

TONY ALEXANDER Regional Property Insights

MARCH 2022

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Regional Property Insights

Introduction

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

In this issue we consider how vulnerable average house prices are for each region to the generalised fall in prices underway since December. Our principal means of gauging this is to calculate the ratio of each region's average price to the NZ-wide average, then see how things compare with the long-term trend.

We supplement this analysis with a look at the recent pace of each region's population growth versus the NZ average and compare growth in dwelling consents again with the NZ average.

What we are looking for are regions where prices might be above trend, population growth weak, and consent issuance high. This would imply high vulnerability to price correction. We are also seeking regions with prices close to or below trend, firm population growth, and relatively mild dwelling supply growth. For such regions price vulnerability during this period of price adjustment over 2022 into 2023 will be limited.

Not all regions will experience the same price correction this year into 2022 as we pull back from unsustainably high prices. Some regions in fact have prices below their trend ratio to the country as a whole including Auckland, Taranaki, Tasman, Canterbury, and Queenstown Lakes.

But the dynamics in play differ tremendously between these regions, and all have prices well above levels which long-term trends on a standalone basis would suggest they would be without the global pandemic.

In particular, in Auckland there is a supply boom underway at the time of a slump in population growth. This is the opposite of the seven years after the Global Financial Crisis. In Taranaki investor flows on the way up are constrained as they are on the way down. The region delivers greater stability in prices than most others and is set to benefit from high dairy prices. But

the coming resurrection of international tourism will count for little.

In Tasman, and in fact for the top of the South Island generally, it looks like the population flow out of the cities to the regions has not been as much a factor as elsewhere. The scope for cyclical price declines looks limited.

In Canterbury there is a long overdue price catch-up to the rest of the country underway which may run for the next 2-3 years.

In Queenstown the return of international visitors and probably some renewed above average population growth implies some unique price strength not to be seen elsewhere in the country.

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



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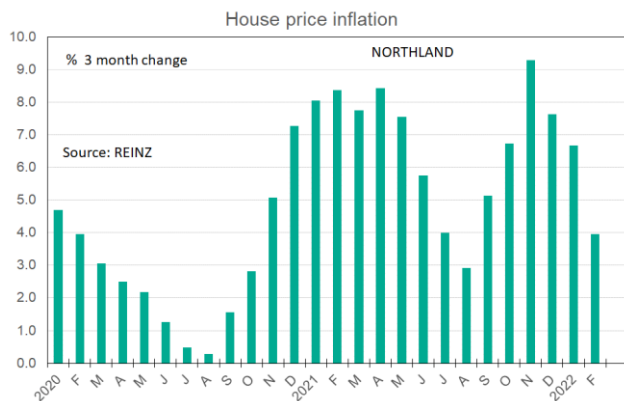
Northland

Mild correction potential

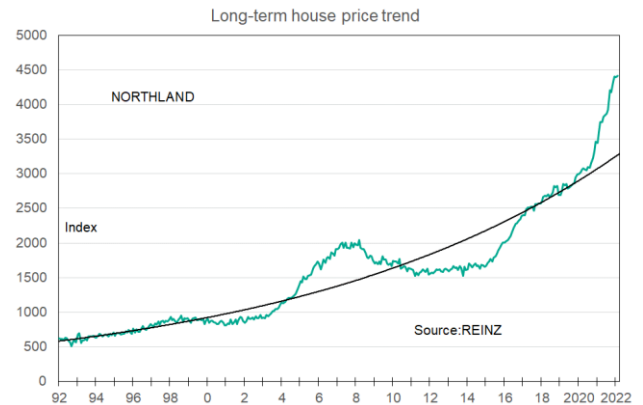
Nationwide house prices have in the three months to February averaged an unchanged level from the three months to November. But this involved a 1.5% decline in December, 1.3% fall in January, and 0.5% rise in February. So, we can say that prices are falling but the track is not unrelentingly downward and the pace not strong.

The change in pace however is another thing. The 0% February quarter change compares with a 6.6% rise in the three months to November.

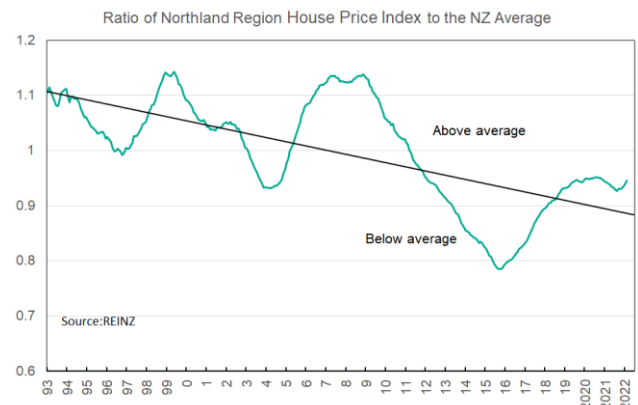
In the Northland region the change in average sale prices over the past three months has been 4.0%. This is down from 9.3% three months earlier. This tells us that Northland is holding up better than the country on average as the house price cycle turns, but the pace of increase has definitely slowed.



Looking just at the long-term trend in Northland house prices since 1992 we can see that the surge since the start of 2021 has taken prices well beyond where the trend suggests they would otherwise be.



Prices have also moved above their average long-term level compared with the country as a whole. But the distance from this trend is not all that much. This suggests that unless something quite specific of negative import comes along for the Northland economy, the correction in prices during the pullback in the recent unsustainable boom will not be much greater than NZ on average – if greater at all.



In fact, Northland is set to benefit from the return of international tourists along with improved incomes in the primary sector. It will however see some reduction in domestic tourism as Kiwis shift back to travelling offshore and high petrol prices keep road trips move to below average levels.

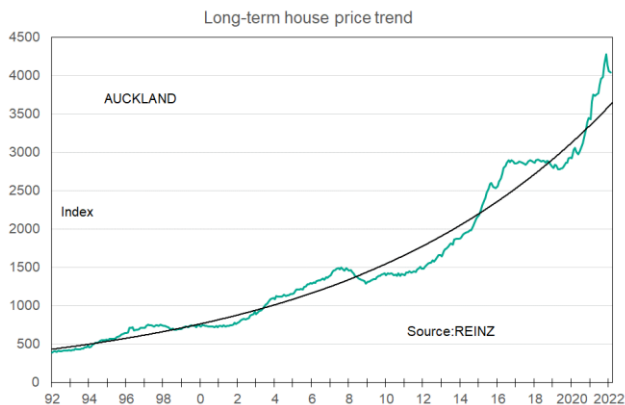


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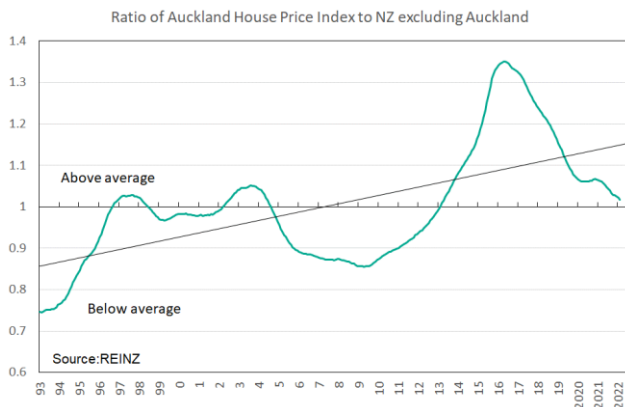
Auckland

Prices falling

Auckland house prices are currently sitting above where they would otherwise have been without the Covid-19 pandemic, but not by all that much when we consider the most recent pullback in this gauge shown in the graph below.

