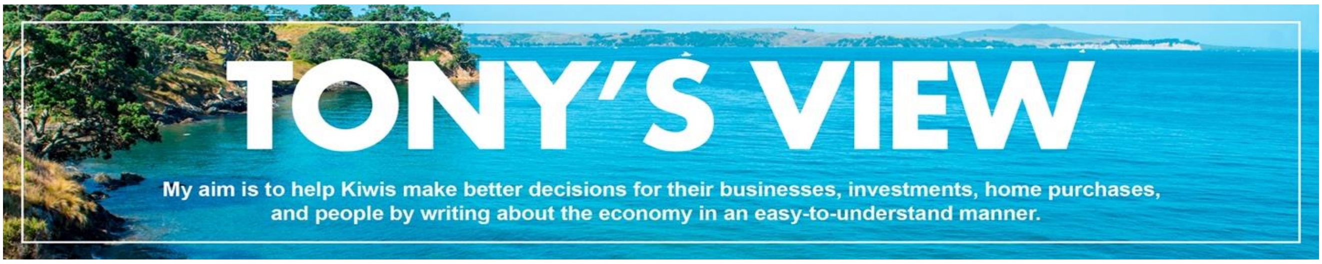

Input to your Strategy for Adapting to Challenges

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When to buy

Is it time to buy?

When you've been around a few years and a few cycles there is something important you learn about timing your purchases and sales. If you get the bottoms and the highs it is a matter of pure luck. There is no forecasting tool yet known to us which can accurately pick when an asset market will peak out and when it will hit the bottom. Why?

Largely because of the role played by human emotions. There are times when we feel that time is on our side and we don't need to hurry a purchase. We figure supply will be plentiful and prices will be flat at worst and may still be falling away. We easily slip into thinking that it is a good idea to wait until prices bottom out before buying. But there's a problem with this approach.

As you sit back watching prices fall you get cocky. The strategy works while the market is falling so you start to think you have a particular set of skills which mean you not only can pick prices going down successfully but that you'll identify when they are about to jump up and will be able to make your purchase just before that happens.

This is where cycles come from. People grow confident in their ability, and then the market shifts and they realise they are at risk of missing making their bottom purchase. So, they accelerate their buying plans at the same time as many other people are thinking and doing the same thing. The herd chases the herd all the way up to the peak in the cycle.

What's the herd doing at the moment? Where are the great unwashed thinking things are at?

Traditional economic analysis won't come close to allowing you to answer this question. We economists like to focus on the long-term factors we know will eventually dominate. These factors include levels of and expectations for interest rates, new dwelling supply growth, population growth, credit rules and so on.

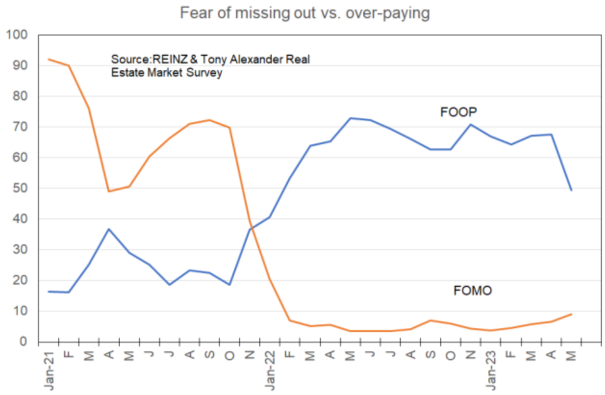
But these factors can take some time to show through and by the time they do the market as driven by shifts in emotion will already have moved. These are the things which I try to get a feel for from my monthly coalface survey. I know I don't get a complete picture of shifts in people's feelings of the heeby geebies, optimism and so on. But I reckon I get close and can give insights into shifts in sentiments up to three months of so before the general media pick up on what is

happening and become part of the equation causing the cycle to turn firmly up or down.

So, what is it that I look at to get a feel for the emotional state of the residential real estate market?

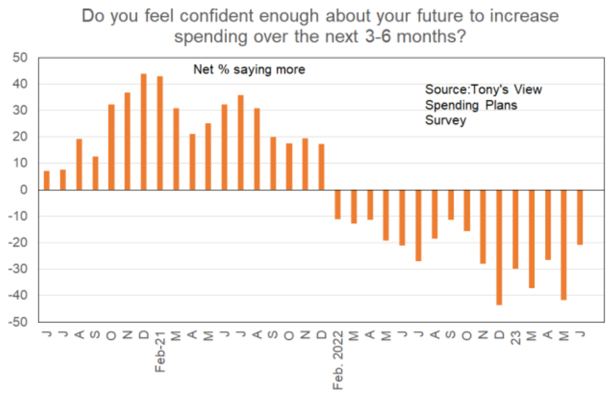
A key measure comes from my survey of real estate agents with REINZ and gauges a combination of whether people feel time is on their side and whether they feel they should buy a thing simply because others are buying it and they're doing okay. FOMO.

As noted here a couple of weeks ago, FOMO is trending up. But at 9% the latest reading is so low that we cannot say people feel they need to hurry up and re-enter the real estate market.

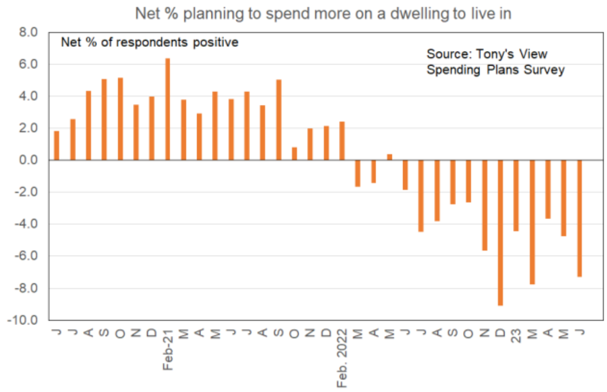


The accompanying measure to FOMO is FOOP – fear of over-paying. This has just moved down but at 49% of agents still seeing this fear we cannot say that price decline worries of potential buyers have disappeared. Buyers remain nervous of commitment still.

