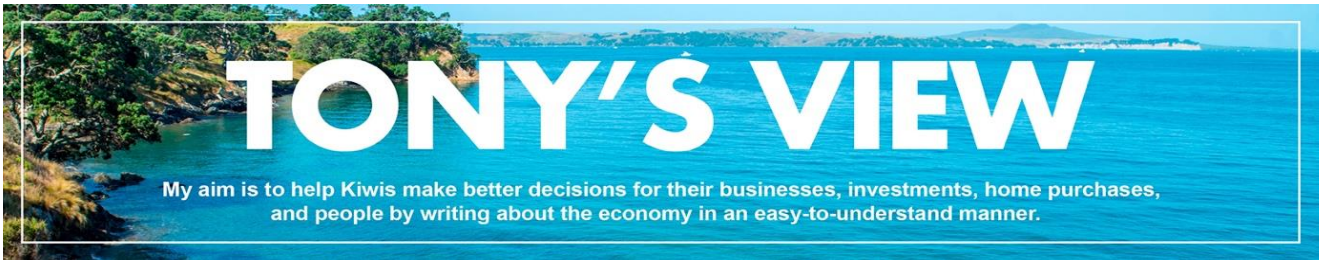

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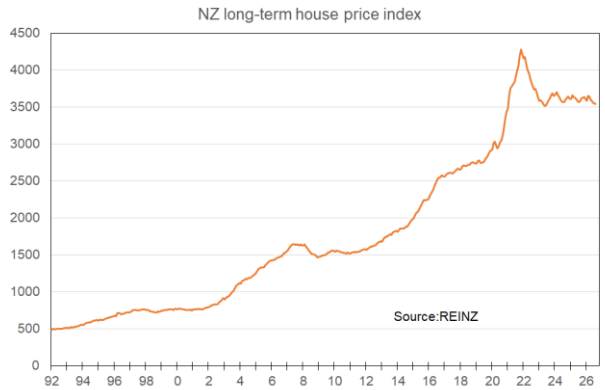
The housing situation

Falling real estate activity

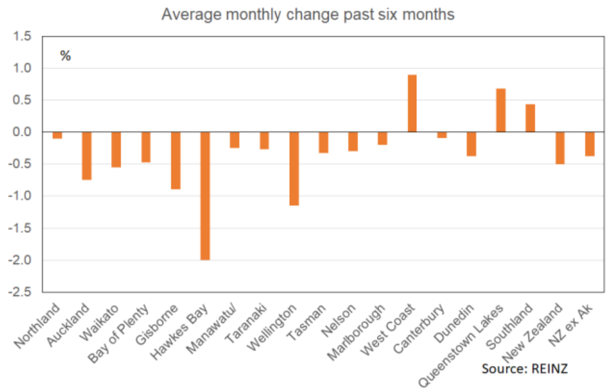
The REINZ released their monthly housing market data this week and they tell us of no change in the underlying situation of the market for the moment – falling sales and prices.

On average in August house prices around New Zealand fell by 0.2% to lie 1% down from a year earlier with the biggest annual decline being recorded by Wellington at 6.3% followed by Hawke's Bay at 5.6% then Gisborne 2.8%. Auckland was down 2.5%. Canterbury prices are ahead 2.9% from a year ago, Southland up 8%.

The impact of a rural upturn is clear.

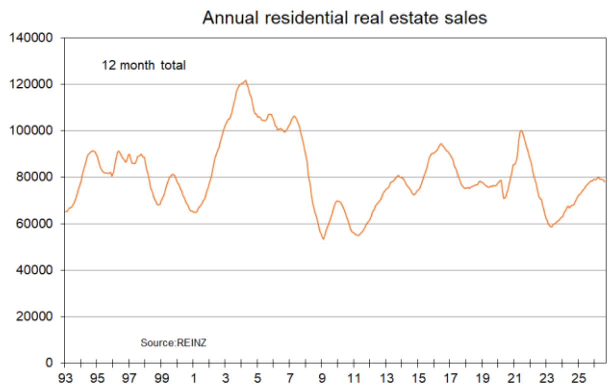


This graph shows average price changes over the past six months.



Sales meanwhile in rough seasonally adjusted terms fell 3% in the past three months to August after falling 7.5% three months before that and 2.9% in the three months to February. Sales for the August quarter were 5% down on a year ago.

