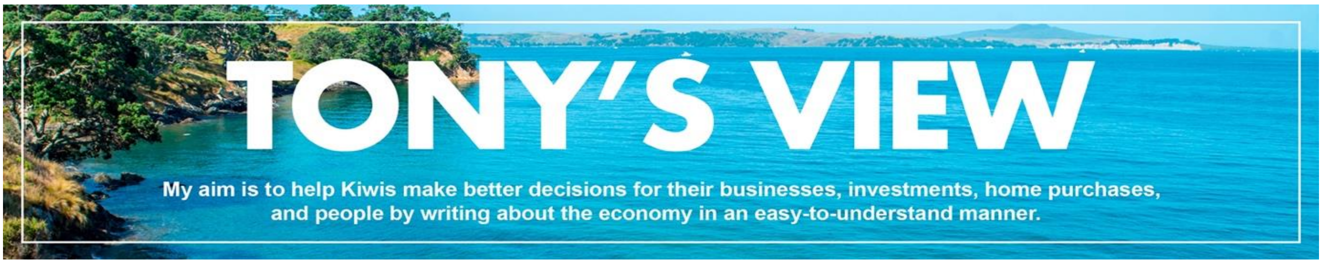

Input to your Strategy for Adapting to Challenges

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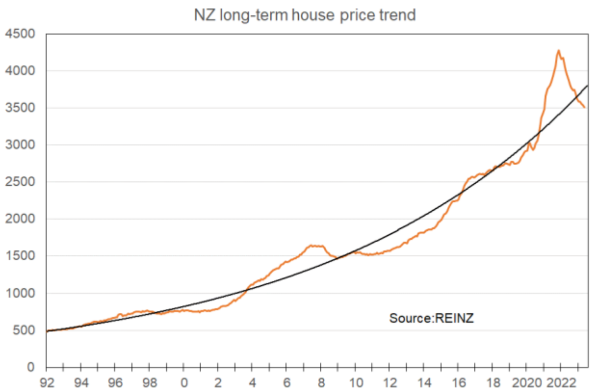
FOMO picks up

Next week, alongside REINZ I will release the results of my latest survey of real estate agents around the country. Since February the survey has been showing a return of first home buyers to the housing market, likely attracted by a number of factors.

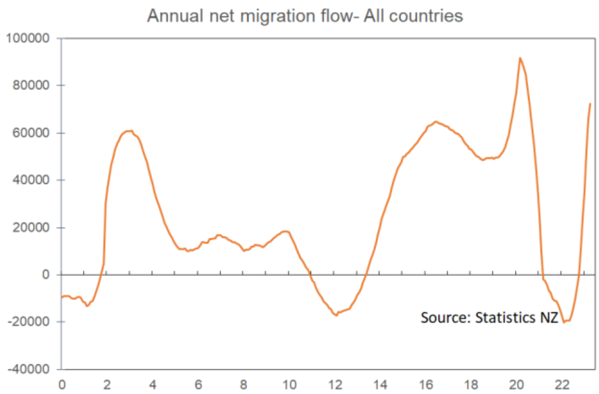
First, average house prices have fallen 18% from their peaks late in 2021 with Auckland and Wellington prices down over 23%. Houses are now more affordable as a ratio of income than in 2021 when deposit sizes prevented a lot of people from buying.



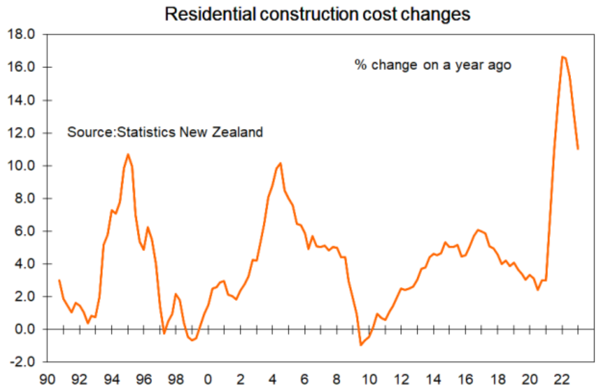
Second, wages have risen on average over 17% since the start of 2020 and for young home buyers the average rise is likely to be more than that. This is because young people tend to change jobs more often than those with older kids and a mortgage and it is through shifting employer than one tends to get the better remuneration increase in New Zealand.

Third, while house prices have fallen rents have continued to go up. The equation of buying versus renting is shifting.

Fourth, there is rising discussion of rents rising further and rental accommodation availability deteriorating for three reasons. One, costs for landlords are rising especially for insurance and maintenance. Two, loss of interest expense deductibility is placing pressure on landlords to boost rents more than many would like to. Three, there is growing awareness of the boom in net migration inflows and what this will mean for the demand for property – first rented and then owner-occupied.



Fourth, soaring construction costs and stories of failing developments and people losing their deposits has encouraged buyers to step back from ordering off the plan and instead look at the stock of listings for existing property. In doing this, young buyers likely will have realised that listings availability is good. (But falling – and that will be an important demand driver down the track.)



