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TONY ALEXANDER Regional Property Insights

APRIL 2022



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Introduction

Welcome to the third issue of Regional Property Insights for 2022, prepared by Tony Alexander with the support of First Mortgage Trust.

In this issue we step back from our recent examination of the potential for price correction in each region to concentrate on how prices are in fact changing using REINZ House Price Index data. But we also look at other measures of the speed with which conditions are changing in each sector, sourced mainly from the monthly REINZ & Tony Alexander Real Estate Survey along with my monthly Spending Plans Survey.

Previous issues of Regional Property Insights are available [here](#).

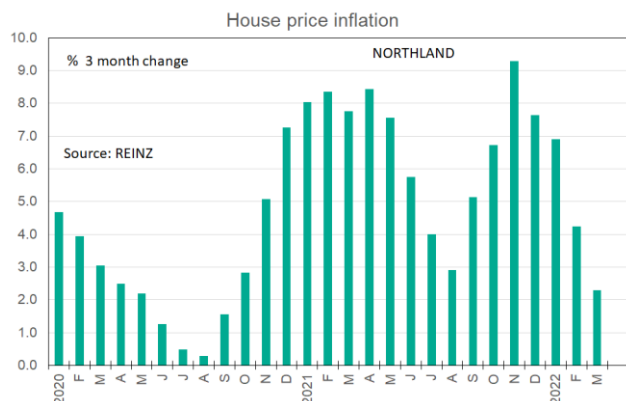
[First Mortgage Trust Articles](#)

Further extensive discussion of house price movements and factors affecting prices can be found in the weekly Tony's View publication available from www.tonyalexander.nz

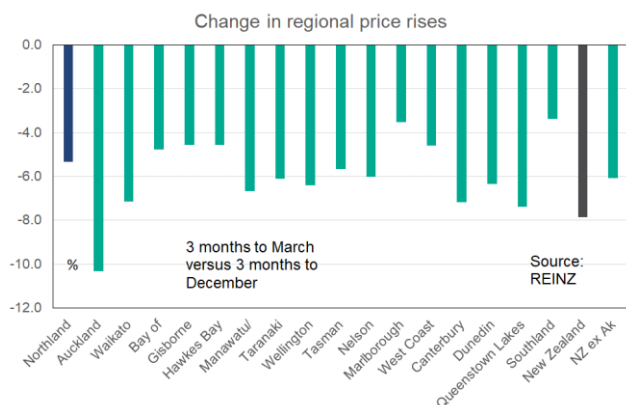
Northland

Pricing turnaround is very mild

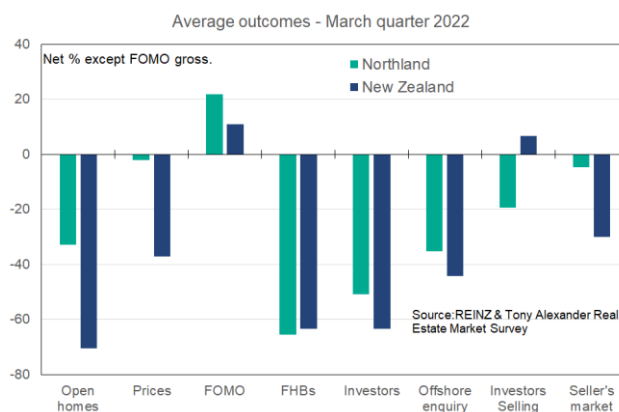
Whereas NZ house prices on average have fallen by 2.1% in the March quarter after rising 5.8% in the December quarter, in Northland prices continued to rise. They gained 2.3% in the March quarter.



This is a slowdown from 7.6% average price growth in the December quarter. But the degree of slowing is below average as seen in this following graph.



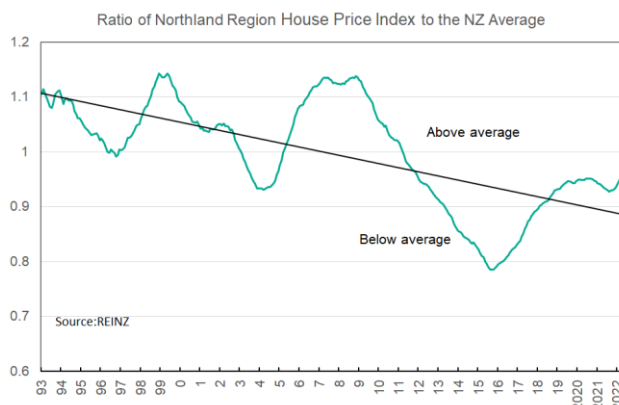
Northland's housing market is not turning down to the same degree as in most other locations. The following graph is sourced from the REINZ & Tony Alexander Real Estate survey. Each green bar shows the average net proportion of Northland's respondents who over the March quarter reported seeing more of the item in question. For instance, a net 33% saw fewer people attending open homes. But this was a lot better than the net 71% nationwide who saw reduced attendance.



Northland shows greater strength across all measures except presence of first home buyers where the degree of withdrawal noted by agents is about the same as the NZ outcome. Note that a net 19% of agents report seeing fewer investors selling versus 5% positive nationwide. And note how the degree to which the region has become a buyer's market is far less than for all the country on average.

Will this situation continue? The quarterly data remove the sometimes volatile monthly measures. But it pays to note that Northlands' prices did fall by 1.4% in March and 0.1% in February. A price decline is underway, but it is very mild. Support is coming from aging Aucklanders seeking warmer lifestyles, and perhaps anticipation of a boost next year from the return of foreign tourists.

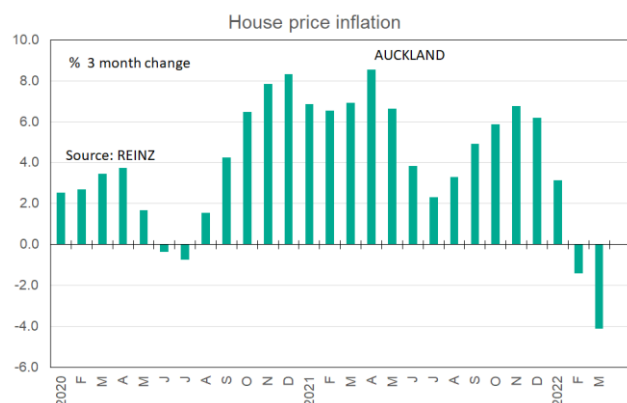
The region is not much over-valued against the rest of the country, and it is likely that in the near future the region will out-perform and the recent movement of our price gauge above trend will intensify.



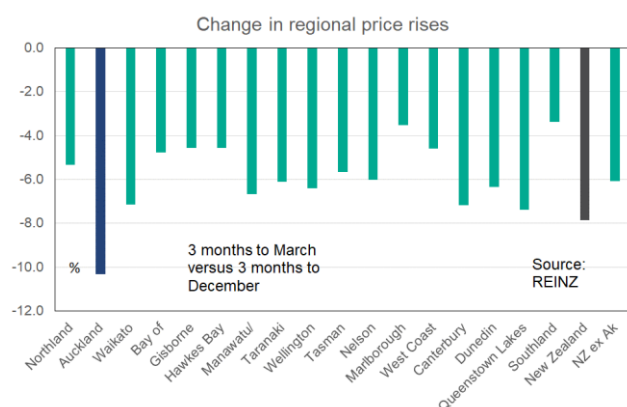
Auckland

Rapid price turning underway

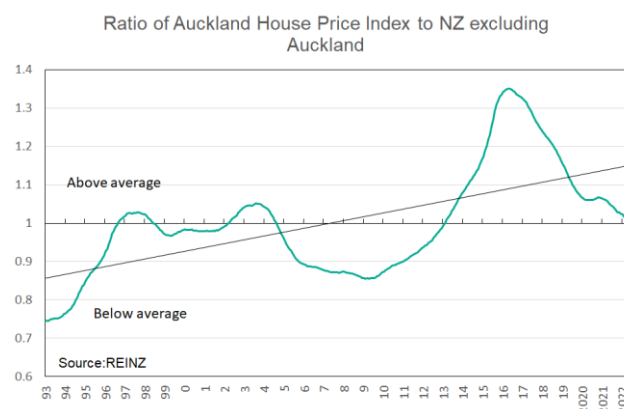
Unlike Northland, Auckland presents as firmly having prices falling. Average prices have declined by 4% in the March quarter compared with just a 0.6% decline for the rest of the country excluding Auckland.



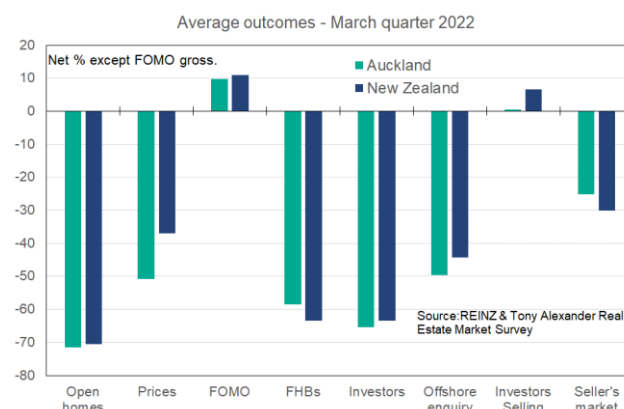
Because Auckland prices surged by an unusually strong 6.2% in the December quarter the turnaround over the past six months has been the greatest for all regions covered – as seen in this next graph.



