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TONY ALEXANDER

Regional Property Insights

OCTOBER 2022



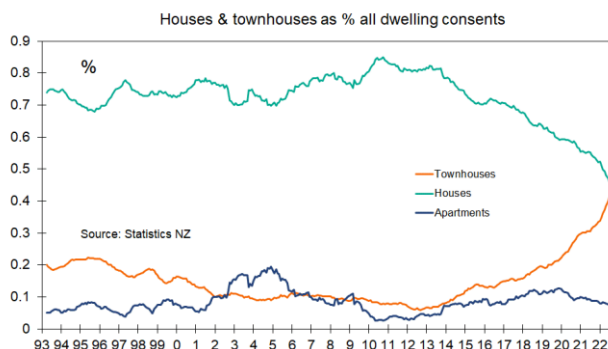
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Introduction

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

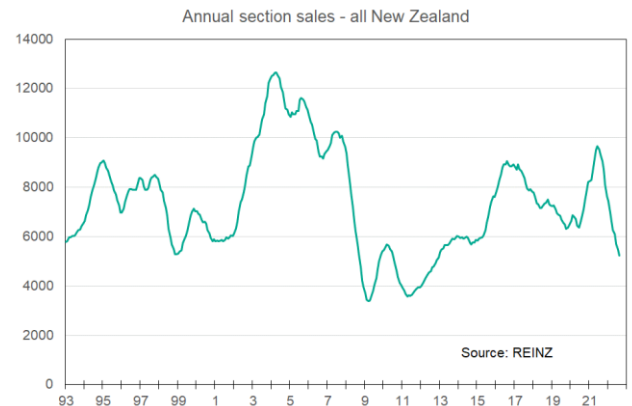
In this month's issue we look at data on sales of sections around the country both in terms of volume and prices. This is generally not an area which we economists look at much for a guide as to where the residential real estate market is going, because the numbers involved these days bear far less relationship with the number of dwellings to be constructed than in the past. This is because of the increased proportion of dwellings built which are attached and/or on a section from which an existing dwelling has been demolished or moved.



Sales of sections can also be quite volatile depending upon when land gets rezoned from the likes of rural or industrial to residential. There is a large land-banking effect which can bring distortions as well.

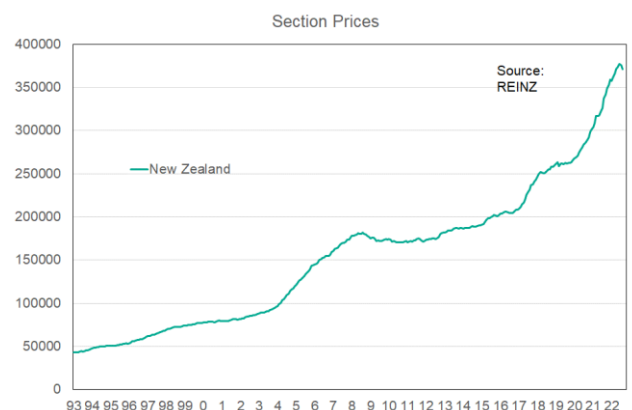
Nonetheless, people do enquire about section sales now and then and we look at the regional numbers for the record in this month's Regional Property Insights issue.

Sales of sections fell sharply heading into, through, and just beyond the NZ recession of 2008 then the following Global Financial Crisis of 2008-09. They have been recovering since 2011 with a noticeable surge following the house buying frenzy over the second half of 2020 into early-2021.



More recently sales have been falling quite rapidly and this is likely to continue because of the reduced availability of credit for home buyers, the financial difficulties of developers and builders causing reduced credit being available for them also. The generally negative media commentary regarding people waiting years for houses to be completed will also be causing potential buyers to focus on purchasing from the existing housing stock more and more.

Average NZ-wide section prices have started to fall.



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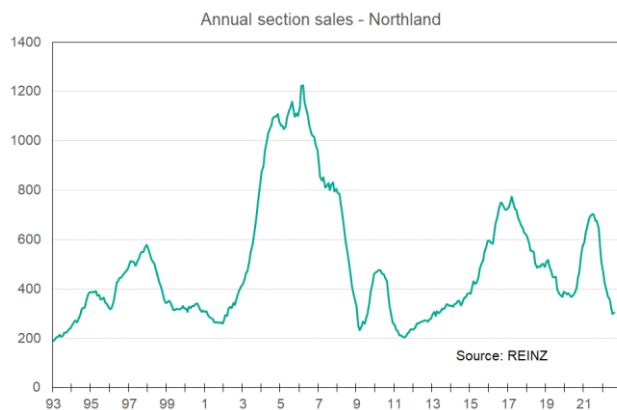
Further extensive discussion of house price movements and factors affecting prices can be found in the weekly Tony's View publication available from www.tonyalexander.nz

Northland

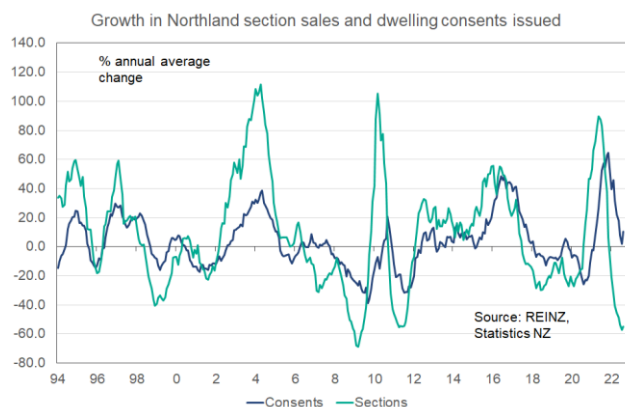
Sales down firmly

There were 304 sections sold in the Northland region in the year to August, a decline of 55% from a year earlier compared with a 44% fall all around the country and 38% fall if we exclude Auckland.

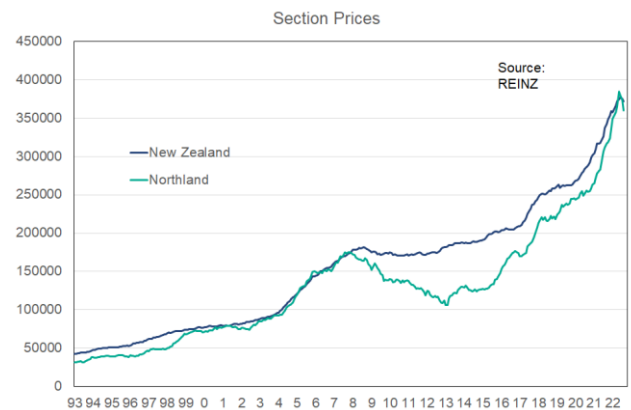
As our first graph shows section sales are now at their weakest levels since 2013.



Our second graph shows that consents for new dwellings to be built closely follow changes in section sales for the region. Therefore, we can reasonably anticipate a firm decline in construction levels in the near future.

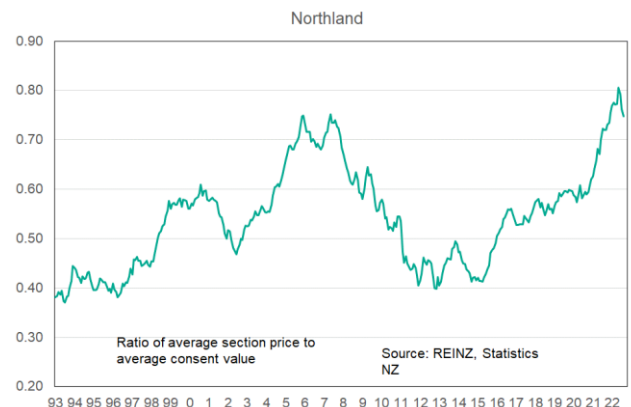


The average price paid for a section in Northland in the latest year has been \$360,000 compared with \$371,000 for all the country.



The average price for the past year was ahead by 16% from a year earlier and the rise since just before the pandemic has been 46% compared with 39% nationwide.

The ratio of the average Northland section price to the average consent value has soared since 2015 but is now edging lower.

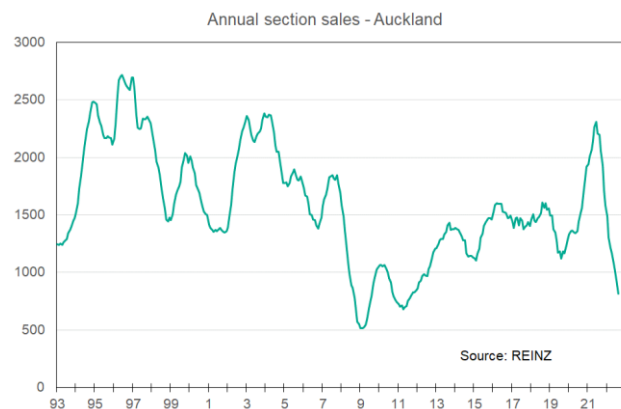


Given that Northland's population growth has been accelerated in the pandemic by people shifting out of Auckland, the ending of the pandemic may bring weaker than average population growth for a while. But with an aging population seeking warm retirement locations, the underlying demand for sections in Northland is likely to be firm in the coming decade.

