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TONY ALEXANDER

Regional Property Insights

JUNE 2022



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Introduction

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

In this issue we look at changes in the levels of residential real estate activity for each NZ region using three metrics. Section sales, consents issued for new dwellings, and dwelling sales. Activity is cooling everywhere but to highly varying degrees.

For some regions there is a risk of extra weakness soon because recently strong population growth may mainly reflect some earlier than planned internal migration from the cities encouraged by the pandemic.

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

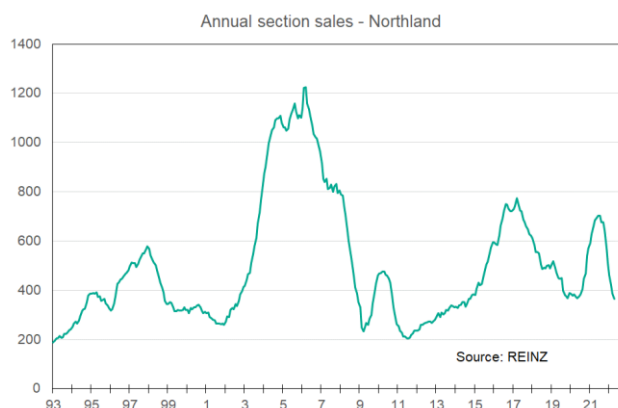
[First Mortgage Trust Articles](#)

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

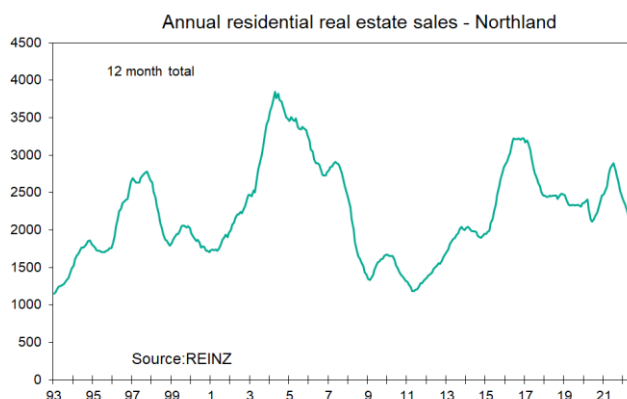
Northland

Greater than average activity decline

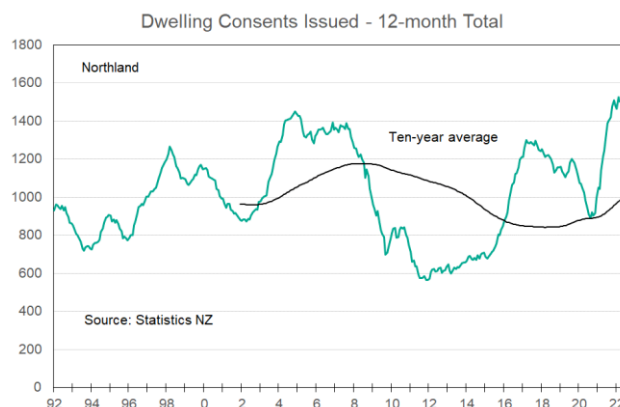
The level of activity in Northland's residential property market is falling away at a firm pace now. First, in the year to April there were 365 sections sold in Northland. This was a fall of 46% from a year earlier which is more than the NZ-wide decline of 32%.



The number of dwellings sold in the past year was down by 20% which also exceeds the NZ decline of 18%.



However, the number of consents issued for new dwellings to be built in the past year has risen by 32% which exceeds the NZ rise of 24%.



On the first two measures of residential activity things have been easing off at a greater than average pace over the past year. Sales of sections and dwellings have retreated to levels of two years ago but are likely to go lower, maybe back to the levels of 2011 for sections and a bit above that for built dwellings.

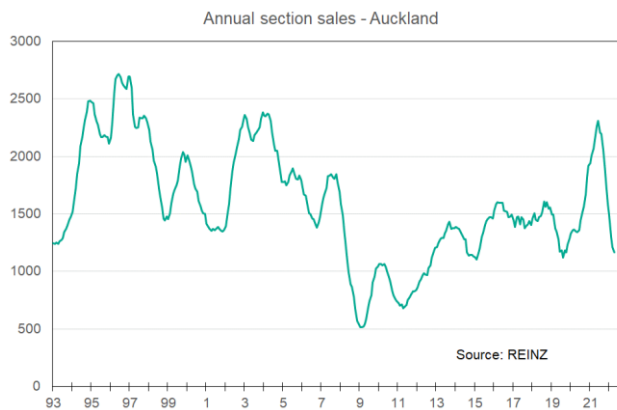
The difficult change to pick is the extent of the coming decline in consents. The nationwide fall has yet to start but the wave of media reporting about failing developments, frustrated buyers, and the general backing away of people from buying properties suggests a substantial decline is going to commence soon.

In Northland the chances are high that consent numbers will retreat back to about 1,000 but going lower will depend very much on the economy's progress and the extent to which some of the recent construction surge has been caused by a temporary pandemic-driven boost to the region's population growth rate.

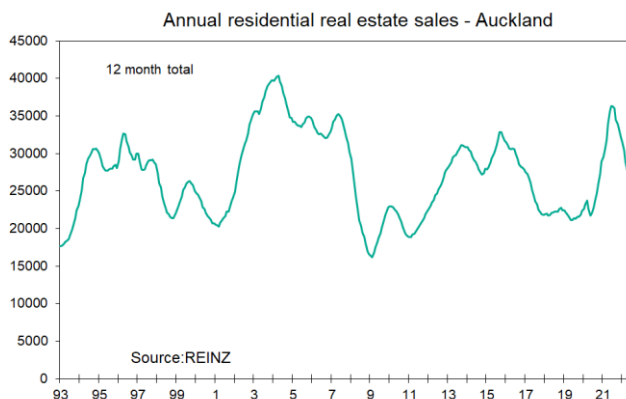
Auckland

Solid consenting correction to come

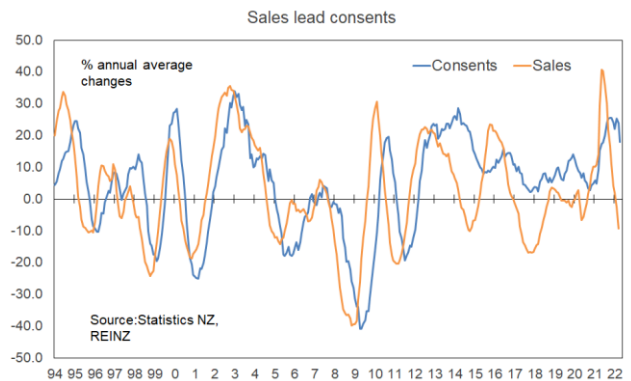
In the past year there were 1,166 sections sold in Auckland, a decrease of 46% from a year earlier which easily exceeds the nationwide decline of 32%. A substantial easing in section buying activity is underway and possibly accelerating as sales in the past three months were 61% lower than a year ago versus a 49% decline nationwide. Clearly, there is at least a reversion to more sustainable levels of activity underway after the pandemic surge.