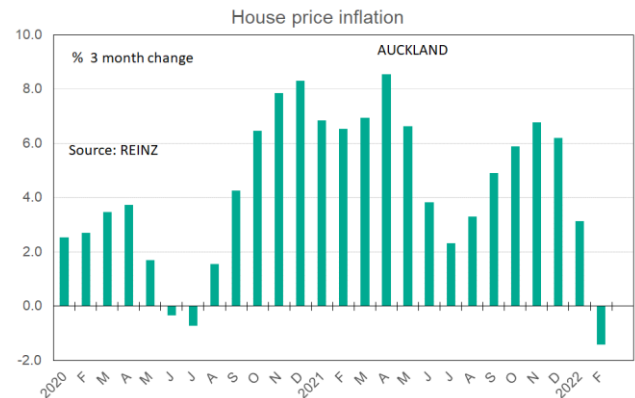


In fact, when compared with the rest of the country's prices Auckland prices are below their long-term trend relationship and becoming more so.



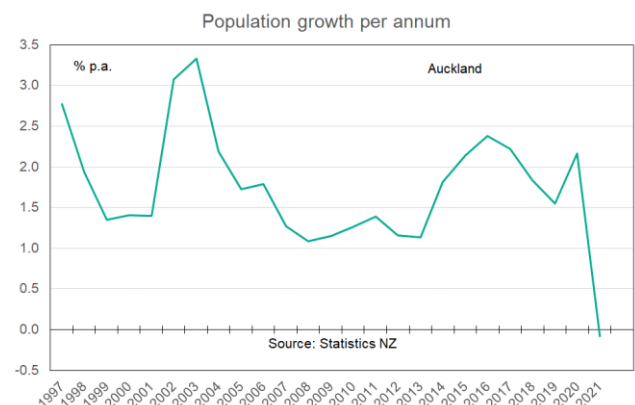
On the face of it Auckland is not showing itself to be at high risk of price correction. But there are three challenges to this comfortable conclusion. The first is the fact that Auckland is the only region to have experienced prices falling in each of the last three months. Those declines mean for the three months all up ending in February Auckland house prices were down by 1.4% from the three months to November. Only Dunedin and Wellington (both having prices extremely above trend) have shown greater quarterly

declines. Therefore, a price correction of firm magnitude is underway in our largest city.



This brings us to the second challenge to a view that Auckland's price correction will be mild. Supply is booming. Talk is already growing regarding the large number of townhouses appearing in Auckland and the implications of a shift in the balance between supply and demand.

Finally, closed borders have seen Auckland's population fall 0.1% in the year to June 2021. A further decline this current June year is possible, and beyond that the initial population growth recovery will likely be hindered by young Kiwis going to Australia for much higher incomes.



A correction in Auckland's house prices exceeding 10% looks likely this year. But beyond that an eventual return of superior population growth is likely to see prices edging back up again.

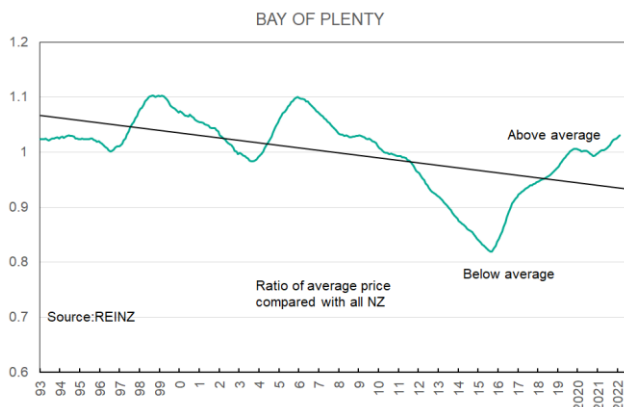


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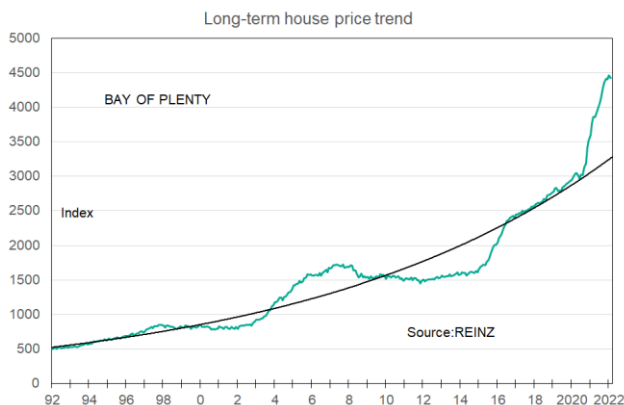
Bay of Plenty

Average price fall vulnerability

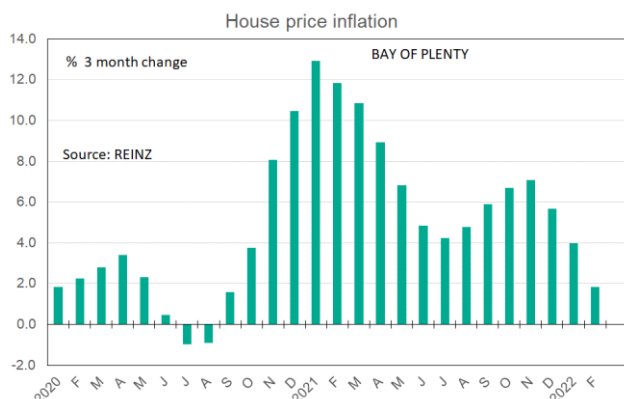
In Bay of Plenty average house prices are above their long-term trend relationship with the country overall.



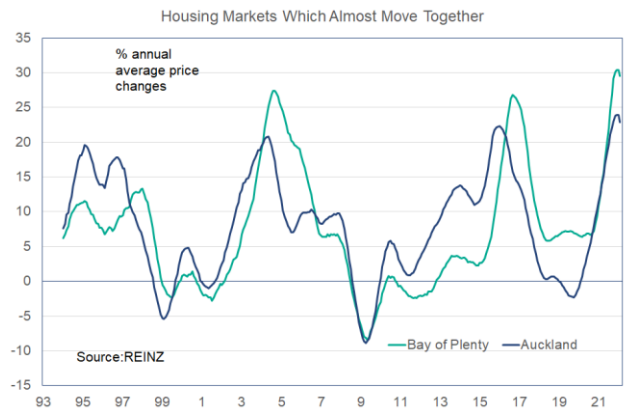
Prices are also a long way above where they would have been without the Covid-19 pandemic.



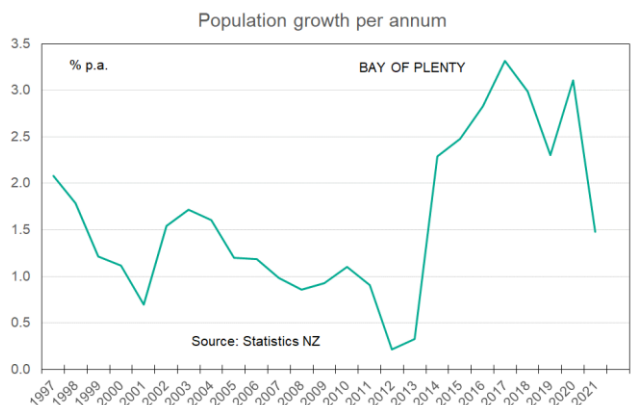
So far, the turning of the house price cycle has not produced a decline in prices when measured as a three month average versus the previous three months.



However, prices have fallen in two of the past three months and there is a tendency for changes in the pace of house price inflation in the Bay of Plenty region to follow changes in Auckland.



Both markets are dipping down currently and given the supply/demand interaction coming into play for Auckland it seems reasonable to expect not just a further slowing of house price growth in the Bay region but falling prices for much of the rest of this year. But note the way in which the Bay of Plenty region's pace of house price change stayed above that for Auckland over 2019, and the continuing good population growth shown in the following graph.



