

NZ Residential Property Market Update



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The economic tone is undoubtedly improving according to ANZ Research's August Property Focus Report and most commentators cautiously acknowledge that property indicators and consumer sentiment continue to improve. New Zealand's recovery from recession has gained a lot of momentum over the previous few months and housing activity has been one of the drivers however not all regions and cities in NZ are performing equally.

The residential housing market gained momentum in August with "the big two" - Auckland and Wellington - leading the way, according to the Mike Pero Mortgages-Infometrics Property Cycle Indicator (PCI). Wellington had a Property Cycle Indicator (PCI) of 7.80, up from 6.57 in July, and Auckland was not far behind with a PCI of 7.52, up from 6.92 in July. In terms of the 12 month period ending August 2009, Auckland median price went up 6.25%, Wellington 5.46% and Taranaki with a surprising 15%. Auckland and Wellington still have the greatest consumer confidence level and it is not surprising because it is usually the case that major cities lead the way forward into the next property cycle. The Real Estate Institute of New Zealand (REINZ) cites Auckland and Canterbury/Westland as the fastest districts in which to sell a house which is another strong indicator of demand.

Property Supply

There are some medium term supply issues especially for apartments and particularly in relation to Auckland where land is most limited. In the 12 months to April 2009 there were 40% fewer consent approvals issued than the previous 12 month period – with the most dramatic decline being in apartment consents. According to Statistics New Zealand (SNZ) in July the number of building consents issued for new dwellings has lifted to 1,214 new dwellings of which only 55 were for apartments. The increasing lack of supply pipeline of new projects – particularly in the apartment sector - will continue to put upward pressure on prices.

The Global Financial Crisis (GFC) has created less money in circulation around the world and NZ is no exception. There is a shortage of lending for new projects and a tightening of lending criteria for developers meaning that it is simply more costly and difficult to bring new projects to the market. Developers who don't "have to sell" are either putting projects "on hold" indefinitely or trying to offload sites and this has created a dramatic lack of supply of new projects to the market. Westpac, for example - who was the largest supplier of finance for new CBD projects in Auckland during the last cycle - has pulled back dramatically on funding new projects. Westpac Chief Economist Brendan O'Donovan was quoted in the NZ Herald on September 19 as saying that the current building rate of 12,000 per year was nowhere near enough to meet demand and should be running at about 20,000 a year - a substantial shortfall in supply of new dwellings. He said "Given the current build rate and migration, you'd actually need about 30,000 houses built to close the gap, it's just not going to happen." ASB economist Jane Turner said that the July figures from SNZ suggested the construction industry was close to reaching a turning point.

Property Demand

Migration will be a key factor in the New Zealand property market moving forward and upward with ANZ's Property Focus Report stating that "migration is a positive for the economy and will provide support to both the housing market and spending, and in particular the Auckland region." 2008 seems to have been an unusually low "blip" on the radar with a net migration of only 3,500 last year whilst 2009 is anticipated to end with about 25,000 according to Westpac Chief Economist Brendan O'Donovan. This represents a massive turnaround.

Despite potentially higher unemployment and slower wage growth, demand for new housing would be underpinned by a rise in net migration. Strong migration rates driving demand will be crucial to the continued expansion of the NZ economy and in particular the housing market. The problem with growing demand and limited supply though is that in property, it is a slow problem to fix because to increase supply rates takes years not days, weeks or even months - and by this time the problem has just become worse and worse anyway.

The big 'fear' is the impact of interest rates going up again over the medium term – short term however commentators generally agree that they will stay low for some time yet. The Reserve Bank is not silly though and property investors need to realize why interest rates are put up - to "slow a racing economy". So when they go up there are usually lots of positive reasons behind it – price growth for starters. Interest rates are unusually low though and so a return to more "normal" levels is no big deal for experienced investors.

Auckland market – Short Commentary

- Most sales this year have been in the lower end of the market – and a lot was the “mopping up” of lower quality completed stock particularly from developers or property speculators – and much of which had to be discounted in order to meet the market. Most of that stock is now sold although the supply of good quality and larger CBD apartments is now an issue.
- Very few new apartment projects are being started or going on sale because of a lack of funding and higher costs.
- House and Land projects are still continuing and consent rates are improving so supply is picking up here.
- One prominent Auckland CBD agent sold 70 apartments in the past month and demand for good stock is definitely out there from both investors and owner occupiers. According to Bayleys Research Auckland CBD survey now about 40% of CBD apartments are owner occupied and this proportion should only grow over time. With the lack of supply of quality new CBD dwellings, many people who would like to buy are forced to continue renting.
- The local owner occupier market for apartments is still maturing with now 3 distinct markets within the CBD – very small investor apartments, larger better quality apartments that appeal to both investors and owner occupiers and premium owner occupier stock.
- Good capital growth is normally found in apartments which can ultimately be sold to a wider potential purchaser base – both investors and owner occupiers. For this reason the best capital growth is usually found in apartments that have owner occupier appeal and are not serviced apartments or just ‘student-renters’.

With a looming undersupply of Auckland properties and lack of new projects launching, now is a perfect time for investors to secure quality completed or off plan apartment projects – the key is to get the right projects.

Information Sources:

ANZ Property Focus (New Zealand) September 2009

REINZ

Real Estate Investor

Reserve bank of NZ website www.rbnz.govt.nz

Various metropolitan newspapers

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