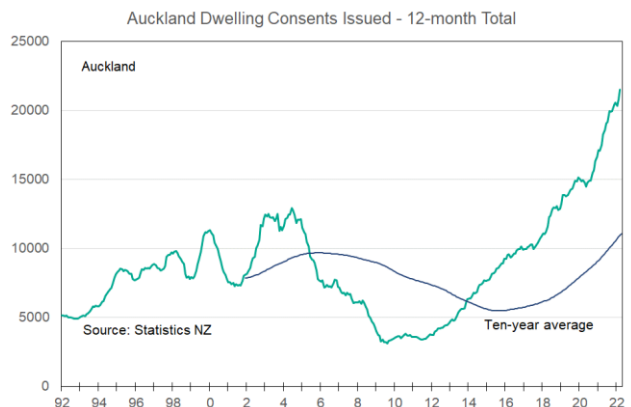
The number of properties sold in Auckland has fallen by 18% in the past year which about matches the NZ-wide decline. As with sections, things are at a minimum pulling back from pandemic-driven activity levels. But with sales down in rough seasonally adjusted terms by 34% in the past three months the decline in sales is accelerating. A retreat in annual activity back to a level between lows seen in 2011 and 2017-19 looks likely.



There is a strong lagged relationship between dwelling sales and issuance of dwelling consents. That lag will very soon kick in and produce a strong decline in Auckland dwelling consent numbers over the next couple of years. This next graph shows this relationship at the NZ-wide level.



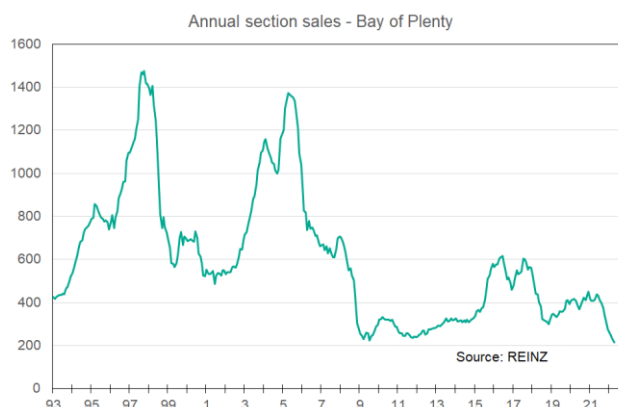
Given the widespread withdrawal of buyers being observed through my various monthly surveys, we could soon see a retreat towards consenting levels of just over those seen from 2002-04. One very uncertain factor is the number of consents yet to be acted on which will or not in fact be eventually utilised.



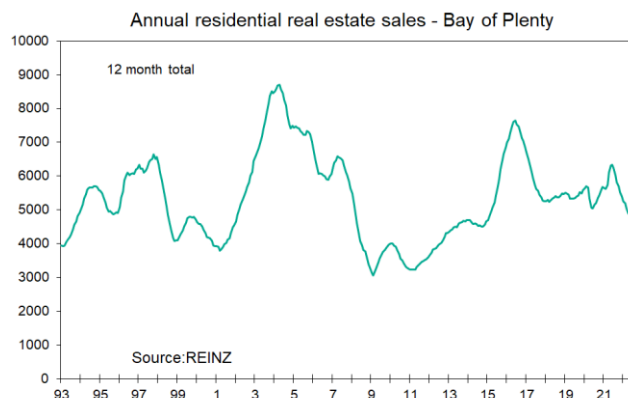
Bay of Plenty

Activity decreasing

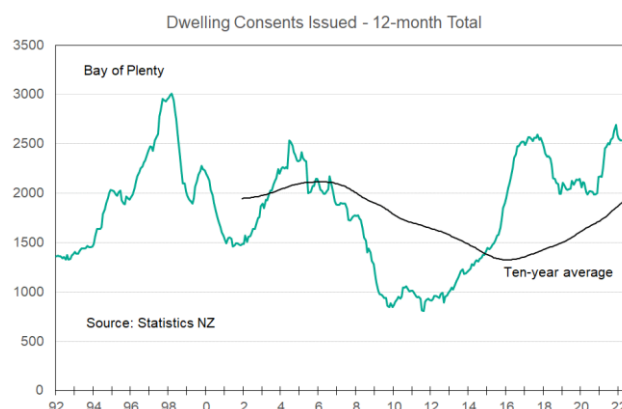
The number of sections sold in the Bay of Plenty region over the past year has fallen by 48% compared with a 33% nationwide decline. The annual total is now the lowest since our records started in 1993. In the last three months sales were 66% down from a year ago versus a 49% fall NZ-wide. Therefore, activity levels for businesses involved in section development look like going even lower still.



Dwelling sales have not fallen by as much as section sales and the 8% fall in the past year is less than the nationwide pullback of 18%. But sales levels never soared to quite the same degree as in many other parts of New Zealand in recent years and that suggests that the coming decline in sales may also remain relatively mild.



We know there is a strong lagged relationship between falling sales and falling building activity. The weakness in section sales for the region adds to the strength of that relationship and suggests that the so far small decline in consent numbers recorded will grow substantially soon.



A return to activity levels of 2011 is not in prospect given the special role housing played in the Global Financial Crisis of 2008-09. But a retreat to below the ten year average number of consents looks like a reasonable expectation to have.

Note that in rough seasonally adjusted terms dwelling consents have recently fallen by 23% in the Bay of Plenty region compared with a 4% rise nationwide. Once completion of the backlog of building is done, we may see a faster retracement of house building in the region than elsewhere, but not necessarily of the same magnitude.



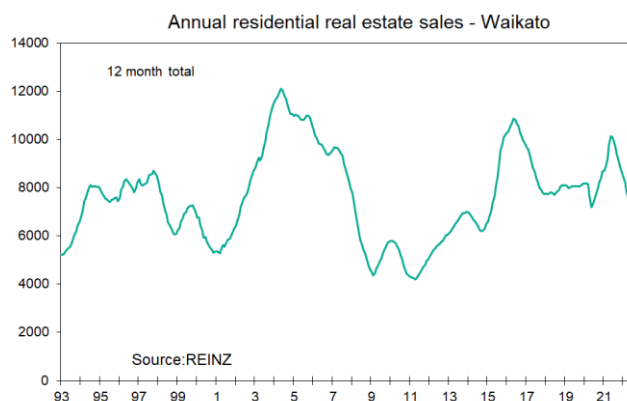
Waikato

Pandemic boom reversing

In the Waikato region section sales have retreated to levels last seen in 2013. The decline of 44% in the past year exceeds the NZ decline of 32% and at 552 the number of sales is well down from the peak of 987 in May last year.



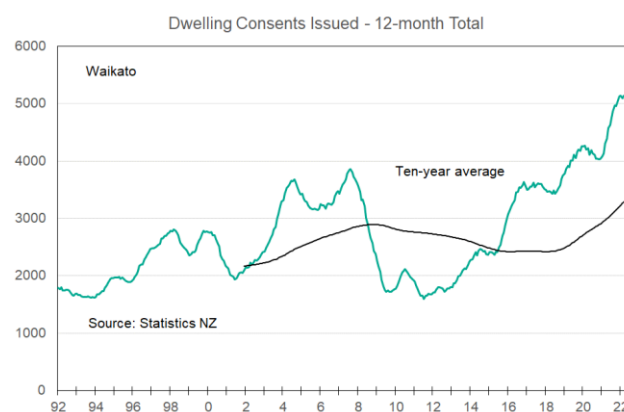
So far, the decline in property sales looks entirely consistent with a retreat from pandemic driven highs. Sales have decreased by 23% in the past year which is only slightly more than the nationwide decline of 18%. The recent seasonally adjusted decline of 22% in the past three months is also close to the nationwide pullback.