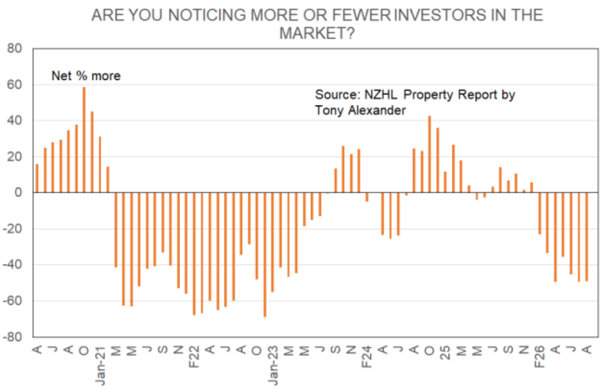
The market is still easing off as buyers feel no FOMO and no need to focus on regret avoidance amidst plentiful stock.



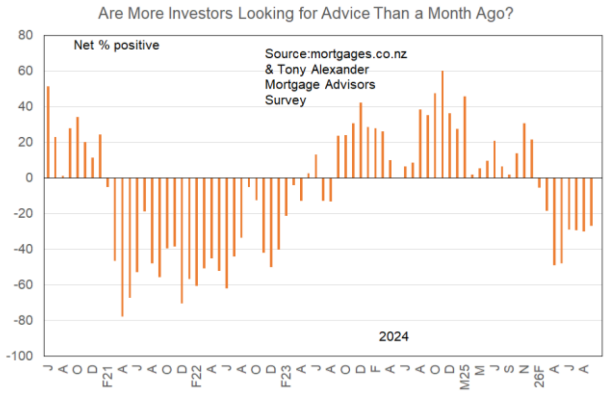
With net migration weak, listings strong, new supply rising, and interest rates rising, only a strongly improving labour market is likely to jazz things up a bit. But that won't happen until next year.

The investor withdrawal

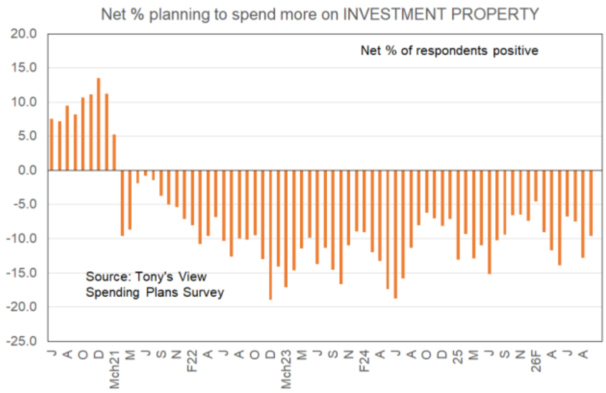
There are many ways we can tell that the investor presence in New Zealand's residential property market has dropped away. From my monthly survey of real estate agents we can see a sharp drop in the net proportion saying they were seeing more investors from the early part of 2021 when LVRs returned and tax rules changed. Over 2023-25 things improved a bit but since late last year as interest rates started rising again investors have been in short supply.



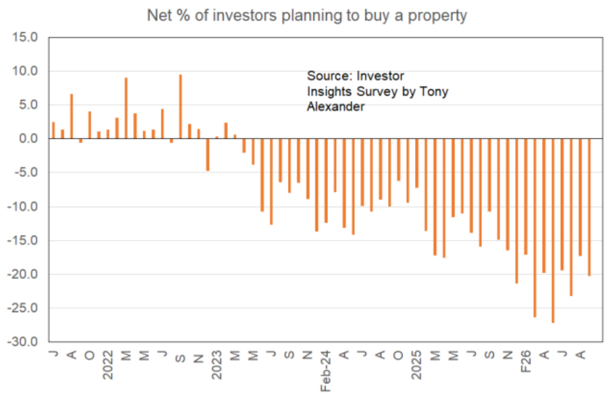
From my survey of mortgage brokers we see the same pattern.

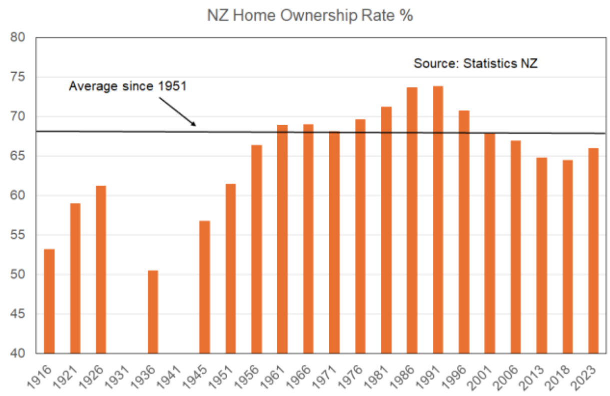


From my monthly Spending Plans survey we see the same falling away of investor demand early in 2021 and no recovery in people's overall plans for investment property purchases since then.