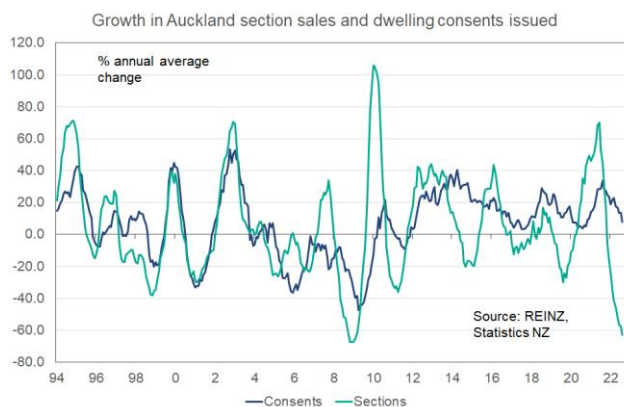
Auckland

Section sales not a reliable construction indicator

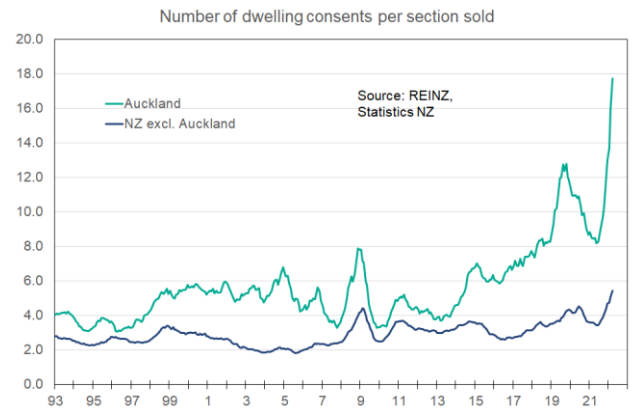
In Auckland the number of sections sold in the past year was down 63% from a year earlier at just 814 from 2,193 a year before.



The decline is much greater than the 38% fall outside of Auckland and suggests that if there is validity to the argument that Auckland faces a property over-supply (doubtful), the situation will not last long because of the coming sharp decline set to occur in construction.

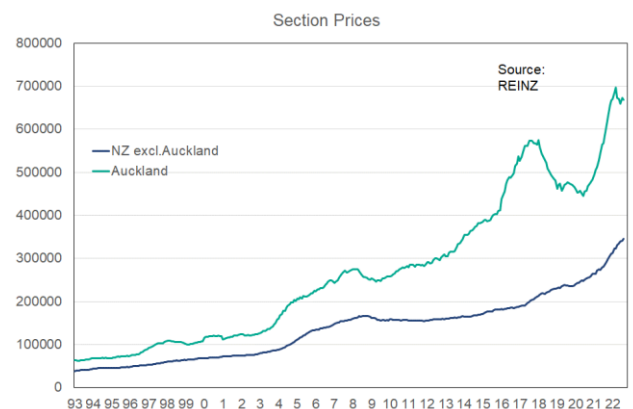


However, Auckland is unique in New Zealand for having two-thirds of consents being for attached dwellings compared with one-third in the rest of the country. And it is notable that the ratio of consents to section sales has recently soared.



Section sales should not be relied upon now for close insight into where construction levels are headed, given the strong level of infill housing underway – as intended by repeated planning rule changes since 2016.

The average Auckland section price was \$670,000 in the year to August compared with \$345,000 in the rest of the country. Prices are showing signs of flattening out. But falls seem likely given the absence of population growth over the past two years, high interest rates, and probably some excessive high risk purchasing of sections and development land by some in recent times.

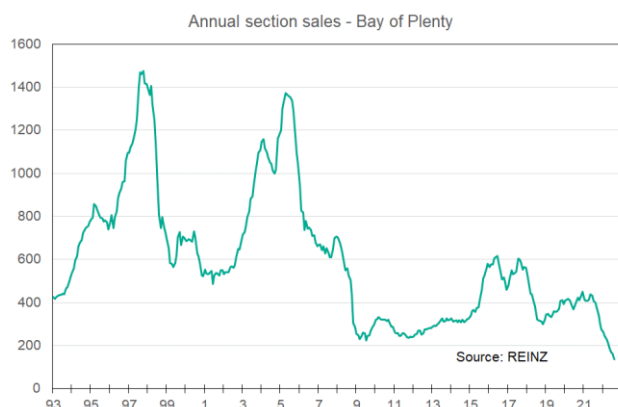




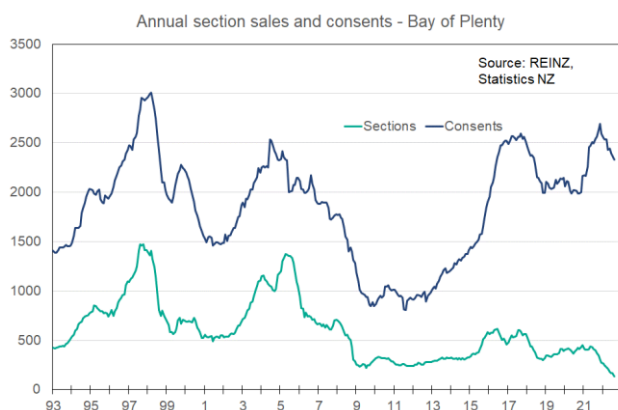
Bay of Plenty

On the expensive side

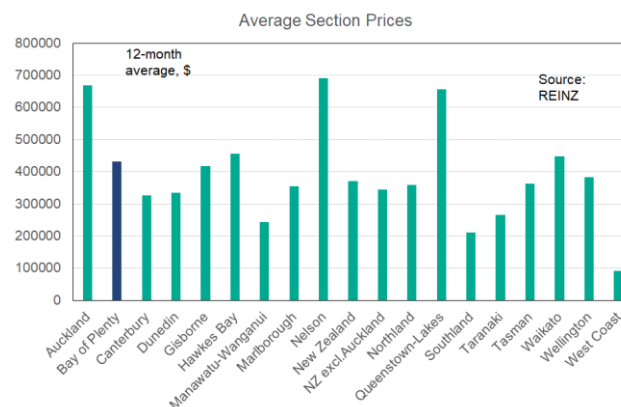
In the Bay of Plenty region, the number of sections sold over the past year was down 65% from a year earlier at 136.



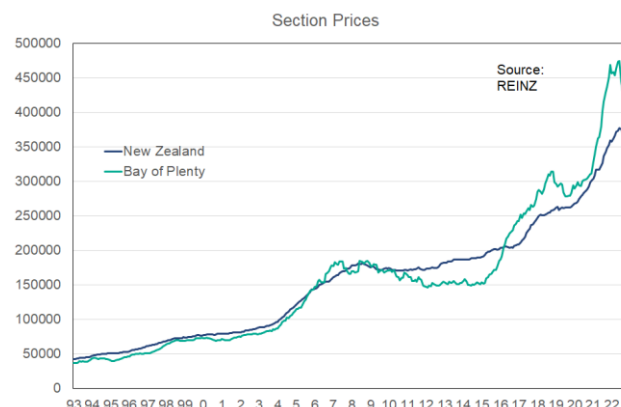
Sales are now the weakest on record. The decline is on the face of it suggestive of a big decline in construction. But there has been intensification of construction in the region over the past seven years which implies that the decrease coming may be relatively muted.



The average price of sections sold in the past year in the Bay of Plenty region was \$432,000 compared with \$371,000 overall.



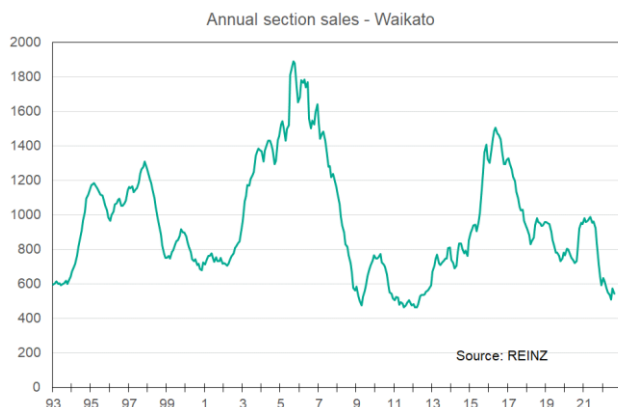
Prices in the region have tracked above the national average since 2017 and are now unusually expensive compared with the country overall.



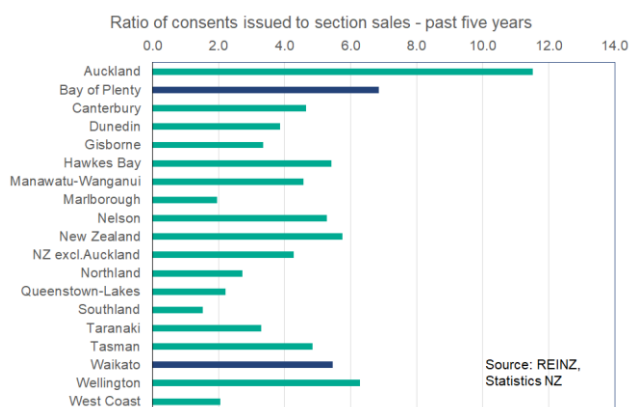
Waikato

Section sales falling

The number of sections sold in the Waikato region over the past year has fallen by 41% to 546 which about matches the 44% nationwide decline. It is interesting to note the number of sales this past year being well above that for the Bay of Plenty at 136. The population difference of near 500,000 people in the Waikato compared with 340,000 in the Bay of Plenty accounts for only some of this difference.

