 recession.

During the 2017 general election we saw an increase in buyer activity the month before and the two months after the election. While election month itself saw a drop. We can tell this behaviour was directly linked to the election as typically September wouldn't see a drop like this.

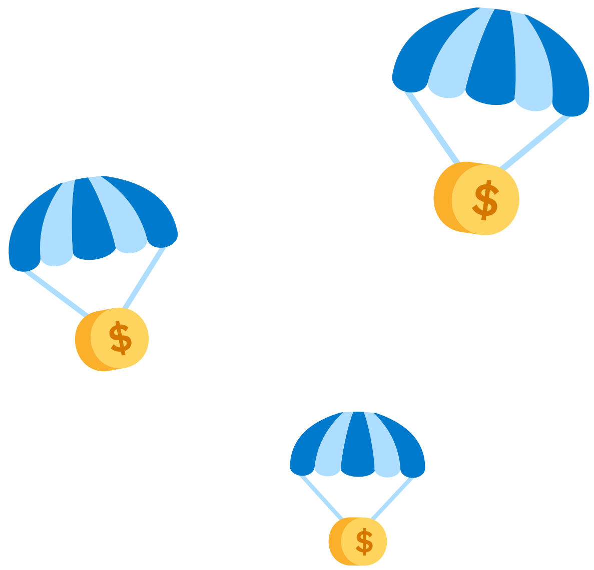


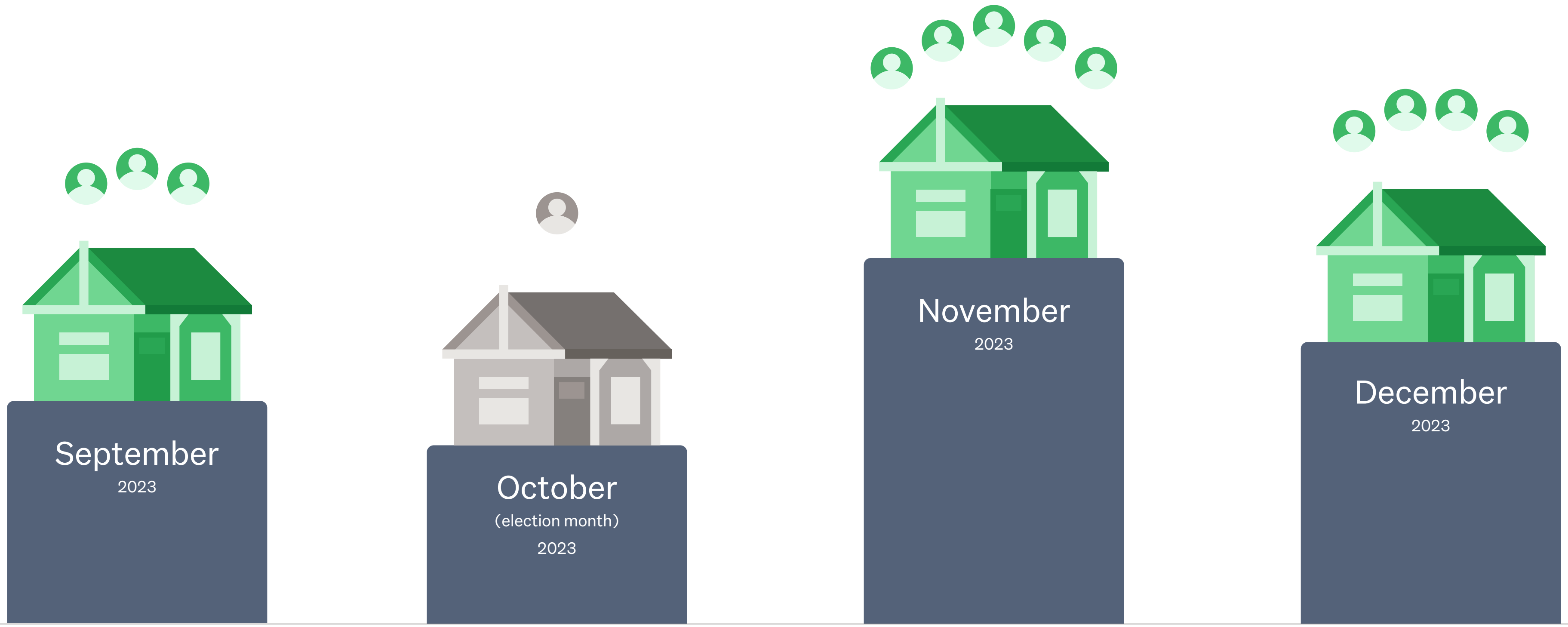
So what does that mean for 2023?

