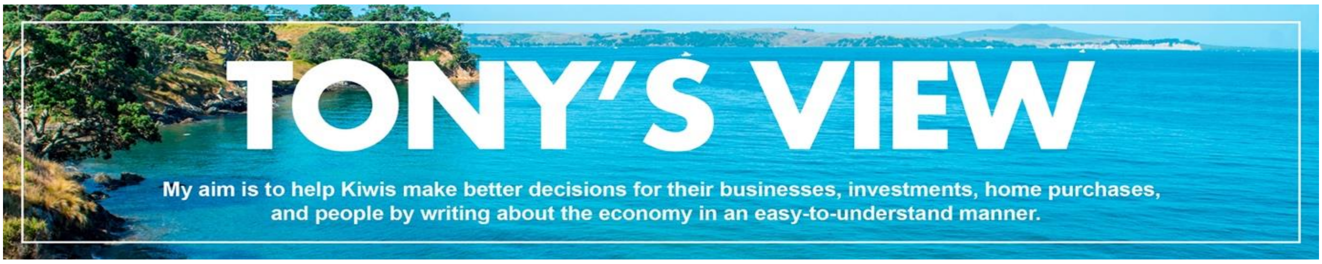

Input to your Strategy for Adapting to Challenges

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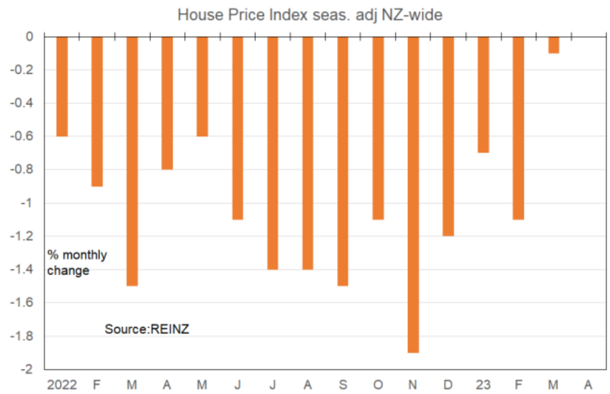
Near the bottom

There are no signs which say to us that the housing market is turning on a dime and prices are about to start rising at a fast clip. Now that I've got that out of the way let's note however that the weight of evidence is moving firmly in the direction of being able to say that we are in a period which when we look back, we will be able to say – those months represented the bottom of the cycle.

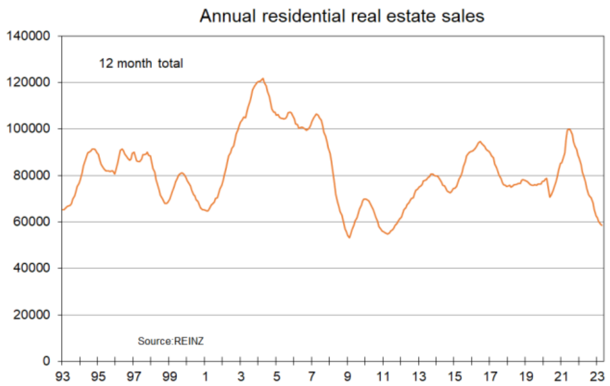
The upshot is that the price payoff from holding off has about ended on average – though when it comes to individual locations things will differ.

First, after adjusting for seasonal factors (things which usually happen in each month) we can see that house prices have essentially stopped falling. We gauge this by looking at the only price measure I pay any attention to, the REINZ House Price Index.

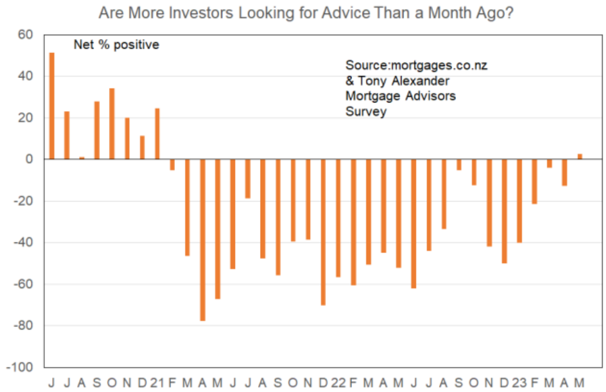
At the NZ-wide level this index was flat in April after falling just 0.1% in March. I personally would not rule out another month of declines as anything is possible when we consider the great range of factors which move the housing market and the sentiment which people have towards it. But the graph does show something is up.