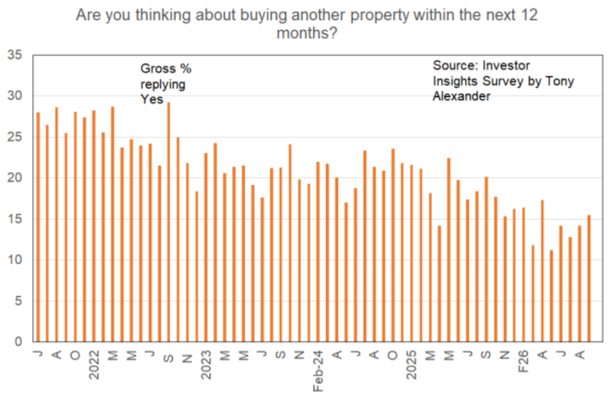


Finally, from my monthly survey of property investors we can't see the 2021 collapse in demand as the survey did not start until June of that year. But we can see a deterioration in net buying intentions from early in 2023.





None of these measures tell us that the investor part of the market has disappeared. In fact looking at my survey of property investors with The Property Consortium people we still find about 15% of existing investors still plan buying another property in the coming 12 months.



Some 32% or so of the country's housing stock going forward is going to remain in the rental pool. Note for instance the growth in the build to rent sector.

All that has happened is that the feeling by less informed common folk that they have to buy something to avoid feeling like an idiot down the track for missing out on "easy" money has gone.

The playing field has returned to what it was before the factors I discussed above came into play in the early-1990s. Namely, a dominance of professionally focussed investors looking at long-term yield, not reliant on capital gain, and taking a more mature approach to tenant management than may have been the case for those with little previous experience.

Just for your guide, there is one other purely anecdotal indicator to me of the extent to which investment demand for property from less experienced folk has dropped away.

For a number of years now every six months I have presented a webinar to clients of a business focussed on giving largely new investors knowledge of how to invest in residential property. Now, despite earlier this year having arranged for the regular webinar to occur this week – nothing. I imagine the business still exists, but client flow and therefore revenue flow will no longer be enough to easily cover expenses like having me online.

Or maybe they just don't want me speaking to their clients about what I have been writing. Anyway - many thanks for the business these recent years and all the best going forward as I am sure you rejig your business model to better reflect the shift in advisory demand. No hard feelings here.

Crisis. What crisis?

We are living through an age when things we used to call "challenges" are instead labelled as crises. About once a year I like to enter the term nz crisis into Google Search to see how many things pop up as being considered to be in crisis at the moment. In the past we have had such things as dog food nutrition and rugby referees.

This time around the list seems less frivolous and the issues look like serious ones. But again – they are challenges to be addressed rather than each being a crisis to which we either run away from to another country or try to override considered processes to help fix. Enjoy. I found myself pleased that the term might be getting used less often than before.

Feral deer
FMA
Cost of living
Health care
Defence Force
NZ netball
Mothers' mental health
Population/birth rate
Hospitals
Fuel
Emergency departments
Education
Homelessness
Teens
NZ Police
Obesity
Housing
Labour market
Business
FENZ
Children's health
Charities
Meth
Aged care
Research
Oral health
Medicine access
Sports volunteers

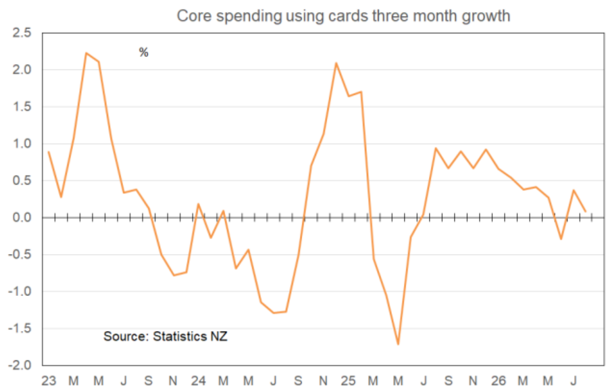
Retail surge in July evaporates – if it was ever there

Do you remember a month ago how some people in the media were quite excited about a strong rise in the monthly Electronic Card Spending data from Statistics New Zealand?