The region does not present as being more vulnerable than average during this current period of price correction.

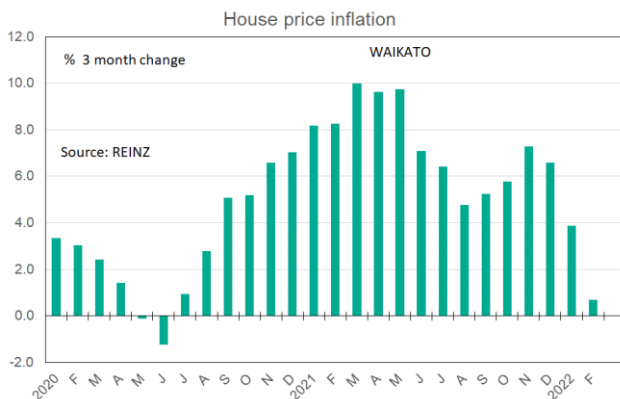


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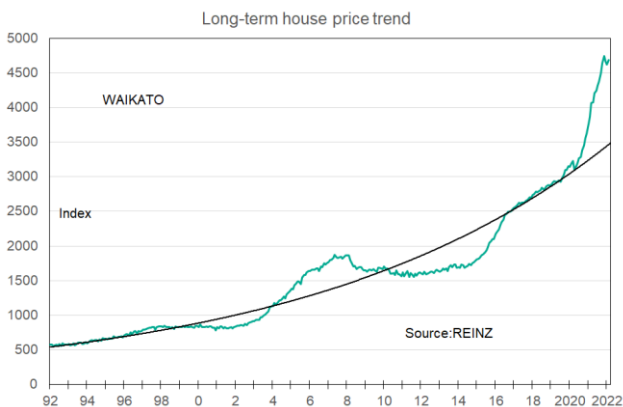
Waikato

Correction due

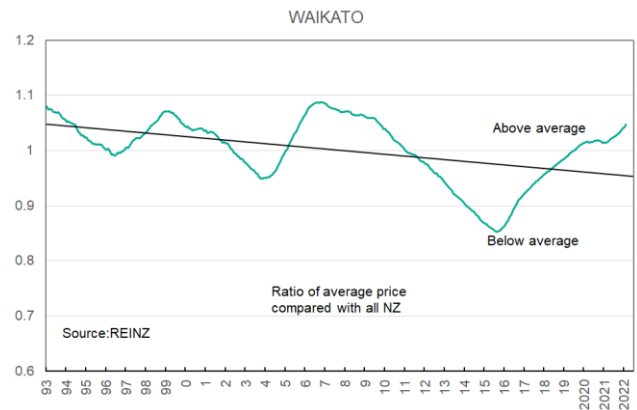
Over the three months to February average house prices in the Waikato region increased by a small 0.7%. This was a steep turnaround from rises averaging 7.3% just three months before and included a 1.5% fall in December and 1.3% fall in January before a 1.5% recovery in February.



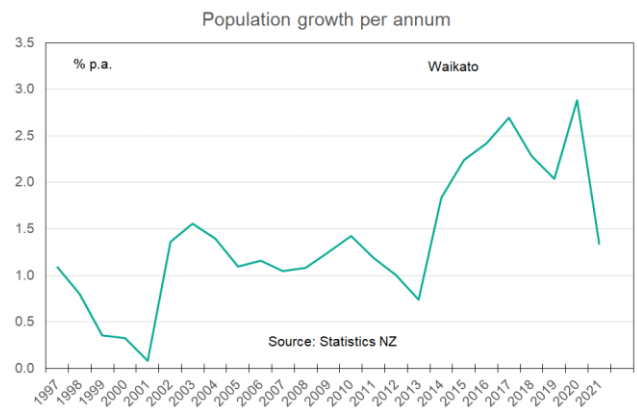
The direction for prices in the region is not one-way downward. However, prices are well above there they would have been without Covid-19.



And prices are well above their trend with the country overall.



Population growth has been firm in recent years and at 1.4% growth in the year to June the population gain was above Auckland's 0.1% decline and the rise for all NZ excluding Auckland of 1.0%.



The return of international tourists will be of benefit to the region and supplement the firm gains stemming from record milk payouts. The good expressway network connecting more and more parts of the region including with Auckland will facilitate industry growth for many years going forward, including relocation of some businesses out of Auckland.

Scope for price declines in the Waikato region this year looks about average to perhaps slightly more given the divergence of price growth in the past two years from the region's underlying trend upward.

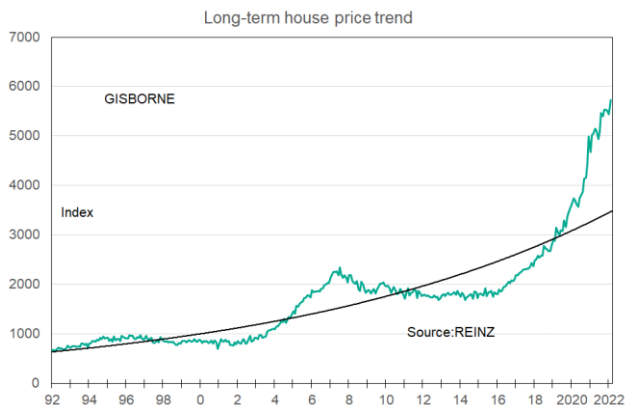


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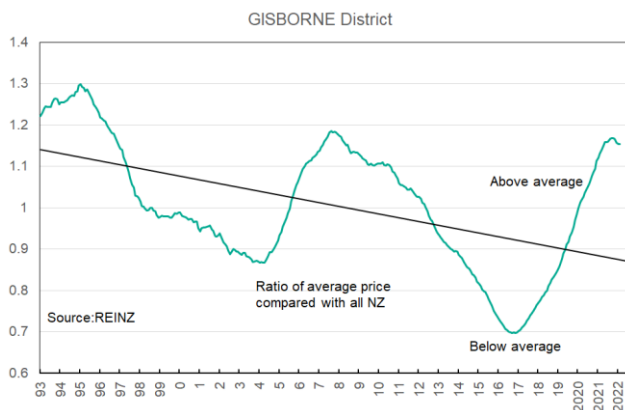
Gisborne

Highly over-valued

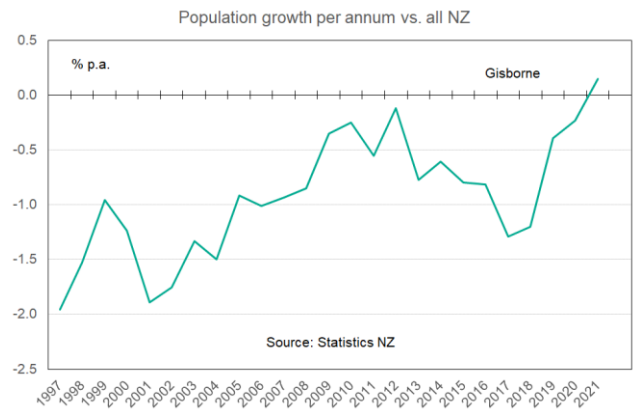
Average house prices in Gisborne have risen so far above their long-term trend it is difficult to write anything other than that the region looks highly vulnerable to a price correction.