Fifth, there is a view that interest rates have probably peaked - maybe we'll be right this time!

Sixth, banks have become much more willing to lend money as they compete for limited business and as rules have eased related to LVRs and the CCCFA.

Seventh. Despite all the talk about recession and rising unemployment, job losses so far are predominantly in sectors and institutions undergoing "rightsizing" due to reduced customer flows such as NZ Post, universities, and tech firms. There are losses which will accumulate in retailing and residential construction, and across all sectors the pressures on cash flows will encourage some firms to permanently shrink their activity levels by laying off some staff.

But for most people, worries about loss of employment income are likely to be low and that reality is likely to be encouraging young people to advance their house purchase where possible.

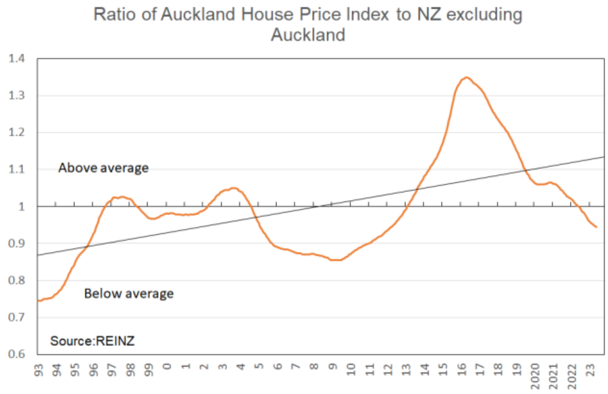
I have the bulk of the results in from my latest survey of real estate agents and I won't go through the detail here. But suffice to say over a net 50% of agents are seeing more first home buyers in the market. The proportion seeing fewer investors is the smallest in almost two and a half years.

FOMO is rising and now sits near 20% of agents seeing it from 4% - 9% in all other months from February last year. FOOP is falling, and maybe we are a month out from the two measures crossing over. Prices are still seen as falling by more agents than see them as rising – but the difference is almost zero. A buyer's market remains in place – but again, only just.

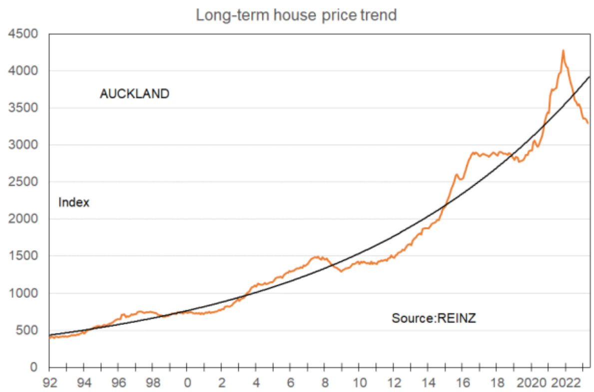
The survey shows decreasing worries that prices are going to keep falling, rising concerns about the availability of listings, but still high concerns about getting finance and of course the level of interest rates.

Overall, virtually every measure in my survey shows the residential real estate market is turning. Of some significance is the support which the survey provides to my argument that Auckland will outperform this cycle.

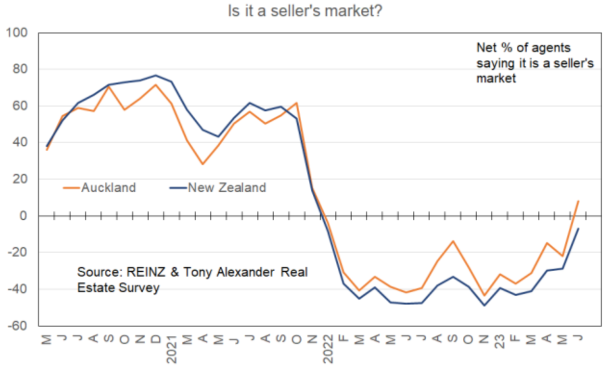
I have discussed this issue here in recent months. For instance, from a long-term trend point of view versus the rest of the country, Auckland house prices are now "cheap".



Looked at solely from an Auckland long-term price trend point of view prices again are below trend.



The significant result from my monthly survey with REINZ is this. Auckland has turned into a seller's market for the first time since November 2021.



The trend nationwide for the housing market is clear, as is the trend for Auckland. The only real questions are these. How quickly will the average person realise what is happening and act on expectations of house prices rising? How quickly will interest rates decline and allow people not currently able to meet debt servicing requirements to access a mortgage? Welcome to the new upturn.

In case you missed it

I haven't released any fresh survey results since last week's Tony's View issue.

If I were a borrower, what would I do?

I still favour fixing one year but would look at going marginally longer if a nice, discounted rate were offered. For your guide, over the past week wholesale interest rates have not moved by much at all. The tone offshore is bearish with a couple of extra monetary policy tightenings still expected in Australia, the UK and the United States. Maybe Europe also. However, bearishness across the Tasman has been somewhat pared back following the latest inflation number coming in 0.5% lower than expected at 5.6%.

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.