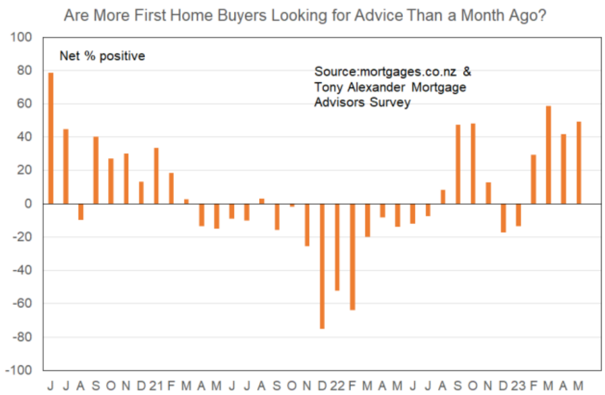
Second, the number of dwellings sold around the country in April may have been the lowest for that month on record excluding April 2020. But in seasonally adjusted terms sales in the month were up 11% from sales in March. March was flat. Turnover is showing signs of improving even as the annual number of sales continues to decline and may slip below 55,000.



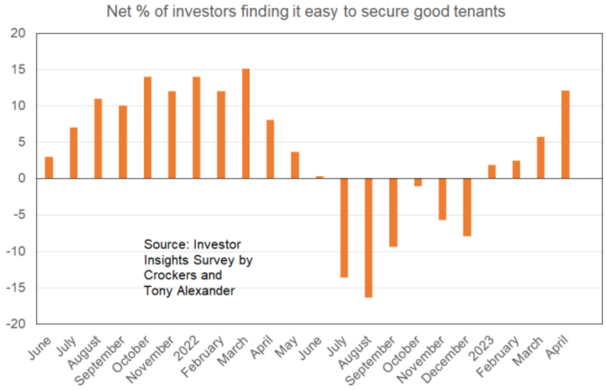
Importantly, for the first time since January 2021 more brokers have reported that they are seeing more rather than fewer investors in the market.



Third, my monthly survey of mortgage brokers undertaken with sponsorship from mortgages.co.nz shows that first home buyers are firmly back in the market with a net 49% of brokers seeing this in May. The April outcome was 42% from 59% in March.



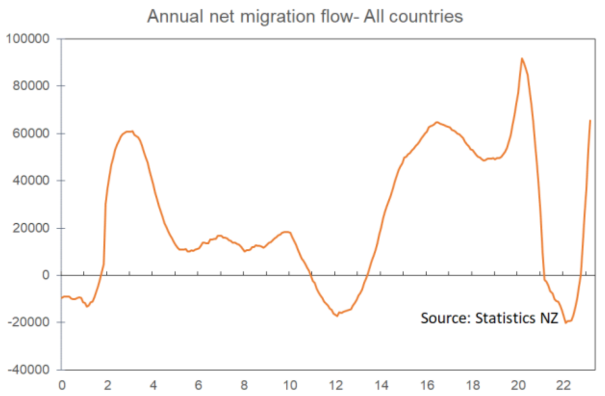
Fourth, my monthly survey of residential property investors undertaken with Crockers Property Management has shown a 13-month high for the net proportion of investors saying that they are finding it easy to get good tenants.



Why might the residential real estate market be at or almost at the bottom of the price cycle? I have attempted to provide the answer to this question in some fairly extensive commentary here in recent weeks and here goes again in summary form for those still asleep at the wheel.