Given the pullback in buyer interest in purchasing property revealed in my monthly surveys it seems reasonable to expect at least a retreat in annual sales back toward the levels of 2013.

Does this mean consent numbers might also retreat to 2013 levels? Probably not. There looks to have been a structural shift in the level of house building activity in New Zealand assisted by realisation of the need for more entry level dwellings and changes to urban planning codes allowing greater intensification.

The decline in consent numbers is yet to start in the Waikato region with a rise of 20% in the past year exceeding NZ-wide growth of 24%.

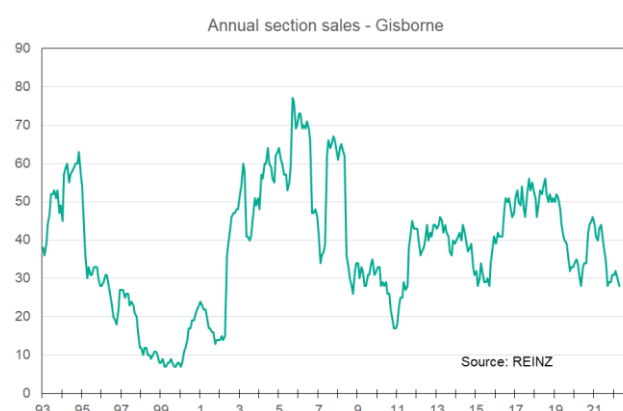


But in seasonally adjusted terms consent numbers have fallen by 1% versus a 4% NZ-wide rise. The pullback has barely started and has a long way to go – perhaps back to activity levels of 2006.

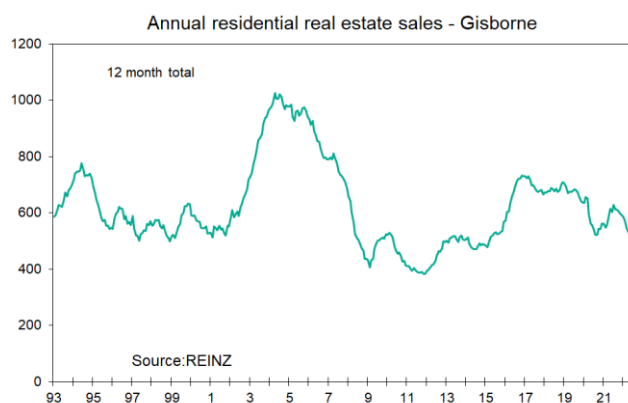
Gisborne

Correction mild – so far

As a smaller location we can reasonably expect greater volatility in all measures of residential activity in Gisborne than most other places. Nonetheless, sales of sections rose firmly during the pandemic as happened elsewhere. Now, a decline is underway. Sales have fallen by 35% in the past year which about matches the NZ-wide pullback.

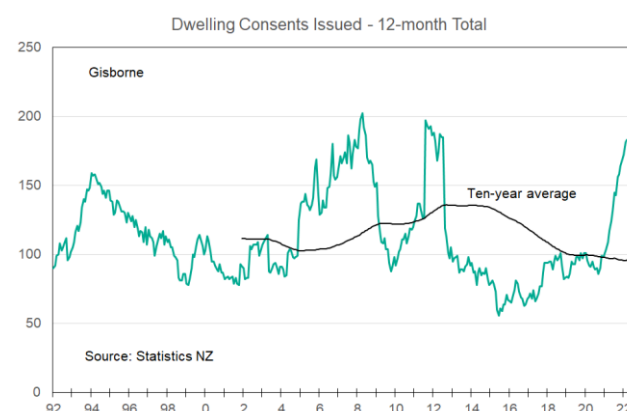


Sales of dwellings have weakened only slightly this past year – by 10% versus 18% nationwide.



It is quite likely that sales will retreat to the levels seen in 2012 as these are early days as yet of buyers pulling back from purchasing. Interest rates will rise further, discussion about the brain drain has yet to seriously blossom and talk of property over-supplies in some areas has also yet to get going.

Given a well established relationship between changes in dwelling sales and changes in the number of consents issued for the construction of new dwellings, we should expect complete erosion of the above-trend surge in Gisborne consent numbers in the coming 1-2 years.



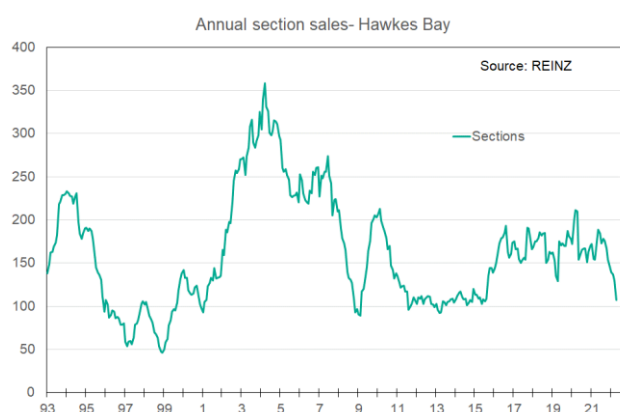
One special risk for the region is the extent to which many older people may have advanced their plans to relocate to the sunnier climate. Their movement in the past couple of pandemic years has boosted Gisborne's property market and sent prices soaring, assisted by expats shifting there also.

But this could mean people who would otherwise be moving there this year and next have already relocated. Some internal migration weakness could be ahead, and this will eventually aggravate the cyclical and post-pandemic weakening in Gisborne's housing market activity levels.

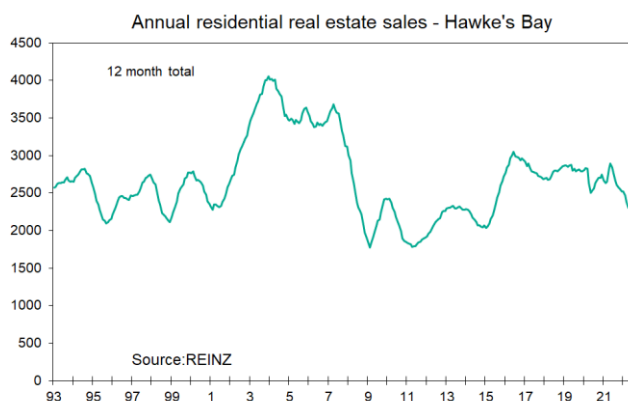
Hawke's Bay

Building correction starting early

Section sales in Hawke's Bay are falling away and at 107 were down 39% in the past year to levels last seen in 2015. Sales are likely to weaken further as buyers pull back from their FOMO-driven binge on everything property related over 2020-21. Sales could easily fall back to the levels of the late-1990s.



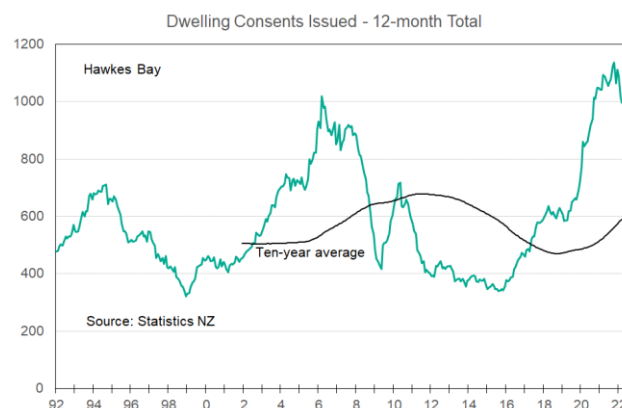
So far, the decline in property sales has been relatively modest. The number of properties sold in the past year was down just 18% from the previous year which matches the NZ-wide decline. The seasonally adjusted fall in the past three months to 28% also is close to the NZ decline of 25%.