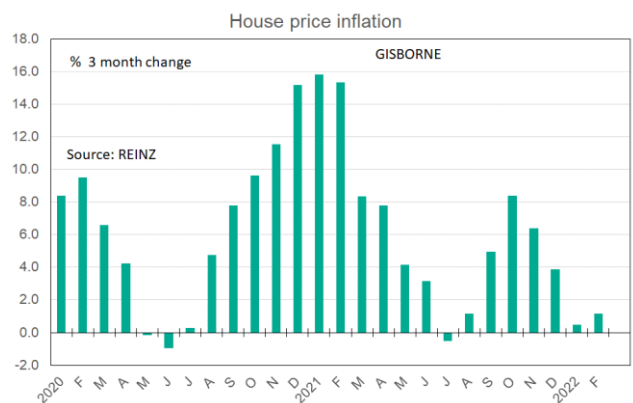
This divergence above trend appears in the above graph which looks at just Gisborne's prices, and the one below which compares the region with the country overall.



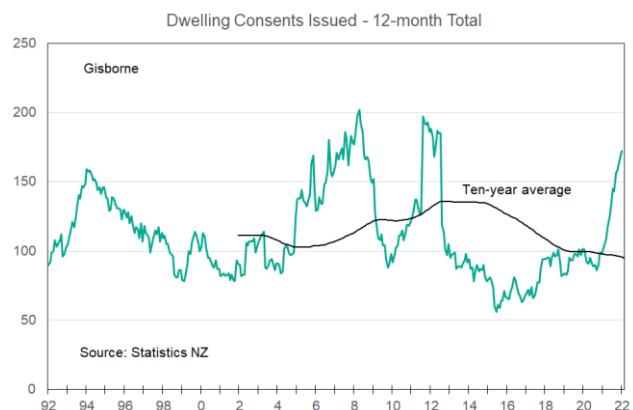
Prices have soared despite the district's pace of population growth only just popping above that for the country as a whole in the year to June – courtesy of the 0.1% decline in Auckland's population.



As yet not much of a correction in Gisborne's high level of prices is underway. Over the three months to February prices on average were ahead by 1.2% from the three months ending in November. But a slowing is clear.



Before getting too pessimistic, it pays to note that the new house supply response in Gisborne to soaring prices has been muted. That will help contain the extent of the price correction.



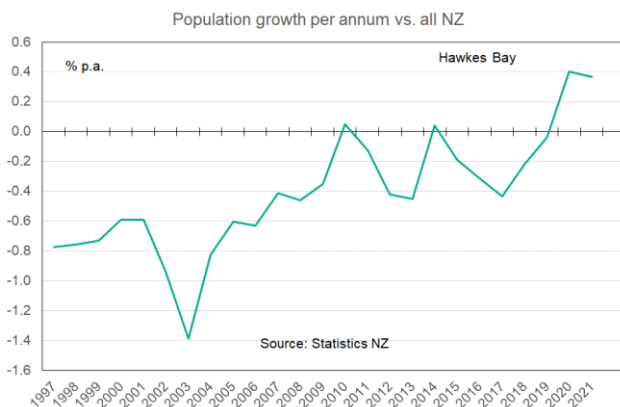


Regional Property Insights

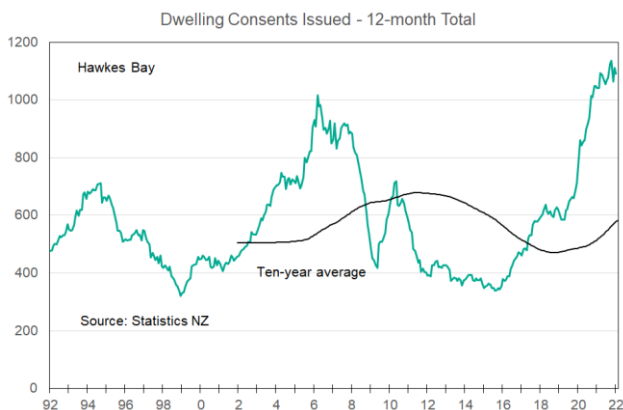
Hawke's Bay

Price correction due

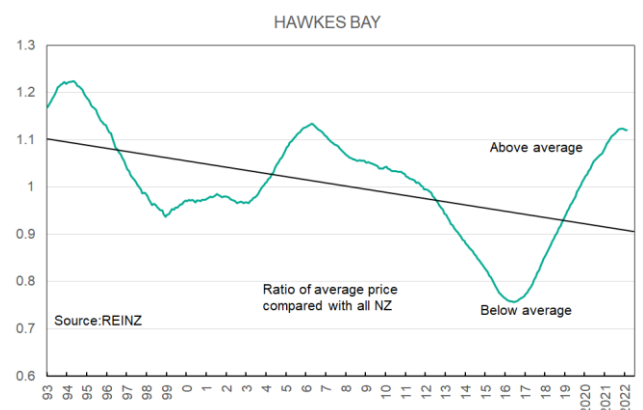
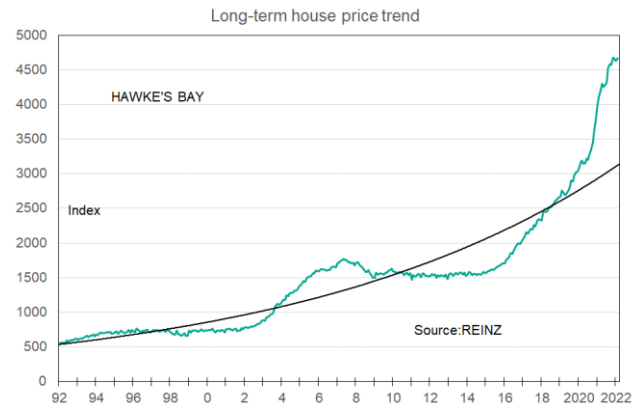
The Hawke's Bay region has benefitted from some people retiring early from the cities as a result of the pandemic. But because some of these movements are simply existing plans being brought forward in time, there is a risk of a quick reversion of population growth to well below the NZ pace within 2-3 years.



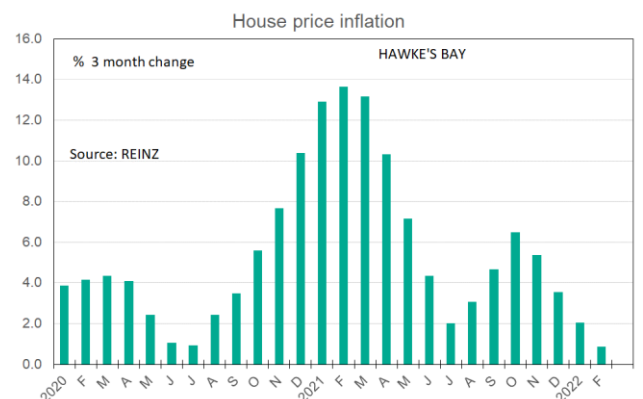
Given the surge in construction this suggests some eventual extra scope for price correction.



Relative to its long-term trend house prices in Hawke's Bay are well into over-valued territory.



Over the three months to February average house prices in the region rose by 0.9%. A slowing growth trend is clear in the following graph and a shift towards price falls is likely soon.



