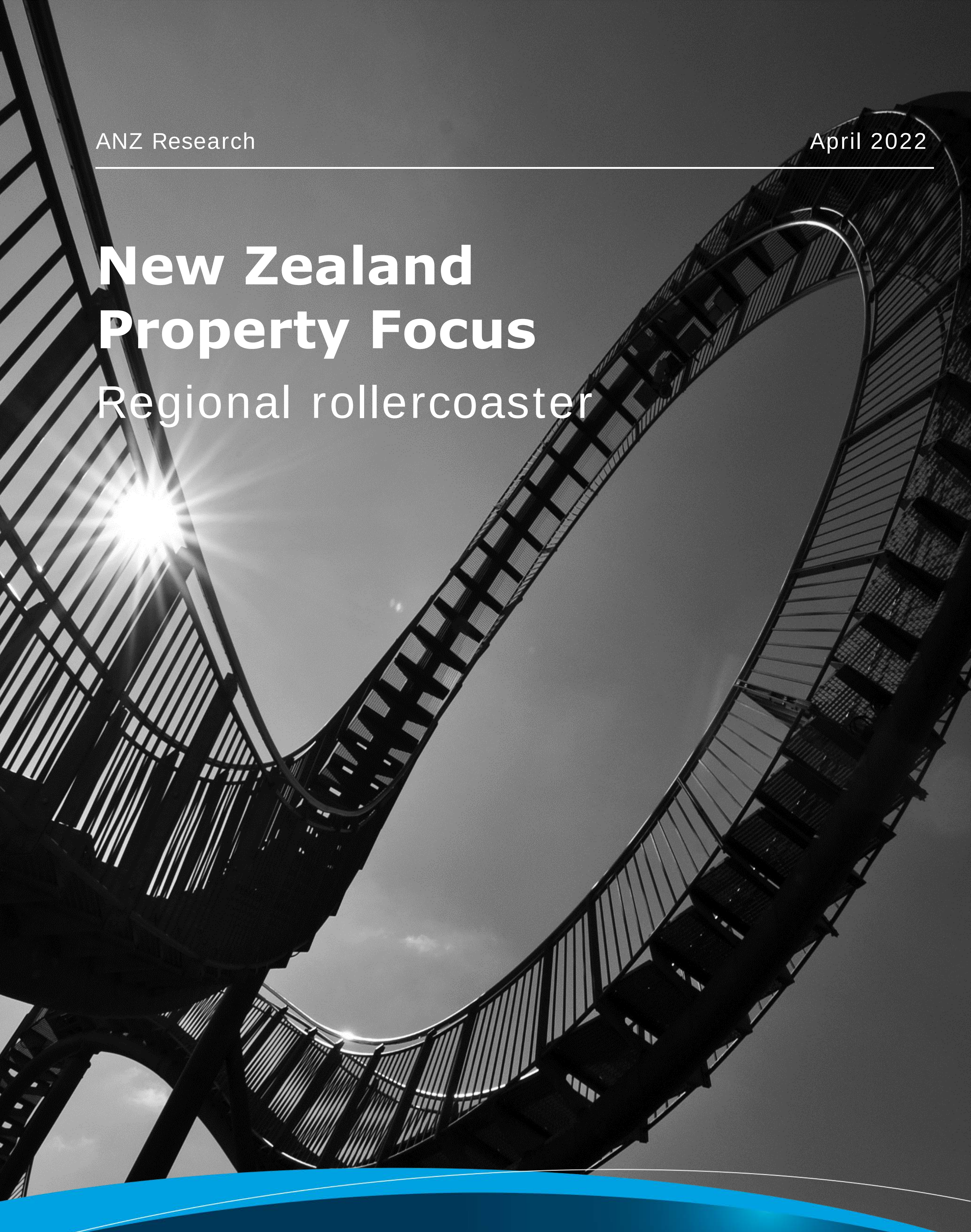
ANZ Research

April 2022

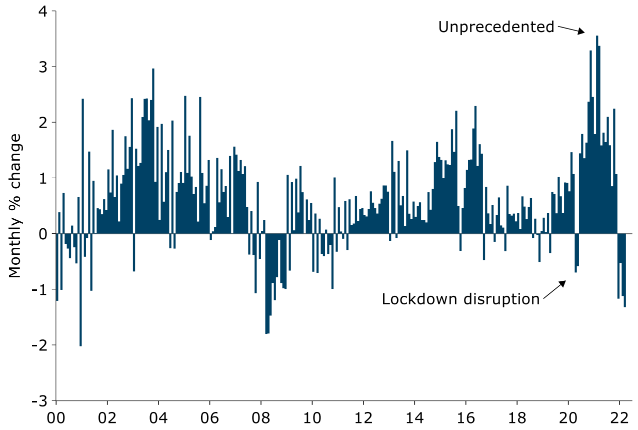
New Zealand Property Focus

Regional rollercoaster

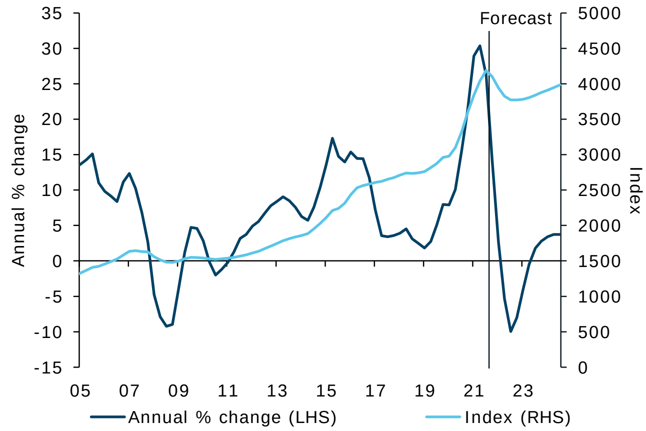


At a glance

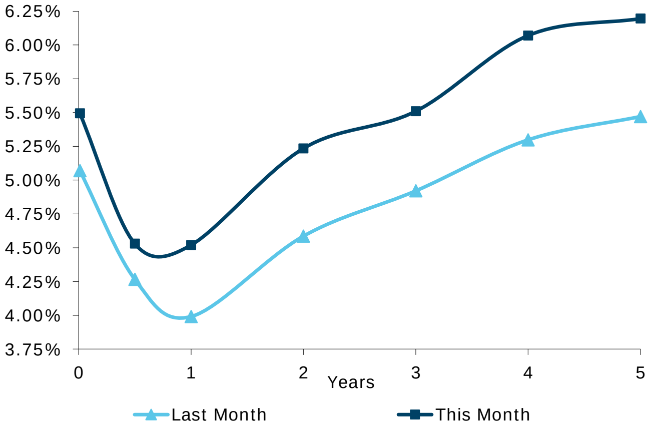
House prices have fallen 4.1% since November 2021



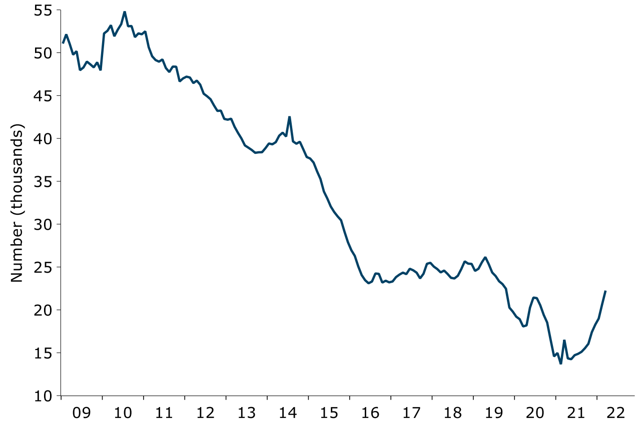
We maintain our forecast for a 10% fall over 2022...



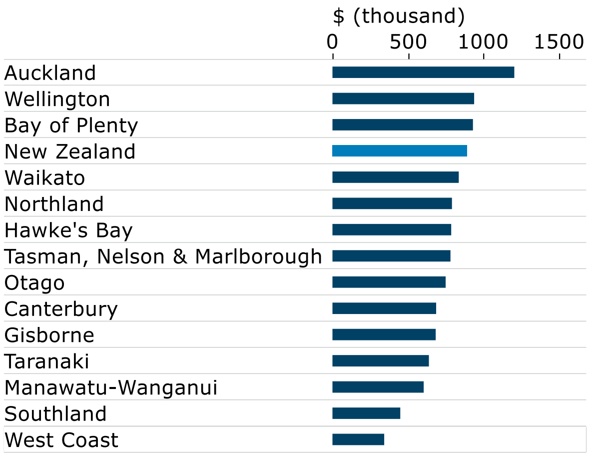
... as demand is hampered by higher mortgage rates...



... and listings rise



House prices vary significantly by region...



Source: REINZ, Macrobond, ANZ Research

... but as we note in this month's feature article:

- All regions have experienced strong housing demand and constrained supply over the past couple of years, driving rapid house price inflation.
- But all regions now appear to be on a cooling trajectory.
- Nationally, consents are at a high level, pointing to a lengthy pipeline for residential construction and lifting housing supply. However, larger cities are outperforming in this space.
- Housing affordability has deteriorated in every region over the past couple of years.

Source: RBNZ, REINZ, Stats NZ, Barfoot & Thompson, interest.co.nz, Macrobond, Bloomberg, ICAP, ANZ Research

Contact

Sharon Zollner, Miles Workman, or David Croy for more details.

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Confused by acronyms or jargon? See a glossary here.

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Summary

Our monthly *Property Focus* publication provides an independent appraisal of recent developments in the residential property market.

Housing market overview

Housing data remained on a softening trajectory in March. We continue to pencil in a 10% contraction in house prices over 2022, but there are downside risks. Stepping back, the fundamentals of the household sector (a tight labour market, and building wage pressures) should put a floor under things. However, there's no shying away from the fact that mortgage rates are well above their pre-pandemic level, and listings are back at 2019 levels. A lot depends on a robust household sector to hold it all together. See our Market Overview.

Feature Article: Regional rollercoaster

This month we take a look at housing market developments across 14 key regions. While the house price cycle has been broad based, there are some differences between regions when it comes to the magnitude of price gains over the past couple of years. We evaluate regional house prices, indicators of housing market tightness, key regional economy indicators, and regional measures of housing affordability. Where does your region sit? Wherever you live the answer is likely to be "on a cooling trajectory but less affordable than before the pandemic". See this month's Feature Article.

Mortgage borrowing strategy

Average mortgage rates have risen sharply again since our last edition. The 1-year rate remains the cheapest, but the average rate across the big-4 banks (4.52%) is now more than double what it was last June (2.19%). These increases have come on the back of rises in wholesale "swap" rates, which have risen in anticipation of a higher OCR. The RBNZ is in turn lifting the OCR to cool demand and tame inflation. Further increases in fixed rates are likely, especially in shorter terms like the 1-year, which follow the OCR more closely and aren't as forward looking as, say, the 5-year. But if there is any good news for borrowers, it is that the pace of mortgage rates increases will probably slow from here now markets are anticipating an OCR peaking at around 4%. In broad terms, the opportunity to fix to "beat the rise" has now likely passed. But borrowers may want to fix some debt to achieve certainty, as there's no guarantee the OCR will peak below 4%. The 1-year is vastly cheaper than floating, and if the OCR does keep rising as we expect, the floating rate will only keep going up. See our Mortgage Borrowing Strategy.

Housing market overview

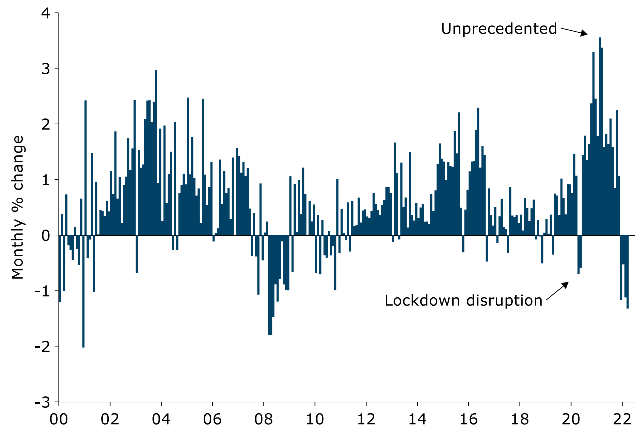
Summary

Housing data remained on a softening trajectory in March. We continue to pencil in a 10% contraction in house prices over 2022, but there are downside risks. Stepping back, the fundamentals of the household sector (a tight labour market, and building wage pressures) should put a floor under things. However, there's no shying away from the fact that mortgage rates are well above their pre-pandemic level, and listings are back at 2019 levels. A lot depends on a robust household sector to hold it all together.

Down 4.1% already

On a seasonally adjusted basis, the REINZ house Price Index (HPI) for March is down 4.1% from its November 2021 peak. Annual house price inflation is now running at 14.1% on a 3-month moving average basis. That's still elevated, but this measure is expected to enter negative territory this winter. In month-on-month terms, seasonally adjusted house prices have declined four months in a row (figure 1).

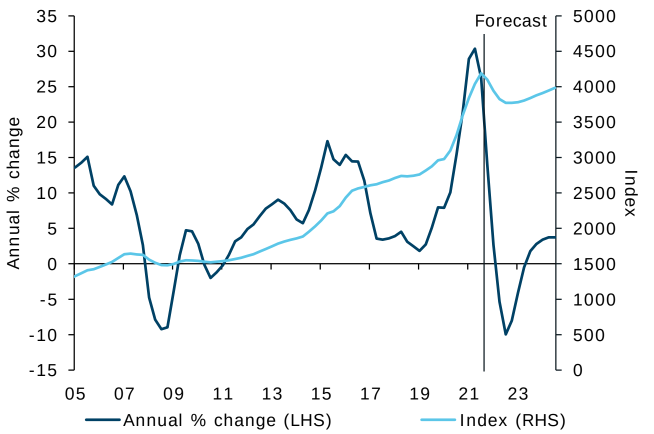
Figure 1. Monthly house price inflation (sa)



Source: REINZ, Macrobond, ANZ Research

Overall, housing indicators are moving in line with our forecast. And with interest rate settings evolving in line with our expectation, we see no reason to make wholesale changes to our house price forecast. We've pencilled in a 10% fall in house prices over the year to December 2022 (around a 11% fall in peak-to-trough terms), which we continue to characterise as a soft landing (figure 2). Indeed, if we're right, prices would still be sitting 30% above their pre-pandemic level at the end of 2022.