As was the case for most of the rest of the country, the sales boom in recent years did not see turnover go back to the frenzied days of 2003-07. A key reason for that has been a shortage of property to buy. That shortage is now quickly disappearing and the rise in

listings numbers is one reason why the number of consents issued for new construction will likely fall quite a distance in the coming two years.

So far, annual consent numbers have declined by just 9% in the Hawke's Bay region compared with a 24% rise in the rest of the country. The decline has started early in Hawke's Bay. A retreat in consent numbers back towards levels of 2018 looks like a reasonable expectation.



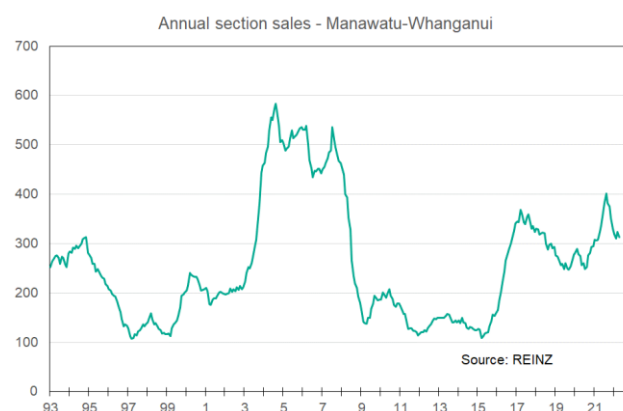
As with some other parts of the country, a key consideration for Hawke's Bay is the extent to which recent population growth has been artificially and only temporarily boosted by the rush for the regions driven by the pandemic. There is a risk that people planning to shift there in the next 2-3 years may already have done so.



Manawatu-Wanganui

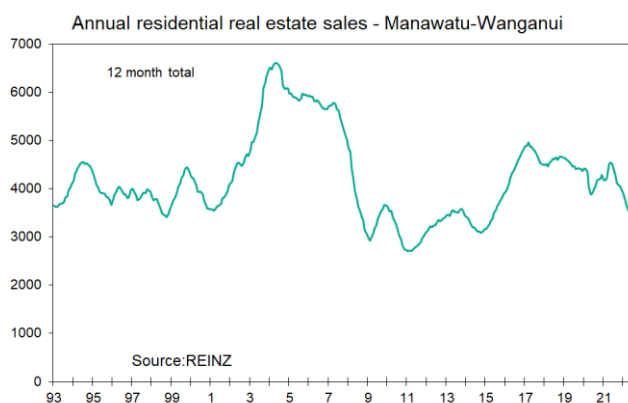
Construction fall starting

The Manawatu-Wanganui region has received a good inflow of people seeking cheaper housing over the past few years. The building sector has responded with increased land development allowing a good rise in section sales. But now, as demand eases back, sales of sections are falling. The decline in the past year has been 3% which is much less than the NZ-wide fall of 32%.



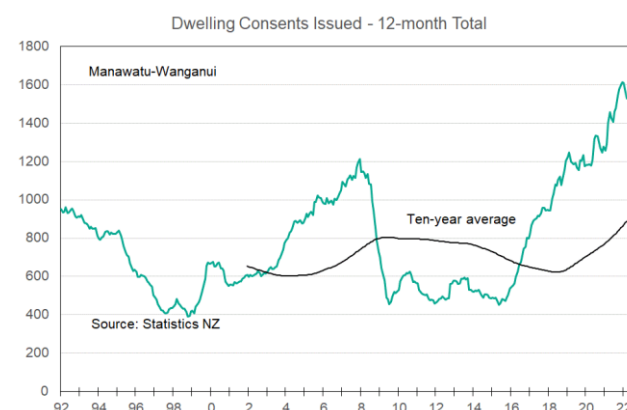
In the past three months sales were down only 9% from a year ago versus a 49% decline in section sales nationwide. The region is having only a mild easing off in section turnover and that bodes well for less of a construction decline than elsewhere.

Property sales have so far fallen by 21% which is close to the NZ fall of 18%. In seasonally adjusted terms sales in the region have declined by 25% recently which exactly matches the NZ decline. No special weakness is apparent.



Nonetheless, with buyers pulling back now, a fall in turnover back to the levels of 2015 would seem to be a reasonable expectation.

With regard to the issuing of consents for construction of new dwellings, activity has soared in the region since 2016. Consent numbers have risen by 9% in the past year compared with 24% nationwide indicating that an easing off may be underway earlier than for the country overall.



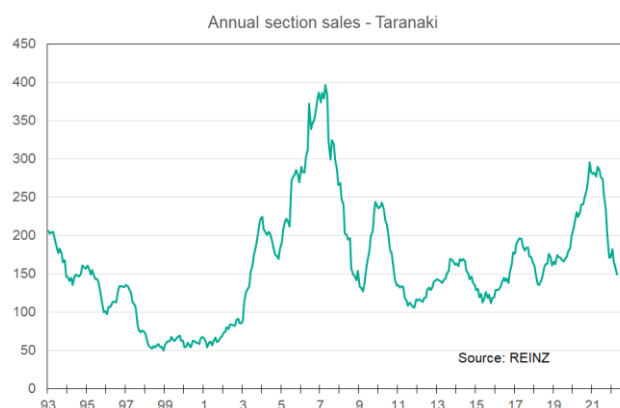
In seasonally adjusted terms consent numbers in the Manawatu-Wanganui region have fallen 6% compared with a 4% rise nationwide. The region may be leading the country overall in the construction pullback.

Taranaki

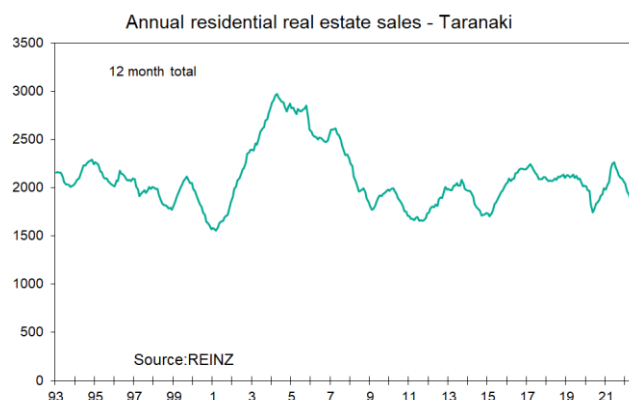
No extra special turnaround underway

The Taranaki region has stood out in recent years in that it is the only North Island region apart from Auckland not to see average prices soar to well above long-term trends compared with the rest of the country. Nonetheless, as is happening elsewhere, turnover as measured by the three indicators we are focussing on this month is weakening.