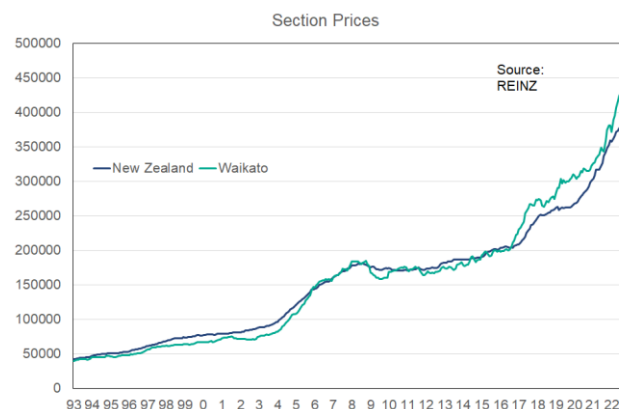


Part is explained by the greater intensification underway in Bay of Plenty, as seen in the higher ratio of consents to section sales just below.



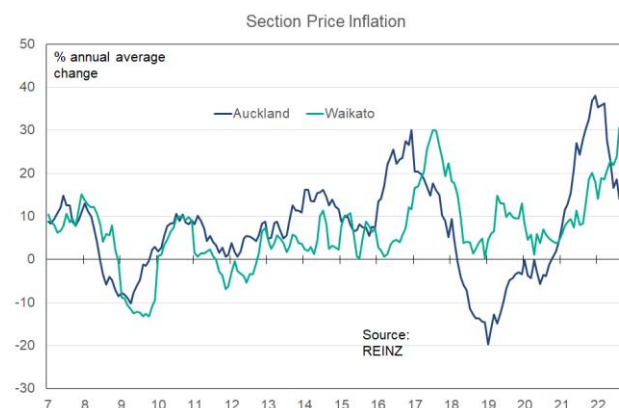
But even then, we are still left with the seeming greater availability of land for development in the Waikato region than Bay of Plenty. The recently publicised high cost of building consents in Tauranga City may also be acting to actively dissuade people from building in the region.

The average Waikato section price in the past year was just under \$450,000 compared with \$371,000 nationwide, \$432,000 in the Bay of Plenty, and \$360,000 in Northland.



Prices have somewhat moved well above their traditionally close relationship with the country overall. This may act as a disincentive soon for new construction in the region.

For your guide, there is a tendency for section sales price inflation in the Waikato to follow changes in Auckland. The decline underway in our biggest city suggests an easing soon in Waikato section price inflation and maybe some falls. But it is hard to pick if that will happen or not given the uncertain role played by people purchasing sections for potential capital gain during the two real estate frenzy periods since the pandemic started.

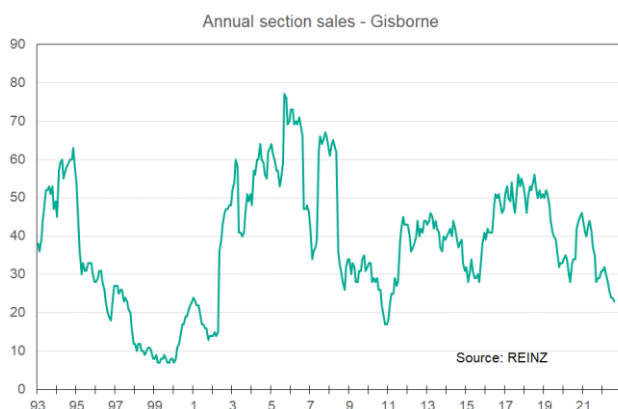


Gisborne

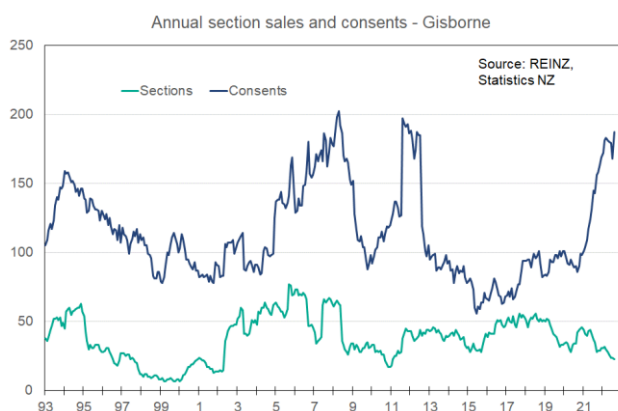
Sales easing off

One needs to be careful when analysing housing data (any economic data) for the Gisborne region given the very small population base of just 51,000 or so people.

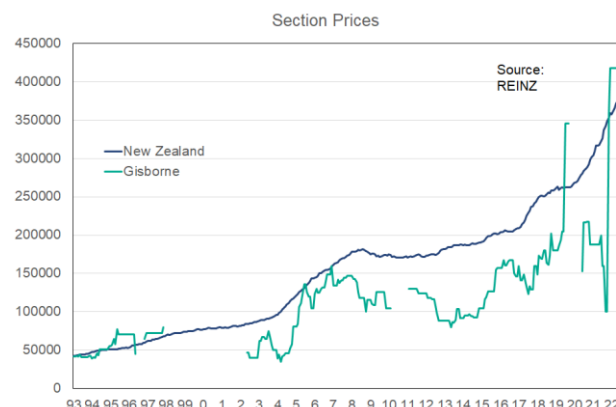
The number of sections sold in the region over the past year was only 23, a 34% decline from a year earlier and the lowest 12-month total since 2011. Back then construction nationwide was at its lowest levels since the 1960s in a post-GFC environment.



It is perhaps worth noting that section sales at their recent peak from 2017-19 did not reach the heights of 2005-08. Nonetheless, because of some mild intensification, the number of consents issued for new dwellings has returned to those earlier levels.



The average price of sections sold in the Gisborne region over the past year was \$418,000 compared with \$371,000 nationwide. Land is not cheap in this small part of the country.



The breaks in the price series above reflect too few section sales for some periods to allow accurate average price calculations to be made.

I am reluctant to make any firm statements regarding the region's price trends given the small number of sales and the easy possibility of distortions from locational effects. But with sales easing and the risk of a slowdown in population growth now that the pandemic has ended, price declines are possible.

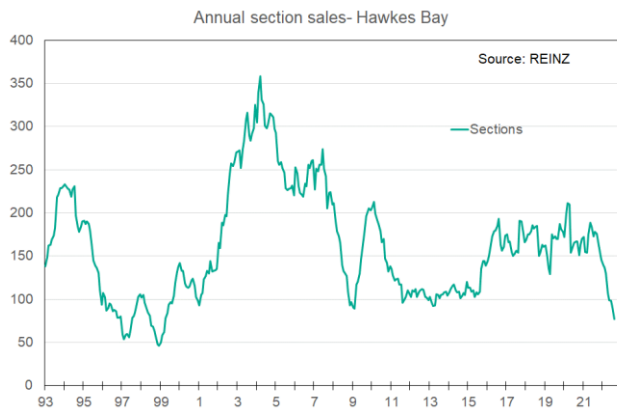


Regional Property Insights

Hawke's Bay

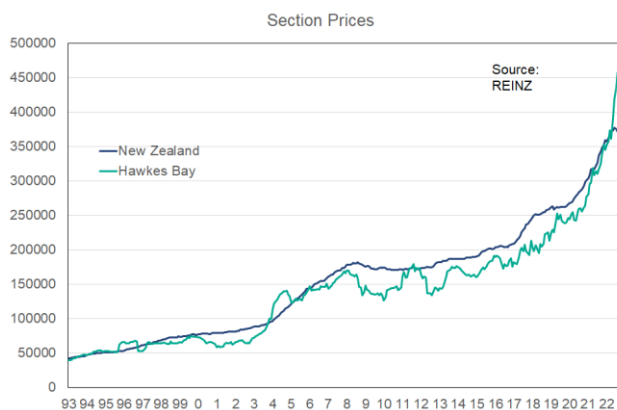
Highly priced

There were 77 section sales in the Hawke's Bay region in the year to August. This represented a decline of 57% from a year earlier and was the lowest annual number of section sales since 1999. It is notable that despite the firm signs of new construction in the Hawke's Bay region in recent times and the population surge assisted by the pandemic, the supply of sections has perhaps not been sufficient to meet the demand.



That conclusion comes about because of what has happened with prices. The average section price in Hawke's Bay has risen by 44% in the past year after rising 21% the year before. In contrast NZ-wide section prices on average have risen just 10% in the past year and 18% a year ago.

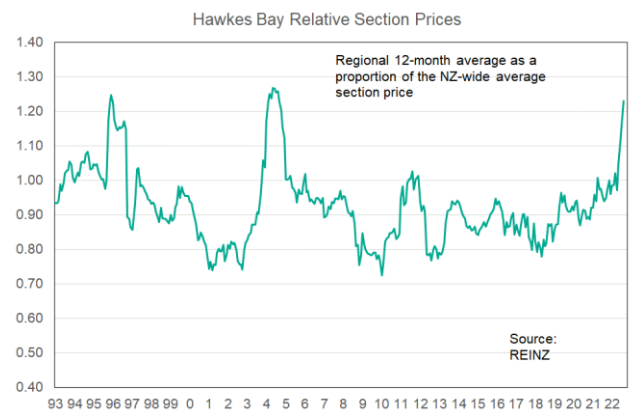
Average Hawke's Bay section prices at \$457,000 for the past year are well above the NZ average at \$371,000, as shown in the following graph.