I warned that it is extremely unwise to say anything strong about our economy let alone any particular sector on the basis of just one month's results. The monthly data can go all over the place in our small country, and it is better to smooth things over at least a three month period to get a more accurate picture (hopefully) of what is happening.

Doing that a month ago the core debit and credit card spending series showed a rise of 0.3% over three months which felt closer to reality than the 2.2% core spending rise for just the July month.

Now, core spending has just been reported as falling 1% after July's reported 1.7% rise. The three month change has slipped from a revised 0.4% to 0.1%.



The retail sector in New Zealand still remains somewhat challenged. However, the correlation between this monthly measure and the quarterly Retail Trade Survey can be quite wobbly at times so I don't pay much heed to this cards measure. Be careful when looking at NZ data. Monthly numbers are a trap.

If I were a borrower, what would I do?

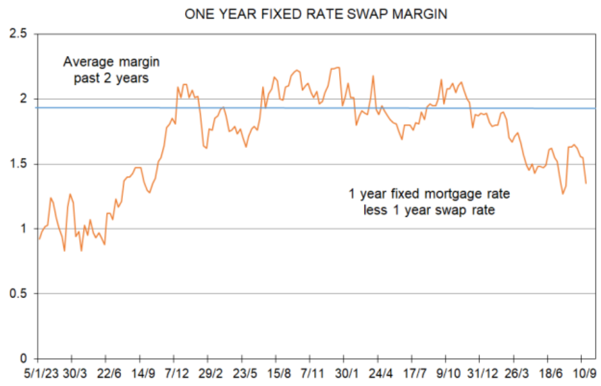
There has been a step change upward in wholesale interest rates this week. The one year rate at which banks borrow in the wholesale markets to lend to you and I at a fixed rate for one year has risen to near 3.64% from 3.44%. The three year rate has risen to near 4.18% from 3.89% and the five year rate to near 4.36% from 4.11%.

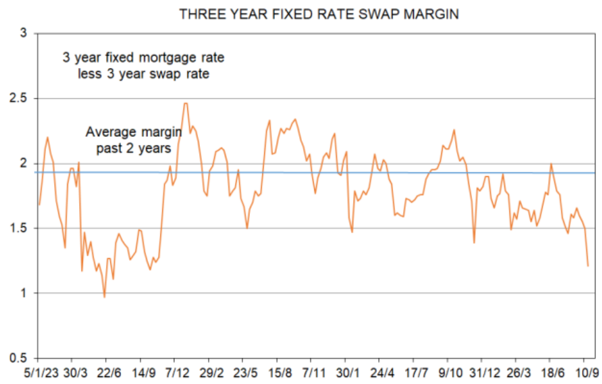
The key driver of higher rates has been the hike in international oil prices caused by a deterioration of the situation in the Middle East due to the 4-6 week war started by President Trump on February 28. Also, some hawkish comments about the need to fight inflation came from the European Central Bank last Thursday night as they tightened monetary policy. Some US indicators also surprised on the topside.

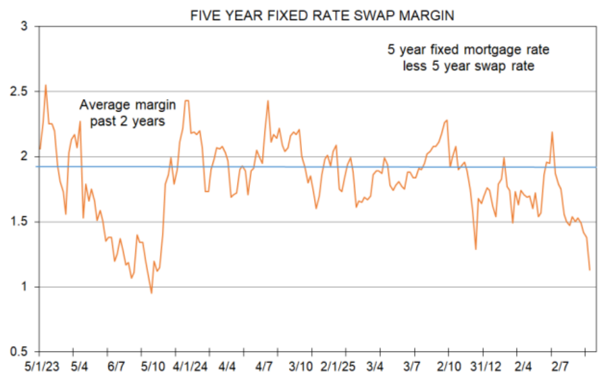
In addition to that there is still a developing selloff of US Treasury bonds caused by concerns about debt levels and fiscal management at a time when long-term credit demand and bond issuance are soaring to fund AI data centre projects.

For Kiwi borrowers the rise in swap rates means there is increased pressure on banks to lift their fixed mortgage rates, and a round of rate rises appears strongly imminent.

These three graphs give some guide as to the degree of that pressure across the one, three, and five year terms. The orange varying line shows the roughly calculated margin on fixed rate lending. The straight blue line shows the average for that margin over the past two years.







For all terms and especially for the five year term some sizeable rate increases will be needed to get margins back to acceptable levels – from the banks' point of view.

If I were borrowing at the moment, I would still favour the three year term because of the upside risks to interest rates in the next two years. Good luck.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.