Given the election is in October, we're expecting to see an upswing in buyer activity in September, a slight drop during election month, followed by a sharp burst in November as buyers and sellers make their move before the Christmas period.

Based on 2017, for property listings this will likely look like a:

> **5%** drop in listing views during election month followed by a **10%** increase in listing views the following month





The best time to sell this spring

Buyer activity tends to peak in spring with the busiest month typically being October. With a general election happening this year, we expect this will shift the busiest period to November.

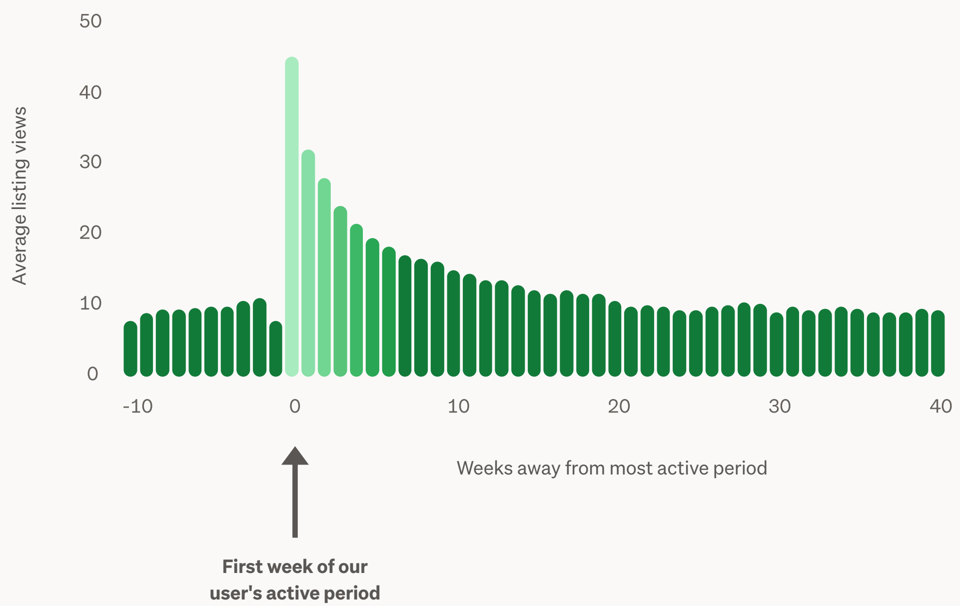
We know from our survey results that 16% of homeowners are waiting until after the election to sell and given nearly the same number of homeowners said they plan to sell within six months, we anticipate that we'll see a flurry of listings hit in November.

This means we're likely to see months of buyer demand and property listings condensed into roughly six weeks before we hit the holiday period.

Our latest data shows that buyers are in a passive state looking at roughly 10 listings per week before becoming active. On average, a buyer is in an active state for nine weeks.

