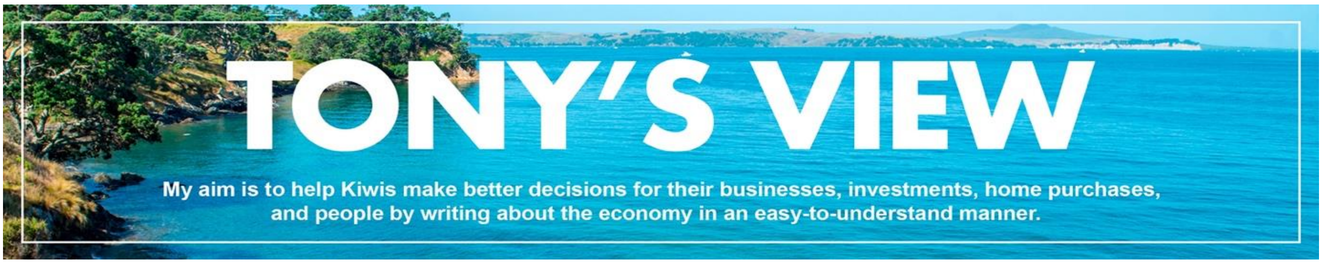

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ISSN: 2703-2825

6 July 2023

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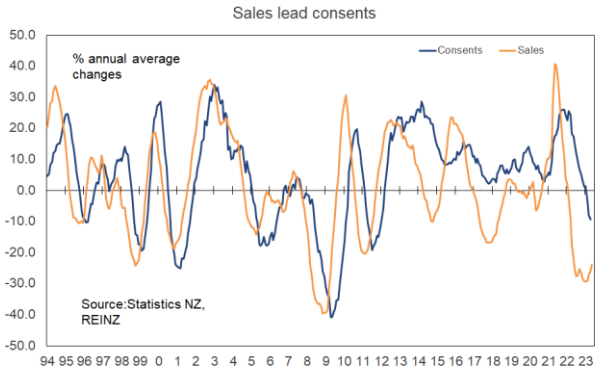
Auckland in the front

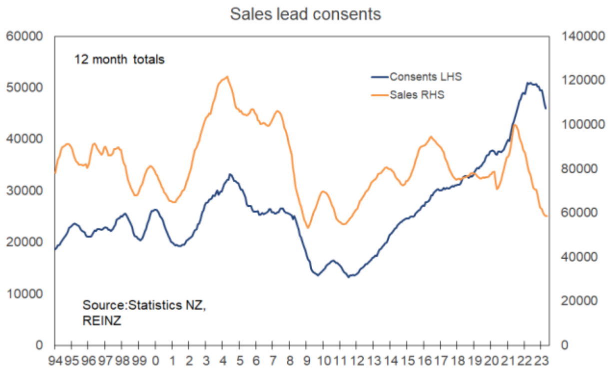
In the media this week there was a quick comment made by a journalist regarding the outlook for residential construction. They felt that with signs of the real estate market bottoming out the outlook for residential construction will be improving and builders in the sector will soon start to feel better. Not so fast.

There is a lagged relationship between changes in real estate sales and then later on changes in the number of consents issued for new dwellings to be built. Then after that we get the actual change in construction. This graph starting in 1994 shows the first lagged relationship quite clearly. Sales change then consents change.



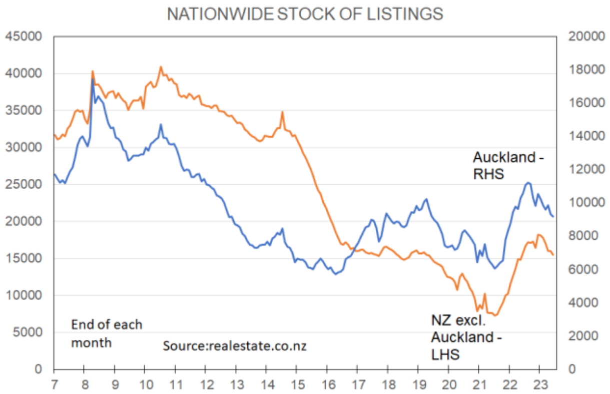
But note how the relationship has become less strong since 2013. Large changes in sales do not elicit the changes in consents which would have happened in earlier years. The dynamics of house building in New Zealand have altered. That means predictability has declined.