Figure 2. ANZ house price forecast



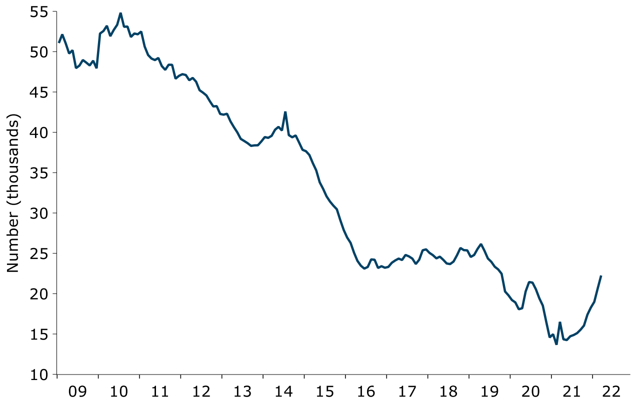
Source: REINZ, ANZ Research

Risks around our outlook are mixed. As we noted a couple of months ago, household balance sheets are looking encouragingly robust in the face of rising interest rates. While there are limitations to this analysis, it does suggest the tight labour market should put some kind of floor under household incomes and thus the housing market. Prudent lending by banks over the past decade or so (reflecting both wisdom borne of experience and tighter macro prudential settings in the wake of the GFC) does mean there is more resilience in the system than there would be otherwise as rates rise. Perhaps the bigger risk of a very hard landing in housing stems from a household income shock.

But while the fundamentals of the household sector are solid, there are still reasons to be cautious about the housing outlook. Properties available for sale are back at 2019 levels and lifting fast as sales slump (figure 3), and fixed mortgage rates are back around their 2017-18 levels. Household incomes have lifted too, but nowhere near as much as house prices. To see house prices back at their pre-pandemic level relative to incomes, the decline in house prices over 2022 would need to be closer to 30%. That's not our forecast, but a pure housing fundamentalist might call that a reasonable correction.

Housing market overview

Figure 3. Properties available for sale



Source: Realestate.co.nz, Macrobond, ANZ Research

But if forecasting house prices were all about the fundamentals, we'd all be a lot better at it. As we outlined last month, the "animal spirits" component of the housing cycle can be pretty wild. And it's possible that increasing patience among buyers and rising listings leads to a much sharper correction in prices over 2022 than we expect. In theory, that will add volatility to the housing cycle but shouldn't alter the longer-run "value" of a property (which is ultimately a supply and demand story).

All up, this past housing cycle, which continued to surprise time and time again on the upside when prices were rising, may well have a few surprises for us on the downside. With this kind of volatility, surprises would not surprise. And those thinking the RBNZ will come to the rescue as prices continue to fall may be in for a shock. The RBNZ have a significant job ahead to tame CPI inflation. As long as CPI inflation pressures are strong, inflation expectations are well above the RBNZ's 1-3% target band, and labour market conditions are tight, the RBNZ will likely continue to look through house price falls, teeing them up as a useful correction towards sustainable levels, as they did this month.

There is, however, a point where higher interest rates will bite hard enough to get inflation under control, and part of that transmission mechanism will be via a weaker housing market taking some heat out of discretionary spending by eroding household wealth effects. Indeed, by the time the RBNZ has finally tamed the CPI inflation beast, it may not be long before it's looking like the economy is in need of a pick me up once again. But for now, the bigger risk is the RBNZ not stomping out the inflation fire before it becomes a much harder blaze to combat. It's a tough job, and housing is directly in the firing line. But it needs to be done.

Housing market indicators for March 2022 (based on REINZ data seasonally adjusted by ANZ Research)

	Median house price			House price index		# of monthly sales	Monthly % change	Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change			
Northland	$786,293	15.2	7.6	16.7	1.7	172	-6%	46
Auckland	$1,166,108	6.8	-4.0	5.1	-4.0	1,923	-5%	41
Waikato	$839,152	16.0	1.7	15.0	-0.5	551	-6%	38
Bay of Plenty	$912,225	12.3	3.7	14.2	0.3	374	-8%	39
Gisborne	$695,330	11.0	4.2	7.5	-2.1	31	-23%	46
Hawke's Bay	$780,977	10.5	-2.0	7.5	-2.1	170	-2%	39
Manawatu-Whanganui	$608,946	7.3	-3.1	6.6	-2.0	267	+17%	40
Taranaki	$649,262	26.0	4.8	14.5	0.6	157	+37%	35
Wellington	$912,048	6.9	-2.8	0.2	-4.4	495	-4%	45
Tasman, Nelson & Marlborough	$780,819	11.1	0.9			213	+16%	38
Canterbury	$681,232	22.0	2.8	24.0	1.9	875	-2%	32
Otago	$739,641	10.0	3.9	13.5	0.0	340	+7%	39
West Coast	$339,234	15.6	2.0	10.0	0.2	31	-16%	39
Southland	$439,065	7.5	2.6	11.0	1.2	106	-27%	35
New Zealand	**$869,894**	**7.9**	**0.1**	**9.0**	**-2.1**	**5,840**	**0%**	**39**

Feature Article: Regional rollercoaster

Summary

This month we take a look at housing market developments across 14 key regions. While the house price cycle has been broad based, there are some differences between regions when it comes to the magnitude of price gains over the past couple of years. We evaluate regional house prices, indicators of housing market tightness, key regional economy indicators, and regional measures of housing affordability. Where does your region sit? Wherever you live the answer is likely to be "on a cooling trajectory but less affordable than before the pandemic".

The post-pandemic housing cycle has been broad based, with all of the 14 regions we monitor experiencing annual house price inflation well into the double digits, and all regions now seeing a slowing. There has, however, been some variance in timing, with some regions now further down the house price inflation mountain than others. There has also been some significant variance in the degree of price gains, with the annual lift in the median sale price in Gisborne peaking just above an astonishing 60% y/y (3mma) in June last year versus a peak just shy of 25% y/y in Southland.

Turning to vulnerabilities across regions, it's fair to say that all regions are susceptible to further house price falls from here, but provided the labour market holds it together the housing market should be able to achieve a soft landing. But as we note in the Housing Market Overview, forecast uncertainty is high and downside risks are heightened.

We look at the following regional indicators:

- **House prices:** We look at median sale prices to gauge the housing cycle. This measure of house prices tends to be a lot more volatile than the quality-adjusted House Price Index (HPI), but these data offer a more granular regional breakdown. We compare annual growth in each region to the nationwide measure.
- **Indicators of market tightness:**
  - **Days to sell:** The length of time it takes to sell a property indicates the strength of demand. Larger cities tend to see houses sell more quickly, but deviations in a region from its historical average provide an indicator of the heat in a market at any given time. When houses are selling quickly and days to sell are shrinking, demand is likely heating up (and vice versa).
  - **Sales-to-listings:** This is a metric of demand relative to supply in the market. When listings are low relative to sales, this can indicate intensifying price pressures. On the other hand, when new properties come online in significant numbers it can take heat out of the market. In some (but not all) regions, this indicator can provide up to a six-month lead on house price momentum.
- **New dwelling consents per capita:** This indicator covers a few bases: housing demand, pipeline supply, and pipeline regional economic activity.
- **Regional economy:** The economic performance of each region can have a bearing on how willing people are to purchase a house and how much they can afford. We look at regional labour market data, and how retail trade is tracking relative to trend. If unemployment is low and retail trade is above trend, then business cycle dynamics should go some way towards putting a floor under the housing market.
- **Housing affordability indicators:**
  - **House prices to rents:** This measures whether the affordability of owning relative to renting is in normal ranges. When houses are expensive relative to renting, purchasing is less attractive, and rental yields tend to be low – that can dissuade investors.
  - **House price to incomes:** This measure is pretty self-explanatory. The higher house prices are relative to incomes, the more likely it is that affordability constraints are biting.

We divide New Zealand into the following regions:

- Northland
- Auckland
- Waikato
- Bay of Plenty
- Gisborne
- Hawke's Bay
- Manawatu-Wanganui
- Taranaki
- Wellington
- Tasman, Nelson, Marlborough
- Canterbury
- Otago
- West Coast
- Southland

And finally, we wrap up in the chapter Bringing it all together.

Northland

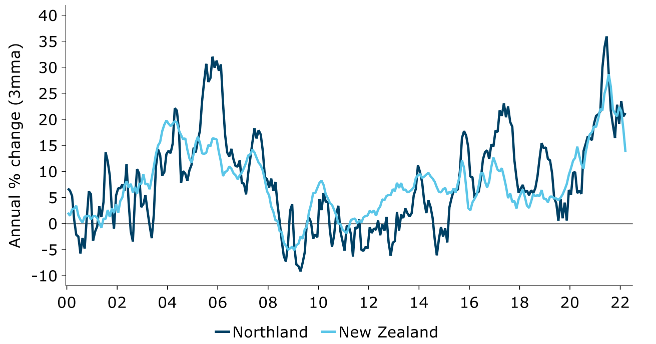
Key statistics

Northland accounted for 3.0% of total NZ house sales in the year to March 2022

Northland	Date	
Median price:		
– Pre-pandemic	Dec-19	$529,553
– Post-pandemic peak	Jan-21	$821,517
– Current	Mar-22	$786,293
Median weekly income	Jun-21	$1,534
Median weekly rent	Feb-22	$498
Unemployment rate	2021Q4	3.3%

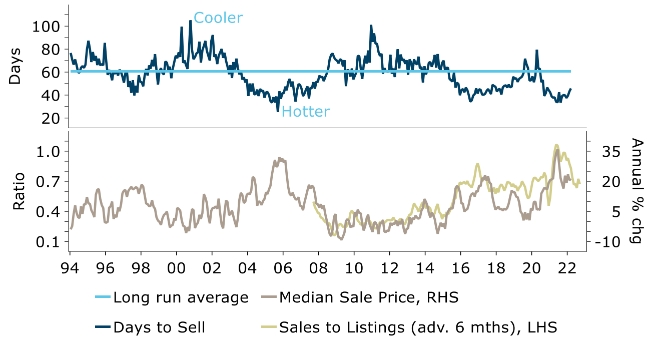
Northland house price inflation is well down from its recent peak of 35.9% y/y (3mma). The market remains "tight", but is on a loosening trajectory. Building consents are below the national average on a per capita basis, but close to Northland's historical average. Key Northland economy indicators are strong, with unemployment low and retail sales spending above trend. Affordability has worsened, with house prices to income above the national average, but house prices to rents below.

Figure 1. Northland median sale price



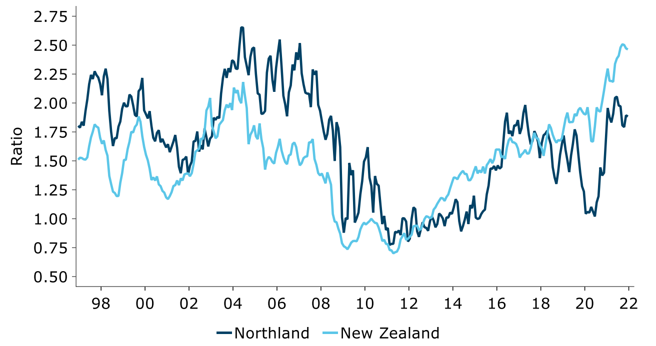
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 2. Northland market tightness



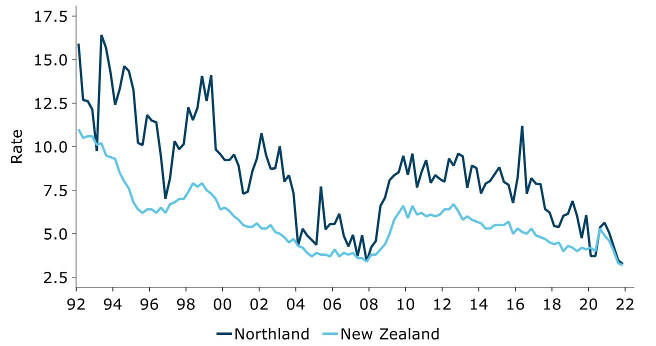
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 3. Northland dwelling consents per 1000 residents



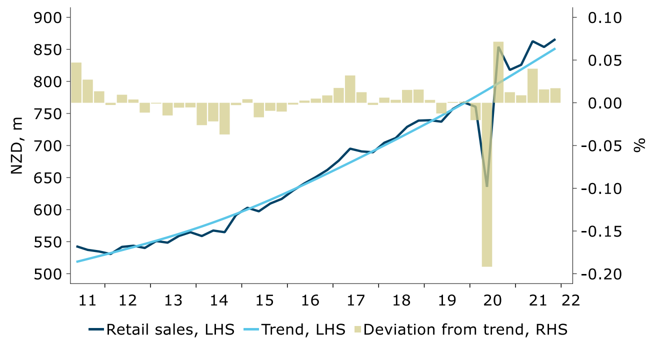
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 4. Northland unemployment rate



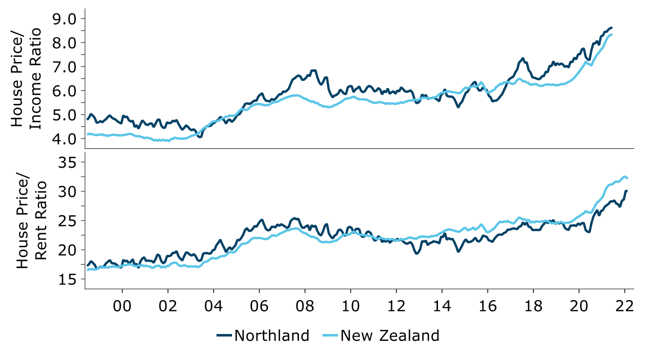
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Northland retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 6. Northland affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Auckland

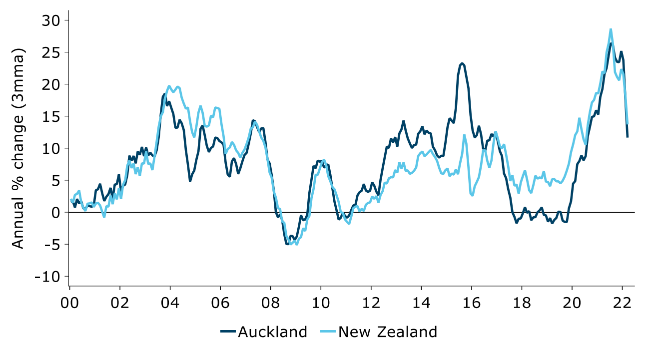
Key statistics

Auckland accounted for 33.2% of total NZ house sales in the year to March 2022

Auckland	Date	
Median price:		
– Pre-pandemic	Dec-19	$877,171
– Post-pandemic peak	Dec-21	$1,265,200
– Current	Mar-22	$1,166,108
Median weekly income	Jun-21	$2,071
Median weekly rent	Feb-22	$596
Unemployment rate	2021Q4	3.1%

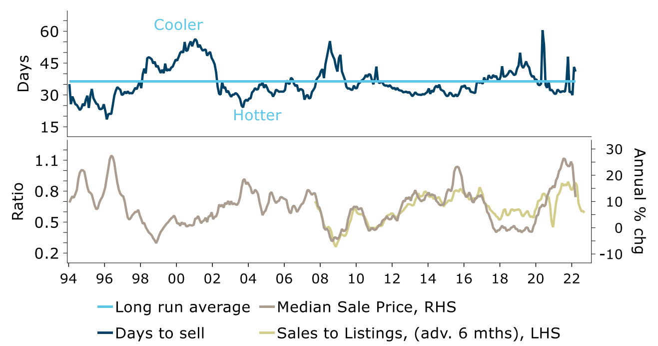
Where the Auckland market goes, the national-level data tends to follow. Prices are falling and the market is no longer "tight", but lockdowns have introduced volatility into these data (days to sell in particular). Consents per capita are very high, suggesting demand for housing in our largest city is strong. This also speaks to a lengthy pipeline of activity for the residential construction industry and an improving housing supply outlook. Key Auckland economic indicators are strong, despite the region having endured more lockdown volatility than the rest of NZ. Auckland is the most unaffordable region as measured by house prices and rents to income, and the situation has only worsened in the wake of the pandemic (and copious amounts of monetary and fiscal stimulus).