Why might Auckland be experiencing such a rapid turning of price fortunes? It is not because the region is over-valued when compared with the rest of the country. It is in fact under-valued.



Sentiment on the ground as observed by agents in the monthly REINZ & Tony Alexander Real Estate Survey is not much different from the NZ average for most measures – apart from prices.



Perhaps it is the combination of three factors in play which help explain the extra Auckland weakness. First, new house construction is at extremely high levels. Second, there has been internal migration out of Auckland to the rest of the country and after shrinking by 0.1% in the year to June 2021 Auckland's population may well shrink again for the current June year.

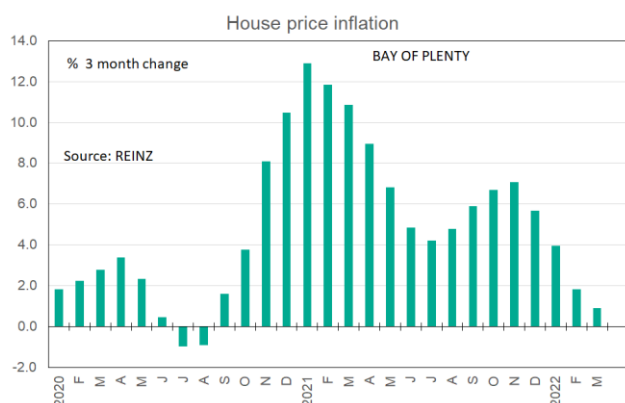
Third, as our most international connected city Auckland may be more vulnerable to the just starting flow of young Kiwis overseas and to Australia in particular, than other regions.

At this stage, it could simply be that Auckland is once again ahead of the pack with regard to house price changes.

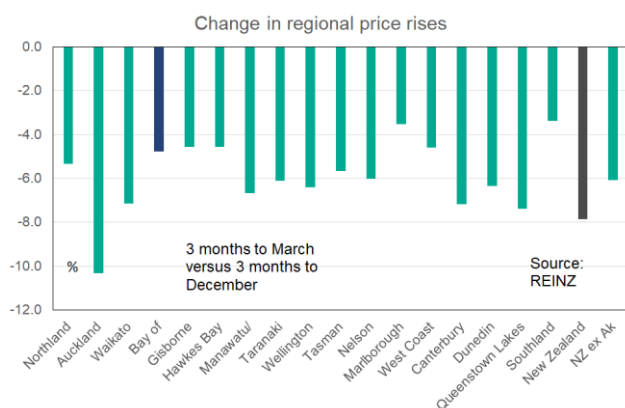
Bay of Plenty

Price fall catch-up to come

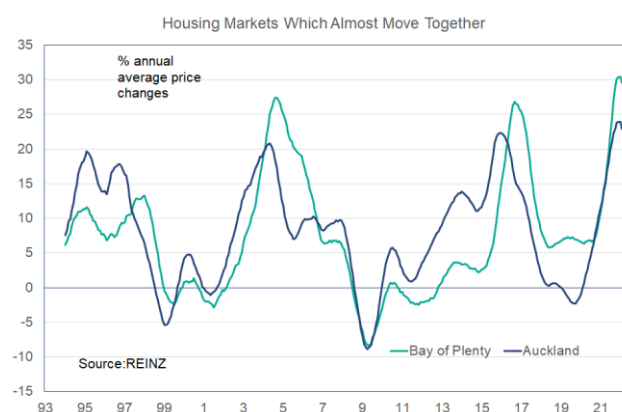
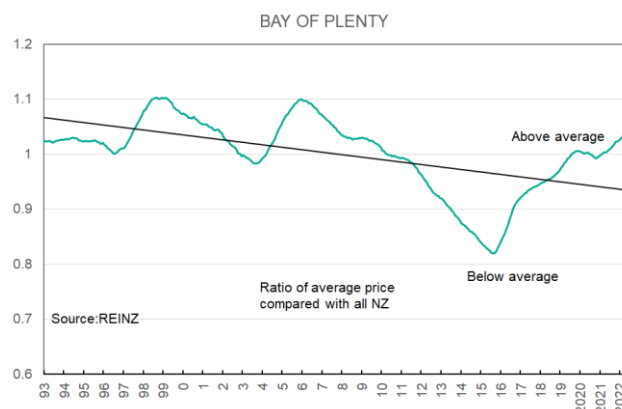
After peaking late in 2020 the pace of increase in house prices in the Bay of Plenty slowed up until the middle of last year when first home buyers jumped in to take advantage of fewer investors looking to buy. But since the effects of the credit crunch began filtering through house price inflation has been slowing and price rises have now almost ended. In fact, prices fell 0.3% in February and 0.7% in March.



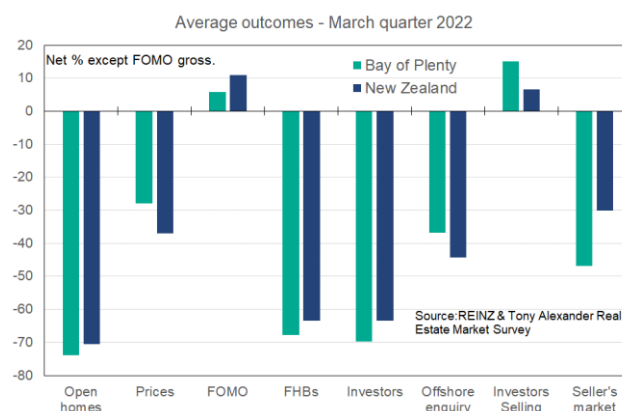
The speed with which prices are turning is slower than average for the country and for NZ excluding Auckland.



But like Northland, this situation is taking the Bay of Plenty further away from its trend relationship with the country overall. Based on the relationship we noted here previously between the region and Auckland, we should fully expect price declines to catch up at some stage not far from now.



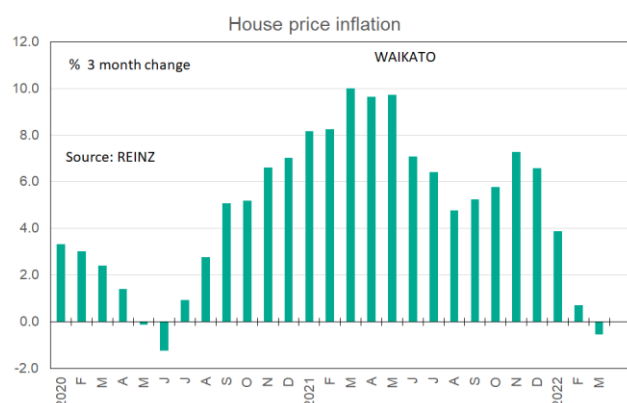
From the REINZ & Tony Alexander Real Estate Survey we can see that the Bay of Plenty region is seen by agents as generally weaker than average. There is however less investor selling than average. But the region is in a well above average buyer's market position.



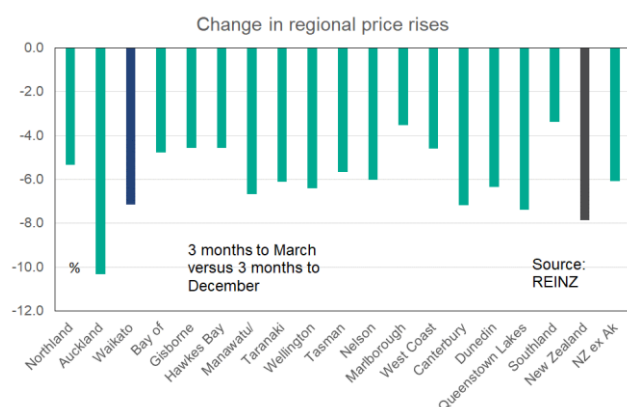
Waikato

Prices easing – more to come

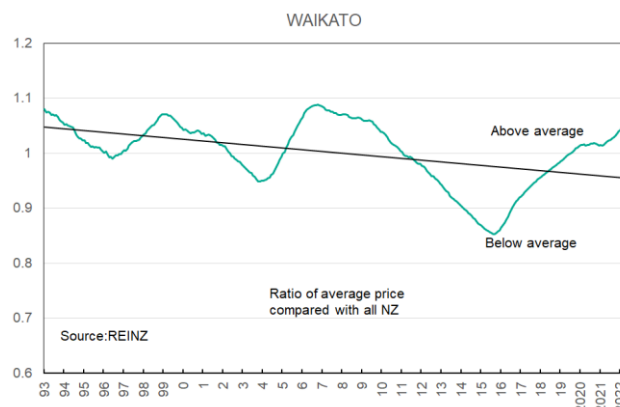
Average house prices in the Waikato region fell by 0.5% in the March quarter. This was less than the nationwide decline of 2.1% but essentially the same as the non-Auckland fall of 0.6%. The region therefore presents as neither unusually strong nor weak.