One nature of that change can be seen here. For a decade from 2012 consents soared while sales went up and down and the break is seen is occurring largely from 2015 when falling sales did not lead to falling consents. What changed?



Here is one of the things which changed. The blue line in the following graph shows the end of month stock of properties listed for sale in Auckland. The

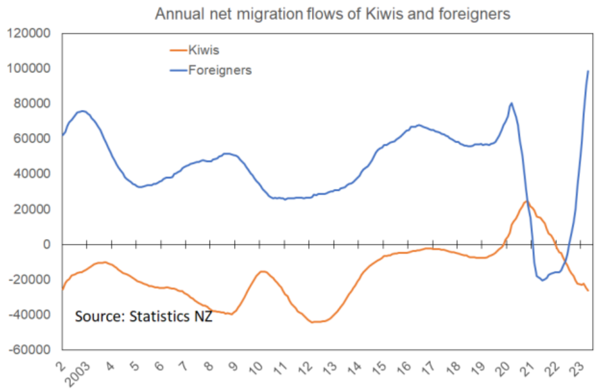
orange line is for the rest of the country. The series tend to move in the same direction. But note from 2015 the stock of property outside of Auckland fell all the way through to late-2021. But Auckland stocks did not.



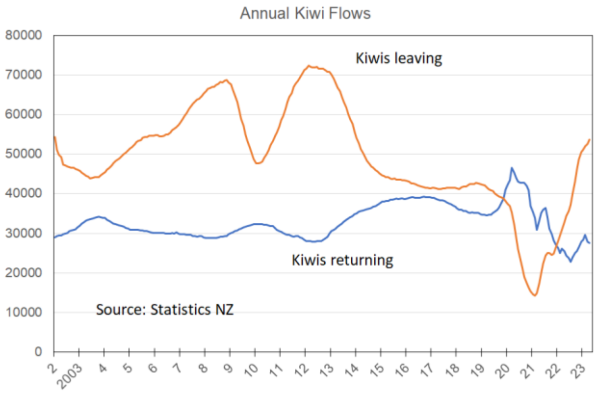
Property has been relatively scarce in the regions by historic standards since 2015. In statistics terms we say there was a step shift from that time through to about 2018. Three years of what?

The Auckland Unitary Plan became effective from the end of 2016 and more dwellings became able to be built on the available urban land. Baby boomers have been retiring in droves since 2011 so maybe some shifting to the regions has been in play causing a step lift in regional property demand by downsizers.

There was a migration boom from 2015-19. Most migrants go to the cities. That should have unusually boosted Auckland property demand. But look at this next graph. It shows annual net migration flows for Kiwis and foreigners. From 2015 the net outflow of Kiwis in orange unusually decreased. Were it not for the pandemic presumably this orange line would have stayed close to zero.



Why is this potentially important? Because migrants go where migrants have gone which is usually the cities and usually Auckland. But we Kiwis leave for better times, income, and weather from all over the country. From 2015 the graph implies less outflow than usual disproportionately from the regions. The gross outflow of Kiwis is shown in the following graph in orange.



Fewer Kiwis leaving meant fewer property sales in the regions. Lower listings than usual was the result.

But now things are changing. The net loss of Kiwis to our population from migration flows has averaged 16,000 a year since 2002. The loss now has been 26,000 in the year to April and the loss is growing still.

Now, go back to the graph showing end of month listings in Auckland versus non-Auckland NZ – the third graph on the previous page. Go to the very right and you'll see listings in Auckland falling faster than in the regions.