Figure 7. Auckland median sale price



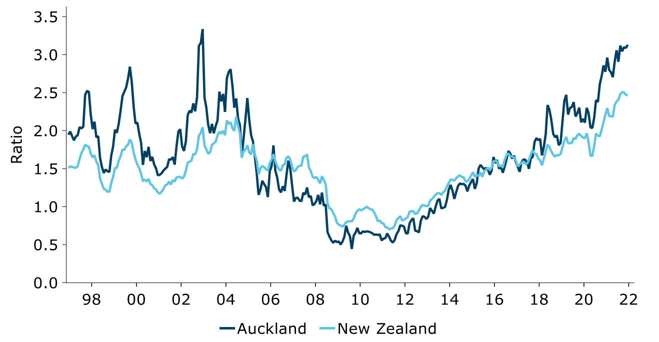
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 8. Auckland market tightness



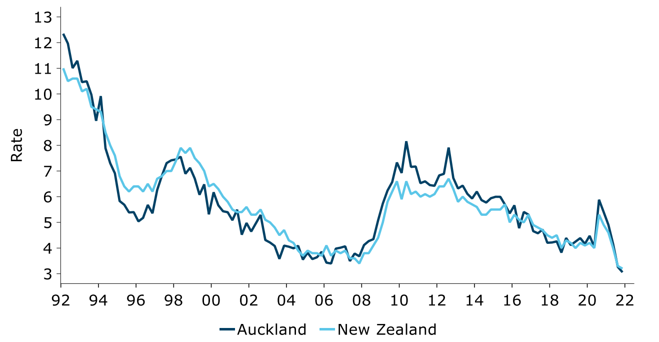
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 9. Auckland dwelling consents per 1000 residents



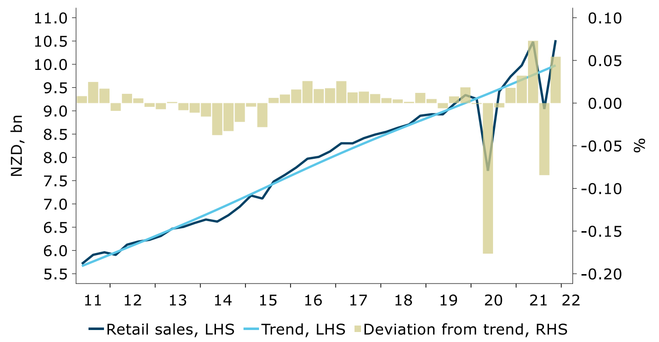
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 10. Auckland unemployment rate



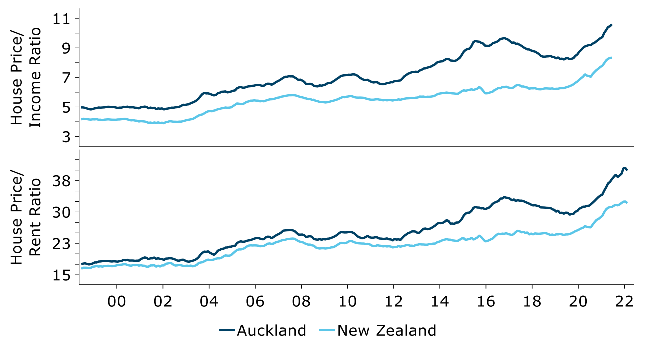
Source: Stats NZ, Macrobond, ANZ Research

Figure 11. Auckland retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 12. Auckland affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Waikato

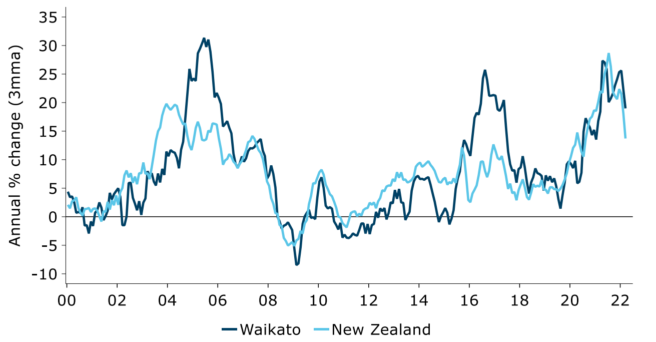
Key statistics

Waikato accounted for 9.8% of total NZ house sales in the year to March 2022

Waikato	Date	
Median price:		
– Pre-pandemic	Dec-19	$567,464
– Post-pandemic peak	Jan-21	$839,152
– Current	Mar-22	$839,152
Median weekly income	Jun-21	$1,812
Median weekly rent	Feb-22	$481
Unemployment rate	2021Q4	3.3%

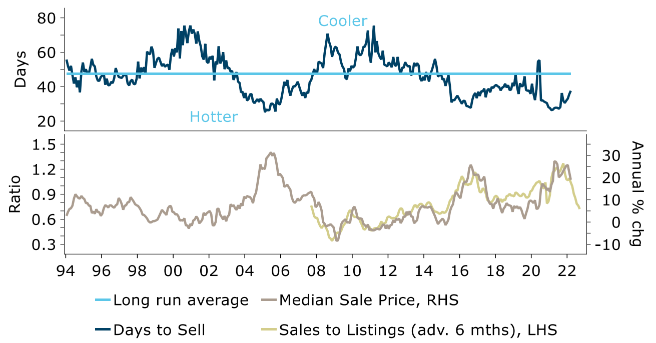
The Waikato price cycle is off its peak, but a little less convincingly than some regions. Days to sell suggest the market is still "tight", but it is loosening. Consents per capita are respectable, close to the national level. Unemployment is low and retail spending is now very close to trend after a solid stint above it. Affordability indicators are not great, but are marginally better than the national level (which is pulled higher by Auckland).

Figure 13. Waikato median sale price



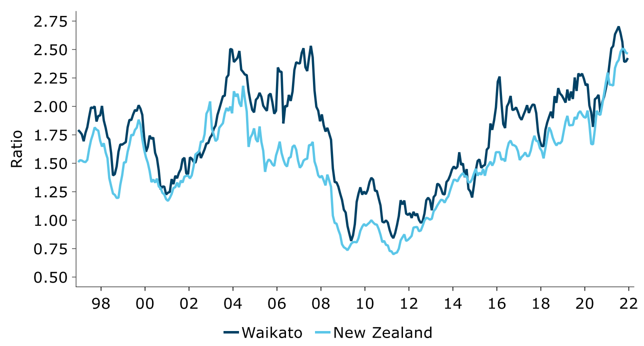
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 14. Waikato market tightness



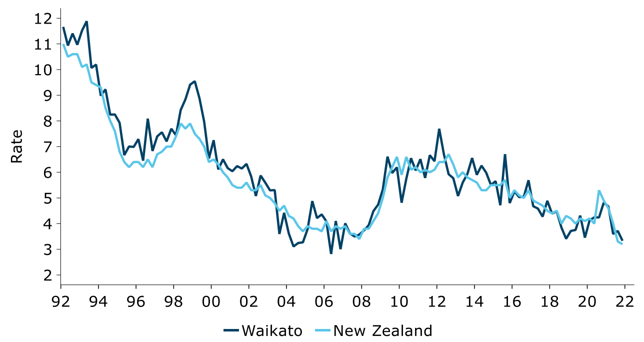
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 15. Waikato dwelling consents per 1000 residents



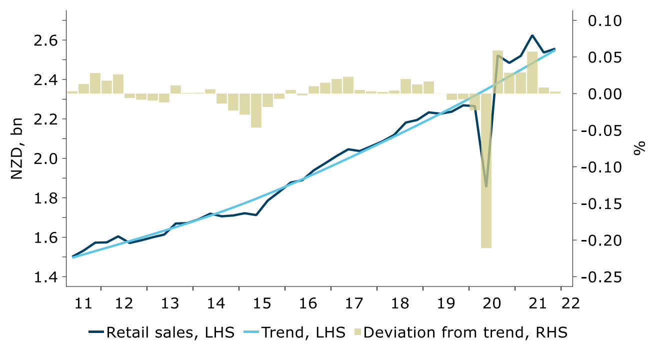
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 16. Waikato unemployment rate



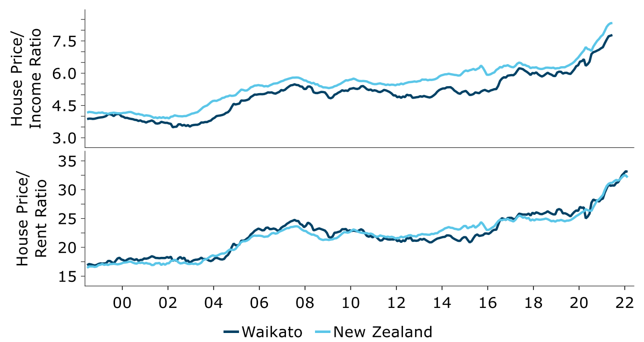
Source: Stats NZ, Macrobond, ANZ Research

Figure 17. Waikato retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 18. Waikato affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Bay of Plenty

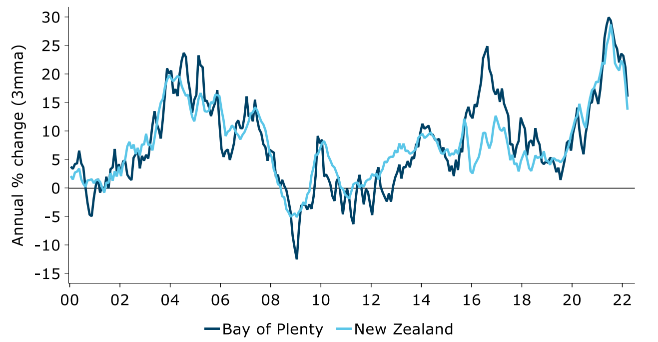
Key statistics

Bay of Plenty accounted for 6.7% of total NZ house sales in the year to March 2022

Bay of Plenty	Date	
Median price:		
– Pre-pandemic	Dec-19	$622,760
– Post-pandemic peak	Feb-22	$943,763
– Current	Mar-22	$912,225
Median weekly income	Jun-21	$1,806
Median weekly rent	Feb-22	$553
Unemployment rate	2021Q4	4.1%

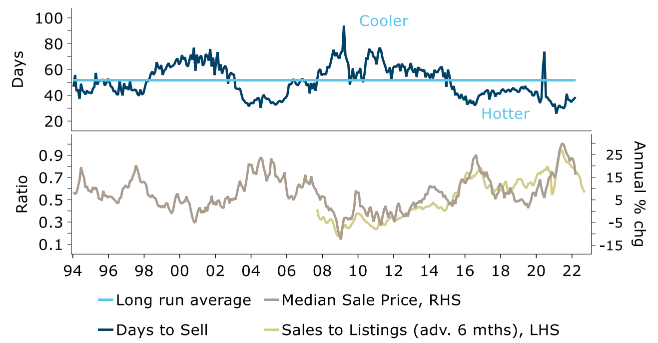
The Bay of Plenty house price cycle has turned, hugging the national-level data. The market is currently “tight”, but loosening. Consents per capita are close to their historical average, but lower than the national average. Key economic indicators are solid, but the unemployment rate is 0.9%pts above the national level (this is still a good read overall). House prices relative to incomes are above the national average, but prices to rents are a little lower.