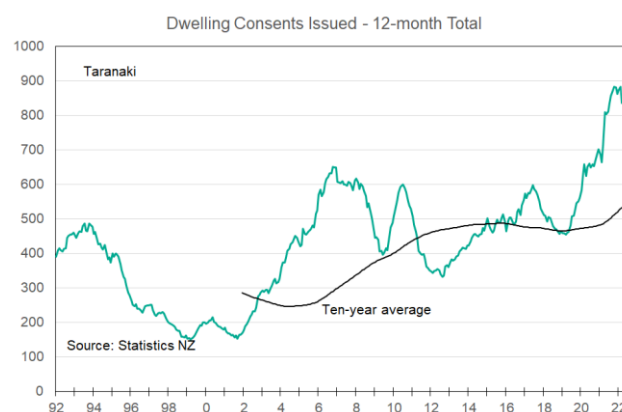
The number of sections sold has declined by 49% in the past year which exceeds the NZ decline of 32%. The 54% decline in the past three months compared with the same period in 2021 also exceeds the NZ decline of 49% - but not by much.



Sales of dwellings are starting to fall away with 14% in the past year which about matches the NZ pullback so far of 18%. The recent seasonally adjusted fall of 21% is also close to the NZ decline. So, there is not special sales weakness in the Taranaki region.



With regard to construction we can see a downward move is not yet underway. The number of construction consents for dwellings issued in the past year has risen 17% compared with a 24% rise nationwide. And in seasonally adjusted terms consent numbers in the past three months have gone up by about the same 4% as for the country overall.



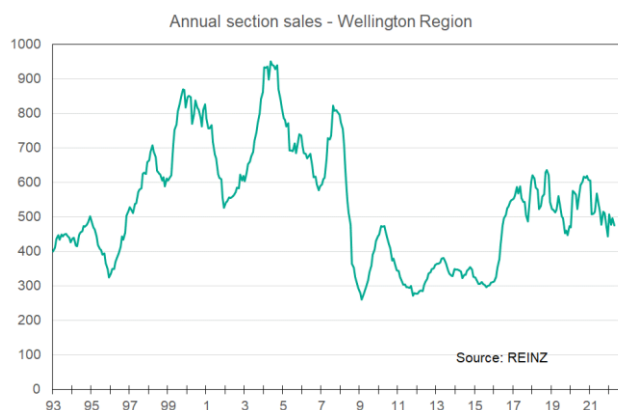
Construction has lifted in the region, but not to the same extent from post-GFC lows as in many other locations. This suggests that when the fall in consents and decline in house building occurs, the extent of weakness will be less than elsewhere as well.

Wellington

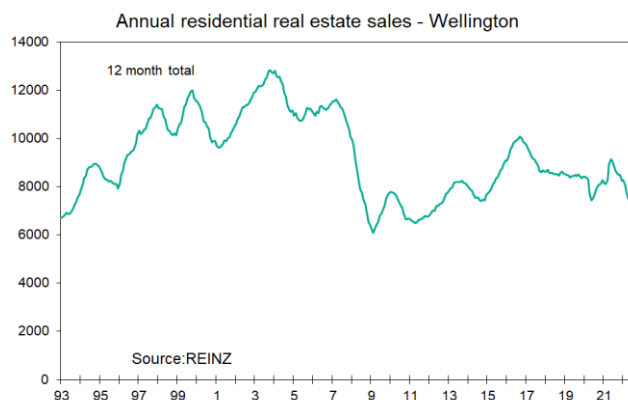
Mild correction in prospect

The Wellington region includes Kapiti Coast, Porirua, Lower Hutt, Upper Hutt, and Wellington City. Improving transport linkages there mean the housing markets for each of the five areas tend to move together, though timing can vary. However, often soaring Porirua City rents and prices are a sign that the cycle is getting a bit stretched. Wellington City is not displaying the same movement of prices to well above trend levels as in the other locations and that needs to be kept in mind when considering where things are headed.

For section sales there is some mild weakness underway with a fall of 8% in the past year. But this is far less than the decline for all the country of 32%.

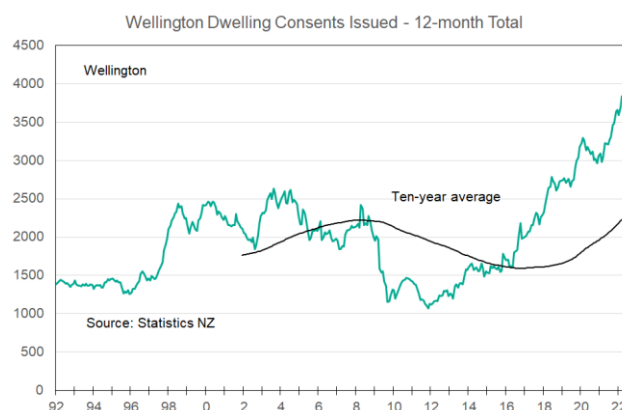


Similarly, the 16% decline in sales so far is less (only slightly so) than the 18% fall nationwide.



The market has not shown the same soaring level of sales as most other regions in recent years, so it seems reasonable to expect that this current and coming period of cyclical and post-pandemic pullback in activity levels will be milder than elsewhere.

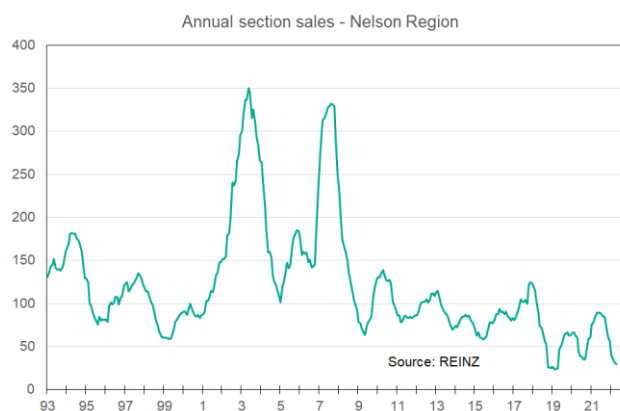
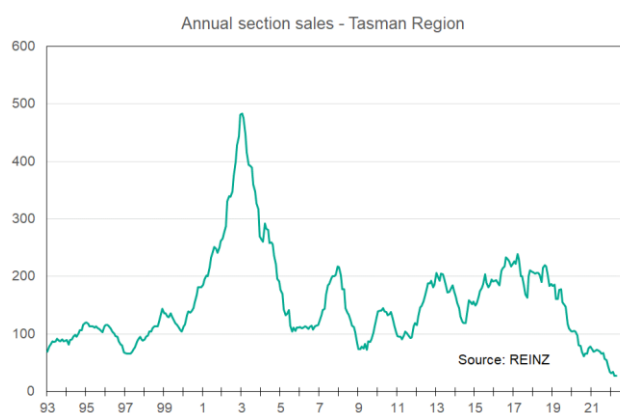
Harder to pick perhaps is the extent to which building activity will fall away. On the face of it scope exists for a substantial decline given the way activity levels have soared since 2012. But there is a close lagged relationship in each region between changes in the rate of growth of dwelling sales and changes in consent numbers. This suggests that while construction is about to fall in the Wellington region, the decline might be less severe than elsewhere.