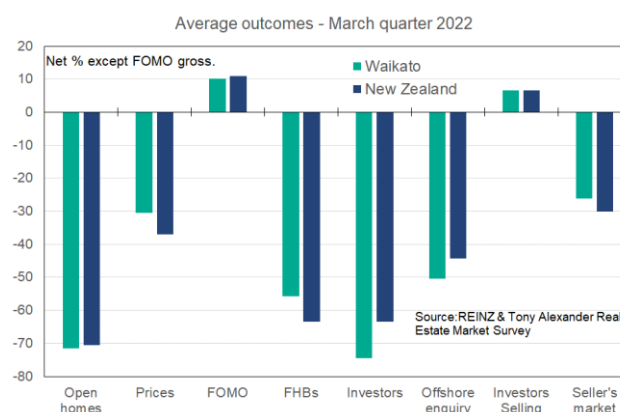
The change from the 6.6% average price rise for the December quarter has been slightly greater than for the average excluding Auckland.



But the extent to which prices are above their long-term trend with all the country has increased recently. Given a similar relationship with Auckland house price changes as noted above for the Bay of Plenty region, we can reasonably expect an acceleration in the pace of Waikato decline in the near future and under-performance against most of the country over the next couple of years.



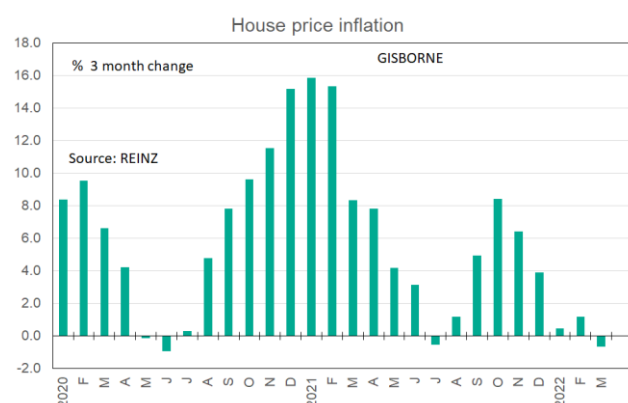
Looking at the REINZ & Tony Alexander Real Estate Survey we can see that the Waikato region is insufficiently far enough away on the plus or negative side for the country overall to allow any meaningful comments. House prices are falling in the region without any particular difference from most other regions.



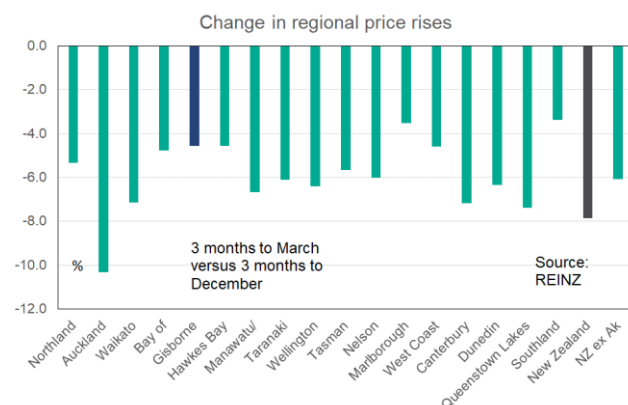
Gisborne

Price correction overdue

Over the March quarter average house prices in the Gisborne region fell by a small 0.7%. This was less than the nationwide fall of 2.1% but about the same as the decline for all regions excluding Auckland.

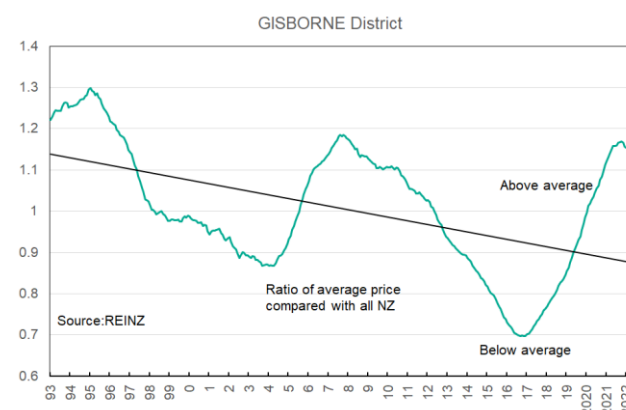


The turnaround in price rises from the December quarter is slightly less than the nationwide average.

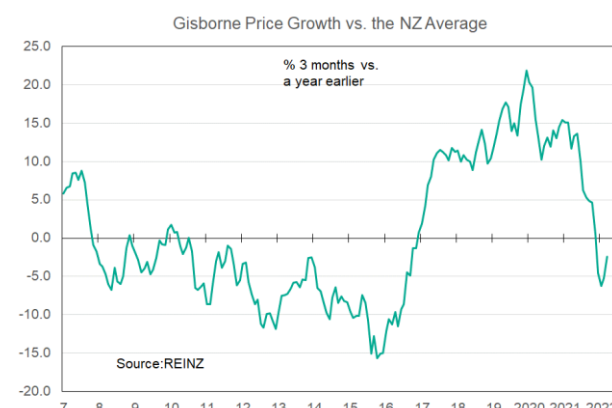


Gisborne is a tiny region and that is why essentially no attention should be paid to the month to month changes in measures of average property prices. For instance, the REINZ House Price Index for the region fell by 7.5% in March which is an extremely large fall. But in February prices rose 5.4%. Averaging over three months is vital for this and other small regions and people should be wary of media discussions based just on one month price movements.

The average level of prices in the Gisborne region is well above trend with the country as a whole. A correction back towards trend has started and it is so far very mild.



But history tells us that when the region passes through a period of price change divergent from average, the levels of that divergence can be quite large.



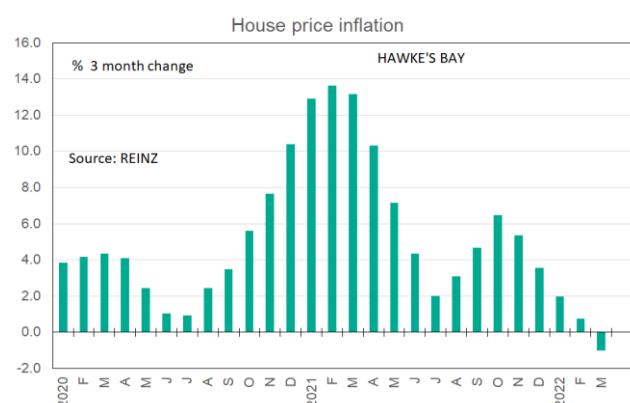
The region is due for a price correction and firm price declines could see this region be the worst performer of all regions in the next 2-3 years.

We don't have enough responses from Gisborne in the REINZ & Tony Alexander Real Estate Survey to present data for the region. The small number of responses get added each month into the Hawke's Bay results presented below in this report.

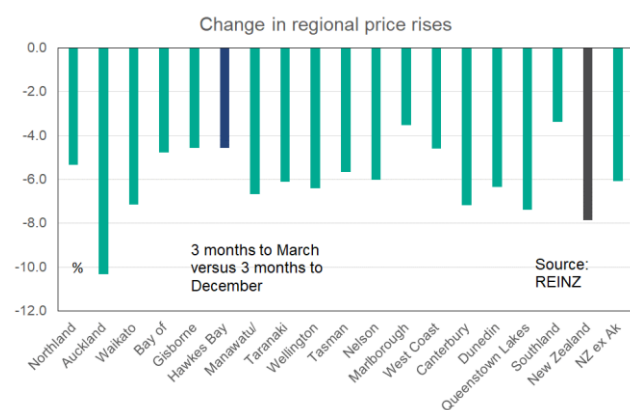
Hawke's Bay

Bigger correction likely on its way

Like most, but not all regions, average house prices in Hawke's Bay fell during the March quarter. The decline of 1.0% is slightly greater than the average excluding Auckland.

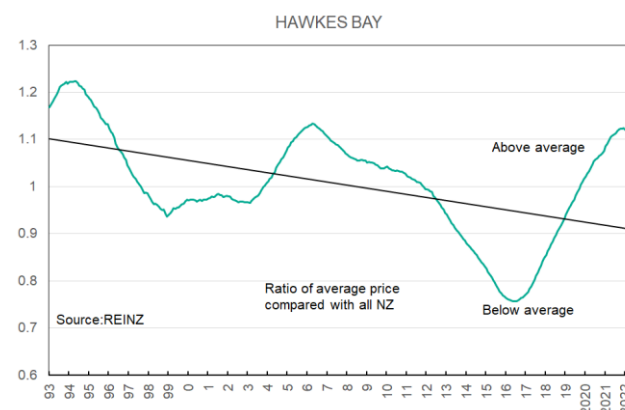


The turnaround from the December quarter is however less than average, so one could not say any particularly large and different wave of price discounting is flowing through the region than through others.