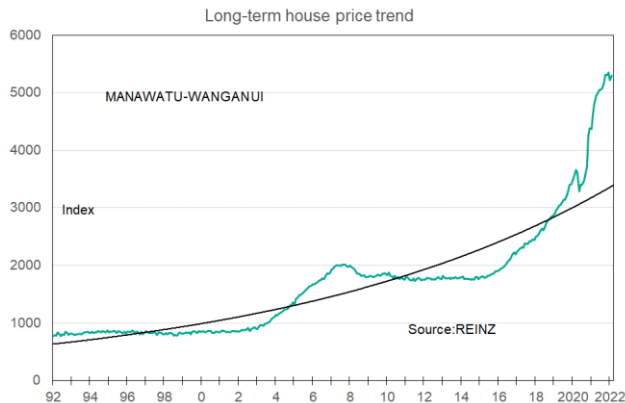


Regional Property Insights

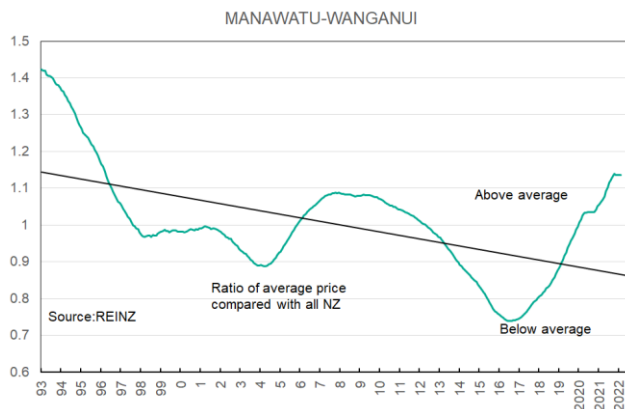
Manawatu-Wanganui

Average correction then flatness

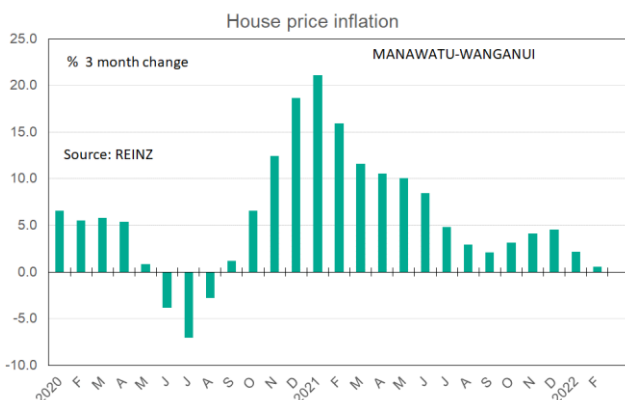
In the Manawatu-Wanganui region prices over the past two years have soared to levels well above where the long-term trend since 1992 would suggest they would otherwise have been without the pandemic.



Compared with the country as a whole prices are also seen to be well above trend.

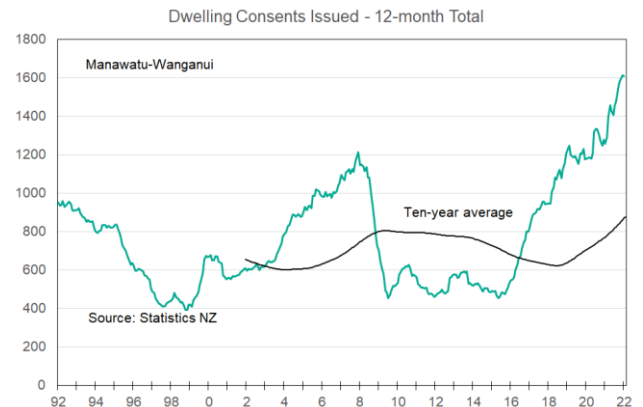


The pace of increase however is slowing, as seen here.

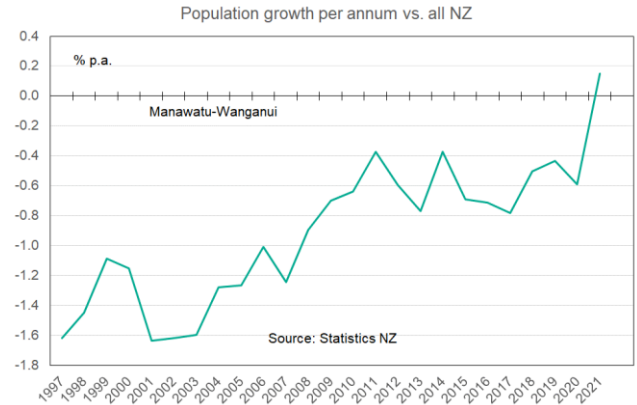


But the speed with which this slowdown is kicking in is less than in most other regions because some of the price growth heat came out of the region's housing market in the middle of last year.

The region is enjoying a very large supply response to soaring prices.



But population growth tends to sit well below that for the country overall and once the pandemic truly passes this pattern is expected to return.



Prices look set to fall in the Manawatu-Wanganui region beyond the so far minor fall of 2.4% in January which is the only month of falls recorded in the region since January 2021.

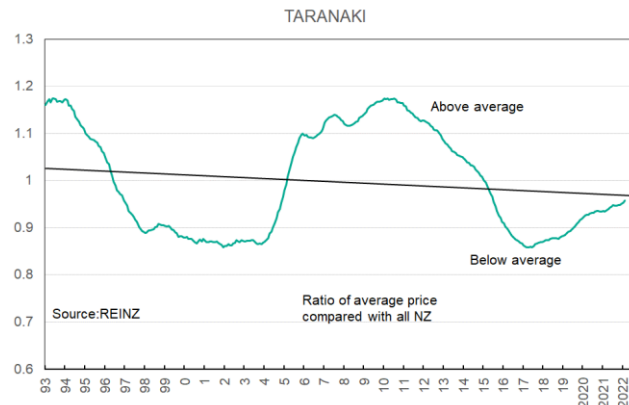


Regional Property Insights

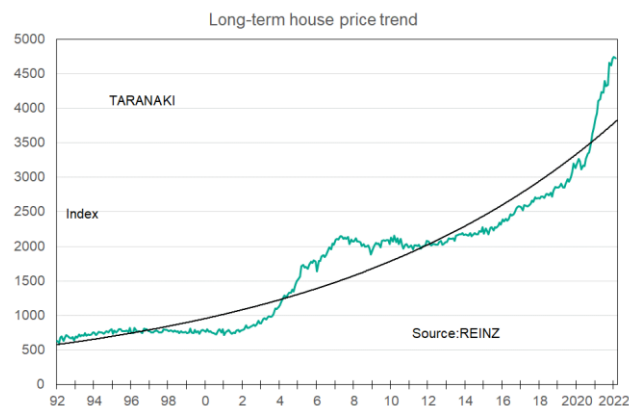
Taranaki

Price out-performance likely

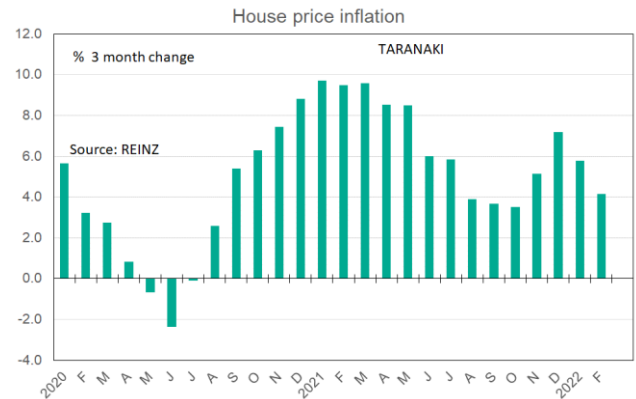
In Taranaki average house prices are slightly below their long-term average relationship with the country as a whole.



Nonetheless, the region has seen an unusually strong surge in prices over the past two years to levels well beyond where the long-term trend suggests they would be were it not for the pandemic.

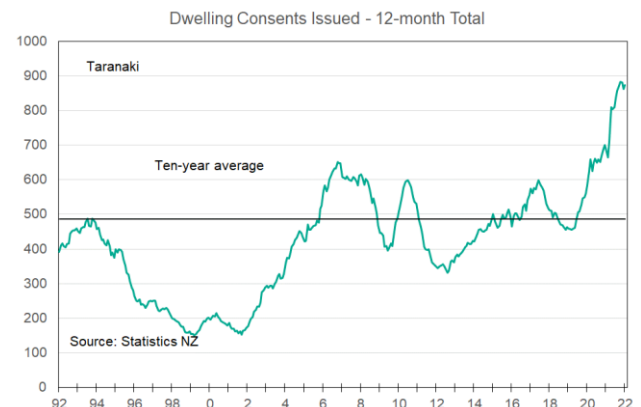


The pace of increase in average house prices recently has held up exceptionally well when compared with all our graphs for other regions. This undoubtedly is because of the lack of relative over-valuation.