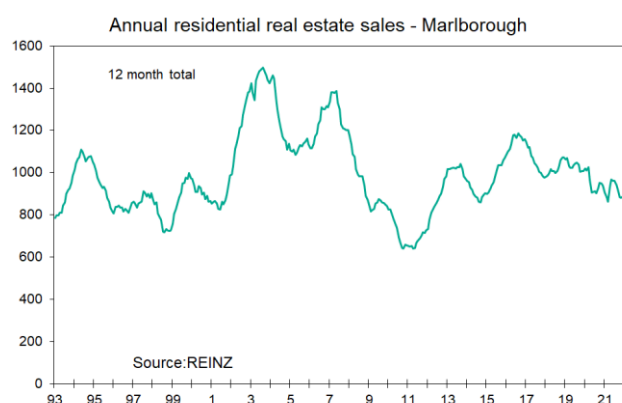
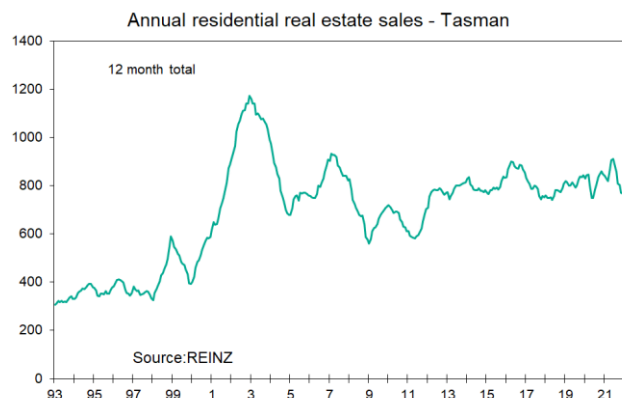
Nelson, Tasman, Marlborough

Mild corrections

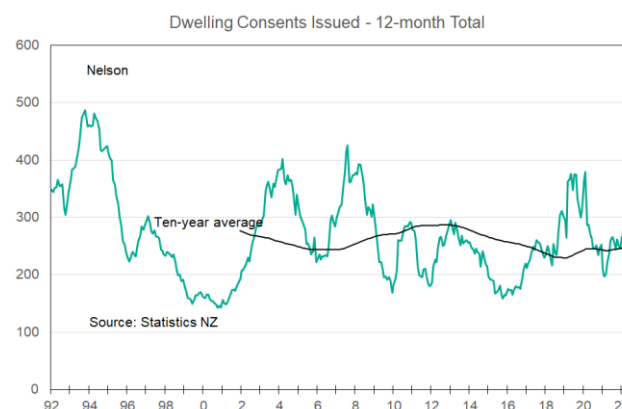
Unlike virtually all the North Island regions already covered, at the top of the South Island there has been no pandemic related surge in section sales. But there is a decline in sales now underway with the annual number falling by 19% in Marlborough, but over 60% in Tasman and Nelson versus a 32% decline nationwide. Note especially the weakness for Tasman.



Is this weakness replicated in dwelling sales? Again, no booms, but also no busts in this instance. Property sales in the past year have fallen by 9% in Marlborough, 13% in Tasman, but 26% in Nelson. Nelson is constrained by a shortage of stock.



With regard to consent numbers, Marlborough's numbers have weakened 6% in the past year, Tasman 9%, but Nelson has soared 40% as supply starts to respond to demand previously met by the Tasman region.

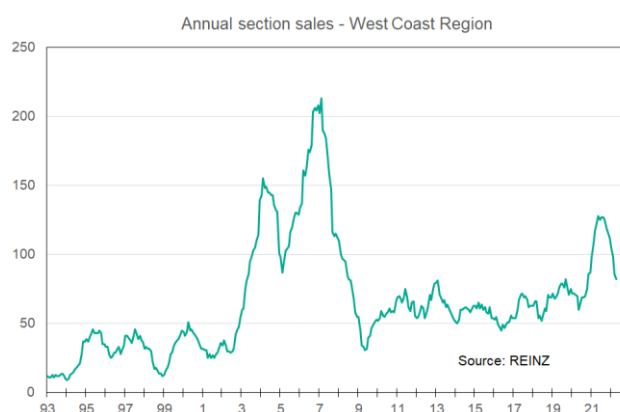


Milder property sales weakness and an easing of construction look to be in prospect relative to much of the rest of the country.

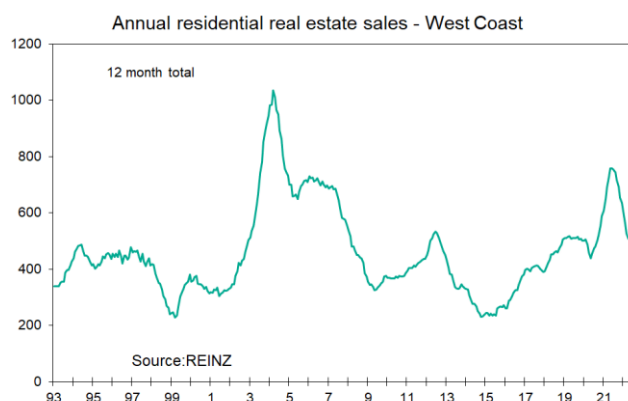
West Coast

Construction surge may fade

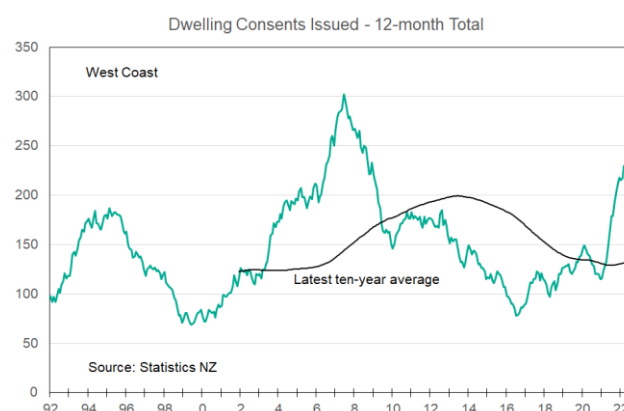
The West Coast is small, the data volatile, and it is hard to factor in the flooding impact in Westport. Nonetheless, section sales rose firmly last year, but nowhere to the same degree as ahead of the GFC. That earlier surge has left many spare sections on the market ever since. A retreat in sales perhaps matching the fall of 33% for the past year could easily occur but be mitigated by some shifting out of Westport – maybe to increasingly thriving Reefton.



Property sales began trending firmly upward on the West Coast in 2016 and peaked late last year. Now, sales have fallen by 30% in the past year compared with an 18% fall nationwide. Activity is weakening off at a rapid pace – though this can partly be attributed to a shortage of listings.



Is the shortage of listings set to be addressed with a construction boom? Consent numbers have risen firmly since early-2021. But given the post-pandemic declines starting to occur elsewhere, it seems reasonable to expect that consent numbers will over the coming year retreat back towards the levels of 2020.

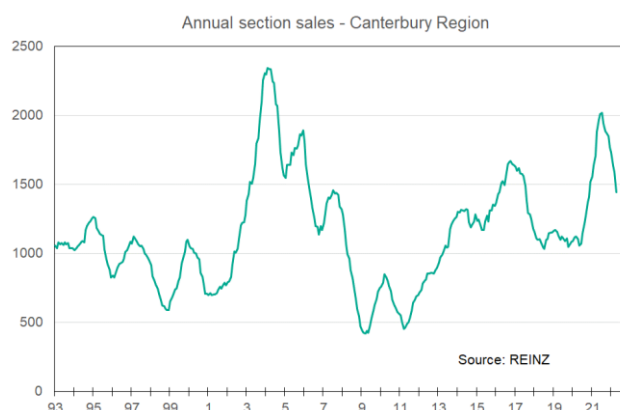


For the record, in the past year consent numbers on the West Coast have risen by 78% versus 24% nationwide. In seasonally adjusted terms those numbers have just started to weaken off.