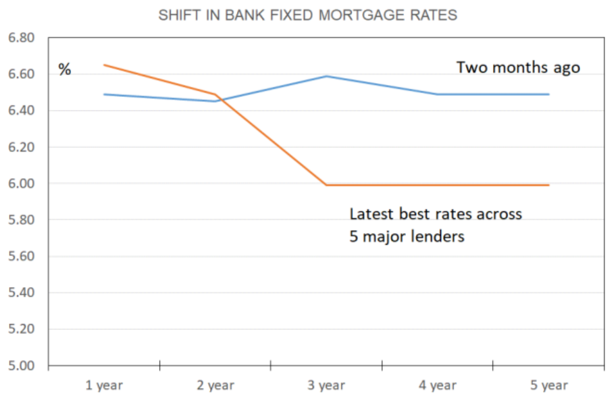
Population surge

The pace of population growth in New Zealand has jumped sharply as a result of booming net immigration. The annual gain for the past 12 months now stands at a non-pandemic record 65,000 from a loss of 19,000 a year ago.



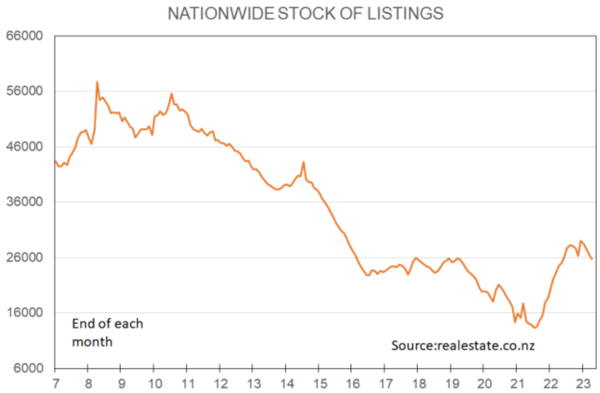
Mortgage rates have (probably) peaked

The 3-5 year fixed mortgage rates have fallen 0.7% from their highs and with the inflation rate falling to 6.7% from 7.2% and widely predicted to keep declining, there is a growing feeling that the popular one-year fixed rate has now hit its peak. Thoughts of the pace at which interest rates will decline have yet to really appear and it is frankly anyone's guess at this stage. But the important thing is that people can largely see the worst case scenario and anticipate improvement – one day.



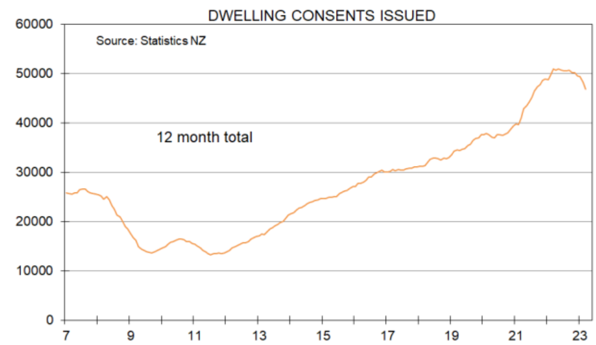
Listings falling

The stock of available listings has started to fall and so far, is down 11% from the December 2022 peak in seasonally adjusted terms. History tells us that as sales lift listings will fall further. That is what looks like coming for the remainder of this year through 2024.



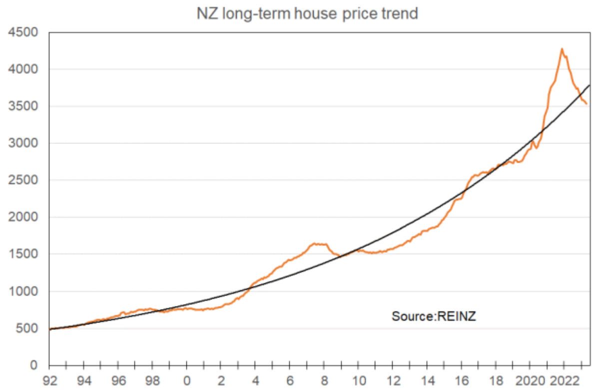
House supply growth slowing

Stories of failing builders and people experiencing major completion problems are discouraging people from ordering newbuilds. They are instead focussing back on the now declining stock of listings for already built properties.