As noted many times in this report over the past year, average house prices in Hawke's bay are well above their long-term trend. Prices have been boosted by a flow of internal migration as the pandemic may have encouraged some older people to advance their plans for retirement to the region. If so, then we have to allow for the possibility of a lull in such flows soon because those who were planning to shift this year or next may already have made the move.

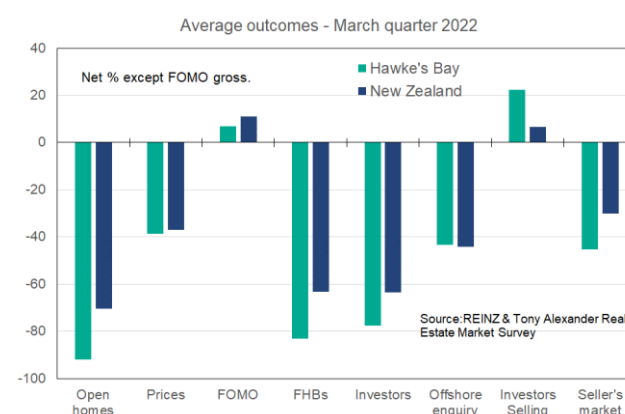
Growth in housing demand may therefore slowdown at the same time as supply belatedly catches up with that earlier demand surge.



Looking at results from the REINZ & Tony Alexander Real Estate Survey we see in the green bars that the Hawke's Bay region has extra weakness with regard to:

- open home attendance
- withdrawal of first home buyers
- withdrawal of investors buyers, and
- bargaining power of sellers.

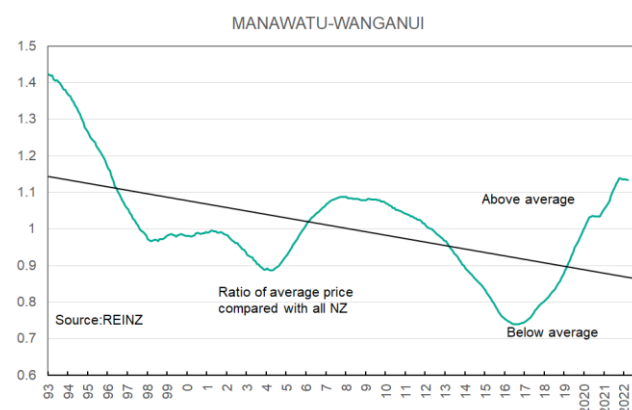
Note however the distinct lack of a wave of investor sellers. The results suggest extra weakness beyond the NZ average soon, but no rout necessarily.



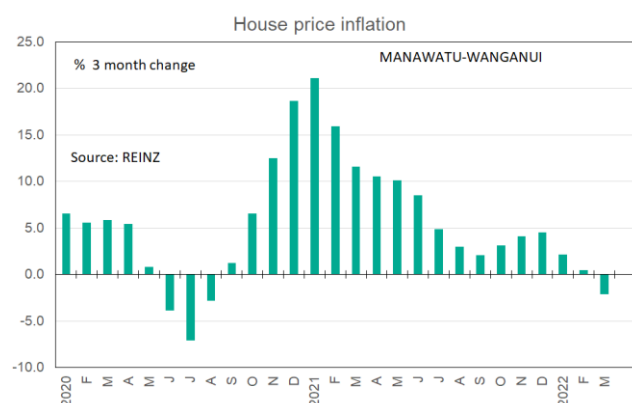
Manawatu-Wanganui

Price correction likely to accelerate

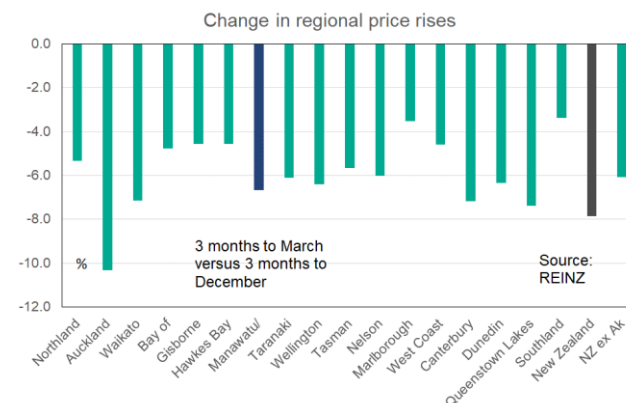
House prices in the Manawatu-Wanganui region have soared since 2016 and the region now presents as highly over-valued when compared with its long-term relationship with the country overall.



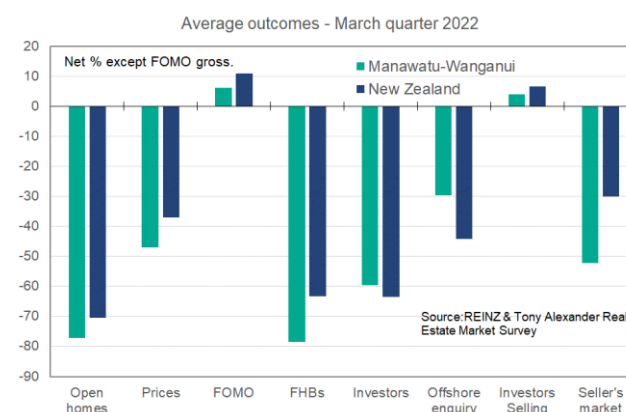
Is this over-valuation leading to a greater than average easing of prices? Early signs are tentative. On average prices fell 2.1% in the region during the March quarter. This matched the all-NZ decline but exceeded the 0.6% fall for NZ excluding Auckland.



The next graph tells us that the turnaround to falling prices in the March quarter from rising prices in the December quarter was about equal to the NZ average.



From the monthly REINZ & Tony Alexander Real Estate Survey we can see that on almost all measures agents view the region as weaker than average. Note the last reading where a net 52% of local agents feel that it is a buyer's market as compared with 31% nationwide.

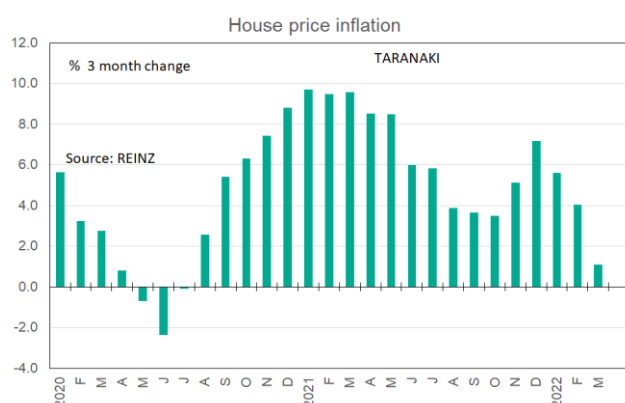


It seems reasonable to expect above average deterioration in the Manawatu-Wanganui region's house prices through the rest of 2022.

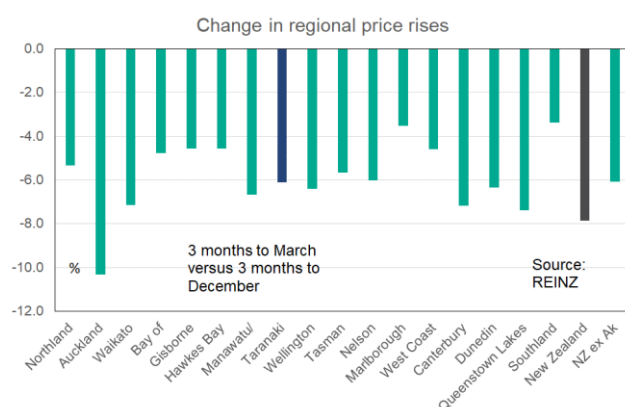
Taranaki

Mild correction to proceed

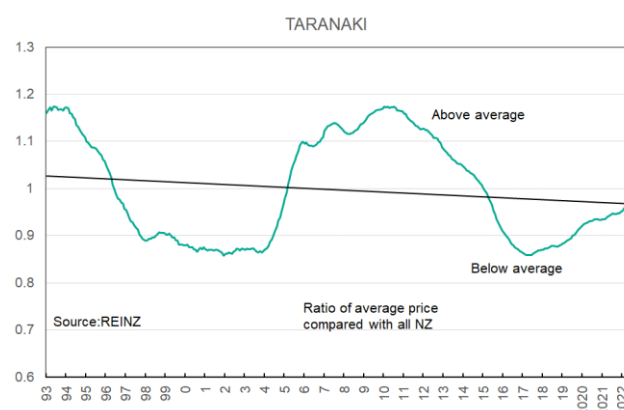
Not all regions have recorded falling prices so far as this cycle turns. While nationwide prices have declined by 2.1% in the March quarter, in Taranaki prices have risen by 1.1%. But the region is not immune to the turning, and we can see slowing house price appreciation in the following graph.