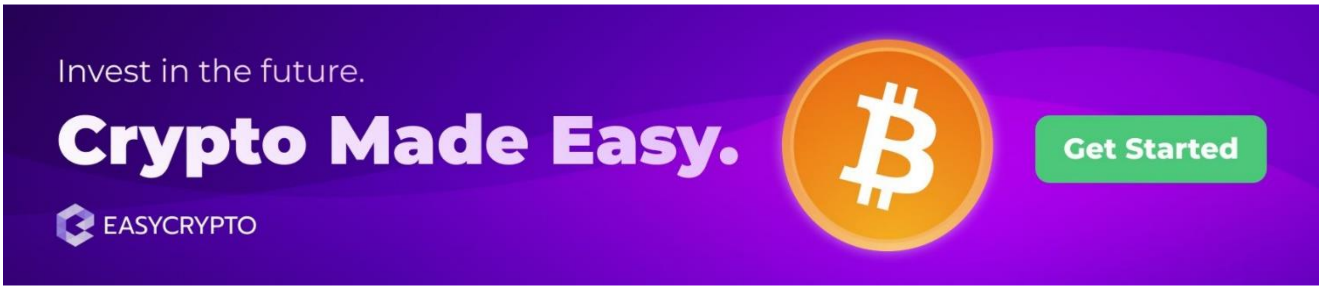
Meaning what? I started this wee article wanting to warn everyone again that house building is set to fall for the next couple of years because construction well lags sales changes and there are many inexperienced, under-capitalised, over-optimistic people to be weeded out of the sector. But I've ended up with a further strengthening of my view that the upward leg of the house price cycle now underway is going to be focussed on Auckland.

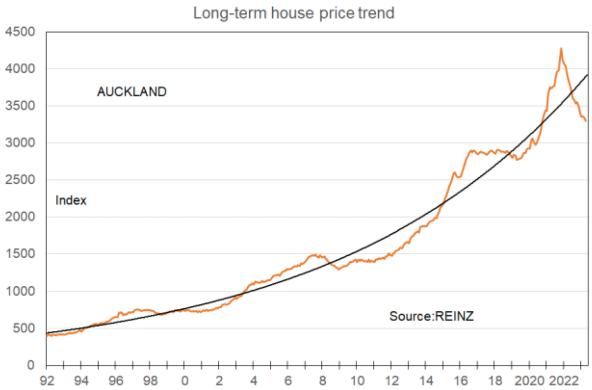
But I've also got some strengthening of my warning that the correction to house building risks surprising people by its magnitude more in the regions than in Auckland.

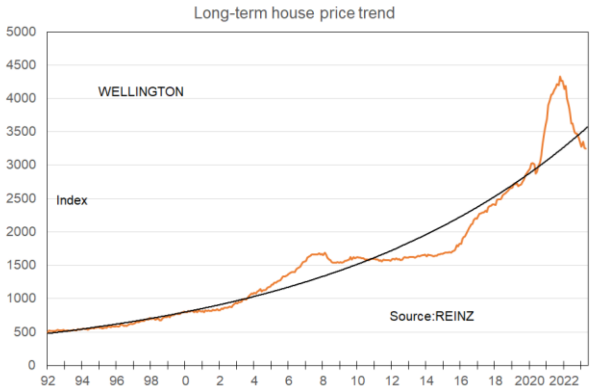
For completeness, because not everyone reads each issue and will have seen these graphs before, consider these next few graphs.

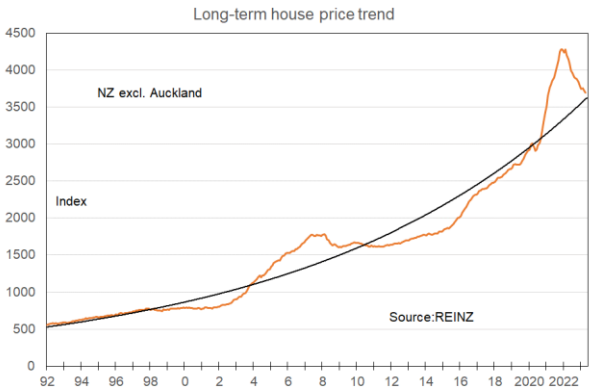
The first two show the REINZ House Price Indexes from 1992 for first Auckland then the rest of the country. The orange lines are rising over time reflecting house prices rising for these past three decades. The black line is simply a trend run through these lines.