Figure 19. Bay of Plenty median sale price



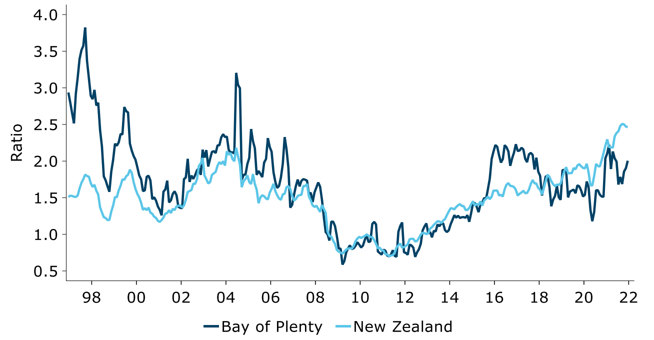
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 20. Bay of Plenty market tightness



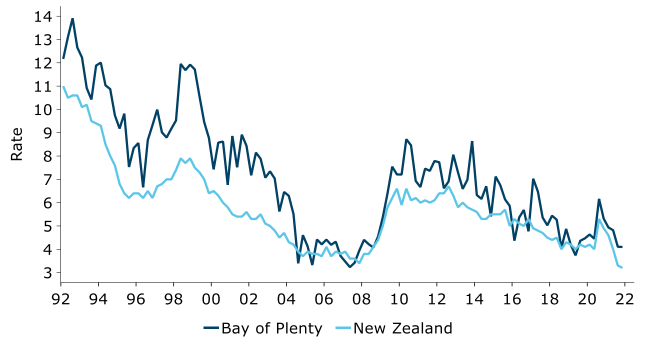
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 21. Bay of Plenty dwelling consents per 1000 residents



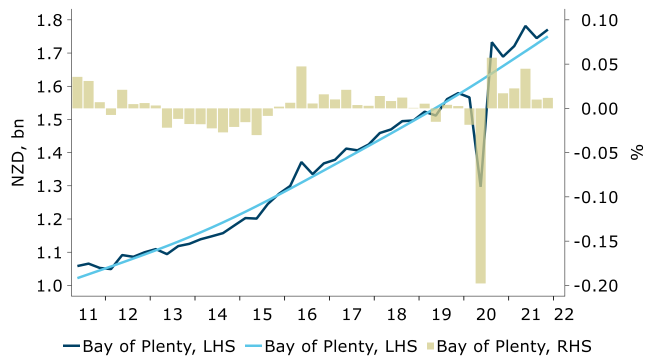
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 22. Bay of Plenty unemployment rate



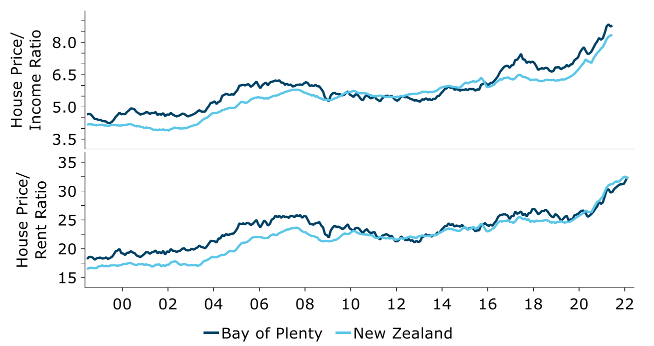
Source: Stats NZ, Macrobond, ANZ Research

Figure 23. Bay of Plenty retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 24. Bay of Plenty affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Gisborne

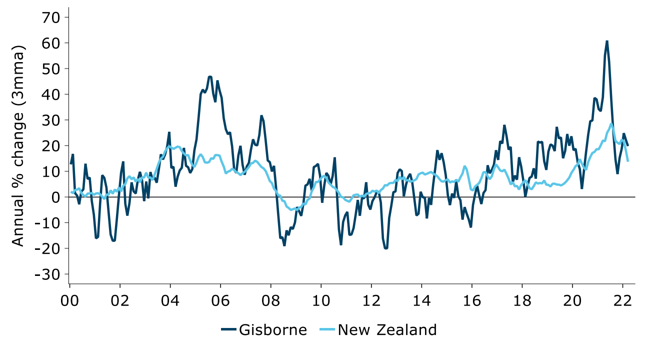
Key statistics

Gisborne accounted for 0.6% of total NZ house sales in the year to March 2022

Gisborne	Date	
Median price:		
– Pre-pandemic	Dec-19	$402,519
– Post-pandemic peak	Apr-21	$706,556
– Current	Mar-22	$695,330
Median weekly income	Jun-21	$1,812
Median weekly rent	Feb-22	$467
Unemployment rate	2021Q4	3.8%

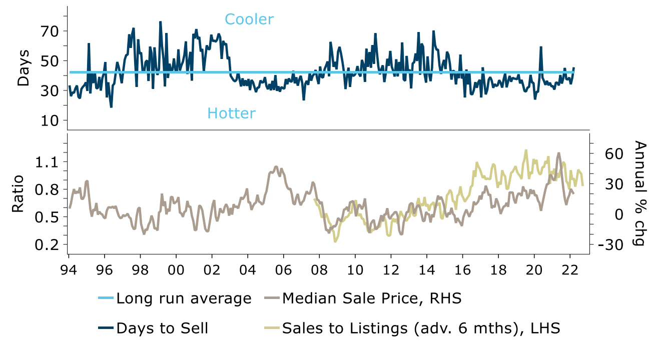
Growth in Gisborne's median house price has been volatile, in part likely due to changes in the average size of houses being sold (a key limitation of these data). Being a relatively small market doesn't help on the volatility front either. It is in this context that we should consider Gisborne's peak house price inflation rate of an absolute whopping 60.9% y/y (3mma). Days to sell are now a touch longer than their historical average (suggesting the market is cool), but only just. Consents per capita are up, but well below the national level. Key economic indicators are strong (but as Table 1 on page 21 notes, not all labour market indicators are in white-hot territory). Affordability measures are better than the national average, but just like everywhere else in New Zealand the situation has deteriorated markedly over the past couple of years.

Figure 25. Gisborne median sale price



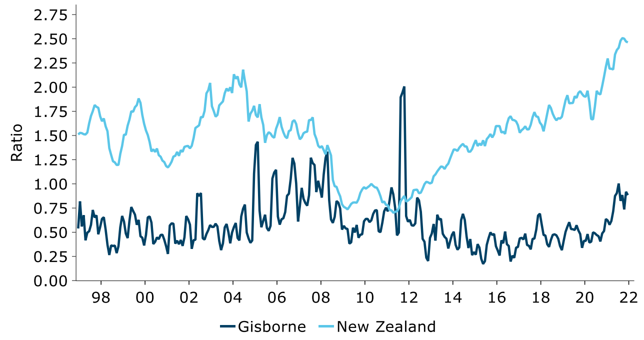
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 26. Gisborne market tightness



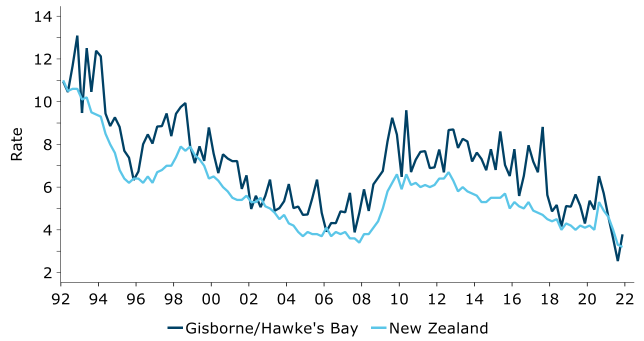
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 27. Gisborne dwelling consents per 1000 residents



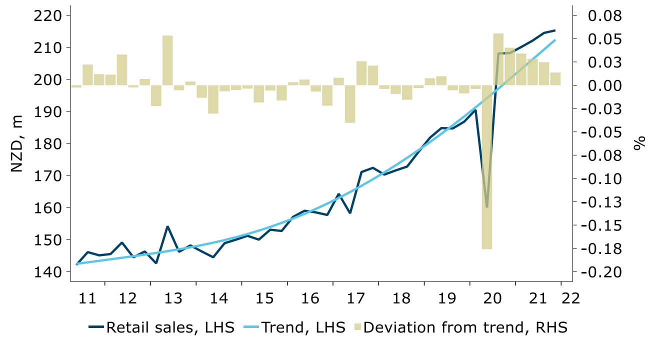
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 28. Gisborne unemployment rate



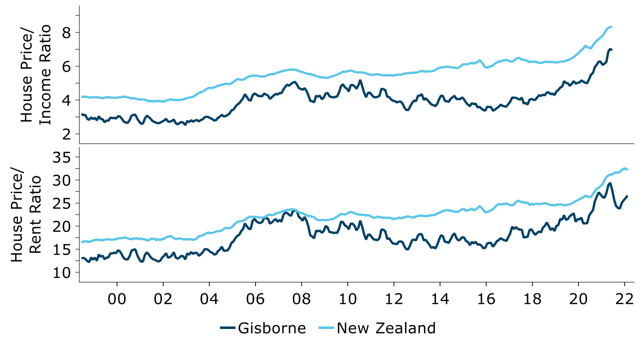
Source: Stats NZ, Macrobond, ANZ Research

Figure 29. Gisborne retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 30. Gisborne affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Hawke's Bay

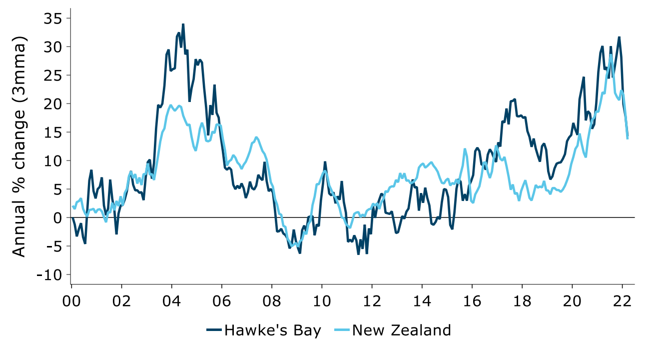
Key statistics

Hawke's Bay accounted for 2.7% of total NZ house sales in the year to March 2022

Hawke's Bay	Date	
Median price:		
– Pre-pandemic	Dec-19	$516,187
– Post-pandemic peak	Oct-21	$808,657
– Current	Mar-22	$780,977
Median weekly income	Jun-21	$1,864
Median weekly rent	Feb-22	$513
Unemployment rate	2021Q4	3.8%

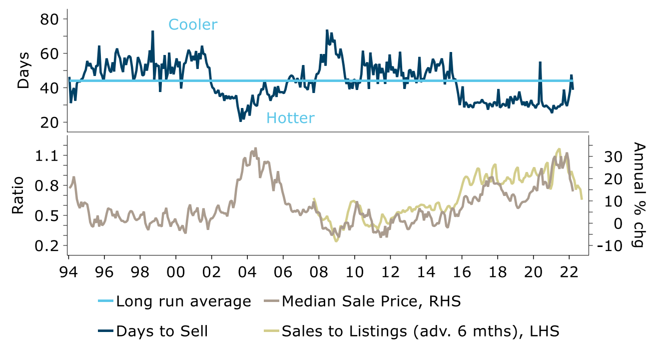
Hawke's Bay house prices have had a solid run, slightly outperforming the national average. However, the worm has now turned. Indicators of market tightness have moved quite abruptly in recent months. Days to sell are now close to their historical average after running in the hot zone for a number of years. Consents per capita are lagging the national level, but are elevated for the region. Key economic indicators are strong, with unemployment low and retail sales above trend. Affordability is a little better than the national average, but, like in the rest of New Zealand, has worsened a lot recently.

Figure 31. Hawke's Bay median sale price



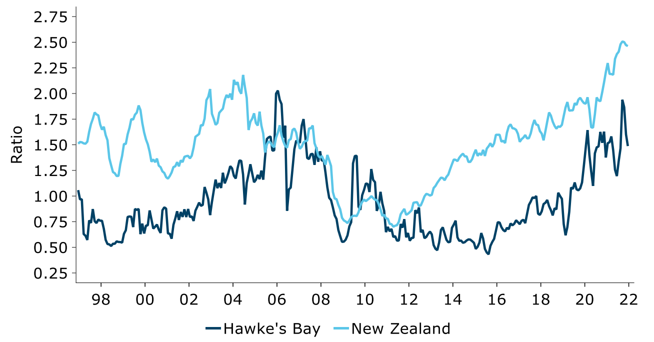
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 32. Hawke's Bay market tightness



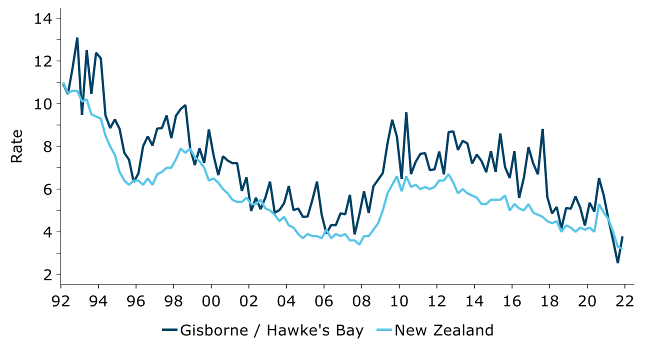
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 33. Hawke's Bay dwelling consents per 1000 residents



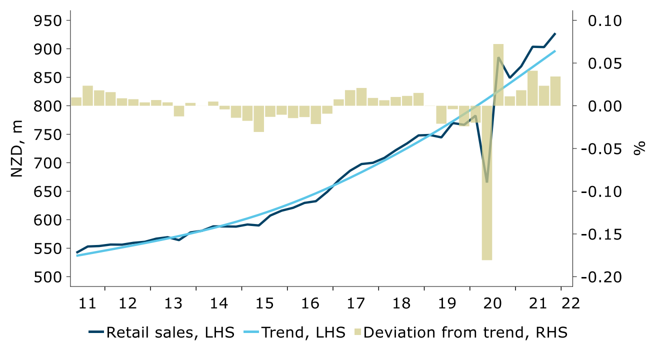
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 34. Hawke's Bay unemployment rate



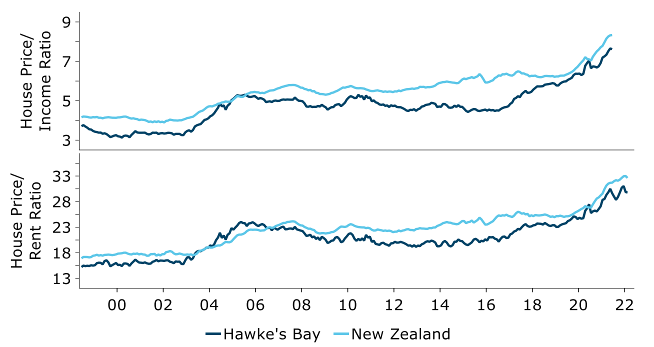
Source: Stats NZ, Macrobond, ANZ Research

Figure 35. Hawke's Bay retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 36. Hawke's Bay affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Manawatu-Whanganui

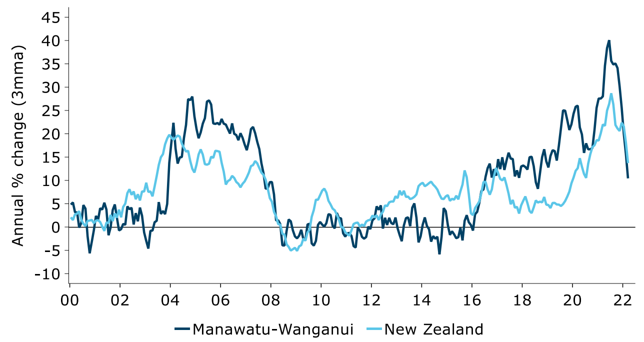
Key statistics

Manawatu-Whanganui accounted for 4.3% of total NZ house sales in the year to March 2022

Manawatu-Whanganui	Date	
Median price:		
– Pre-pandemic	Dec-19	$400,777
– Post-pandemic peak	Dec-21	$641,073
– Current	Mar-22	$608,946
Median weekly income	Jun-21	$1,470
Median weekly rent	Feb-22	$457
Unemployment rate	2021Q4	2.7%

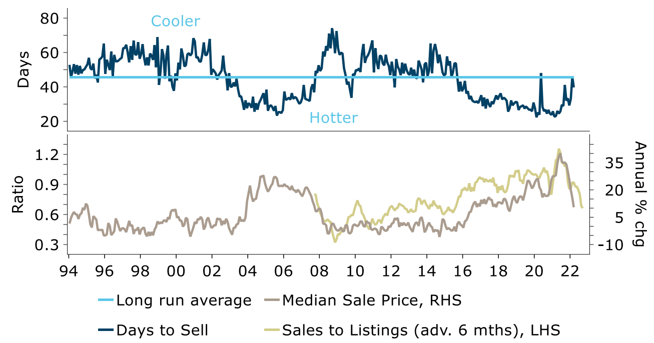
Manawatu-Whanganui has experienced one of the more rapid house price cycles in NZ, peaking at a stonking 40.1% y/y (3mma). But inflation is now further from the summit than most. Tightness in the market has turned quite dramatically in recent months, with the annual pace of inflation having shed around 30%pts from its peak. Consents per capita are elevated for the region, but with tentative signs of a downtrend now at play. Key economic indicators are strong, with the labour market tight and retail sales above trend. Affordability measures are better than most regions, but there is still pain in these data for would-be first home buyers. The pace at which house prices have lifted relative to incomes is concerning.