Note that in the month of March average Taranaki prices fell by 0.6%. The turnaround in price changes from the December quarter has been at about an average pace. Therefore, it seems reasonable to expect that from here on there will be a string of negative monthly price changes recorded for Taranaki.

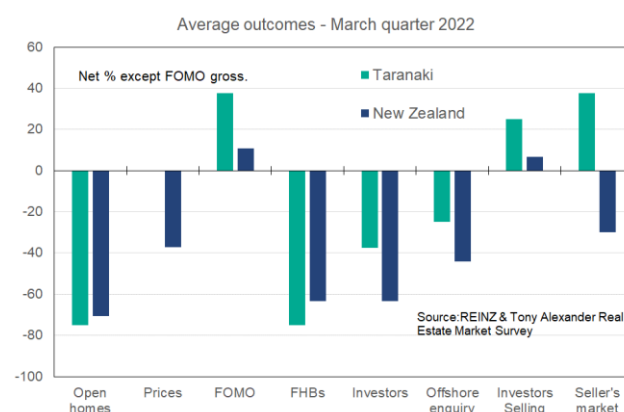


But as noted here many times over the past year, the Taranaki region's housing market has not seen the same sort of upward pricing pressures as most other locations in New Zealand. For that reason, prices currently sit below trend.



Taranaki is likely to see less price weakness than average for the country over the next couple of years.

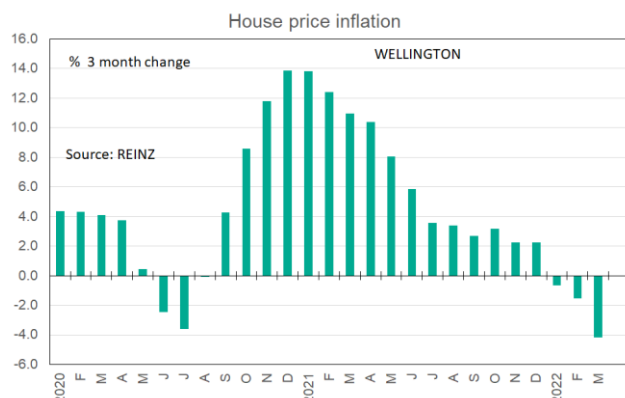
From the REINZ & Tony Alexander Real Estate Survey we can see that in Taranaki a strong seller's market continues and FOMO is much stronger than average. Agents see prices as flat as compared with a net 38% nationwide feeling that they are falling.



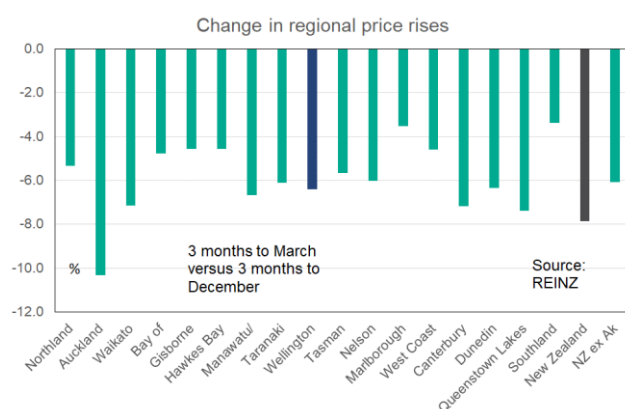
Wellington

Price correction underway

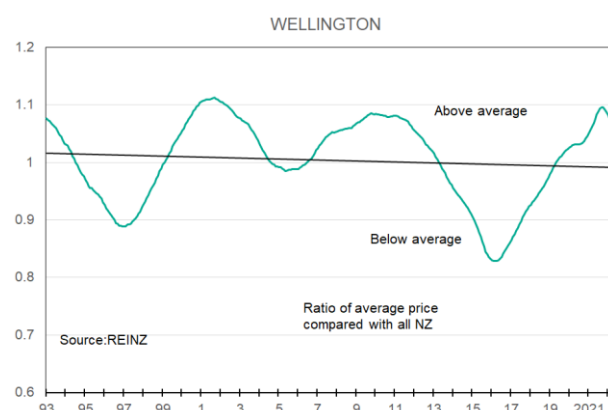
Wellington region's housing market is over-valued, and a strong price correction has started. During the March quarter average house prices in the region fell by 4.2%.



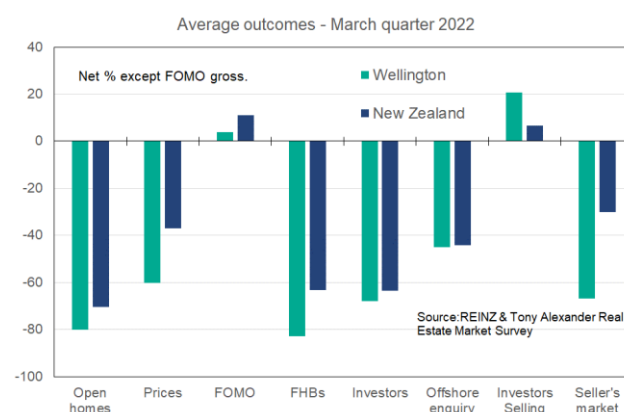
The change in price movement from the December quarter was about equal to the NZ average excluding Auckland, so one cannot say that the turning in Wellington is particularly brutal.



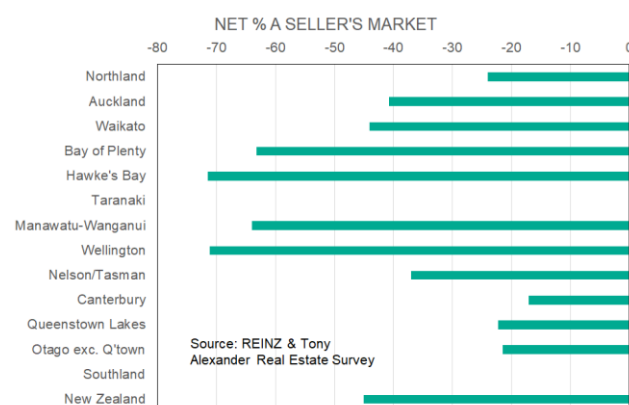
However, prices sit above trend with the country overall and it seems reasonable to expect that the retracement toward trend which is now underway will continue over the next couple of years. History suggests that Wellington will eventually become undervalued, though perhaps not by as much as post-GFC when the early unusual surge in Auckland prices produced extreme under-valuation positions such as seen in our trend graph following.



From the REINZ & Tony Alexander Real Estate Survey we can see that on every measure Wellington is weaker than average. This is especially so with regard to the degree to which the region has turned into a buyer's market.



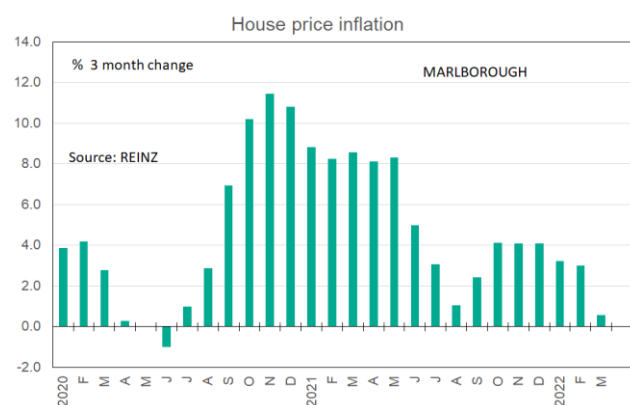
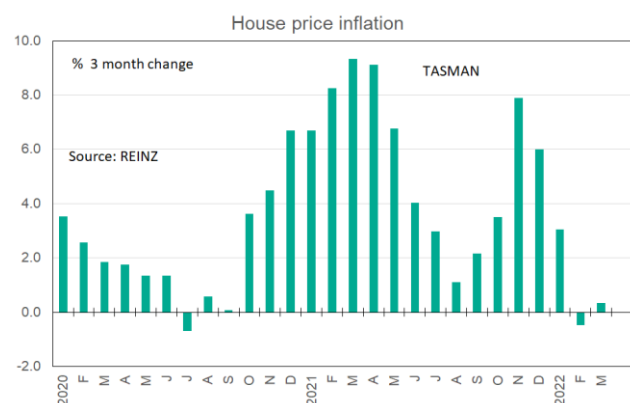
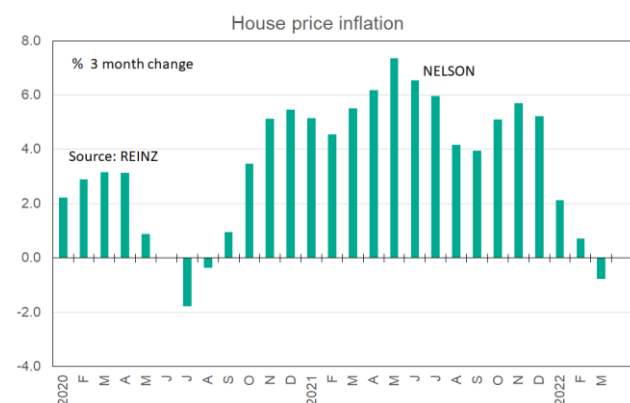
In fact, Wellington is equal placed with Hawke's Bay as having the strongest buyer's market in place. Note the above graph uses three month averages and the following one covers the month of March only.