The first graph shows Auckland prices currently well below trend. The second shows the rest of the country about on the trend level. Canterbury is about on trend, Wellington a bit under.

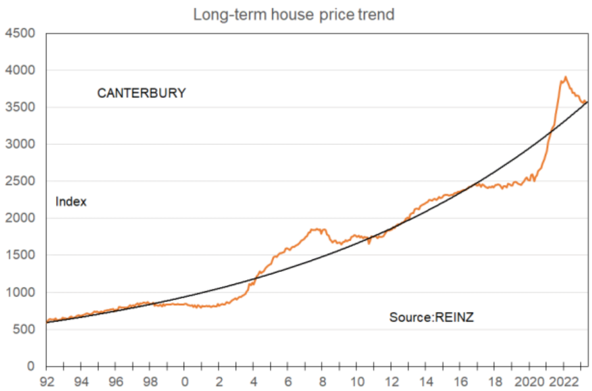


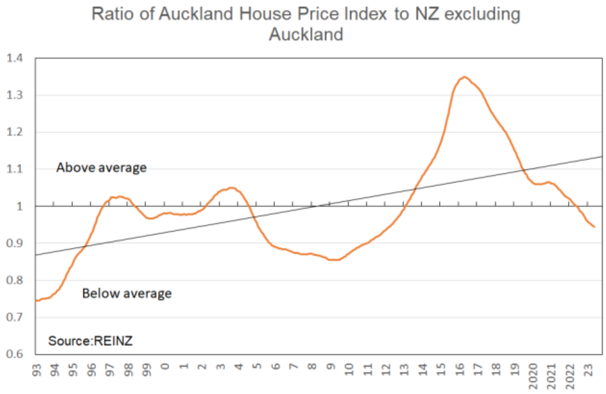






This final graph compares Auckland's house price index with the rest of the country. The black trend line is straight and not a polynomial as for the other graphs. Auckland is "cheap" relative to the rest of NZ.





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You can't use any of these graphs to make firm forecasts of where prices are heading. All they can do is give you a feel for whether or not a place has a greater chance of outperforming or not. I reckon Auckland has scope for outperformance this cycle. Good luck for the cycle and be on the lookout for when the large queue of buyers who have sat on their hands since early-2021 get activated. There are more of them than people who have to sell. That is what a strong jobs market delivers.

Oh, and just one quick comment directed towards those who reckon the Reserve Bank will squash the house price upturn with DTIs next year. No they won't. Their job is inflation overall as measured by the CPI, and making sure bank lending is such that in the event of a market correction the banks won't be stuffed. LVRs have been so tight and with the CCCFA changes in place bank books look fine.

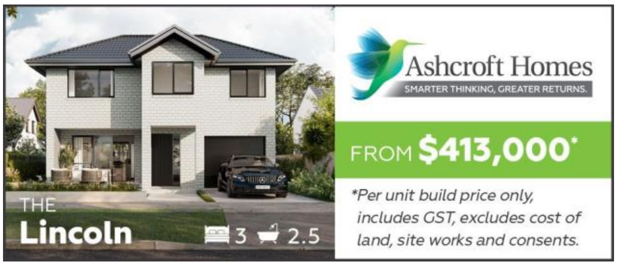
In case you missed it

Yesterday I released the results of my monthly survey of residential real estate agents around the country. The key insights are these.

- FOMO is rising while FOOP (fear of over-paying) is declining.
- More people are attending open homes and auctions.
- Buyers are getting more concerned about the number of properties available for purchase.

If I were a borrower, what would I do?

Next week the Reserve Bank will review its official cash rate. We can be near certain that the rate will stay at 5.5% and that the central bank will continue to emphasise that things are heading in the direction they want and that additional rate rises will not be necessary.



Personally, I still favour fixing 12-18 months.

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.

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