Figure 37. Manawatu-Whanganui median sale price



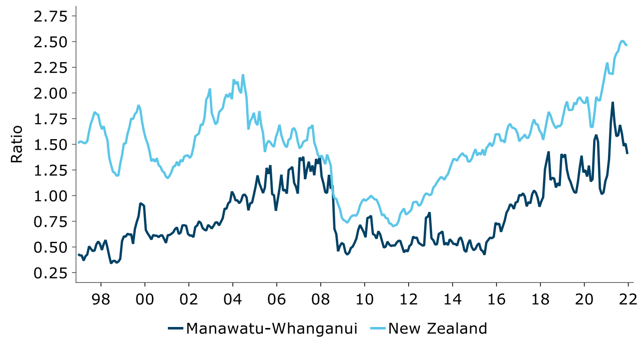
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 38. Manawatu-Whanganui market tightness



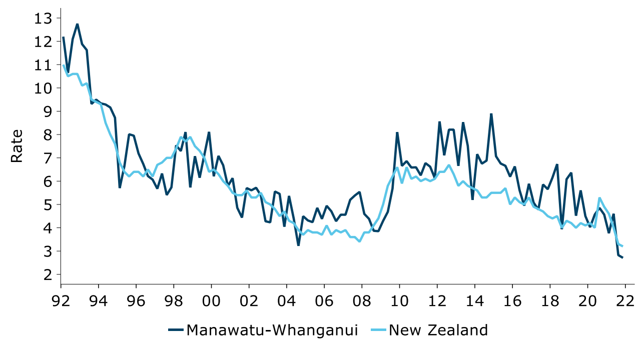
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 39. Manawatu-Whanganui dwelling consents per 1000 residents



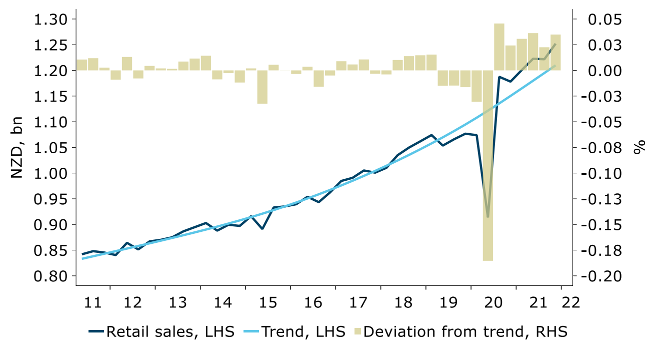
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 40. Manawatu-Whanganui unemployment rate



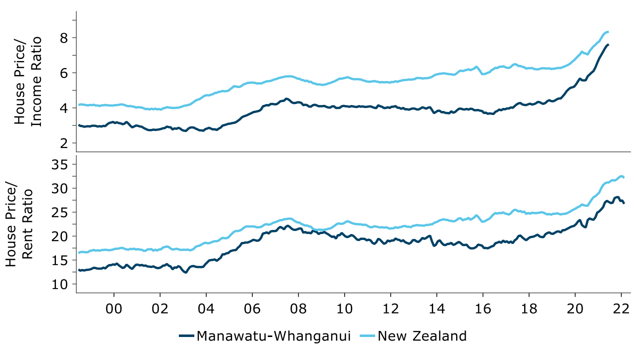
Source: Stats NZ, Macrobond, ANZ Research

Figure 41. Manawatu-Whanganui retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 42. Manawatu-Whanganui affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Taranaki

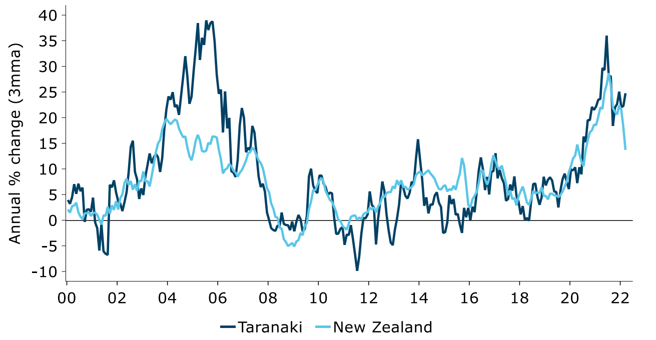
Key statistics

Taranaki accounted for 2.4% of total NZ house sales in the year to March 2022

Taranaki	Date	
Median price:		
– Pre-pandemic	Dec-19	$412,587
– Post-pandemic peak	Feb-22	$649,352
– Current	Mar-22	$649,262
Median weekly income	Jun-21	$1,842
Median weekly rent	Feb-22	$458
Unemployment rate	2021Q4	3.9%

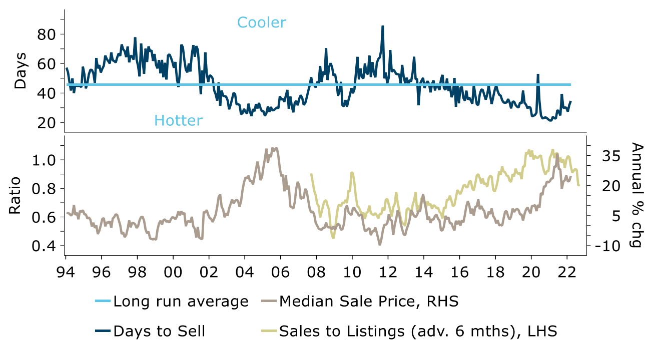
House price inflation has hugged the national average closely. The market looks tight but appears to be on a loosening trajectory. Consents per capita are elevated, but off their peak. Key economic indicators are solid, but the region doesn't appear to be out-performing the national level. Taranaki is a relatively affordable region according to the ratios of both house prices to rents and house prices to income, but there has been a meaningful deterioration recently.

Figure 43. Taranaki median sale price



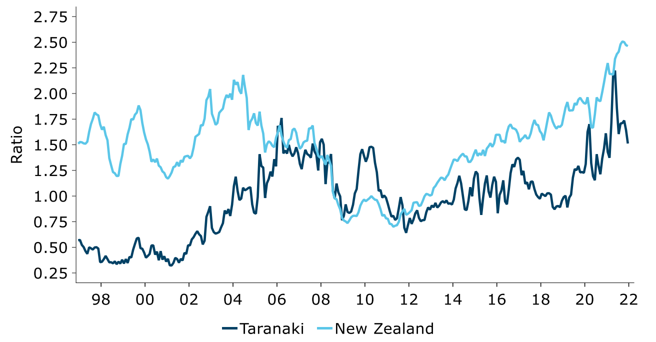
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 44. Taranaki market tightness



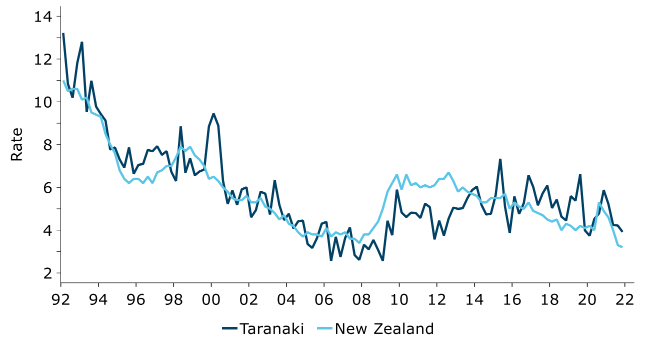
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 45. Taranaki dwelling consents per 1000 residents



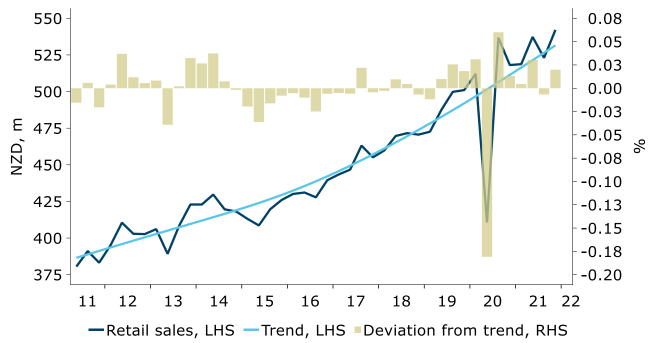
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 46. Taranaki unemployment rate



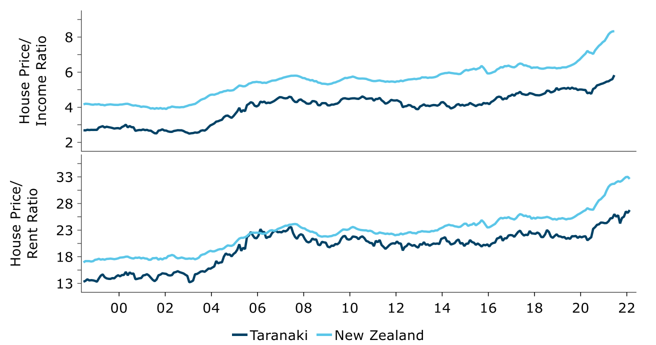
Source: Stats NZ, Macrobond, ANZ Research

Figure 47. Taranaki retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 48. Taranaki affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Wellington

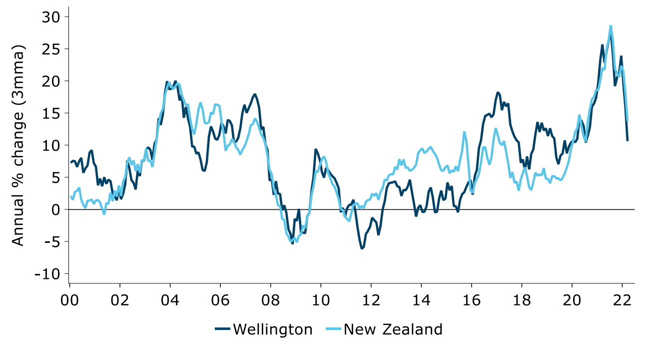
Key statistics

Wellington accounted for 9.3% of total NZ house sales in the year to March 2022

Wellington	Date	
Median price:		
– Pre-pandemic	Dec-19	$668,126
– Post-pandemic peak	Oct-21	$990,354
– Current	Mar-22	$912,048
Median weekly income	Jun-21	$2,279
Median weekly rent	Feb-22	$583
Unemployment rate	2021Q4	2.9%

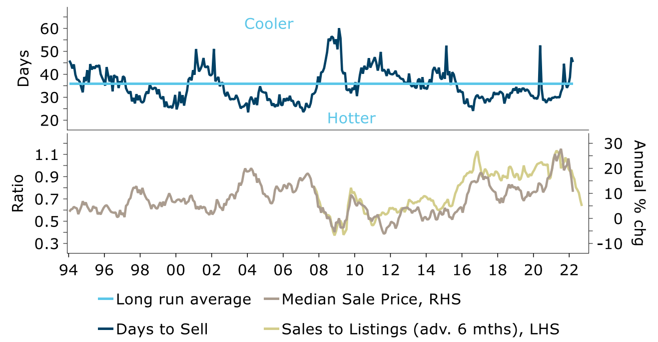
Wellington is another region where house price inflation has hugged the national average closely. Key indicators of market tightness suggest the market has now cooled. Consents per capita are very elevated for the region, but still shy of the national average (which is pushed up by Auckland's very healthy pipeline of building projects). The Wellington economy looks solid, with unemployment low and retail sales remaining above trend. House prices to incomes are a little lower than the national average, but house prices to rents are very close. Both measures show affordability has worsened a lot recently.