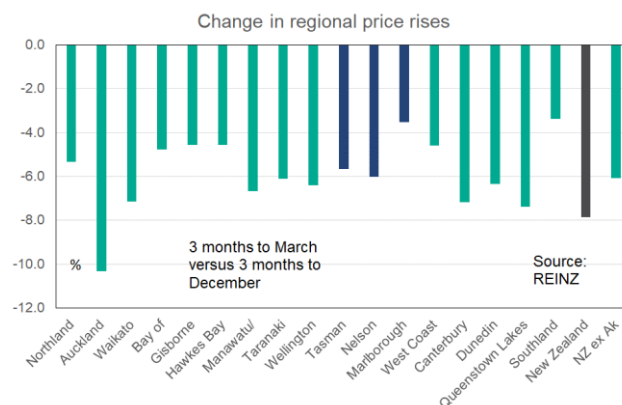
Nelson, Tasman, Marlborough

Not over-valued

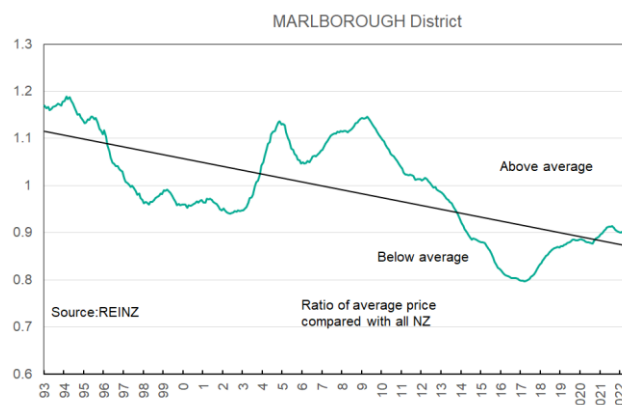
Both Nelson and Tasman have recorded small declines recently in average house prices.



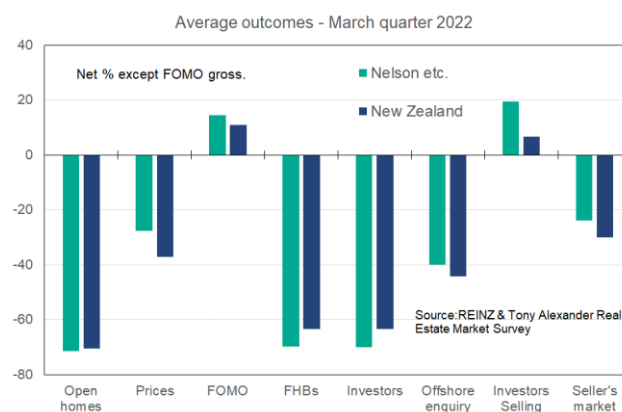
The extent of turnaround from the December quarter is not much different from other regions except in the case of Marlborough where the deterioration is quite small.



As discussed here last month, none of the three regions at the top of the South Island presents as having prices much above long-term trends versus the country overall. Marlborough is only slightly above trend. These situations suggest low vulnerability to price declines as the price levels nationwide undergo a downward correction.



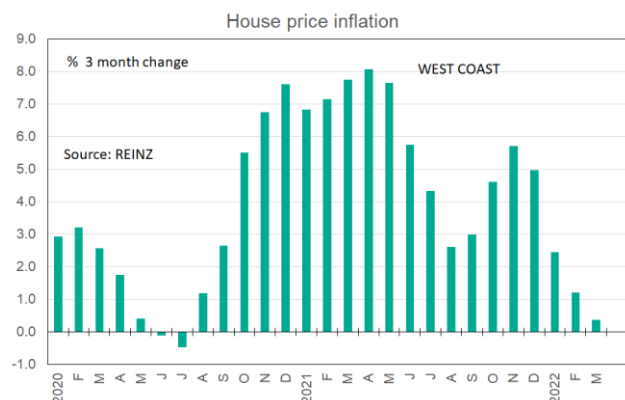
From the REINZ & Tony Alexander Real Estate Survey we have readings which are very close to NZ averages, though with perhaps a few more investors looking to sell than elsewhere.



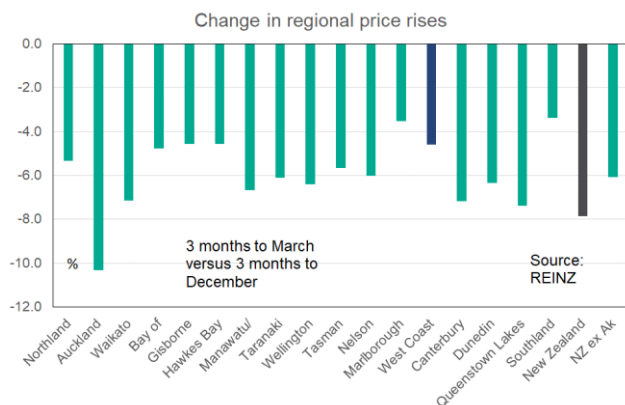
West Coast

No big correction in prospect

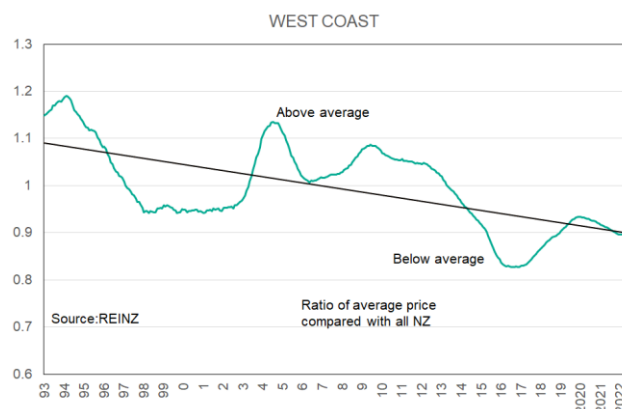
As is the case for all other regions the pace of increase in house prices on the West Coast has slowed down quite a bit since the middle of last year.



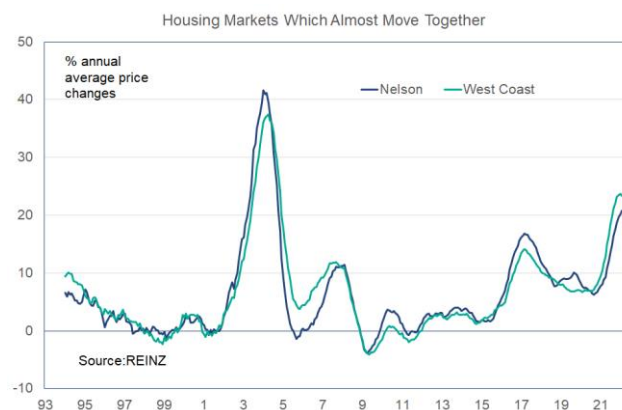
The turnaround in price growth from the December quarter (a slowdown from 5% to 0.4%) is the third smallest across all regions.



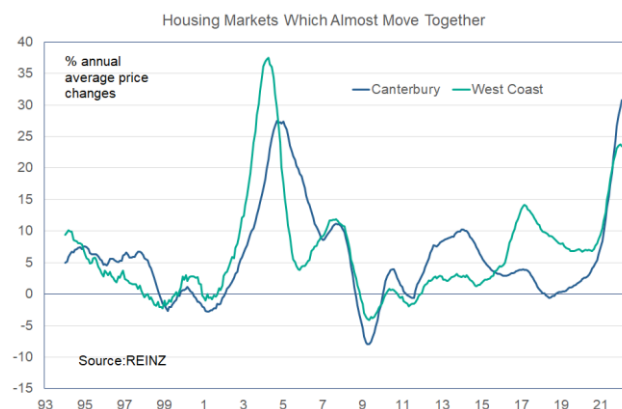
Unfortunately, we do not have enough responses in the monthly REINZ & Tony Alexander Real Estate Survey to see how sentiment on the ground in the Coast compares with elsewhere. But on a long-term basis, prices in the West Coast region are exactly on their long-term trend with the country overall.



On this basis it seems reasonable to conclude that for the West Coast price changes in the coming couple of years will continue to track reasonably closely with developments in Nelson.