The region tends not to attract the same interest from outside investors when the house price cycle nationwide surges. But equally, it is not going to see the same reweighting to other assets and profit-taking now that we are on a downward leg of the price cycle. The region will see only minor benefit from the reopening of the borders. But it will gain tremendously from the boom in dairy prices.

These factors suggest potential for strong relative price outperformance of the region over the next couple of years. The supply response in the region to firmer prices has been firm.



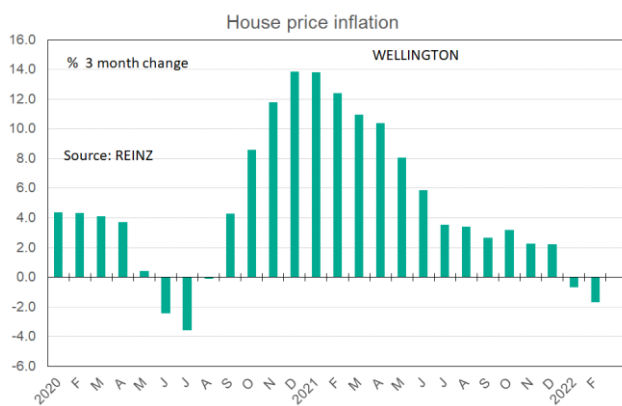


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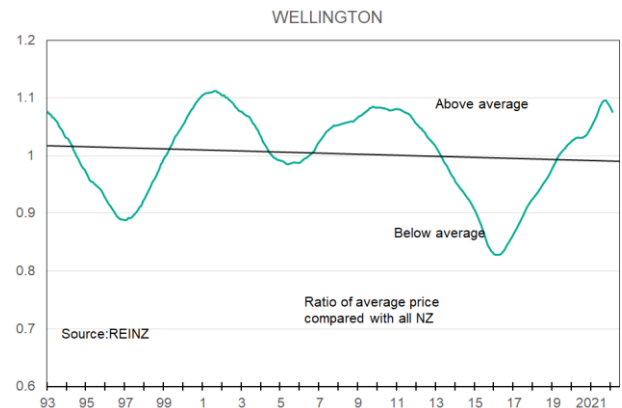
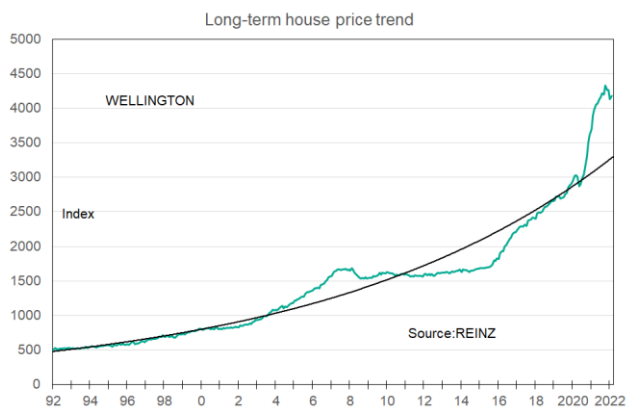
Wellington

Sustained price correction has started

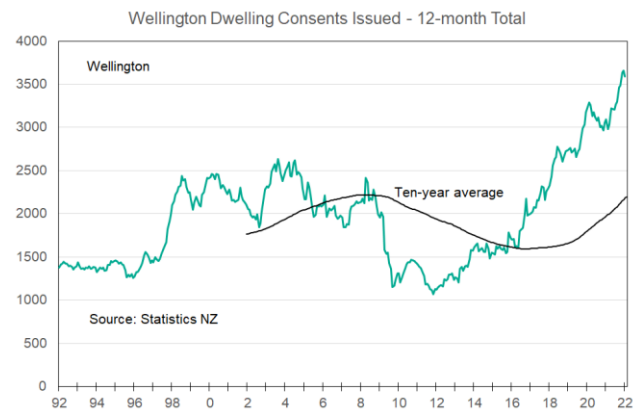
Average house prices in Wellington are at well above levels and we have noted that here for some time along with the region's vulnerability to a large price correction once the nationwide cycle turns. The cycle has turned and over the past three months the region's house prices have fallen by the second largest proportion across all the locations we cover.



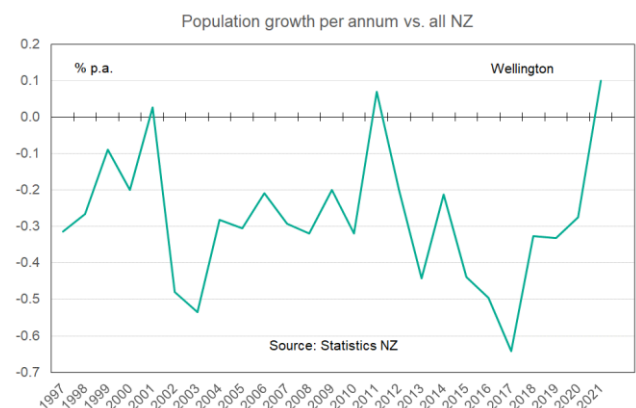
A correction back towards trend price levels has started and we can see that in the two graphs we are using in this month's issue of Regional Property Insights.



In the Wellington region the supply response to the widespread belief that a housing shortage exists has been very strong.



But population growth compared with the country overall tends to be below average and without the improving trend in this measure clear for many other regions.



Potential for excess supply in the region looks to be strong.

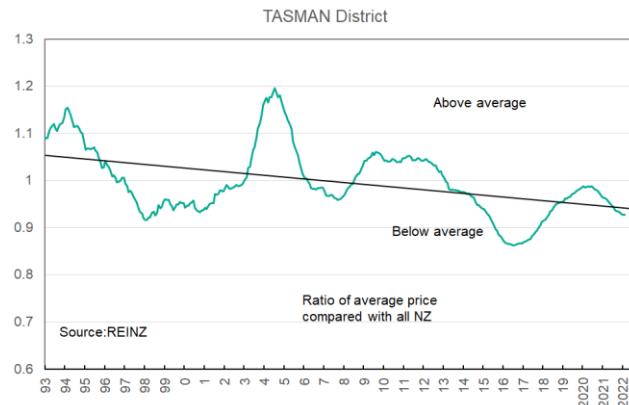


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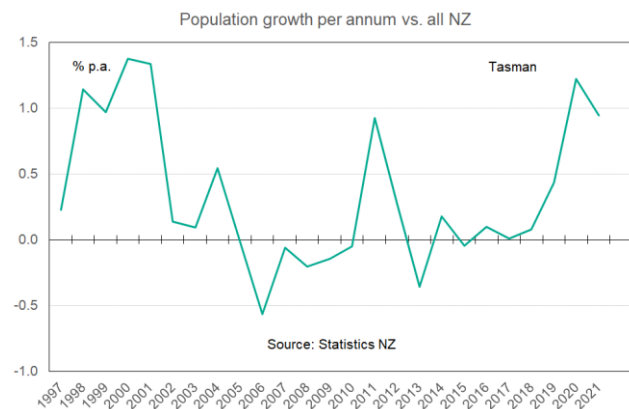
Nelson, Tasman, Marlborough

Less vulnerable than average

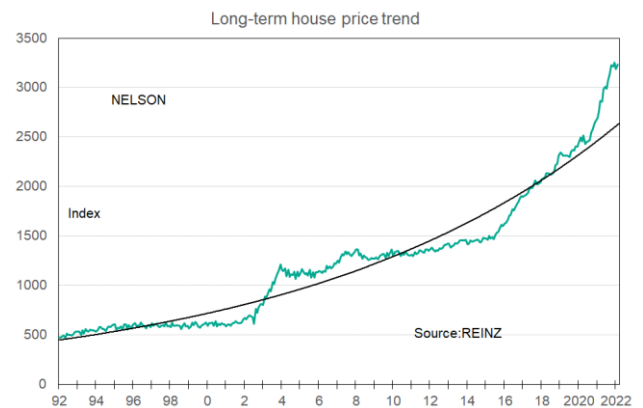
In the three top of the South Island regions prices are not out of line with their long-term relationship with the country overall. The graphs all look like this one for Tasman with regard to the latest positioning.