Figure 49. Wellington median sale price



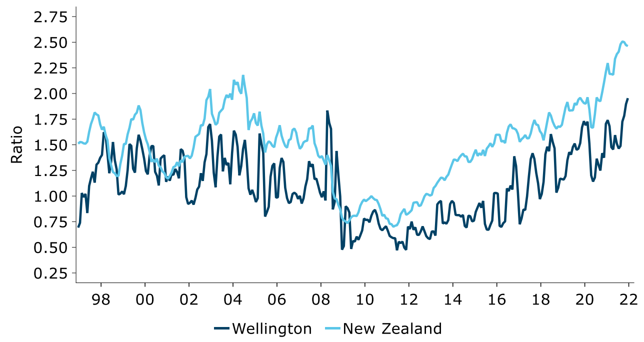
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 50. Wellington market tightness



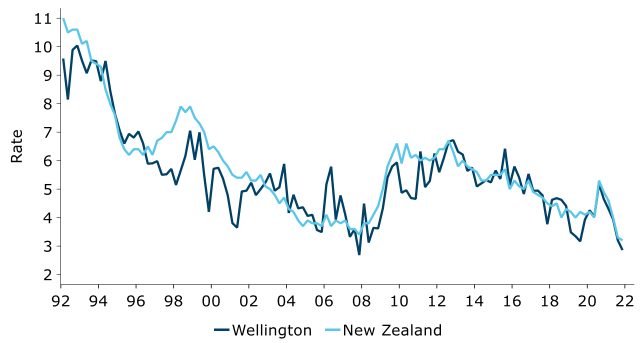
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 51. Wellington dwelling consents per 1000 residents



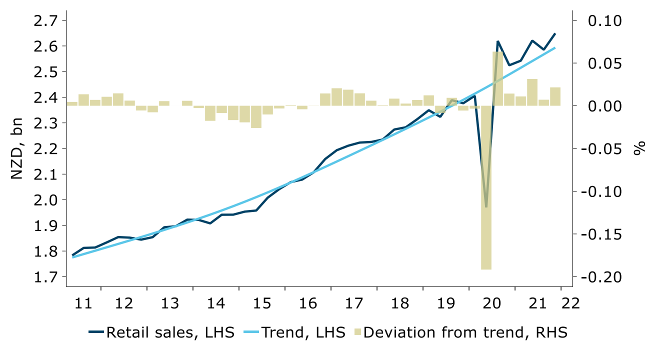
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 52. Wellington unemployment rate



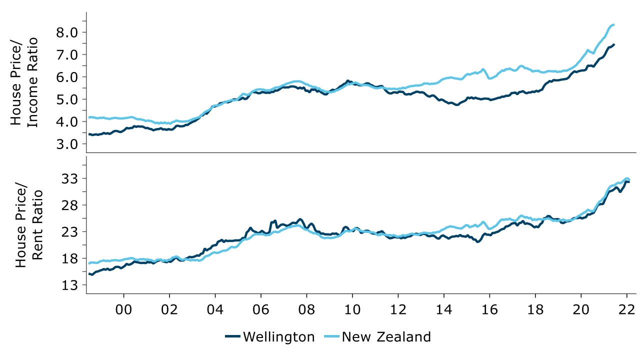
Source: Stats NZ, Macrobond, ANZ Research

Figure 53. Wellington retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 54. Wellington affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Tasman, Nelson and Marlborough

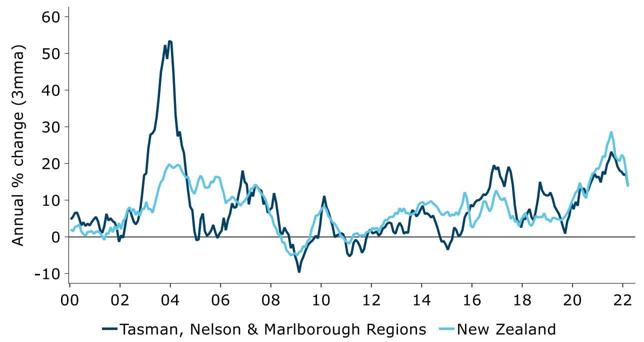
Key statistics

Tasman, Nelson and Marlborough accounted for 3.4% of total NZ house sales in the year to March 2022

Tasman, Nelson and Marlborough	Date	
Median price:		
– Pre-pandemic	Dec-19	$587,567
– Post-pandemic peak	Dec-21	$791,210
– Current	Mar-22	$780,819
Median weekly income	Jun-21	$1,555
Median weekly rent	Feb-22	$495
Unemployment rate	2021Q4	2.9%

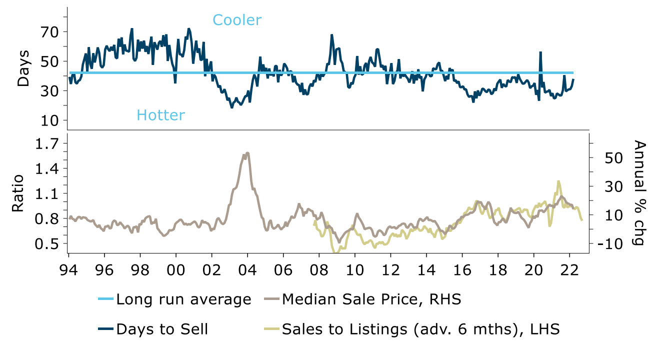
It's been a slightly less nutty house price cycle in Tasman, Nelson and Marlborough (but still nutty in an absolute sense). Inflation is slowing as market tightness rounds the corner, but days to sell are still in the "hotter" zone for now. Consents per capita are volatile, but appear to be moving sideways at best. Regional economic indicators are solid: the unemployment rate is low and retail spending is above trend. However, the latter has been rather volatile in recent quarters. House prices to incomes are slightly higher than most regions, with the region recording a significant deterioration over the past couple of years.

Figure 55. Tasman, Nelson, Marlborough median sale price



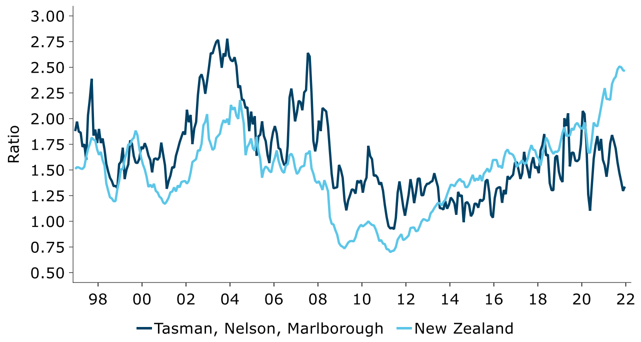
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 56. Tasman, Nelson, Marlborough market tightness



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 57. Tasman, Nelson, Marlborough dwelling consents per 1000 residents

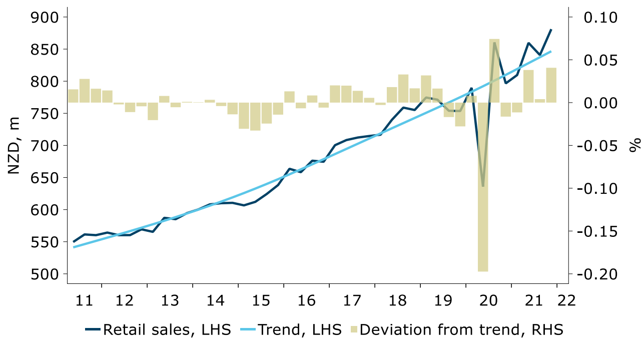


Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 58. Tasman, Nelson, Marlborough unemployment rate

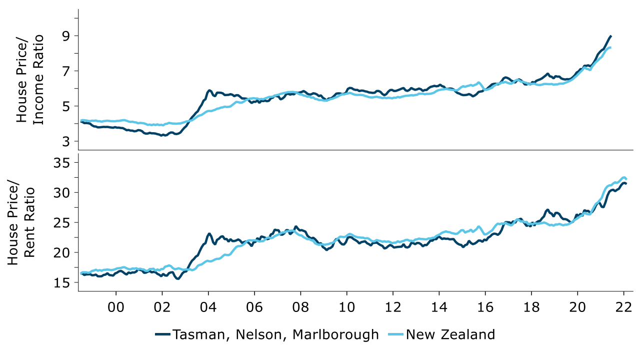
Source: Stats NZ, Macrobond, ANZ Research

Figure 59. Tasman, Nelson, Marlborough retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 60. Tasman, Nelson, Marlborough affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Canterbury

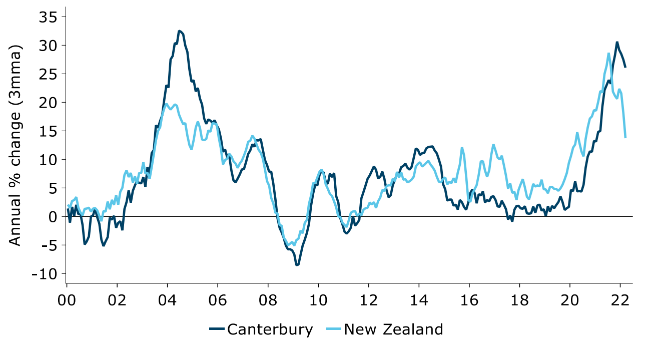
Key statistics

Canterbury accounted for 15.7% of total NZ house sales in the year to March 2022

Canterbury	Date	
Median price:		
– Pre-pandemic	Dec-19	$453,603
– Post-pandemic peak	Feb-22	$701,662
– Current	Mar-22	$681,232
Median weekly income	Jun-21	$1,758
Median weekly rent	Feb-22	$453
Unemployment rate	2021Q4	3.3%

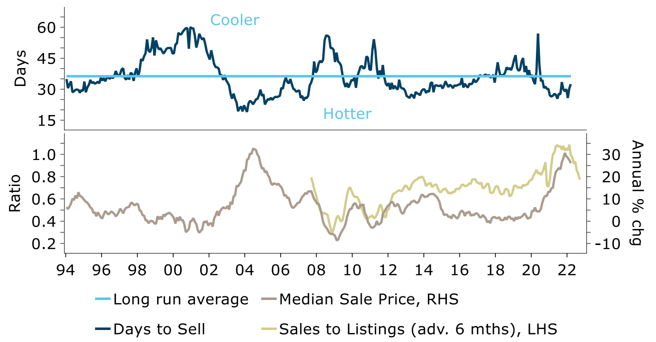
Lingering impacts of the Canterbury earthquakes have had significant impacts on the housing cycle. This region knows how to consent and build houses, which alongside other policies (such as freeing up land to build on) had kept house price inflation running below the national level until only recently. But even Canterbury joined the housing boom eventually. Late to the house party, it looks like it's also going to be late to leave. Encouragingly, consents per capita are high and economic indicators are strong. Canterbury is a relatively affordable region, but affordability has deteriorated meaningfully recently.

Figure 61. Canterbury median sale price



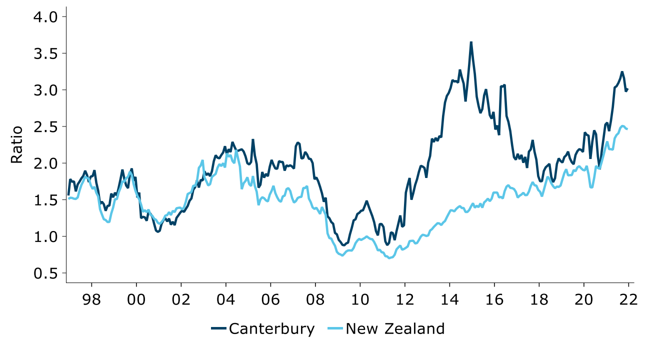
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 62. Canterbury market tightness



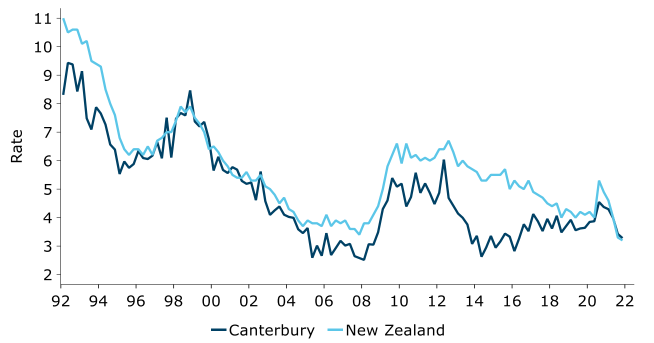
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 63. Canterbury dwelling consents per 1000 residents



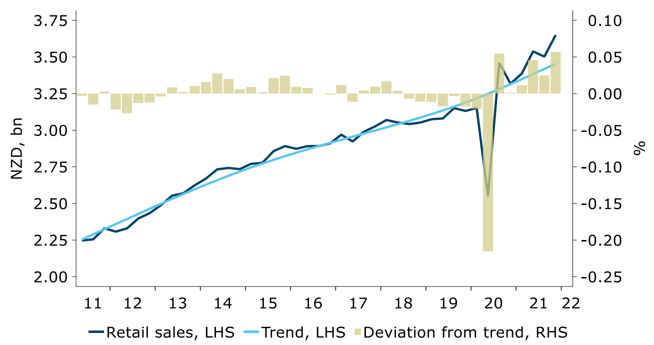
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 64. Canterbury unemployment rate



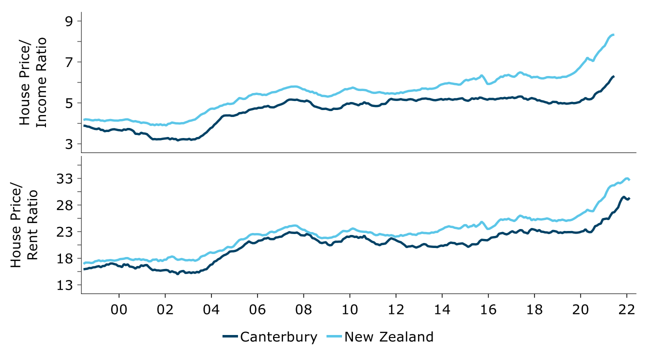
Source: Stats NZ, Macrobond, ANZ Research

Figure 65. Canterbury retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 66. Canterbury affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Otago

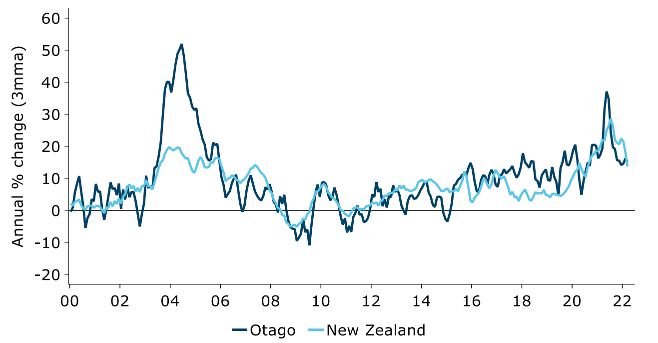
Key statistics

Otago accounted for 5.8% of total NZ house sales in the year to March 2022

Otago	Date	
Median price:		
– Pre-pandemic	Dec-19	$538,383
– Post-pandemic peak	Feb-22	$790,825
– Current	Mar-22	$739,641
Median weekly income	Jun-21	$1,618
Median weekly rent	Feb-22	$473
Unemployment rate	2021Q4	2.7%

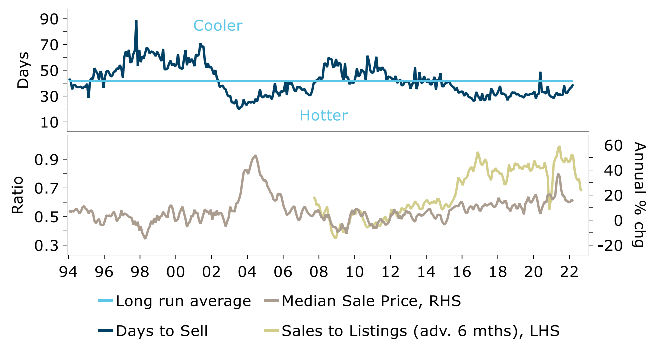
House price growth is well off its peak, as the market continues to loosen. Consents per capita are at respectably high levels, suggesting fundamental housing demand in the South Island's second-largest housing market is strong. Key economic indicators are solid, but the 2020/21 summer was tough for retail spending (likely reflecting MIA international tourist spending). House prices to incomes are close to the national level, but house prices to rents are a little lower. There has been a considerable deterioration in house prices to incomes over the past couple of years.