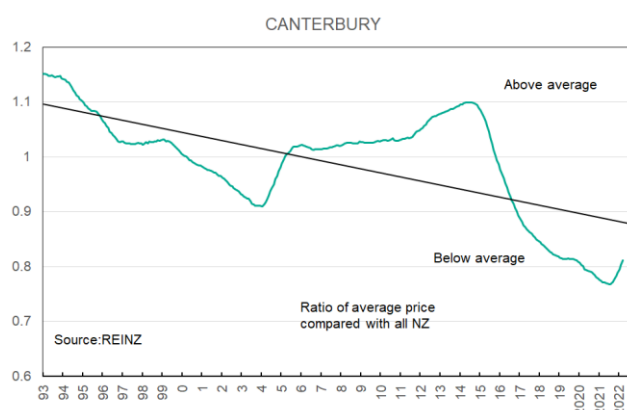
What happens across the Southern Alps in Canterbury is less relevant.



Canterbury

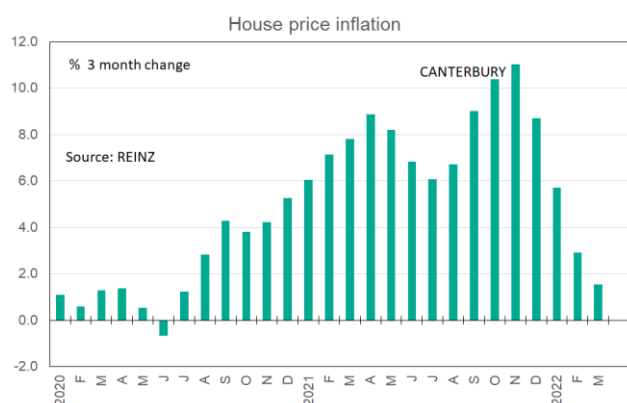
Price out-performance to continue

The Canterbury region still has some way to go to catch up with the rest of the country in terms of price levels.

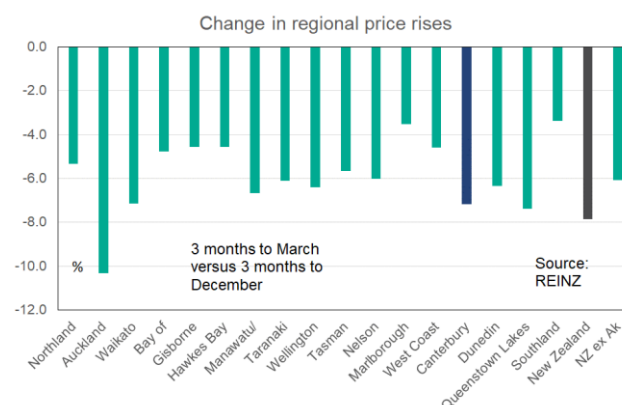


The catchup has nonetheless started as shown by the green line rising towards the right of the graph above.

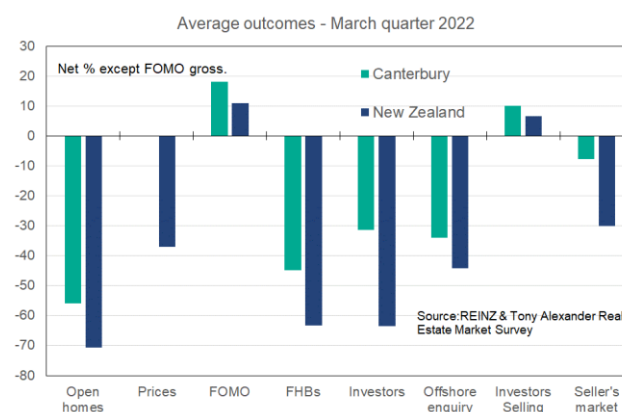
House prices are still rising in Canterbury with a gain of 1.5% recorded in the March quarter.



But this was down from a gain of a strong 8.7% during the December quarter. So, the same forces causing prices to correct downward in most other regions of the country are also at work in Canterbury. The price change turnaround is about equal to the NZ average excluding Auckland.



From the REINZ & Tony Alexander Real Estate Survey we can see that all readings are stronger in Canterbury than for NZ all up except for agent observations of investors looking to sell. But this measure second from right in the following graph is not divergent enough to allow anything interesting to be said.

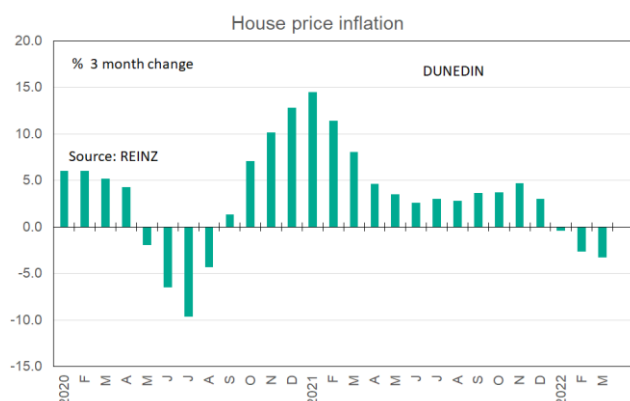


On the basis of the long-term trend graph and the agent survey results it seems reasonable to remain of the view that Canterbury will show price out-performance over the next couple of years. One day the long-term graph will hit the trend line – at which point there will not be much interesting left to say for a while!

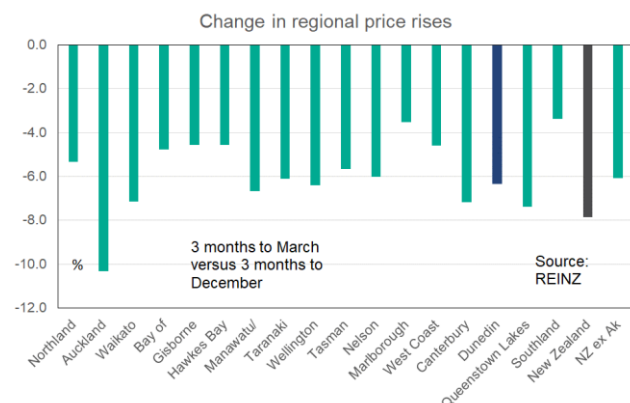
Dunedin City

Price correction gradually happening

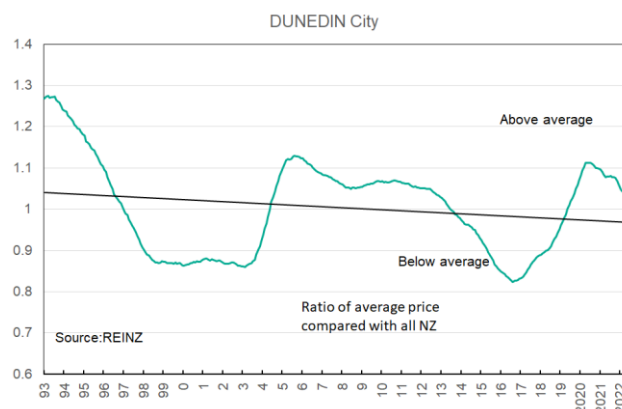
Dunedin average house prices fell by 3.3% during the March quarter. This decline was exceeded only by Auckland's 4.1% and is consistent with a warning delivered here many times over the past year that the city has become somewhat highly priced – especially compared with Christchurch.



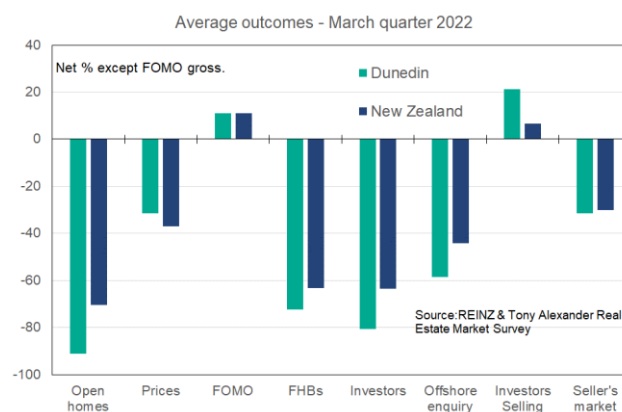
The turnaround from a rise in prices of 3% in the December quarter is however not out of line with the country's average. So, one cannot say that Dunedin is displaying a price shift vastly different to the rest of the country as yet.



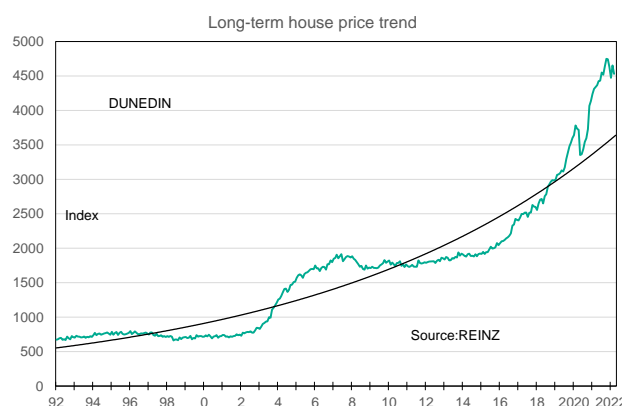
In fact, the degree to which Dunedin is over-valued has been reducing since the middle of 2020 and this transition is likely to continue.