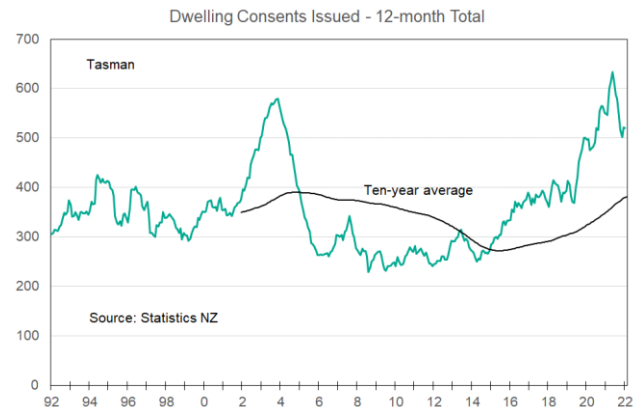
But population growth tends to sit well above the NZ average rate in Tasman, about level on average in Nelson (lack of land to expand housing), and slightly below average in Marlborough.



Compared with their specific long-term price trends things have moved to above average levels over the past two years, but not by as much as in most other regions.



In Tasman house supply growth is above average, but not by as much as in many other regions while in Nelson and Marlborough consent issuance is at about average levels.



Overall, if we were to rank regions by least vulnerability to the cyclical price correction, in the top grouping we would have Taranaki, Canterbury and Queenstown Lakes. Next in the list would be the grouping of Tasman, Nelson, and Marlborough.

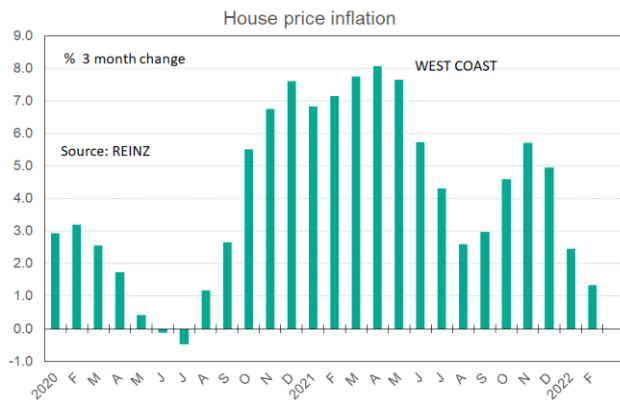


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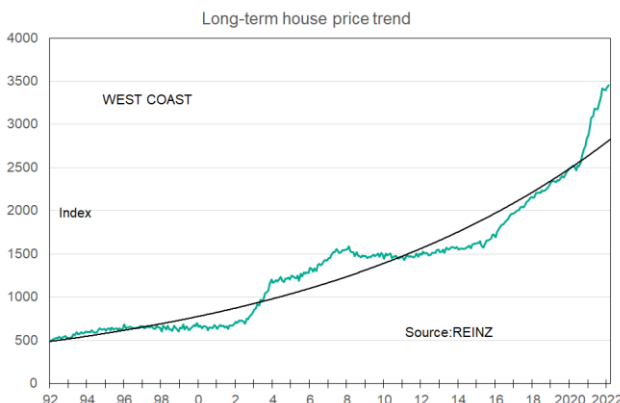
West Coast

Below average price fall vulnerability

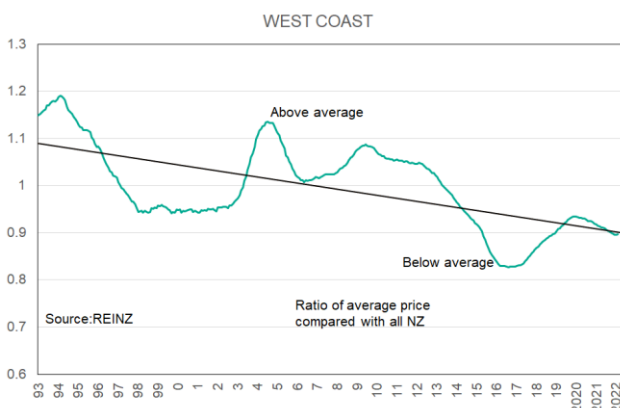
In the small West Coast region house price growth has slowed recently but remains positive.



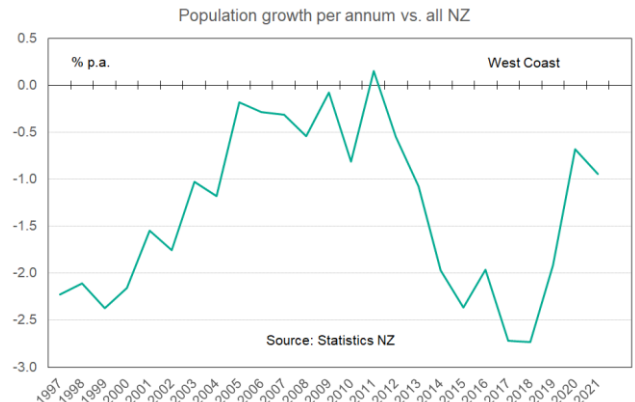
This situation is however unlikely to last. Prices are above their long-term trend on a standalone basis.



But not so when compared with the rest of the country.

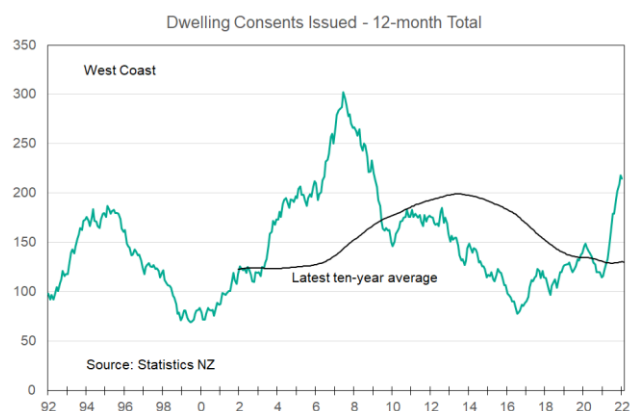


Population growth remains solidly below the NZ pace despite the pandemic bringing relative gains for many smaller other regions. Widespread damage in the Buller District from two major flood events this past year is likely to cause some permanent relocation from the region and discourage inward migration from the rest of New Zealand.



The return of international tourists will be positive, but it may take some time for this to be noticed – the coming summer perhaps. Good dairy returns are also positive, but unlikely to lead to an expansion of the sector in the region given land constraints and challenges.

The new house supply response to higher prices has been relatively muted compared with the country overall and this suggests alongside removal of some flooded houses from the occupancy pool that the cyclical price correction downward will likely be mild.