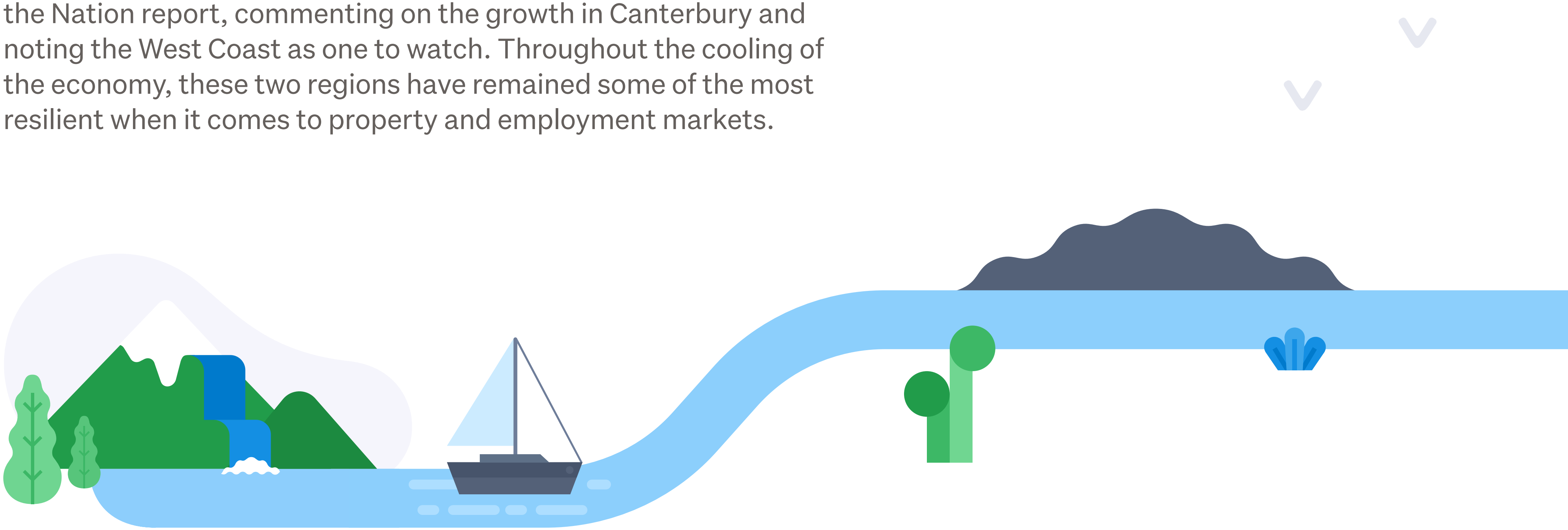
> What does this mean for homeowners wanting to sell but holding back for now?
>
> Vendors ready to list quickly come late October are likely to experience the most buyer demand, less competition and therefore the best result this spring.

Average weekly listing views by weeks from start of most active period



The strength of the south

We first spoke about regional growth in our March 2022 State of the Nation report, commenting on the growth in Canterbury and noting the West Coast as one to watch. Throughout the cooling of the economy, these two regions have remained some of the most resilient when it comes to property and employment markets.



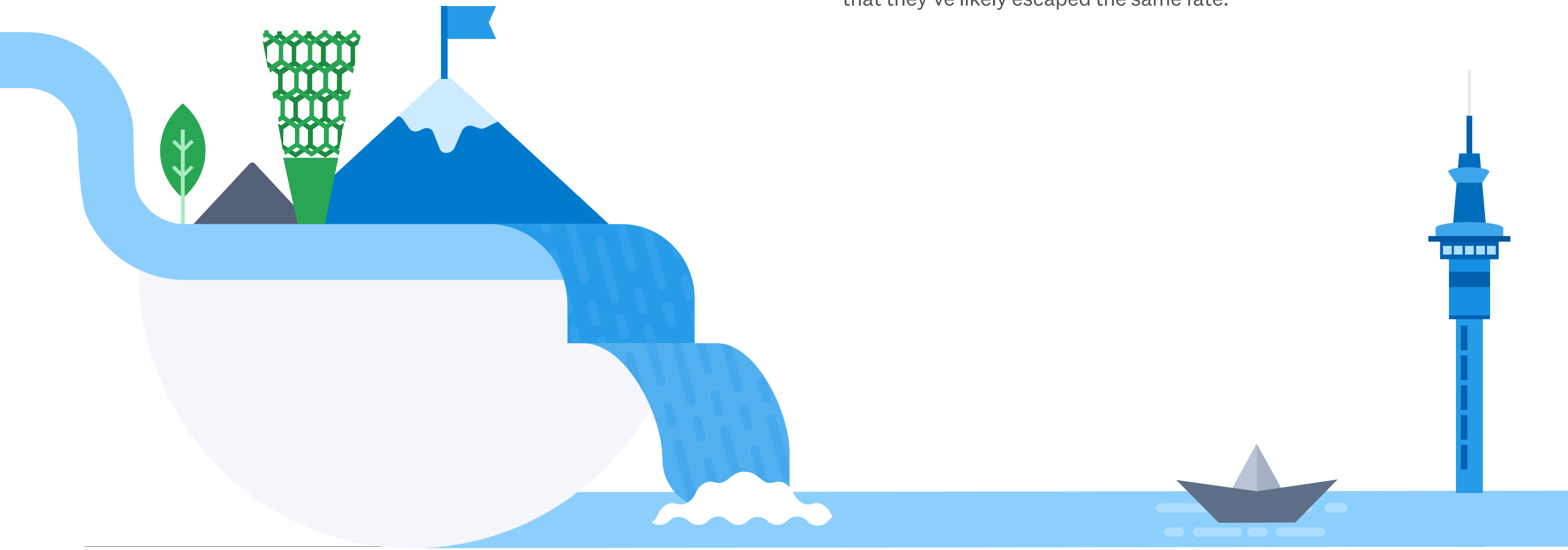
The West Coast in particular continues to go from strength-to-strength, proving to be resistant to both house price drops and a slowing job market, as well as a regional leader in terms of salary growth.