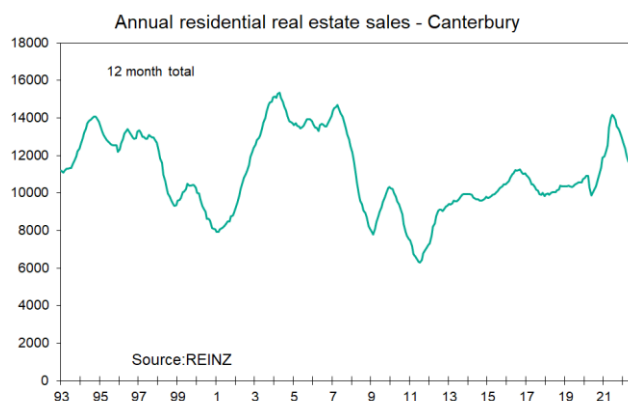
Canterbury

Cyclically easing

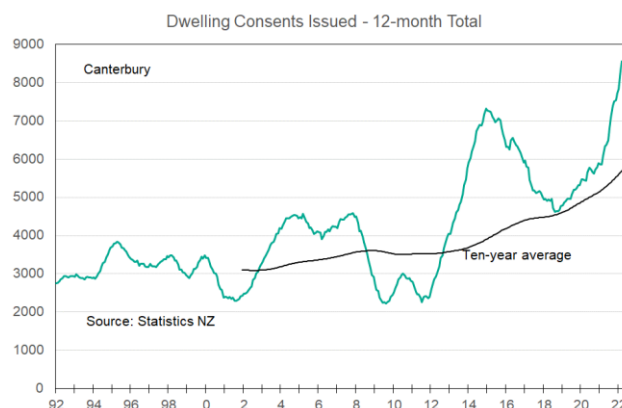
Section sales surged in Canterbury soon after the 2011 earthquake, eased off over 2017, then surged again during the pandemic. Now, sales are pulling back at about the same pace they did from the previous extreme peak recorded in 2003. Sales have declined by 23% in the past year versus a 32% decline nationwide. Given the catch-up underway in Canterbury house prices and likely internal migration from some other parts of the country, sales of sections may not fall too far below the levels of 2017 – 2020.



Property sales meanwhile have been falling since early-2021 and in seasonally adjusted terms declined 16% in the past three months versus a 25% decline nationwide. The sales pullback is milder than elsewhere on average and for the latest year the annual decline in sales of 13% is less than the 18% NZ-wide fall.



With regard to the issuance of consents for new dwellings to be built, there was understandably a strong surge from 2012 associated with the post-earthquake rebuilding period. Things then eased off back towards more normal levels before rising again from 2019 with assistance from falling interest rates, and probably some internal migration based on relative house prices, before the pandemic effect appeared.



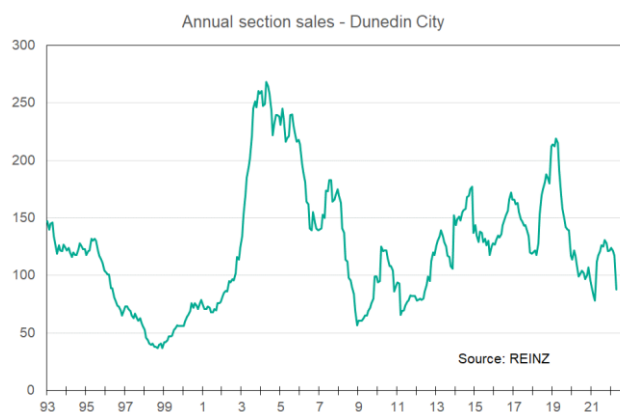
Just as Canterbury consents have soared rapidly, we should expect a fairly speedy decline over the coming 1-2 years in response to the many factors generally producing a downward shift in the housing cycle – on top of the ending of the pandemic effect.

However, there is still a period of price catch-up to be completed in the region and Christchurch particularly, and this will work towards mitigating the extent of the decline in sales and the decline in construction below the levels of 2018.

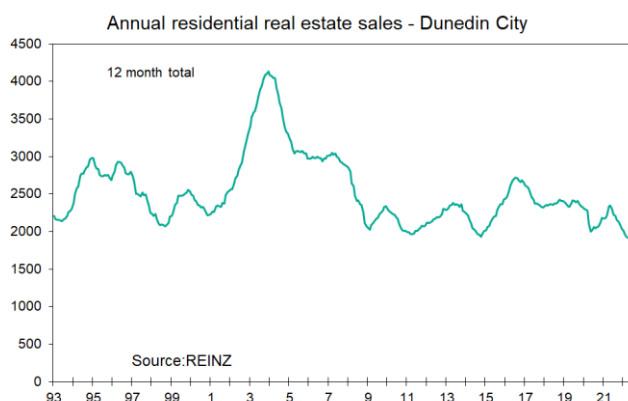
Dunedin City

Correction likely to be mild

In Dunedin City the number of sections sold reached 219 in the year to early-2019. But that number now stands at just 88 with a fall of 21% in the past year. The level change from 2019 is a lot but the latest yearly decline is less than the nationwide fall of 32%. Will things get even weaker? Given that we are still in the early stages of the post-pandemic whip-back and the reaction to tighter monetary policy, we could see sales fall back to GFC levels.

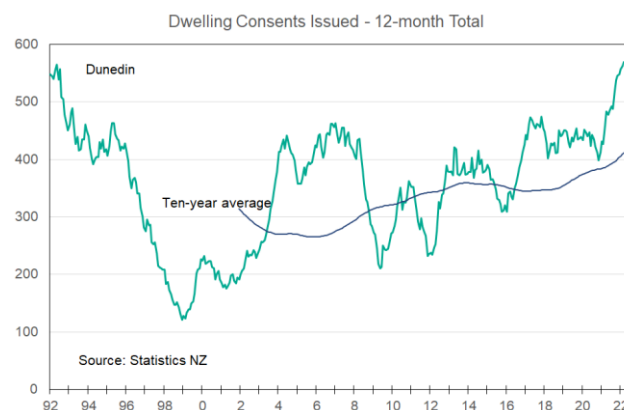


What about sales of completed dwellings? They did not boom over the pandemic so the extent of weakness now in response to more traditional restraining factors will be a lot less than in the North Island at least. For real estate agents in Dunedin, the shifting of the cycle will be less financially challenging than elsewhere.



Dwelling sales in Dunedin have weakened by 18% in the past year which matches the NZ decline.

With regard to construction as proxied by the number of consents being issued, there has been an up and down upward march in numbers underway since 2009 with growth of 24% recorded for the past year which exactly matches the NZ-wide rise in consents.