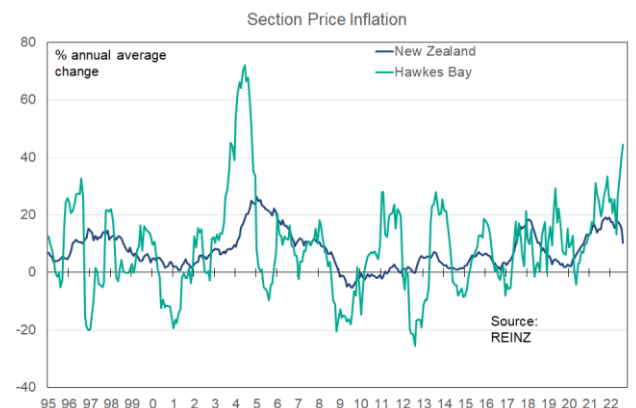
This does not make Hawke's Bay the most expensive location for purchasing a section in the country. But it is third highest and this factor is likely to be encouraging more people to seek new land elsewhere.



We have been in this situation before of unusually high section prices in the region – in 2004 and 1996. Did prices collapse afterwards as more land became available through rezoning?



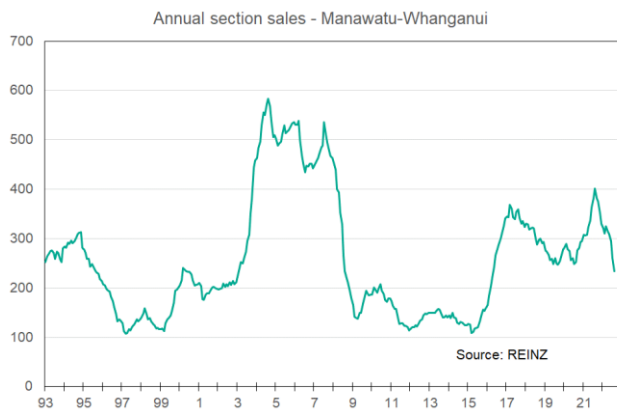
Not to any unusually large degree either time.



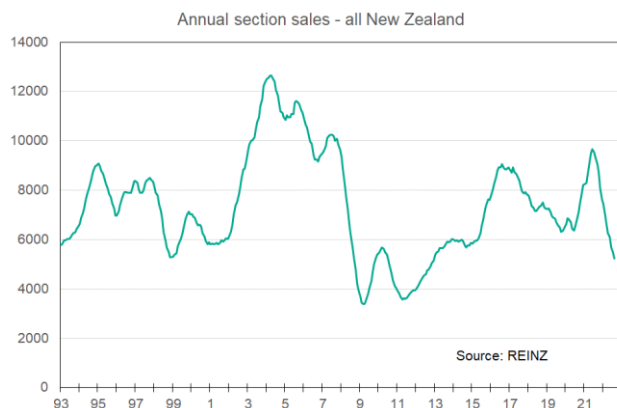
Manawatu-Wanganui

Cheap by NZ standards

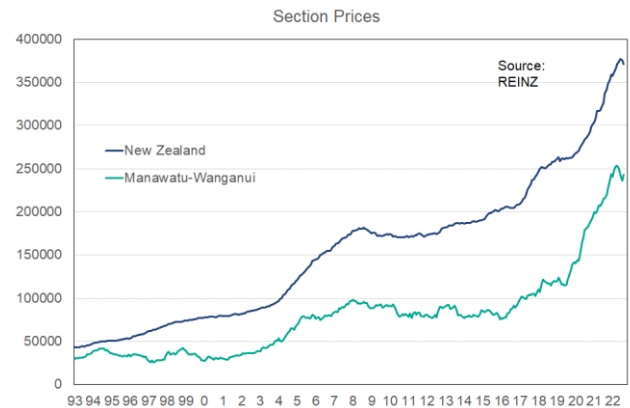
Section sales have fallen 42% in the Manawatu-Wanganui region over the past year to reach 234 from a peak of 402 in August last year. This takes sales levels back to 2016 but well above the post-GFC lows from 2009 – 2015.



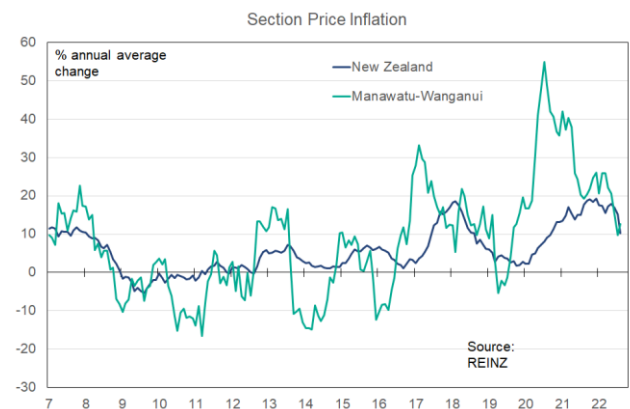
The strong lift in section sales over 2016 never took things back to the heights of 2004-07, but that is the same for all the country on average.



The average price of sections sold in the Manawatu-Wanganui region over the past year was just \$243,000 compared with \$371,000 nationwide and \$669,000 in Auckland.



Sections can only be found at lower average prices in Southland and on the West Coast of the South Island. This is a very large selling point for the Manawatu-Wanganui region, especially in the context of the improving road transport system north of Wellington raising the attractiveness of living in the region. But section price inflation has slowed substantially in the past two years and history tells us falls are likely to occur soon.

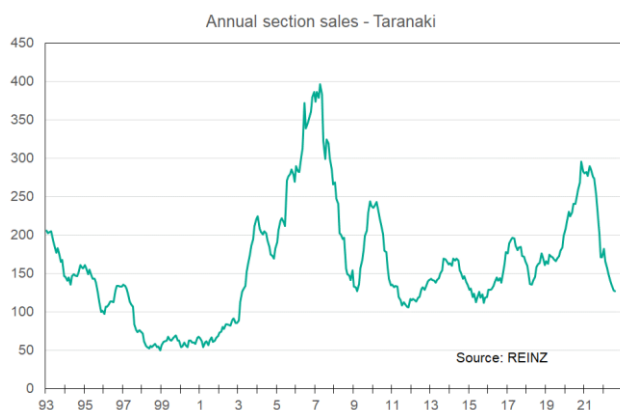




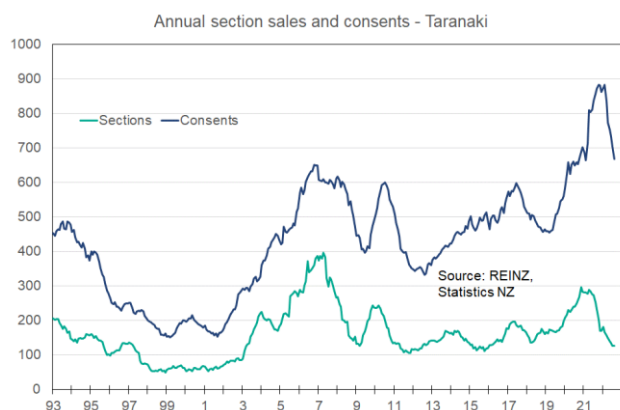
Taranaki

Sales falling away

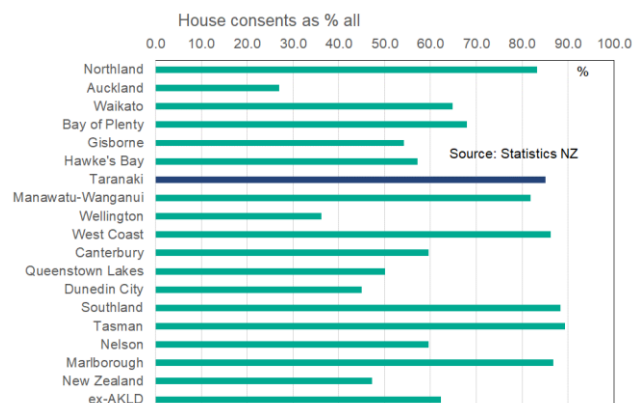
Section sales in the Taranaki region appear to be headed for their lowest levels since 2003 if we only barely extrapolate the recent decline in levels of activity. Sales have fallen by 50% in the past year to just 127 from a peak of 296 in November 2020.



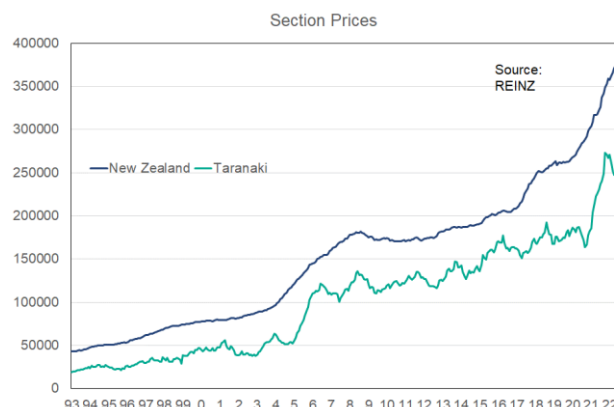
The annual number of dwelling consents issued in the region has started to fall in a pattern following the fall in section sales.