The average salary in Aotearoa hit $70,000 for the first time in Q2 (April-June) and it was the West Coast leading the way alongside Wellington and Auckland.

While Canterbury doesn't feature in the top three regions to experience an increase in views per property listing, this does speak to how consistent this market has been in the past year. When comparing views per property listing in Canterbury and Auckland alone, they actually experienced 14% more views per listing than Auckland in July demonstrating ongoing solid interest in the region.

It's safe to say the regions have performed better than the main centres recently – although it's not all bad news for our larger cities. Auckland features in the top three regions to experience an increase in views per property listing which signals great news not just for Aucklanders, but for Kiwi all around the country too.

Auckland tends to lead changes in the property market nationally, so a 20% increase in average views per property listings for Auckland is a welcome sign that a recovery is on the way. For regions wondering if they were going to see the same level of cooling as the main centres, it's safe to say that they've likely escaped the same fate.



Regions that have demonstrated the most resilience to house price drops[1]

West Coast	-1%
Nelson/Tasman	-1%
Canterbury	-3%

Regions that experienced the biggest increase in average salary[2]

Wellington	+5%
Southland	+5%
West Coast	+5%

Regions to experience the largest increase in average views per property listings[1]

West Coast	+40%
Auckland	+20%
Hawke’s Bay	+17%

Regions that experienced the smallest decrease in job listings[2]

West Coast	-2%
Marlborough	-6%
Gisborne	-7%

[1]July 2023 compared to July 2022 | [2]Jan-Jun 2023 compared to Jul-Dec 2022

What local industry experts are saying

What's in store for the property market in the next 6-12 months?

Brad Olsen
Chief Executive and Principal Economist at Infometrics

In some senses, the New Zealand economy is holding up remarkably well considering the depth and breadth of challenges – both domestic and international – that have developed over 2023. Yet the economy also isn't unscathed, with floods and Cyclone Gabrielle contributing to a fall in economic activity at the start of the year that saw the economy enter a technical recession.

The economy seems to be in a state of limbo at present, waiting with bated breath for what comes next. Part of this limbo status will be driven by the October election, with a natural period of restraint often occurring when a change in government looks possible. Businesses, households, and others will await the outcome before making key decisions.

Notwithstanding the outcome of the election, a sense of uncertainty around the economic outlook remains, with both upside and downside risks. On the downside, interest rates are yet to be fully passed on to borrowers, global economic activity is restrained and export activity more muted, and primary sector earnings have been cut substantially amid still-high costs.

Retail sales have slipped, with the value of sales down 0.2% in the June 2023 quarter (seasonally adjusted), leaving the volume of sales (inflation-adjusted) down 1.0%. Household budgets are being continually hit as households refix mortgage rates, leading to smaller spending budgets. The pass-through of higher mortgage rates is expected to continue for most of the next year. With stock levels elevated, businesses are under pressure from having lots of goods to sell, but an increasingly difficult sales environment.

Weaker economic activity out of China, New Zealand's largest trading partner, have caused rising concern about the global economic outlook. Recent times have seen considerably weaker than expected Chinese economic growth, coupled with a youth unemployment rate of over 21% (and to such a degree that China has stopped publishing this set of data). Export and import activity has dropped as industrial production has fallen.

That weaker outlook has seen commodity prices fall over recent months, with July figures from the ANZ Commodity Price Index showing dairy prices down 20%pa, meats down 14%pa, and forestry prices down 12%pa – with only horticulture prices rising. Higher milk production and lower consumption in China has led Fonterra to revise the farmgate milk price considerably lower to $6.75/kgMS, a move that will shave $2.7b off the cash payment into provincial economies over the year ahead.

> But on the upside, inflation is moving in the right direction, interest rates appear to be at or near a peak, the housing market has reached a bottom, and business confidence has lifted to the highest reading since mid-2021.