Figure 67. Otago median sale price



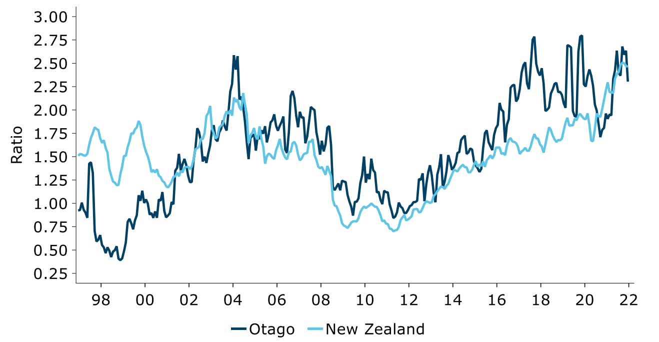
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 68. Otago market tightness



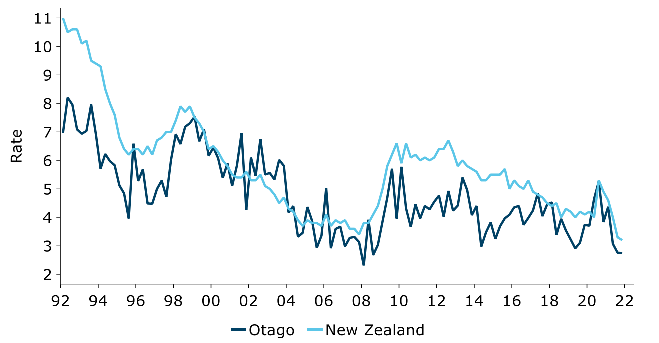
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 69. Otago dwelling consents per 1000 residents



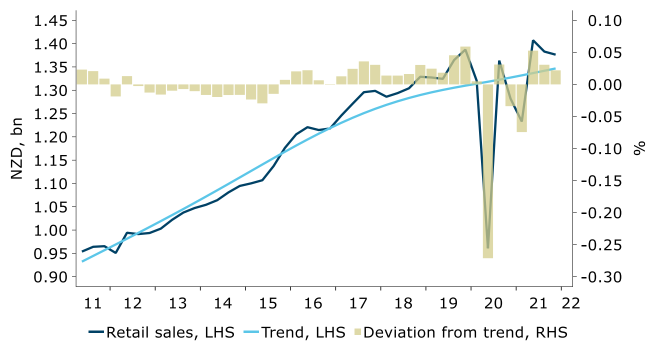
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 70. Otago unemployment rate



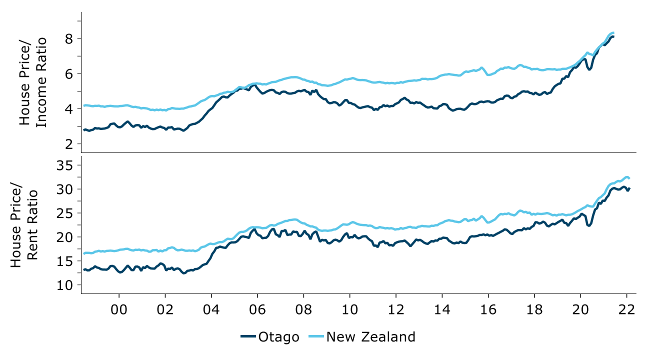
Source: Stats NZ, Macrobond, ANZ Research

Figure 71. Otago retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 72. Otago affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

West Coast

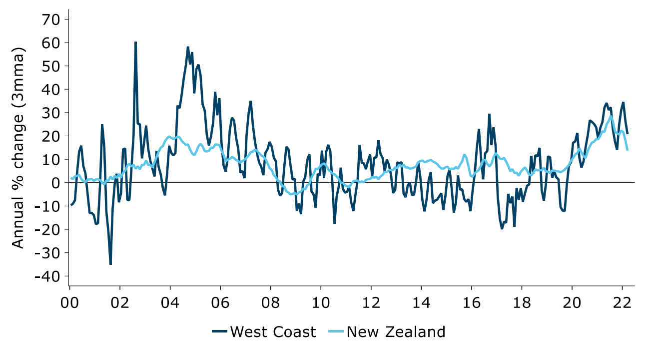
Key statistics

West Coast accounted for 0.7% of total NZ house sales in the year to March 2022

West Coast	Date	
Median price:		
– Pre-pandemic	Dec-19	$209,289
– Post-pandemic peak	Dec-21	$361,309
– Current	Mar-22	$335,424
Median weekly income	Jun-21	$1,627
Median weekly rent	Feb-22	$345
Unemployment rate	2021Q4	2.9%

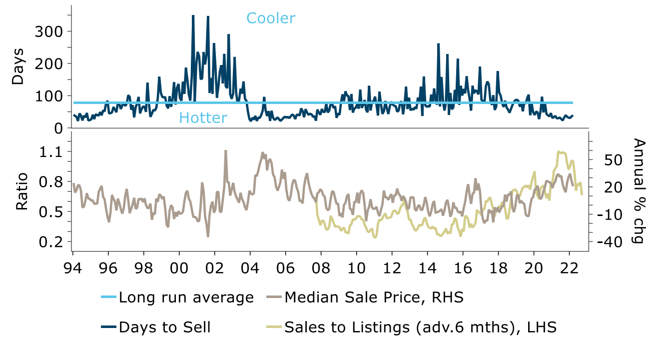
Price growth tends to be volatile on the West Coast, reflecting relatively low turnover and variance in the average size and quality of homes being sold. Looking through the noise, price growth has been strong and a little slower to abate than the national average. Indicators of market tightness tend to be very volatile. Days to sell are in the "hotter" zone but sales to listings suggest the market has turned a corner. Consents per capita have lifted, and key economic indicators are solid. Again, the 2020-21 summer wasn't a good time for retail spending, likely reflecting the absence of international tourists. Affordability measures are at the cheaper end of the spectrum, but have deteriorated.

Figure 73. West Coast median sale price



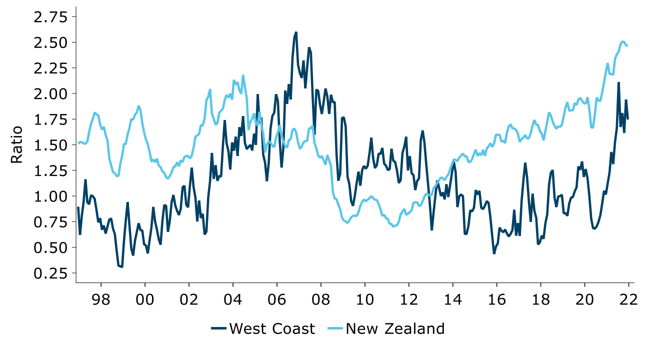
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 74. West Coast market tightness



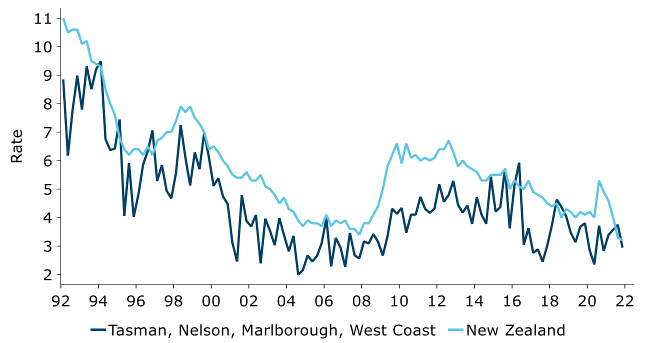
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 75. West Coast dwelling consents per 1000 residents



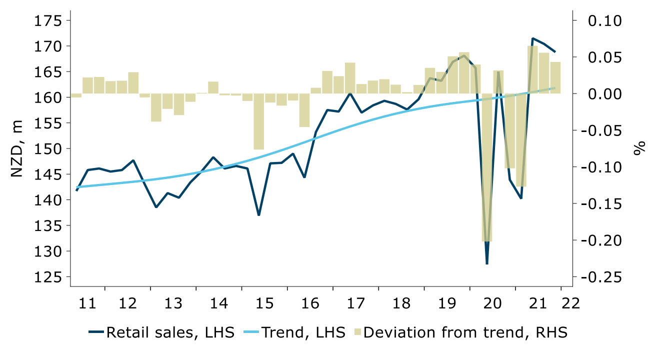
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 76. West Coast unemployment rate



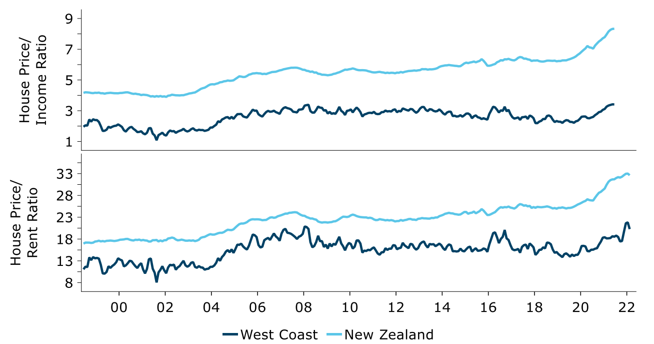
Source: Stats NZ, Macrobond, ANZ Research

Figure 77. West Coast retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 78. West Coast affordability



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Southland

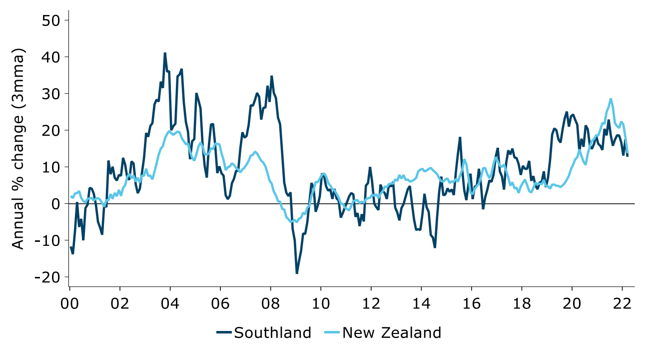
Key statistics

Southland accounted for 2.4% of total NZ house sales in the year to March 2022

Southland	Date	
Median price:		
– Pre-pandemic	Dec-19	$325,939
– Post-pandemic peak	Feb-22	$479,924
– Current	Mar-22	$439,065
Median weekly income	Jun-21	$1,620
Median weekly rent	Feb-22	$382
Unemployment rate	2021Q4	3.3%

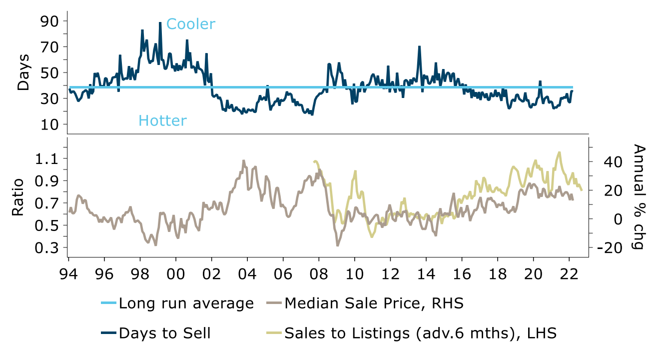
Price growth in Southland is elevated, but the overall cycle has been less peaky than most regions. However, indicators of market tightness suggest a slowdown is still looming, with days to sell almost back at their historical average. Consents per capita have been lifting, and key economic indicators are solid, with unemployment low and retail sales above trend. Affordability measures are at the cheaper end of the spectrum relative to the rest of the country, but like the rest of NZ these have deteriorated over the past couple of years.