There is below average intensification underway in the Taranaki region as seen in the following graph. It shows that standalone houses account for 85% of consents compared with 47% nationwide or 62% excluding Auckland (27%).



On average in the past year sections have sold in the Taranaki region for \$265,000 as compared with \$371,000 nationwide.

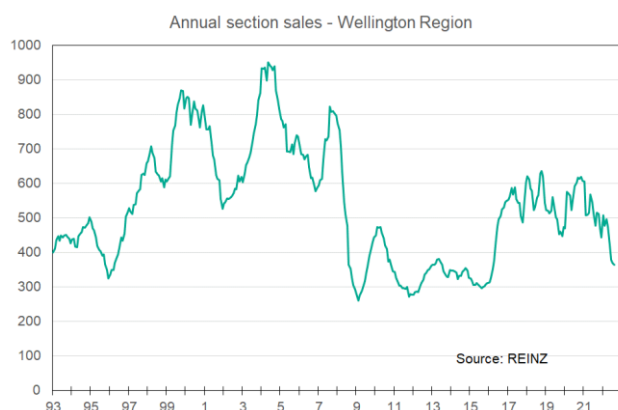


The graph included in the Hawke's Bay section above shows that sections in Taranaki are the fourth cheapest on average around the country.

Wellington

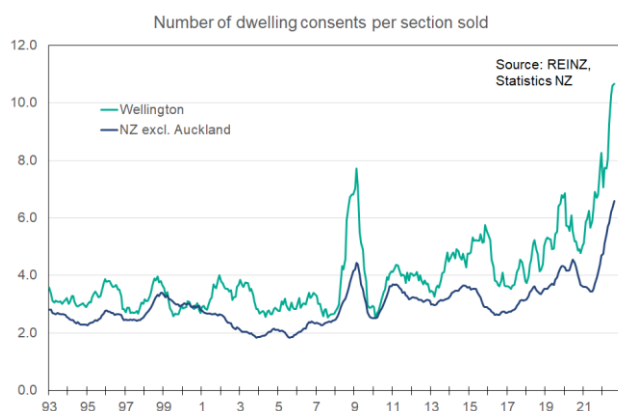
Section prices not aggressively high

There were 364 sections sold in the Wellington region in the past year. This was a decline of 24% from a year earlier which is quite small compared with the nationwide pullback of 44%.



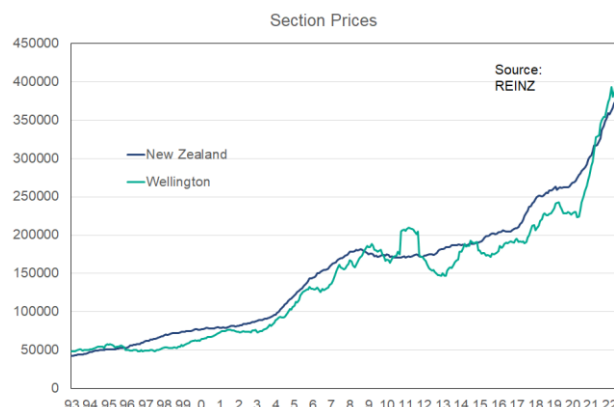
Sales doubled in the 2017-2021 period compared with 2011-2016 but now appear headed back to those earlier low levels. Pressure is coming from reduced availability of credit, higher interest rates, and a correction in house prices.

The average number of consents issued for each section sold in the Wellington region has risen firmly since the end of 2020 as has happened for the country overall as townhouse developments have proliferated.



The fall in sales bespeaks of a fall in construction levels fairly soon.

The average Wellington region section price was \$383,000 in the past year which is about equal to the all-NZ average but well below Auckland's \$669,000. Canterbury is cheaper however at \$326,000 on average.

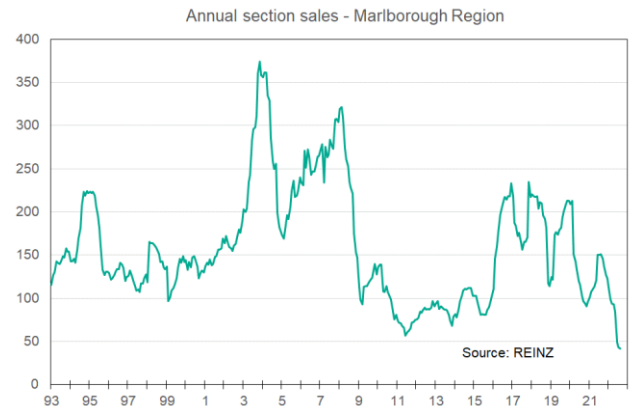
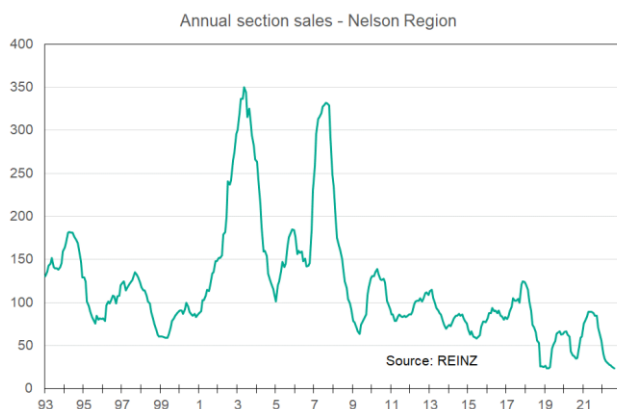
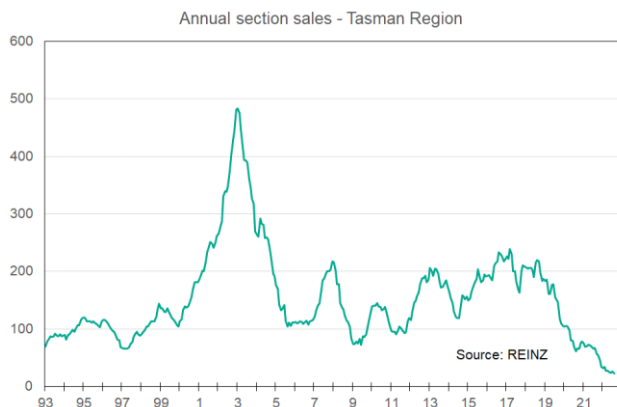


The pace of section inflation in the Wellington region has slowed down, but it is yet to turn negative. That does seem likely however – as it does for the country overall – given the many restraining factors in play.

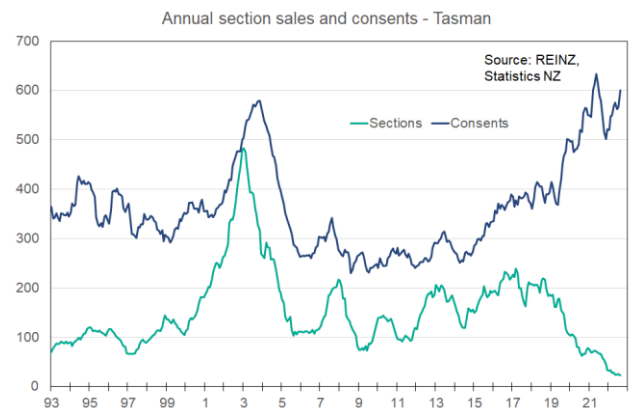
Nelson, Tasman, Marlborough

Highly divergent experiences

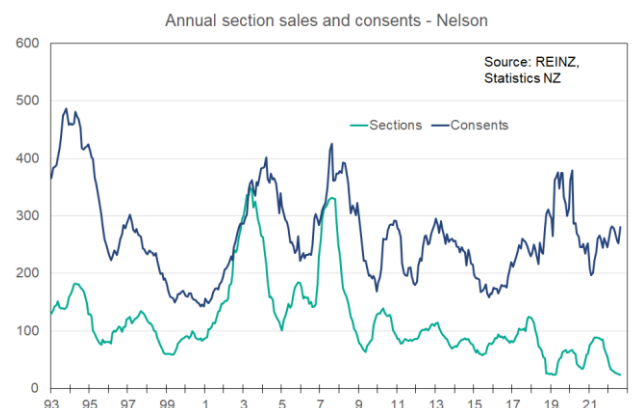
Section sales have fallen over the past year in all three regions at the top of the South Island. The decline in Tasman has been a large 66%, Nelson an even larger 72%, and Marlborough even more at 72%. In all three regions sales are now the lowest on record.



As yet the falling away of section sales in Tasman has not translated through to lower numbers of consents being issued for new dwellings to be built.



In fact, there has appeared a very large divergence in these two indicators of the residential housing market in the region. This is not the case in Nelson. But in the Nelson region development land is in very short supply and that tends to crimp overall sales activity there.