At 6.0%pa in the June 2023 quarter, inflation is still much too high – but at least it is now moving in the right direction. Core inflation remains of concern, as does still-high non-tradeable (domestically-based) inflation. Some core inflation measures imply that although inflation should decline further, it might also settle at a point above the 3%pa upper target band of the Reserve Bank. Food, energy, rent, and fuel inflation are all at elevated levels, reinforcing these concerns. But the moderation is continuing.

As a result of this moderation, the Reserve Bank has signalled a pause to interest rate increases, having held the Official Cash Rate (OCR) at 5.50% since May 2023. The Bank has also noted a "high bar" to recommence rates rises, and is instead adopting a watch, worry, and wait approach as higher interest rates filter through into the real economy. Yet the Bank has also been at pains to highlight that interest rates will remain elevated for some time, and in August pushed back the timing of interest rate cuts into the second half of 2024. In doing so, they also increased the peak for the forecast OCR, showing that the Bank is awake to the fact it may have to raise interest rates further if inflation remains more persistent. Such a move is only likely from November 2023 on, but is unlikely to be one final increase – instead, a small programme of further increases might be needed to lop the top off remaining inflationary pressures.

This pause in interest rate increases has coupled with strong population growth as net migration has surged back, with an annual net gain of 87,000 people over the year to June 2023. More people has kept employment growth higher, although worries about the economy are starting to see job seekers increase faster, even as job ads fall lower, pushing the unemployment rate higher. Together, interest rate and migration shifts have seen the housing market hit a bottom, with an ever-so-slight rise in house prices in recent months. Affordability constraints remain, financing is difficult, and sales volumes are still very low, but there might be a bit more life, a bit quicker, for housing. Despite this housing market improvement, house prices are more likely to stabilise or rise gradually from here rather than rapidly accelerate higher, given high lending rates and likely further Reserve Bank limitations (DTIs) in 2024.

All together, the economy has held up well in the face of rapidly changing economic circumstances. Although there have been a number of improving outcomes in the housing market and the inflationary outlook, trend economic growth expectations remain muted for much of 2024. The economy will remain more limited over the next 12-18 months as various pressures keep hitting, and as the economy gets into a more sustainable position for the future.

Nick Goodall
Head of Research at CoreLogic

We're at the bottom of the property market or thereabouts. Now it's about what happens next. We're not expecting prices to increase again dramatically, though this will depend on the listings supply.

There's not much for sale at the moment and there's no feeling of desperation out there among sellers. That spring selling period post-election will be interesting and will give more clarity. People might be willing to test the market to sell and I don't think there will be crazy demand but solid demand.

CoreLogic is expecting DTI ratios to be introduced next year by the Reserve Bank around March/April which will limit the number of borrowers able to take on a high level of debt compared to their income. This may not be binding when introduced as we've already seen a reduction in high DTI borrowing due to increasing interest rates impacting mortgage serviceability. These restrictions will be about controlling the next cycle of the market, not this one, and is all about the Reserve Bank ensuring the financial stability of our economy.

The property market still has some challenges to come in 2023. We are approaching a period where people are refixing mortgages at higher interest rates. A large proportion of those coming off fixed terms in September/October will be going from 3.5% to 7% interest rates, so there's still a vulnerability in the market, and people will have to adjust their spending habits. There are those who have adjusted to higher interest rates by reduced expenditure on food and other expenses. How long are they going to keep that up for? Some will think, 'maybe I should downsize and reduce the level of debt I'm carrying.'

Many economists are picking we'll go back into recession in Q1 2024 or Q4 2023 - that we'll come out and go back in. If it's as mild as the current one, the "job-full" recession, as CoreLogic's chief property economist Kelvin Davidson calls it, if it doesn't flow through to increase job losses, it may not be too much of a concern. A job-full recession should be an oxymoron, as generally you go into recession and businesses have to lay off staff, but with the current recession we haven't seen that, because many feel like it will be short-lived. Businesses who recruited well are reluctant to get rid of staff, so it all looks relatively insulated, but there's still a lot of uncertainties.

Paulette Trotter
Mortgage Adviser at Loan Market

With banks currently using test rates in the high 8% and early 9%, this should keep a hold on any runaway house price rises in the next 6 to 12 months.