I also look at how people feel about spending more or less money in the near future as gauged in my monthly Spending Plans Survey. The most recent survey showed a sharp decline in net intentions of cutting spending to 21% from 42% in May. But this is still a very weak result as seen in the graph here.



And I pick up no indication from this group for whom the age profile means they are mainly owner occupiers, that they feel the time is right to buy/sell or sell/buy. A firm net 7.3% say they don't plan spending more on a house to live in.



Just in case you think I should only measure the proportion saying they are thinking about making a purchase – a gross measure – here is that graph. No solid recovery in buying intentions of owner occupiers is underway in my interpretation.

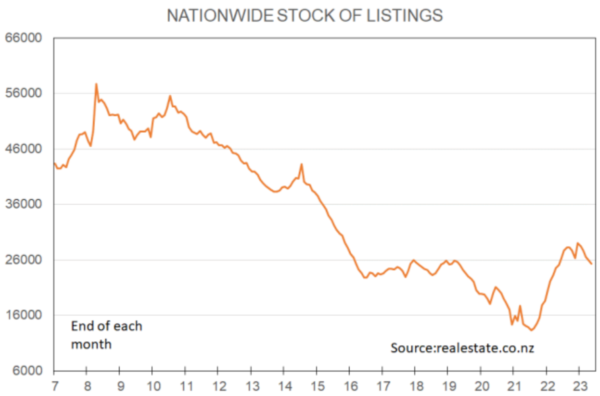
My reading of the residential real estate market is that it is turning. My analysis of fundamentals says no extra strong period immediately beckons because of the level of interest rates, tax and cost problems for investors, high consumer pessimism, and good lagged supply growth. My analysis of market nervousness measures suggests buyer feelings that time is on their side remain high – but slowly easing off.

When will the market truly get moving upward? Probably after the election when we will be talking about interest rates going down.

Property sales versus fresh property listings

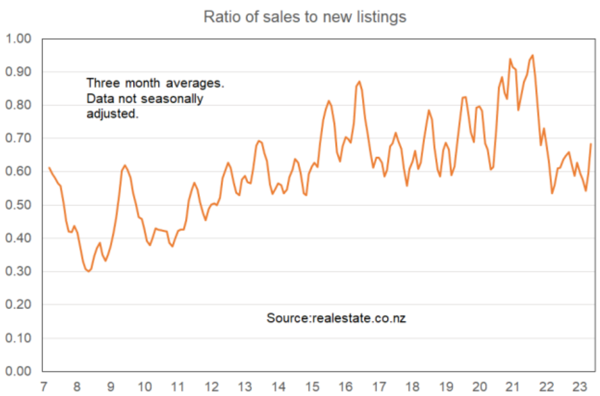
One of the key things I am keeping an eye on to try and get a feel for when the two year queue of buyers gets truly activated – alongside FOMO – is the availability of listings. There are a number of ways you can keep an eye on these data from real estate.co.nz.

One method is to simply look at the end-month stock of listings. Doing that we can see that at the end of May the number of properties available for people to buy was down almost 13% from the peak in December using seasonally adjusted data.



Another way is to look at the flow of new listings coming forward each month compared with the number of properties sold. I have done this using the unadjusted data and we get the following graph.

The first point to note is that sales typically get outnumbered by new listings. Shouldn't this mean stocks are rising rapidly over time? This isn't happening so we can probably conclude that many "fresh" listings are in fact properties which have not sold being taken off the market then put back on. Also, shifting from one agent to another probably gets recorded as a fresh listing. Listing numbers are biased upward.



Still, as long as these factors don't shift much, we can still potentially get some useful insights.

The second point is that there was a rising ratio of sales to new listings broadly from 2007 to just before the pandemic.

Third, the ratio of sales to new listings took a step up because of the pandemic frenzy through until the sharp decline in prices and sales late in 2021.

Fourth, there was a false recovery in the sales to listings ratio in the first quarters of 2022 which got shattered by extra tightening of monetary policy from November last year.

Sixth, and clearly the bit we are most interested in, the ratio is now trending back up again. In the three months to May it hit 0.68 which is the highest reading since the three months to December 2021 when the credit crunch was fully blazing.

In case you missed it

My monthly survey of businesses with Mint Design revealed their biggest concerns are the level of interest rates followed by the general state of the economy. Concerns about politics have noticeably increased this month as have worries about regulations. Staff are hard to find, but few people noted concern about supply chains, and cost pressures were also mentioned less frequently than in previous months though plans to raise prices have lifted.
[Mint-Business-Insights-June23.pdf (mintdesign.co.nz)]

My monthly survey of mortgage brokers with mortgages.co.nz showed strong demand from first home buyers and some interest from investors, with banks seen as willing to advance finance.
[Latest News Archives - mortgages.co.nz]

The survey I run of residential property investors with Crockers Property Management has shown the following.

- Investors on average are increasingly thinking about selling their properties as interest rate pressures grow.

- A rising motivation for selling is concern about the loss of interest expense deductibility.
- Only 55% of investors plan keeping their property at least ten years or never selling. This is a record low and below the two-year average of 64%.
- Investors are growing increasingly concerned about rising insurance costs.

06-crockers-tony-alexander-investor-insight-june-2023.pdf

If I were a borrower, what would I do?

If I were borrowing currently, I'd fix one year but would be tempted to 18 or 24 months if a bank cut me a deal.

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.