Figure 79. Southland median sale price



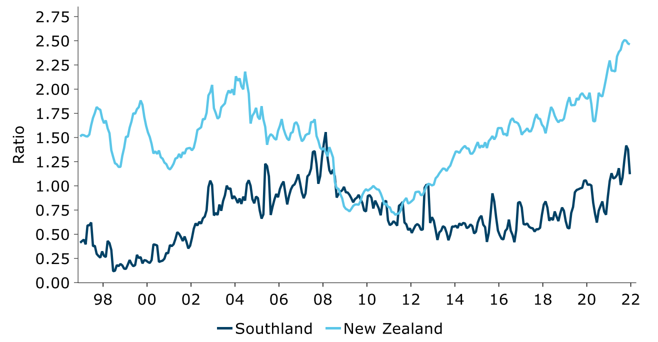
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 80. Southland market tightness



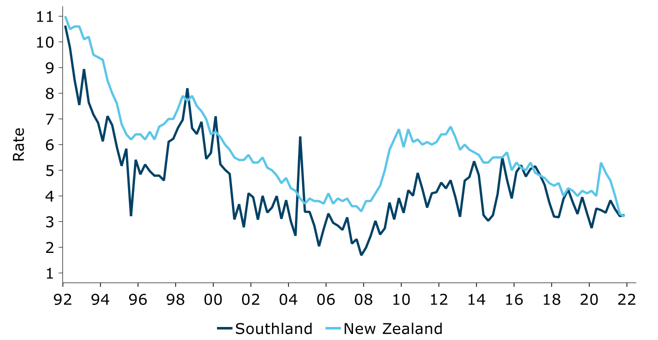
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 81. Southland dwelling consents per 1000 residents



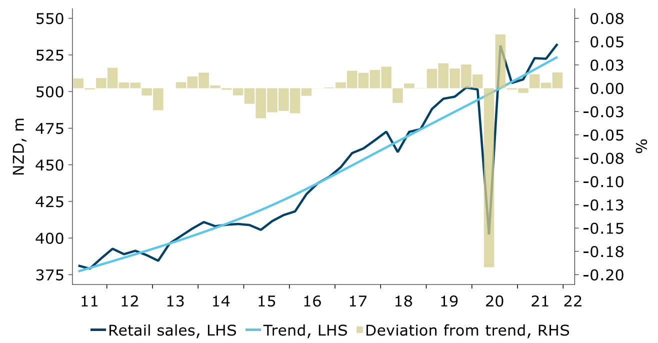
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Figure 82. Southland unemployment rate



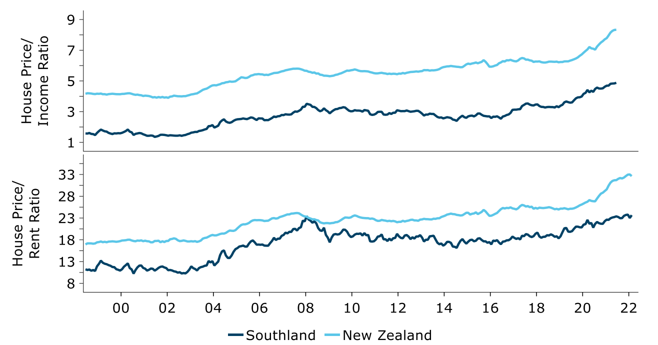
Source: Stats NZ, Macrobond, ANZ Research

Figure 83. Southland retail sales vs trend



Source: Stats NZ, Macrobond, ANZ Research

Figure 84. Southland affordability



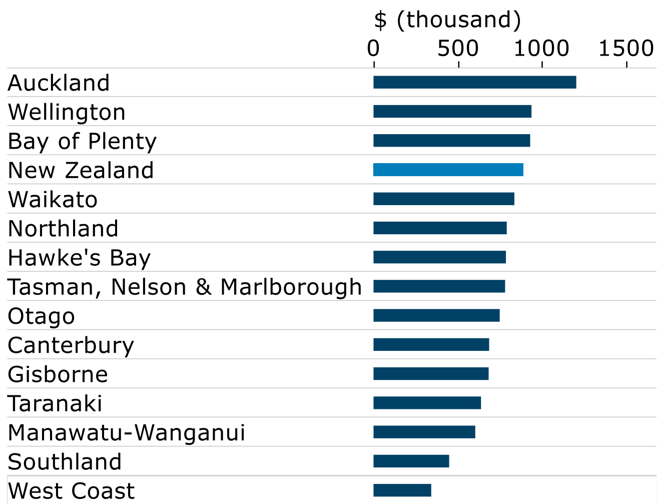
Source: REINZ, Stats NZ, Macrobond, ANZ Research

Feature Article: Regional rollercoaster

Bringing it all together

In an absolute sense, the experience of all regional housing markets has been much the same in recent years: strong demand and constrained supply have led to very rapid house price growth. However, some very stark regional differences persist in the levels. At $1,166,108 the median price in Auckland is about 3.5 times higher than in the West Coast (figure 85).

Figure 85. Median house price by region



Source: REINZ, Macrobond, ANZ Research

While all market tightness indicators suggest things are on a cooling trajectory, some markets are more convincingly "cool" than others. All regions appear susceptible to much weaker house price inflation over the year ahead. We don't forecast house prices at the regional level, but we wouldn't be surprised if we were to see annual inflation turn negative for a time in all regions.

Auckland and Canterbury are the key standouts when it comes to pipeline building activity, with consents per capita suggesting solid demand for housing in our largest and second-largest cities. At 33.2% and 15.7% respectively, these two regions account for almost half of all house sales in New Zealand.

All regional economies appear to be on a robust footing currently, with retail spending either close to, or above, trend. However, regional lockdowns have impacted, and so too has the absence of international visitors where there tends to be a higher dependency on tourist dollars. Looking forward, the reopening of our borders to international visitors should hopefully make the summer of 2022/23 a better one for tourist-dependent regions. But at the same time, high inflation and rising interest rates are expected to take the heat out of domestic demand, and that's likely to weigh on housing markets in a self-reinforcing fashion.

Meanwhile, all regional labour markets are on a strong footing, with indicators of market tightness generally extending well beyond the headline unemployment rate (Table 1). We recently looked into just how widespread labour market tightness is in this Insight. In short, unemployment and underutilisation are much lower than average across most regions – and even where employment growth has disappointed (Gisborne), it's been because of low labour force growth, rather than a lack of demand.

Overall, no region can hide from the shifting supply and demand balance currently underway. Higher mortgage rates will impact demand everywhere, and that appears to be making would-be buyers all the more patient. Robust regional economies will hopefully limit the fallout as housing continues to soften, but overstimulated economic conditions cannot last forever.

Table 1. Regional labour market indicators heatmap

	Underutilisation rate (%)	Unemployment rate (%)	Employment growth (% y/y)	Labour force growth (% y/y)
Northland	8.7	3.3	5.4	2.9
Auckland	8.7	3.1	4.8	2.3
Waikato	9.8	3.3	2.3	0.6
Bay of Plenty	10.2	4.1	2.9	1.5
Gisborne/Hawke's Bay	10.7	3.7	-5.1	-7.0
Taranaki	10.1	3.9	2.4	0.1
Manawatu-Whanganui	9.2	2.7	5.1	3.0
Wellington	9.1	2.9	4.3	2.4
Tasman/Nelson/Marlborough/West Coast	10.5	2.9	2.2	2.3
Canterbury	9.2	3.3	4.8	3.6
Otago	10.0	2.7	3.6	2.4
Southland	10.0	3.3	0.3	0.3

Source: Stats NZ, Macrobond, ANZ Research

Note: The heatmap indicates how strong each labour market indicator is relative to its own historical average. For example, although the unemployment rate is higher in Gisborne/Hawke's Bay than it is in Southland, it is further below its historical average than Southland is. When calculating the historical average for unemployment, employment, and the labour force, data since 2000 is used, to avoid the structural changes over the 1980s and 1990s. Underutilisation starts in 2004. The more orange (blue) the cell is the stronger (weaker) the labour market indicator is compared to the past two decades. We've seasonally adjusted the underutilisation and unemployment rates.

Mortgage borrowing strategy

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Summary

Average mortgage rates have risen sharply again since our last edition. The 1-year rate remains the cheapest, but the average rate across the big-4 banks (4.52%) is now more than double what it was last June (2.19%). These increases have come on the back of rises in wholesale "swap" rates, which have risen in anticipation of a higher OCR. The RBNZ is in turn lifting the OCR to cool demand and tame inflation. Further increases in fixed rates are likely, especially in shorter terms like the 1-year, which follow the OCR more closely and aren't as forward looking as, say, the 5-year. But if there is any good news for borrowers, it is that the pace of mortgage rates increases will probably slow from here now markets are anticipating an OCR peaking at around 4%. In broad terms, the opportunity to fix to "beat the rise" has now likely passed. But borrowers may want to fix some debt to achieve certainty, as there's no guarantee the OCR will peak below 4%. The 1-year is vastly cheaper than floating, and if the OCR does keep rising as we expect, the floating rate will only keep going up.

Mortgage rates continue to move up, with increases of between 0.53%pts and 0.73%pts seen since the last edition. That is the largest single monthly rise seen across all terms since rates bottomed out in the middle of last year, and it represents roughly a doubling of rates for most terms from lows seen between April and June last year.

While the RBNZ's decision to lift the OCR by 0.50%pts earlier this month contributed heavily to the rise in fixed mortgage rates, expectations (past and present) for the OCR have also played a role. It's not just actual moves in the OCR that matter, but also how financial market expectations evolve. And the longer the term, the more expectations matter. Currently, markets are pricing in (ie anticipating, or banking on) the OCR getting to around 4%, which is above our forecast of a 3.5% peak. In theory, then, if our forecasts are right, the worst of the increase in mortgage rates should now be behind us. That said, shorter rates like the 1-year (and to a lesser extent, 2 and 3-year rates) have scope to keep gradually rising, since we expect it to take another year before the OCR hits 3.5%. But the pace is likely to slow from here, all else equal. If there's any good news for borrowers, that's it there. But of course the OCR could stop short of 3.5% or shoot through it.

When it comes to deciding whether to fix (and for how long) or float, there is no unfortunately obvious or "sure-fire" way to get ahead of rises. That's because while fixing for a shorter term is cheaper, it'll probably be more expensive later if the OCR does keep rising, as we expect. Alternatively, fixing for longer means an immediate cost increase. That said, the 1-year is a lot cheaper than floating, and if the OCR does rise, it's hard to see floating ever being cheaper. We'd need to see a rapid turnaround in the OCR for floating to be the cheapest strategy, and nobody is forecasting that.

So floating offers repayment flexibility but not a lot of other value currently. But what about longer terms? Broadly speaking, we see less value in these. For example, breakeven analysis shows that the 1-year rate would need to rise from 4.52% now to 5.95% in a year's time for you to be better off fixing for 2 years at 5.24% (ie one year at 4.52% followed by a second year at 5.95% would cost the same as two years at 5.24%). We might see the 1-year get to 5.95% next year, but the OCR would likely need to rise to well above 3.5% for that to occur; not our forecast.

But, certainty will appeal to some borrowers, and even though it seems like there is now no easy way to beat increases, staggering fixes has its appeal, especially if one has a budget cap, which repayments implied by rates like the 2-year may fall below. If it were a purely financial decision, we think the 1-year makes the most sense right now, in light of our expectation of where the OCR is headed. But borrowers need to balance cost and certainty and own any decision they make.

Figure 1. Carded special mortgage rates^

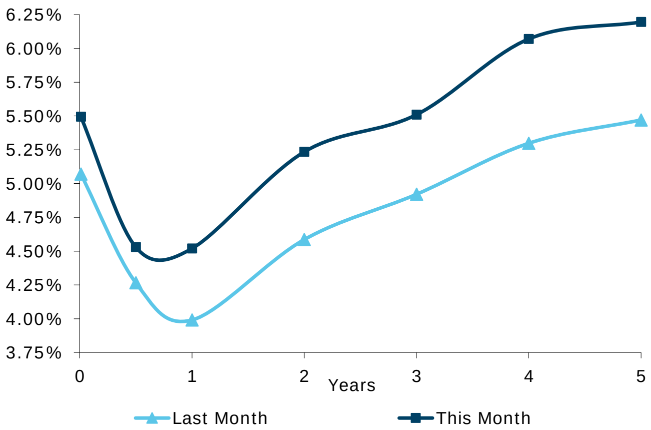

Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.50%				
6 months	4.53%	4.51%	5.62%	6.29%	5.92%
1 year	4.52%	5.06%	5.95%	6.10%	6.06%
2 years	5.24%	5.58%	6.01%	6.47%	6.91%
3 years	5.51%	6.00%	6.59%	6.76%	6.84%
4 years	6.07%	6.33%	6.61%		
5 years	6.20%	#Average of "big four" banks			

^ *Average of carded rates from ANZ, ASB, BNZ and Westpac.*

Source: interest.co.nz, ANZ Research

Key forecasts

Weekly mortgage repayments table (based on 25-year term)

Mortgage Size ($000)	Mortgage Rate (%)													
	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75
200	231	237	243	250	256	263	270	276	283	290	297	304	311	319
250	289	296	304	312	320	329	337	345	354	363	371	380	389	398
300	346	356	365	375	385	394	404	415	425	435	446	456	467	478
350	404	415	426	437	449	460	472	484	496	508	520	532	545	558
400	462	474	487	500	513	526	539	553	566	580	594	608	623	637
450	520	534	548	562	577	592	607	622	637	653	669	684	701	717
500	577	593	609	625	641	657	674	691	708	725	743	761	778	797
550	635	652	669	687	705	723	741	760	779	798	817	837	856	876
600	693	711	730	750	769	789	809	829	850	870	891	913	934	956
650	750	771	791	812	833	854	876	898	920	943	966	989	1,012	1,036
700	808	830	852	874	897	920	944	967	991	1,015	1,040	1,065	1,090	1,115
750	866	889	913	937	961	986	1,011	1,036	1,062	1,088	1,114	1,141	1,168	1,195
800	924	948	974	999	1,025	1,052	1,078	1,105	1,133	1,160	1,188	1,217	1,246	1,274
850	981	1,008	1,035	1,062	1,089	1,117	1,146	1,174	1,204	1,233	1,263	1,293	1,323	1,354
900	1,039	1,067	1,095	1,124	1,154	1,183	1,213	1,244	1,274	1,306	1,337	1,369	1,401	1,434
950	1,097	1,126	1,156	1,187	1,218	1,249	1,281	1,313	1,345	1,378	1,411	1,445	1,479	1,513
1000	1,154	1,186	1,217	1,249	1,282	1,315	1,348	1,382	1,416	1,451	1,486	1,521	1,557	1,593

Mortgage rate projections (historic rates are special rates; projections based on ANZ's wholesale rate forecasts)

	Actual			Projections						
Interest rates	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Floating Mortgage Rate	4.5	4.5	4.9	5.1	6.1	6.6	7.2	7.4	7.7	7.7
1-Yr Fixed Mortgage Rate	2.2	2.7	3.6	3.9	4.7	5.1	5.2	5.2	5.1	4.9
2-Yr Fixed Mortgage Rate	2.6	3.1	4.3	4.5	5.2	5.1	5.1	5.0	4.8	4.7
5-Yr Fixed Mortgage Rate	3.6	4.0	4.9	5.1	6.2	6.0	6.0	5.9	5.8	5.7

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
GDP (Annual % Chg)	17.9	-0.2	3.1	2.3	0.0	4.1	1.8	2.1	2.3	2.4
CPI Inflation (Annual % Chg)	3.3	4.9	5.9	6.9(a)	6.8	6.1	5.3	4.5	4.0	3.2
Unemployment Rate (%)	4.0	3.3	3.2	3.1	2.9	2.9	3.0	3.1	3.2	3.3
House Prices (Quarter % Chg)	6.9	5.2	3.7	-2.1(a)	-3.8	-3.0	-1.4	0.0	0.3	0.6
House Prices (Annual % Chg)	28.9	30.4	26.2	14.1(a)	2.7	-5.3	-10.0	-8.0	-4.1	-0.5

Interest rates	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Cash Rate	0.25	0.75	1.00	2.00	2.50	3.00	3.25	3.50	3.50	3.50
90-Day Bank Bill Rate	0.65	0.97	1.61	2.52	3.02	3.27	3.60	3.60	3.60	3.43
10-Year Bond	2.09	2.39	3.22	3.40	3.60	3.70	3.90	4.00	3.95	3.90

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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