From the REINZ & Tony Alexander Real Estate Survey we can see that Dunedin is viewed more negatively than average by agents on the ground across all measures excepting slightly smaller perceptions of price weakness.



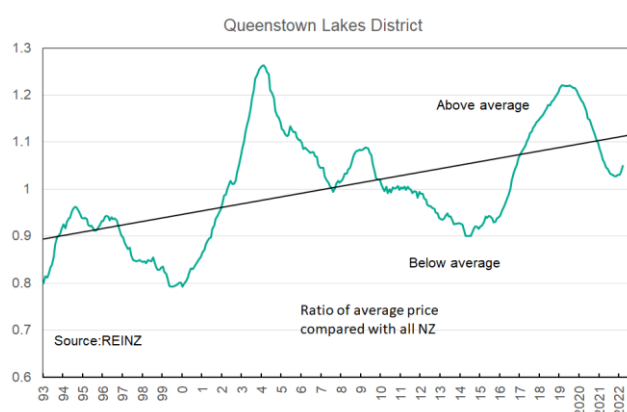
Prices sit well above where they would otherwise have been without the pandemic-induced unusual boom.



Queenstown Lakes

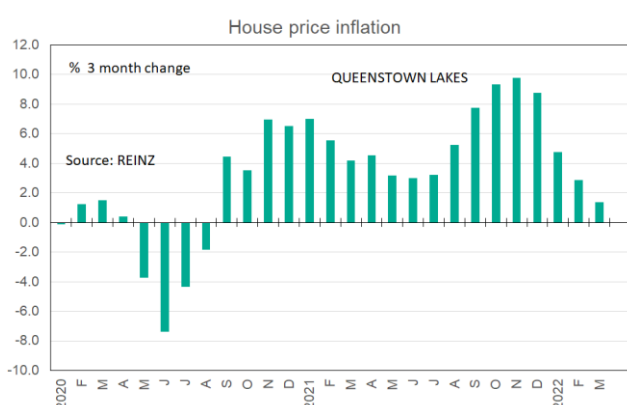
Unique offshore support

Queenstown's housing market has suffered a unique hit during this pandemic period because of the loss of foreign visitors so vital to the district's economic fortunes. House prices have fallen and now sit below trend.

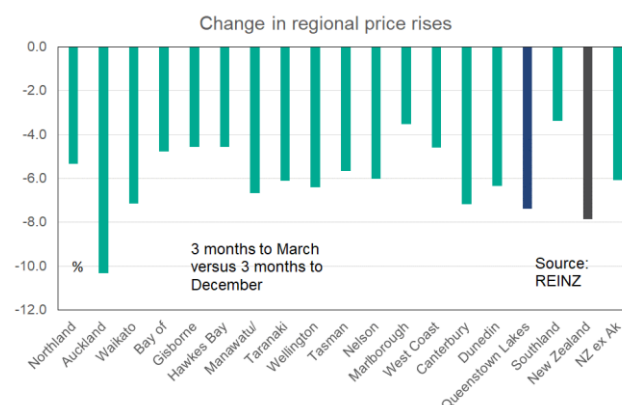


But prices never moved all that far below trend however, partly because of a belief that the pandemic would pass, and partly because of an acceleration of internal migration to the fast growing inland South Island city.

Average prices during the March quarter rose by 1.4%.

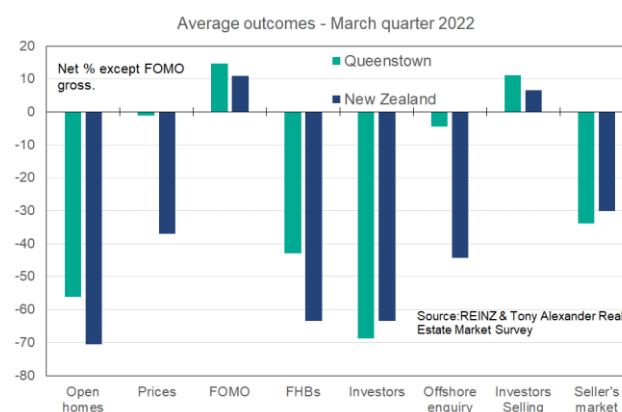


But this was a firm slowing from the 8.8% gain recorded during the December quarter. In fact, the turnaround was the second largest across all regions.



Queenstown, like under-valued Canterbury, is not immune to the forces pushing prices lower in most other parts of New Zealand.

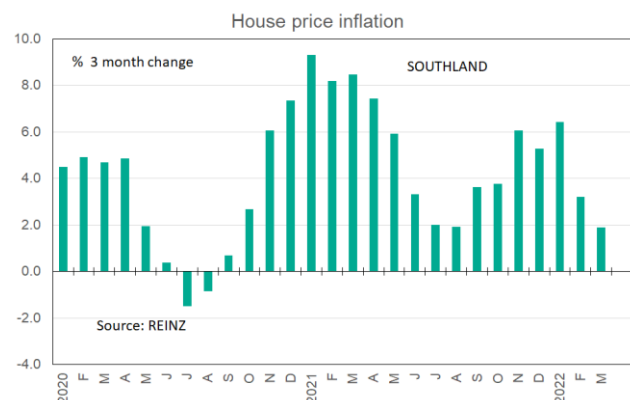
From the REINZ & Tony Alexander Real Estate Survey we see most measures for Queenstown are superior to the national average. Note the far smaller net proportion of real estate agents saying that they are seeing falling enquiry from offshore. That is a unique characteristic of the Queenstown residential property market which historically has made predicting price movements there very difficult. Usually, price forecasts are too low.



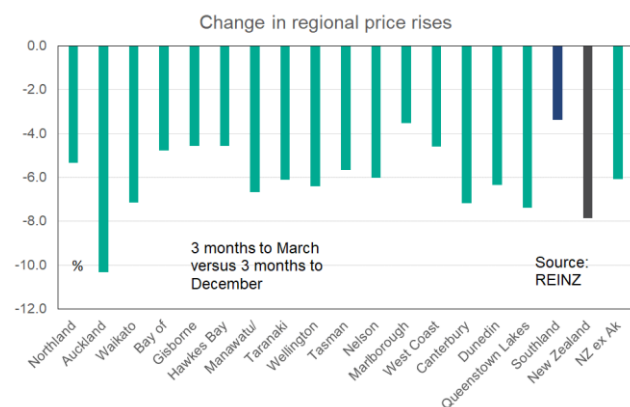
Southland

Only mild price correction

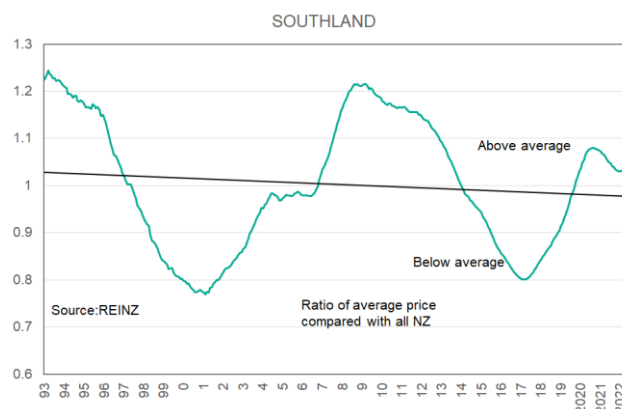
Average house prices in Southland rose by 1.9% during the March quarter which was the second strongest gain for all regions behind only Northland at 2.1%.



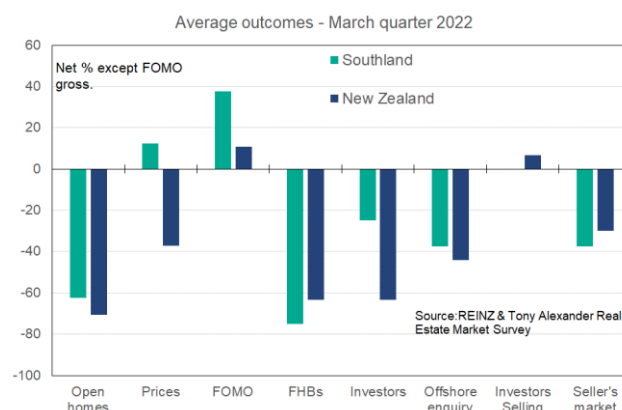
This was a slowdown from growth near 6.2% during the December quarter. But this easing was the smallest for all regions.



Is it likely that prices will continue to rise while falling in most other parts of the country? Not really. Average prices are above trend compared with the country overall, as seen in the following graph.



The following graph uses data from the REINZ & Tony Alexander Real Estate Survey. It shows that for the important measures of price change and FOMO Southland is far stronger than the country overall. But we have to exercise some caution with these results given the very low number of responses in the survey which generally come in from Southland.



Given support to the Southland economy from the eventual return of foreign tourists, good incomes in the primary sector, and some still strong construction activity, the degree of price correction in Southland over the coming 1-2 years is likely to be mild.

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