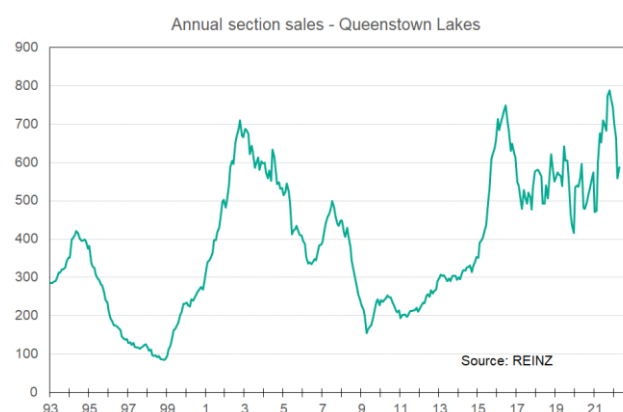


Buy whereas annual consent numbers nationwide are 77% above average and 60% outside of Auckland, the gain in Dunedin is less at just 43%. The extent to which consent numbers pull back in Dunedin over the coming two years is likely to be less than in most other parts of the country and there will be assistance from the return of tourists boosting the economy along with good returns in the primary sector.

Queenstown Lakes

Limited correction coming

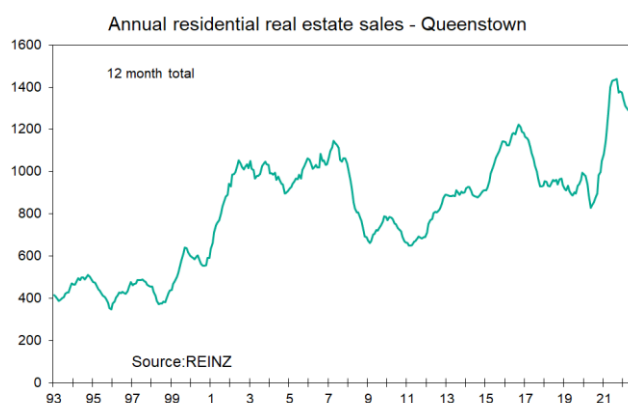
There has been a lot of land development in the Queenstown and Wanaka areas over the past few years and section sales in Queenstown have been trending up since the post-GFC lows. A flattening in activity from 2017 – 2020 came to an end with a pandemic-related surge as people shifted to the region.



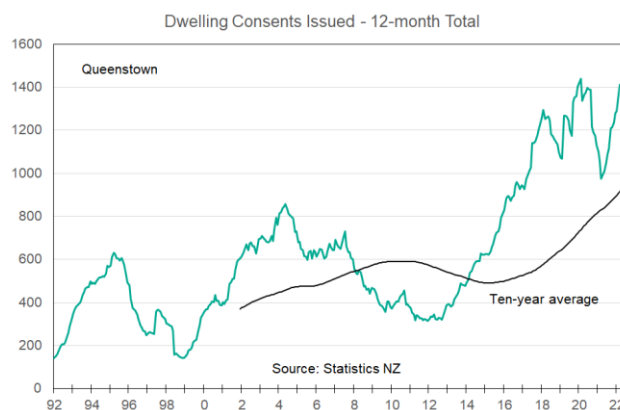
This shift to the regions is highly likely to ease off elsewhere in the country, but in Queenstown the return of international visitors is likely to inject some additional support across all our measures of housing activity.

For the past year section sales have fallen just 13% compared with a nationwide decline of 32%.

With regard to property sales there has been a decline of only 2% this past year versus an 18% fall across all the country. The extent to which sales ease from current levels is likely to be amongst the smallest for all the regions we track.



When we look at the following graph showing annual numbers of consents being issued for the construction of new dwellings, one thing stands out. There is an upward trend which has been in place since 2013 and the sharp decline over 2020 associated with closure of the borders has been reversed. Consent numbers have risen by 45% over the past year whereas the nationwide rise has been 24%.

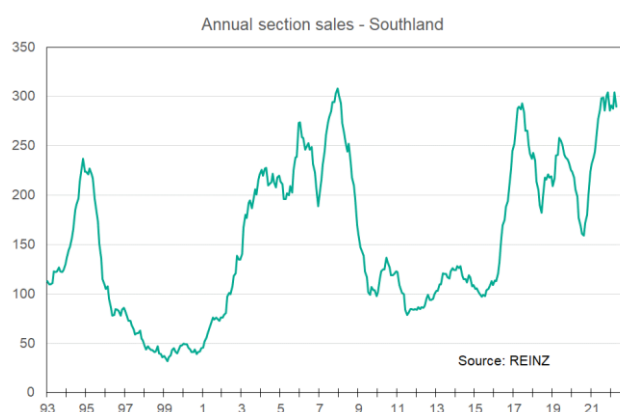


The extent to which consents fall away in the coming two years is likely to be limited.

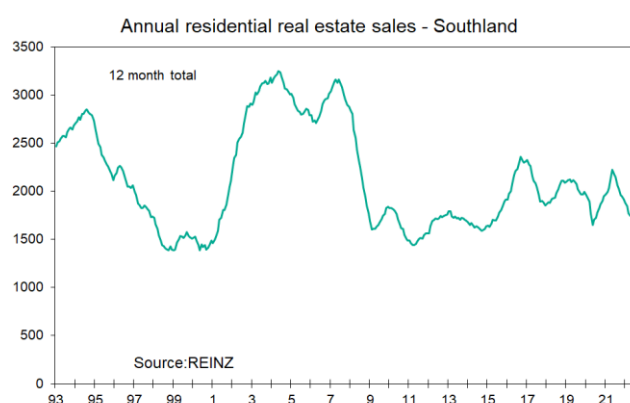
Southland

No section sales decline yet

Sales of sections have run at highish levels in Southland since 2017 and a falling away ahead of the pandemic was reversed over 2021 and as yet a decline in activity has yet to appear. In fact, section sales have risen 10% in the past year and no other region has recorded a rise. The nationwide change is a decline of 32%.

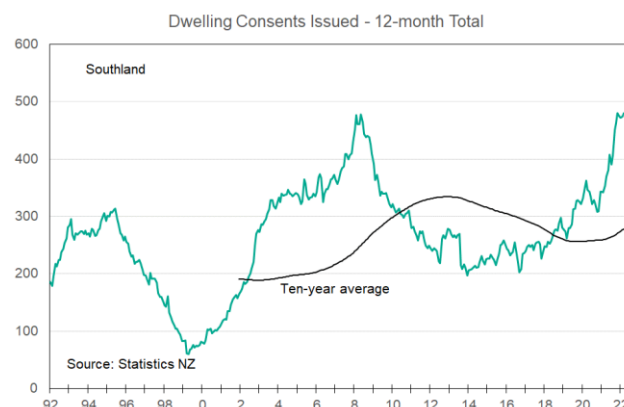


Is this strength in sales of sections seen also in sales of existing properties? Not quite to the same degree. But at 1,747 the number of dwelling sales in the past year was down 19% from a year earlier which about matches the NZ decline of 18%.



It seems reasonable to expect that sales will weaken soon, but the falloff may not be at the same pace as the rest of the country from here on out. The region has support from the return of international visitors over summer plus good returns in the agricultural sector.

As has happened elsewhere around the country, consent numbers have soared in recent years and received an extra boost over the pandemic period. Consents have risen by 36% in the past year compared with an NZ-wide gain of 24%.



Population growth has been recently assisted by some accelerated internal migration caused by the pandemic. However, as with the likes of Gisborne and Hawke's Bay, and with housing affordability improving elsewhere, it is debatable as to whether this population improvement will continue and allow the strength in construction to go much beyond the coming year.

A downturn in consents looks likely in the near future with a return to activity levels of 2018 or so eventually likely.

This publication is written by Tony Alexander, independent economist. You can contact me via LinkedIn or email tony@tonyalexander.nz

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