The amount buyers can afford to spend on a home is definitely down and they're looking at different kinds of properties than they were before. One client who had been pushing for quite a high approval limit has recently bought a freehold property, handy for amenities, rather than the more luxurious home he was hoping for. Some families I'm helping are also buying two bedroom homes instead of three bedroom homes and the children are sharing a bedroom.

I believe there's more pain to come in the coming months. More people are going to be coming off low fixed rates. People are ringing me saying: "I'm worried about how much my loan repayment is going to increase by," and I'm giving them options such as extending the mortgage out to 30 years, or having an interest-only period to buy them some time, for instance. Some people are looking at doing more work from home on the weekends, and supplementing their income that way, they're using different strategies.

First home buyers are actively looking and are not put off by interest rates. They don't know anything different from 7% interest rates. If they're a couple, one partner will use their income to pay the mortgage, while they'll live off the other's income. There are definitely plenty of first home buyers and they're realistic that the market is at a good, low point, it's just a matter of getting in, having a bit of pain on paying the current rates, but they know rates might settle in the mid to high 4% range in 2025.

Buyers looking to upgrade are still very wary because they're worried about selling and buying. If you're upgrading, you're winning more in this market but that extra cost is concerning to some. It's a great time to sell and upgrade if you can afford the pain.

Miles Workman
Senior Economist at ANZ

ANZ is only expecting a relatively mild pick up in property prices in the second half of 2023 of around 3% and forecasting another Official Cash Rate hike in November 2023. The Reserve Bank forecasts have the unemployment rate lifting as sharply as it did during the Global Financial Crisis. If that doesn't happen, there's likely to be more labour cost push inflation in the system than they expect.

Are businesses going to lay off workers, is the big question. What we're hearing from the coalface, is that more businesses are "labour hoarding," in other words, keeping the talent they've hired in recent years, than they did in past economic cycles. Businesses who are in that environment will argue that if they lose staff, it will be difficult to gain them again, suggesting economic conditions would have to be that much more pessimistic for them to reduce headcount.

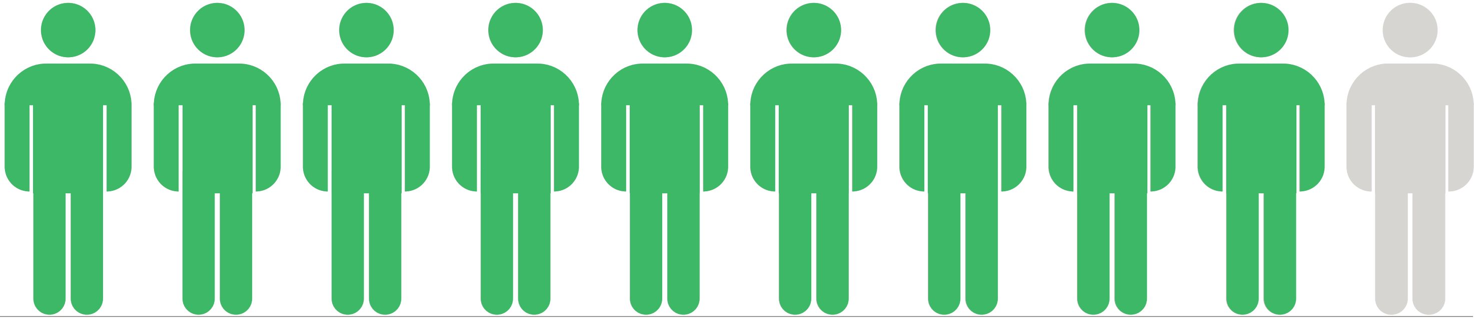
As for the looming election, it would be quite normal for that to result in a quieter period for housing, as market participants wait to assess the mix of housing policies.

There are some big property policies at play in the election – interest deductibility for investors is one that springs to mind.

The mix of housing policy after the election could, at the margin, change how the RBNZ eventually responds. For example, a surge in housing demand could be seen as an unwelcome driver of pipeline inflation pressures, leading the RBNZ to hike the OCR by more. Or if the Reserve Bank perhaps thinks risks to the financial system are too high, they could tighten Loan to Value ratio (LVR) restrictions or implement debt-to-income (DTI) limits which could be introduced as early as March next year.

9 out of 10 buyers
search on Trade Me Property

That's why we drive **5x more** open home attendees than any other portal.



That's the state of the nation for 2023, thanks for reading.