Prices more attractive

Average house prices nationwide have now fallen 17.5% from their November 2021 peak. Some people are either feeling downside risk is now limited or prices have simply retreated enough for them to feel that affordability in terms of prices versus income is not too ugly. This feeling of reducing expectations that prices will fall further is coming at a time when the rental market may be tightening up and with rents rising people are feeling the equation is shifting back in favour of buying.



Credit supply improving

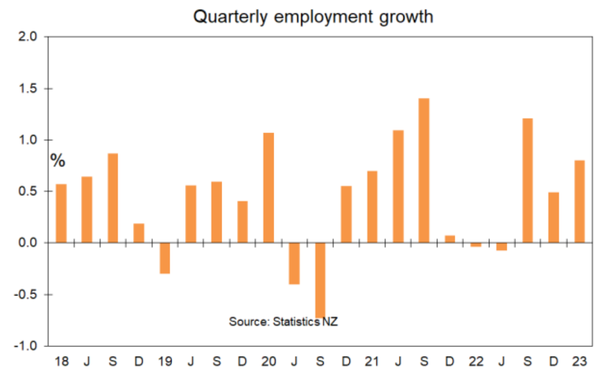
The Reserve Bank has announced that come June 1, subject to box-ticking consultation, Loan to Value Ratio rules will be eased. Banks will be able to have a greater proportion of their new loans at below 20% deposit and the minimum deposit for investors will be cut from 40% to 35%.

There have been changes to how banks are allowed to meet new CCCFA regulations, and this is making more credit available than was the case following the changes on December 1 2021.

House price cut-off levels for accessing First Start finance have been increased in most locations and that means finance is more available to more people.

Strong job security

Despite forecasts from the Reserve Bank and others of the unemployment rate rising towards 6% it has yet to budge and remains low at just 3.4%. People are feeling a surprisingly good degree of job security and at the same time are achieving good wage rises. This situation will encourage more people to feel that the risk of taking on a mortgage is not as bad as they had previously been feeling.



Waiting in the wings

A key point to note in all this is that there is some unknown but probably very large number of people who want to buy a house but have been sitting on their hands since late-2021 unwilling to do so because of expectations that prices will decline.

This large queue of buyers will be "activated" at some stage and when they start moving, they will cause concern for those in a similar queue who have not been buying because they have not been able to meet bank debt servicing requirements with test mortgage rates rising from 6.0% to 9%+.

We are probably at the bottom of the cycle now. But there is no firm basis for any claim either that prices now sit flat for two years, or that they rise 10% - 20% in the next two years. Both scenarios are possible as uncertainty regarding the many large factors in play is substantial.

But, if I had to take one scenario or the other, for me it would be the latter in light of the population surge, falling house construction, and the length of the queue of delayed buyers. Won't the possibility that interest rates stay high stop prices from rising? No. People adapt to changing circumstances and adaptation to rates near 6.5% rather than 3.5% will be well under way. Here's wishing everyone a good turn.

In case you missed it

This week I released the results of a special one question survey tacked onto the end of my usual monthly Spending Plans and Business Survey. I invited respondents to give their thoughts on things which have gone well and where they might

see some opportunities. If you're looking for something to challenge the media view that New Zealand is in deep crisis and nothing positive exists, you might enjoy a read on your journey to Australia.
[The-Plus-Side-Report-May-2023-1.pdf (tonyalexander.nz)](The-Plus-Side-Report-May-2023-1.pdf)

On Tuesday I released results from my monthly survey of mortgage brokers. They show that first home buyers are strengthening their presence in the market, that investors may not be coming back but they have on average stopped deserting, and that credit availability is firmly improving.
https://mortgages.co.nz/mortgages-co-nz-tony-alexander-mortgage-advisers-survey-may-2023/

If I were a borrower, what would I do?

In brief – wholesale borrowing costs have risen a tad this week because of higher rates in the United States caused by debt ceiling worries. Our rates are back where they were a fortnight ago which sounds uninteresting. But it is worth noting some growing concern that signs of the housing market bottoming out and the booming migration inflow causing recession predictions to be erased means maybe the cash rate goes slightly higher than the expected 5.5%.

I discuss rates a lot more in Tview Premium with lots of useful graphs to help your decision-making process.

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.