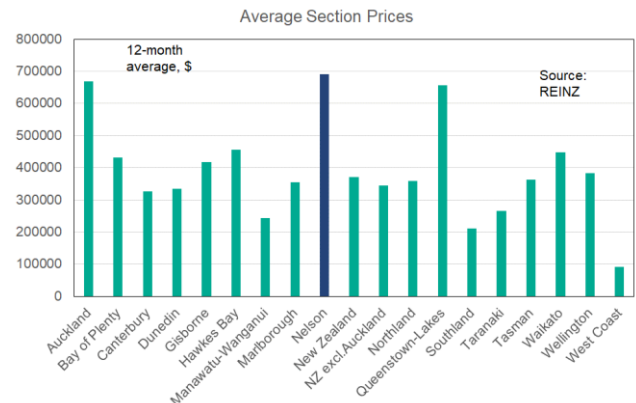
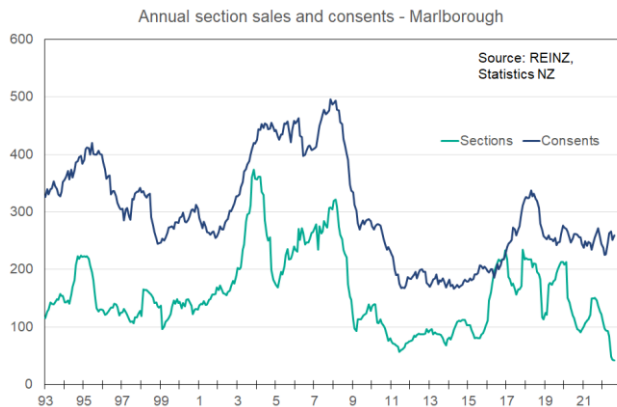


In Marlborough consents look on the verge of easing off.

Nelson, Tasman, Marlborough

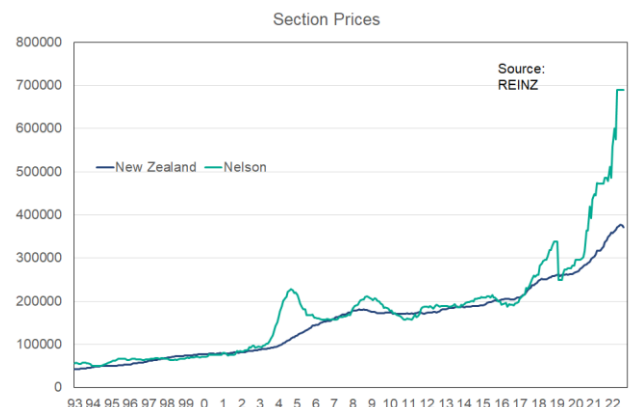
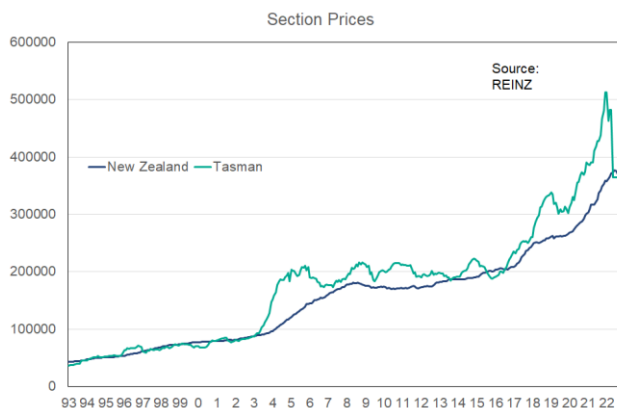
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In Nelson the shortage of land has pushed section prices to extremely high levels. In fact, at \$690,000 Nelson has the most expensive sections in the country. But it pays to keep in mind the shortage and the fact only 24 sections were sold in the past year.



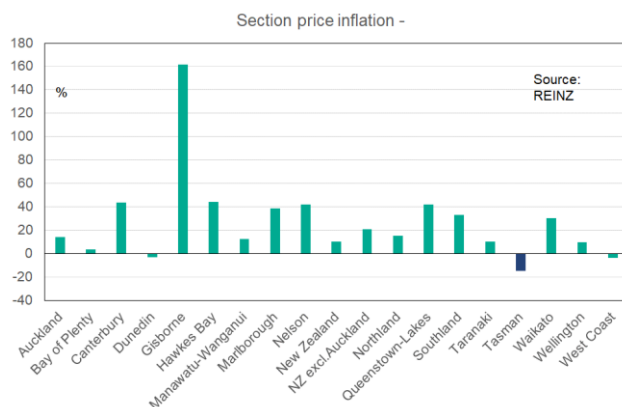
Section prices in the Tasman region have fallen some 15% in the past year.

Tasman sales were however even weaker at 23 and perhaps sitting side by side we have examples of how low sales can result from low demand in one place and low supply in the other. The balancing factor is price.



This is the largest decline of all regions.

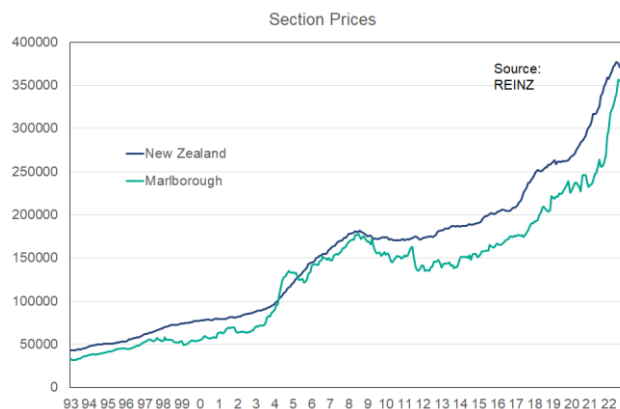
In Marlborough more sane conditions exist. Section prices there on average have risen 39% in the past year. But this exceeds the nationwide gain of just 10% while sales added up to 42.





Nelson, Tasman, Marlborough

Continued...



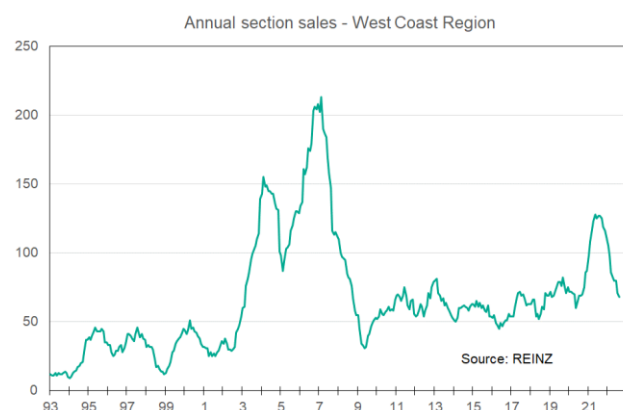
With Tasman's population being near 56,000, Nelson 55,000, and Marlborough 50,000, it seems reasonable to view the high price gains in Marlborough as reflecting strong demand.

West Coast

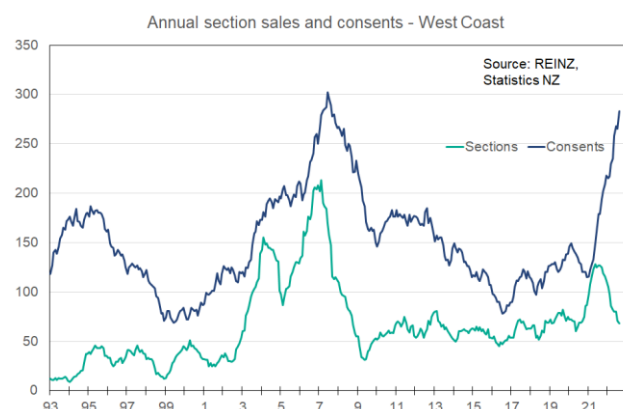
High section sales numbers

The West Coast population is just 32,000 people and it pays to keep this in mind when looking at data for the region including for instance recent reports about it producing the best returns for investors.

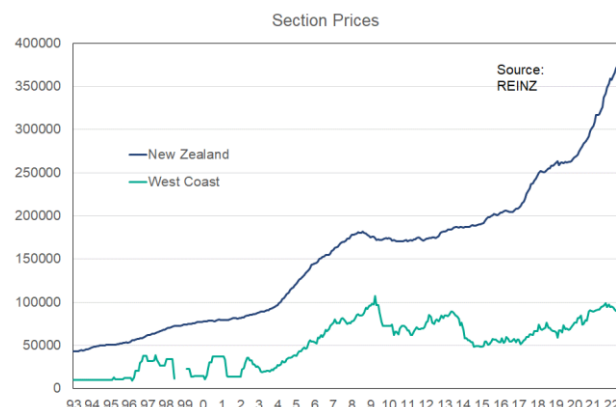
There were 68 sections sold in the past year which is outstanding in comparison with the top of the South Island regions. Yet sales have still fallen by 47%.



There has been a very strong surge in consents issued for new dwellings in the past year, only some of which will be the result of flooding in Westport encouraging some people to shift and rebuild.



Despite the strong sales section prices on average have fallen by 4% in the past year.



As one might suspect from the above graph, sections on the West Coast are the cheapest of all regions at just \$93,000 in the past year compared with \$371,000 nationwide.



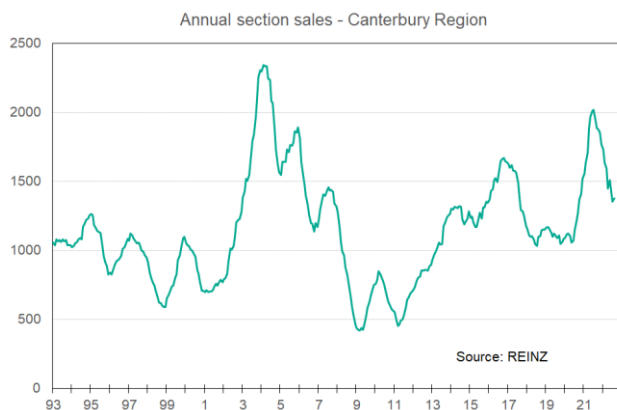
In a world where working from home and servicing a customer base potentially anywhere on the planet is possible and accepted, the sometimes very wet West Coast of the South Island offers a potential for an affordable lifestyle to people not available in any other NZ region on average.

Having said that, for anyone contemplating moving there it is highly advisable to spend a period of time on an extended holiday in one location or in rented accommodation for a while before making the big move.

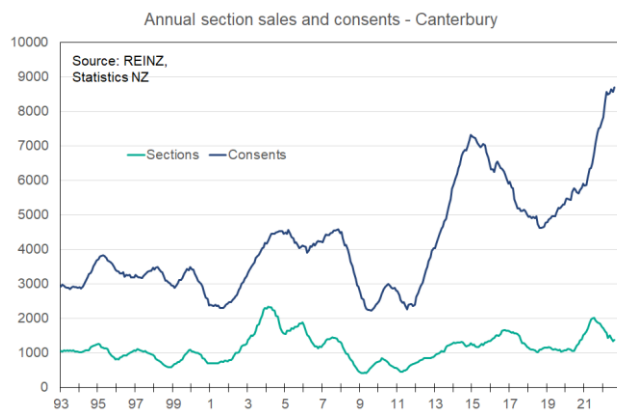
Canterbury

Prices catching up

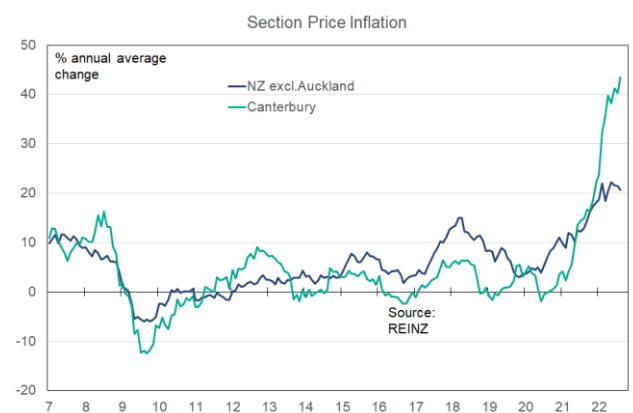
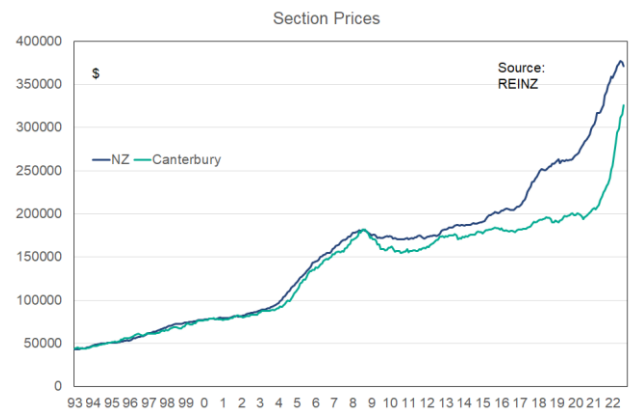
Section sales in the Canterbury region have fallen by 29% in the past year which is less than the nationwide decline of 44%. At 1,376 sales are down from the peak of 2,018 in July last year.



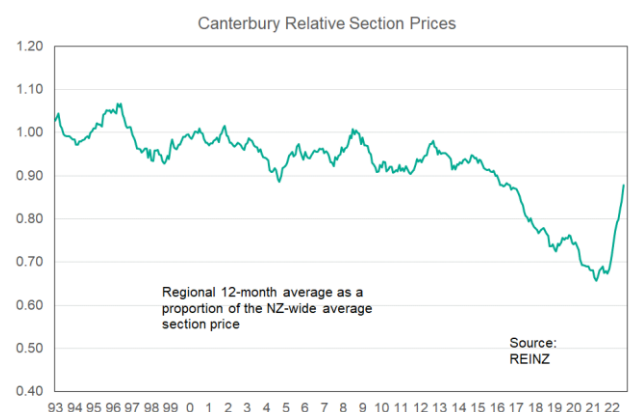
Consent levels and growth rates are noticeably out of line with historical norms in Canterbury and this reflects the intensification occurring in Christchurch City.



The average price of sections sold in Canterbury in the past year has been \$326,000 which is up by a very strong 43% from a year earlier. The gap with the country on average is closing rapidly as nationwide section prices rose just 10% in the past year.



This graph helps better show the extent of the price “catch-up” occurring in Canterbury.

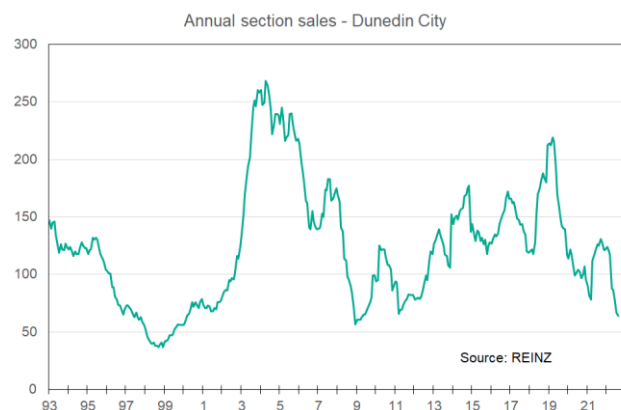


With post-earthquake recovery still adding a boost on top of the border reopening bringing tourists and some younger people shifting out of Auckland and Wellington City for housing affordability reasons, scope for section price falls looks limited at this stage.

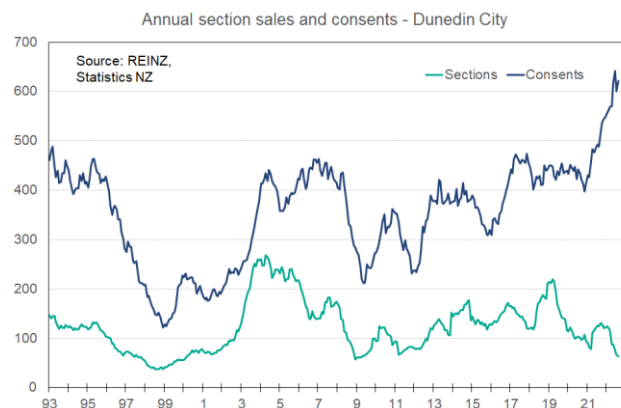
Dunedin City

Prices easing

There were 64 sections sold in Dunedin City in the year to August, representing a fall of 49% from a year earlier compared with a nationwide decline of 44%. Sales are now at their lowest levels since 2009 and look to be headed lower - as is the case for most regions.

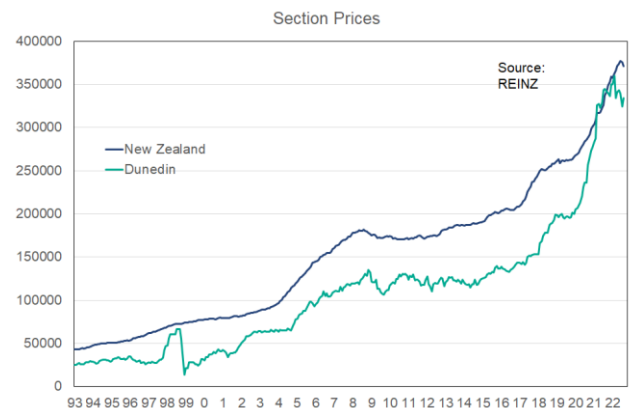


The number of consents issued for new dwellings to be built in Dunedin City in the past year has risen very strongly.

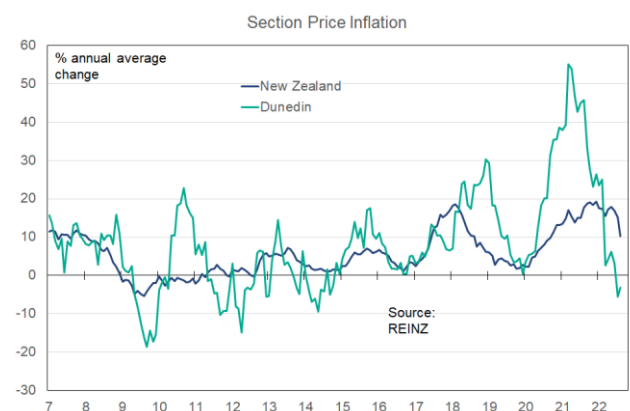
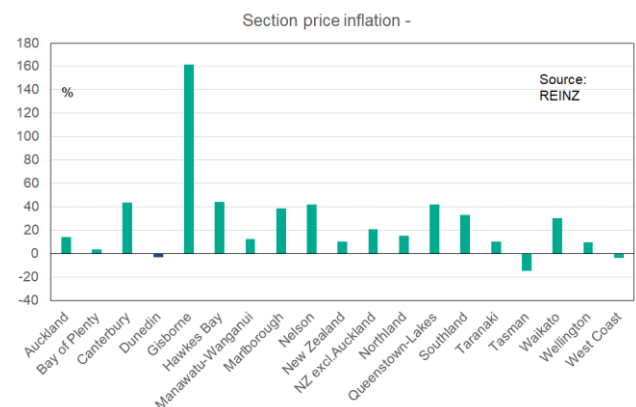


But a correction looks highly likely.

The average price of sections sold in the city over the past year has been \$333,000 which is not far from the NZ-wide average of \$371,000.



The section price is on a par with Canterbury, below Wellington at \$383,000, but less than half Auckland at \$669,000. In Dunedin City section prices have fallen slightly by 3% in the past year, one of only three regions to have so far recorded an annual decline in this current downward leg of the housing cycle nationwide.



Further price declines look likely.

Regional Property Insights

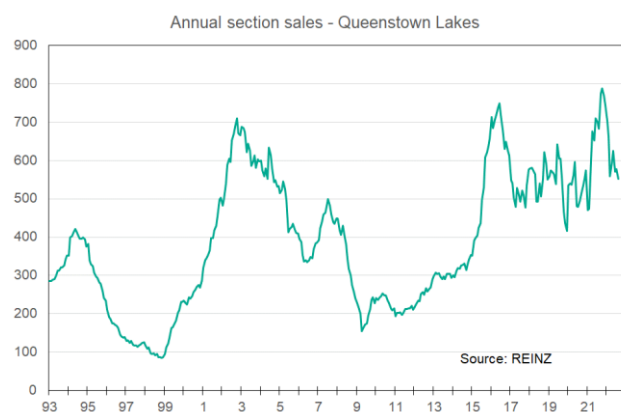
Queenstown Lakes

Expensive and rising

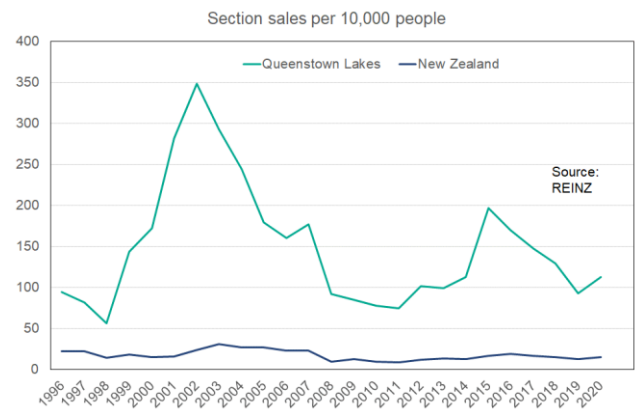
The Queenstown Lakes District can often perform quite differently to the rest of the country and that is the case now as it has been since the pandemic started. Initially the district under-performed because of the economic impact of border closures. But now with borders open again there is extra market strength not seen in other parts of the country but often discussed in terms of price changes.

With regard to sections, it pays to keep in mind that some large developments in the district do not appear in the sales data and that generates a downward distortion to activity levels, but less so to average price measures.

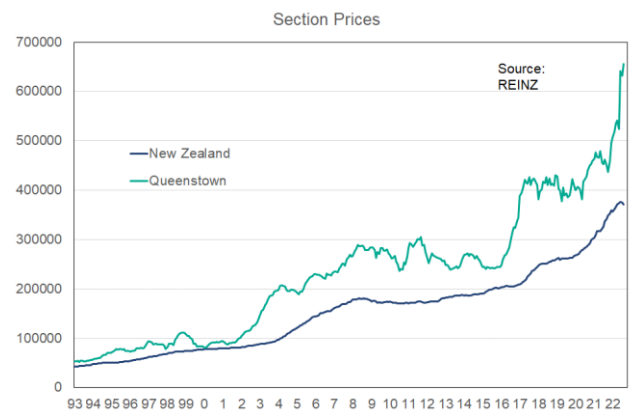
Keeping these caveats in mind and remembering that the population is only just over 50,000, we can note that in the year to August section sales totalled 551, notably more than in some regions of similar population base such as Tasman at 23, and Gisborne at 23 also.



The location is one of very strong population growth and we have noted this previously through the following graph showing section sales per 10,000 people. The district is well above the country average.



Average section prices in the Queenstown Lakes District have risen 42% in the past year.

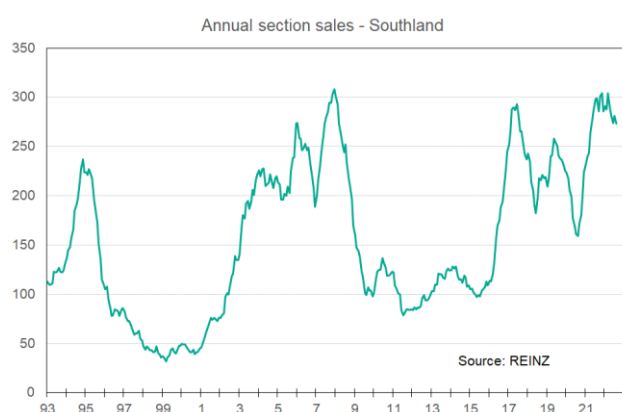


The region is very expensive with a section price on average almost as high as Auckland at \$656,000 in the past year. It is hard to see this level falling in the coming year as the positive economic effects of border reopening wend their way through the district's economy.

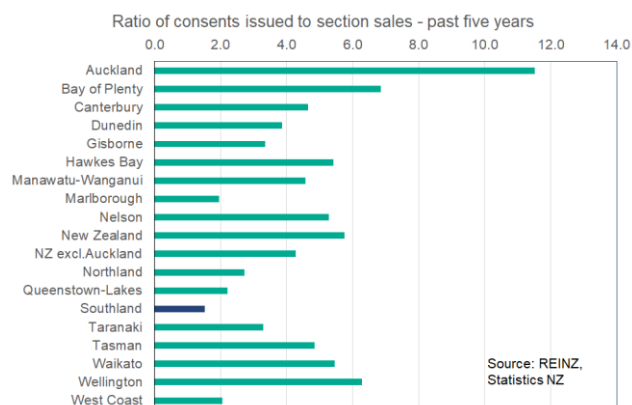
Southland

Strong price gains

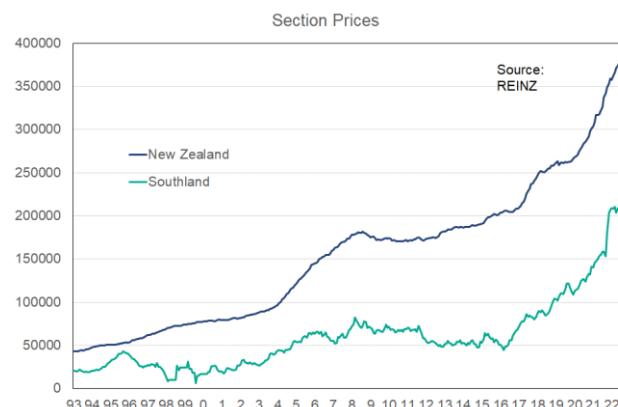
In the year to August there were 273 sections sold in Southland. This total was unusually high in the context of some steep declines in sales in other parts of the country. In fact, Southland section sales fell just 9% in the past year compared with a 44% fall across all the country.



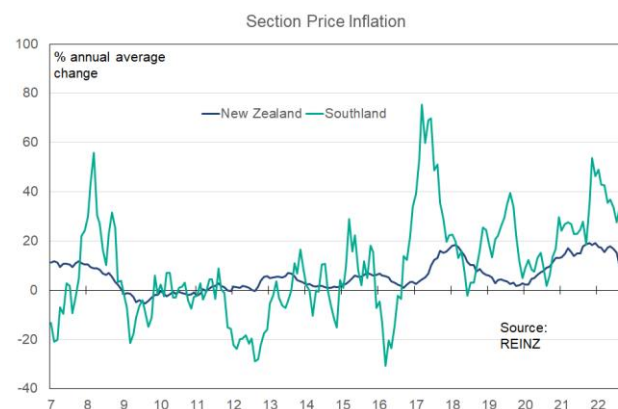
Southland stands out as having the lowest ratio of consents issued to sections sold in the past five years. At just over 1 this reflects the overwhelming dominance of standalone houses which account for 88% of all dwellings versus 62% for all NZ excluding Auckland at just 27%.



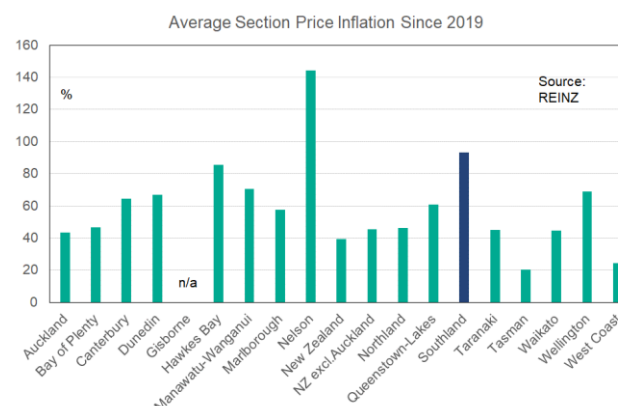
The average price of sections sold in Southland in the past year was second lowest in the country ahead of just the West Coast at \$211,000 versus \$93,000. The all-NZ average is \$371,000.



Average section prices in the region have risen by 33% in the past year after gaining 28% the previous year.



The rise since the end of 2019 for Southland has been 93% compared with 39% nationwide. This is the second strongest gain across the country.



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TONY ALEXANDER Regional Property Insights

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