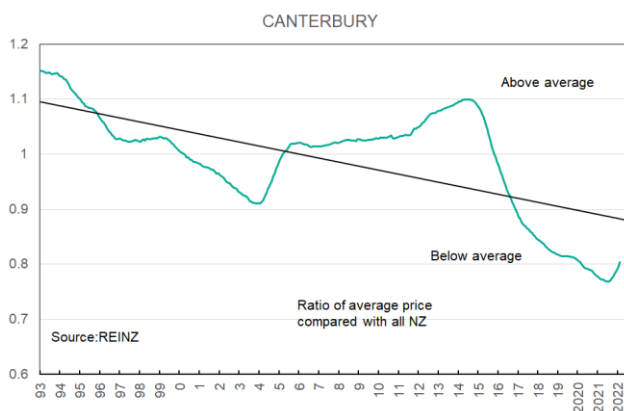
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Canterbury

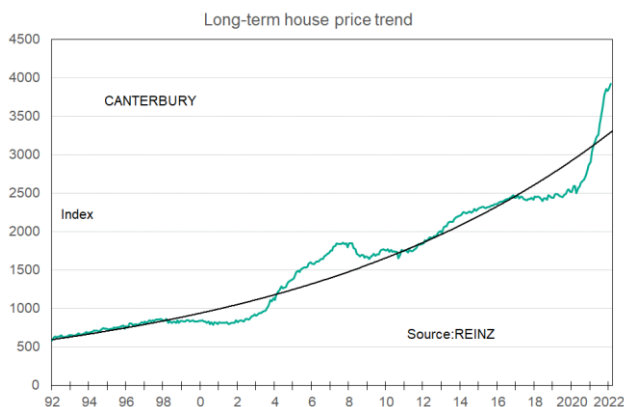
Only minor price declines likely

Canterbury's period of long-overdue price catch-up to the rest of the country's post-GFC surge started in the June quarter of last year. That relative catch-up is likely to continue over the next 2-3 years in the form of far less average decline in prices than for the country overall.

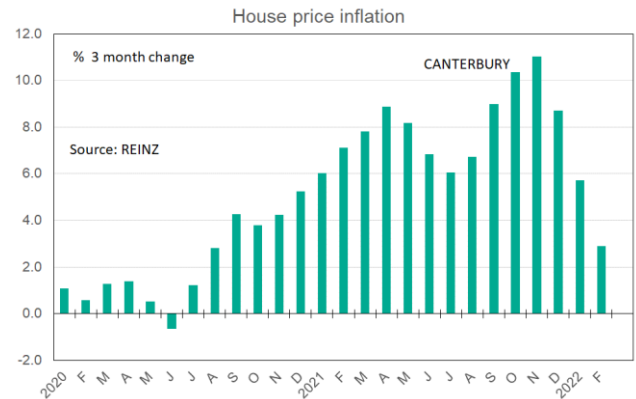
Prices remain below trend against all NZ.



And the recent move in prices to above trend levels on a standalone basis looks like a simple whipping up after the below trend position of recent years.

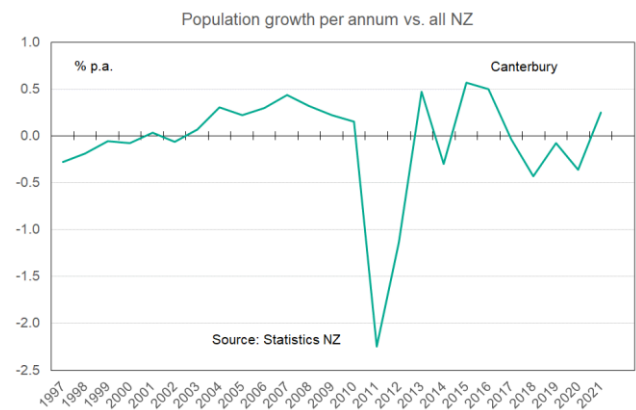


The pace of growth in prices has slowed recently but remains positive.



The Canterbury economy will be supported over the coming 2-3 years by good prices in the primary sector, the return of international tourists, a period of catch-up in those numbers after weak activity post-earthquake, and internal migration driven by good housing affordability relative to New Zealand's other cities.

Note the return recently to above NZ-average population growth. This is likely to continue in coming years.



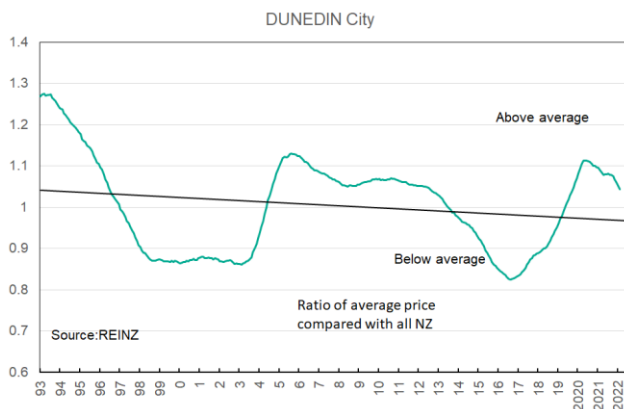


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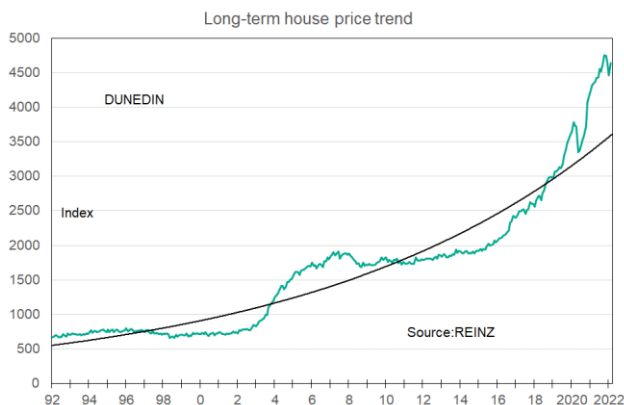
Dunedin City

Strong price correction underway

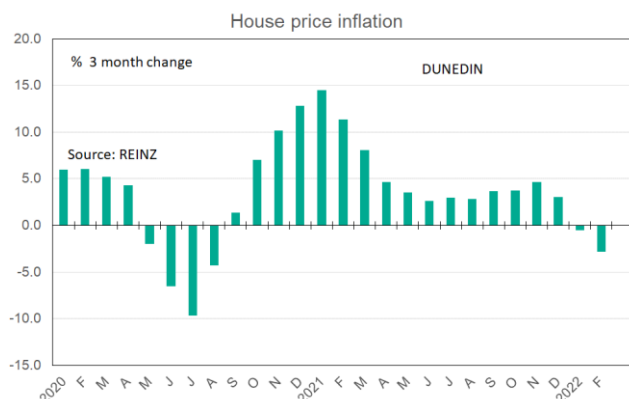
In Dunedin the correction in average prices from above trend levels started as the pandemic got underway.



Prices remain above trend versus the country overall and when looked at on a standalone basis.

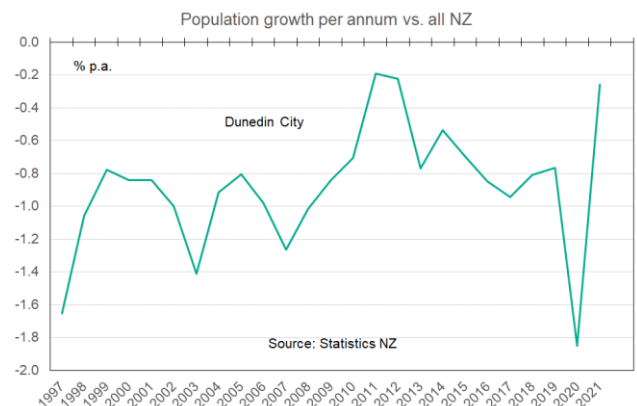


In the three months to February average prices in Dunedin fell 2.8%. This was the largest decline for all regions we track and much greater than 0% NZ change.

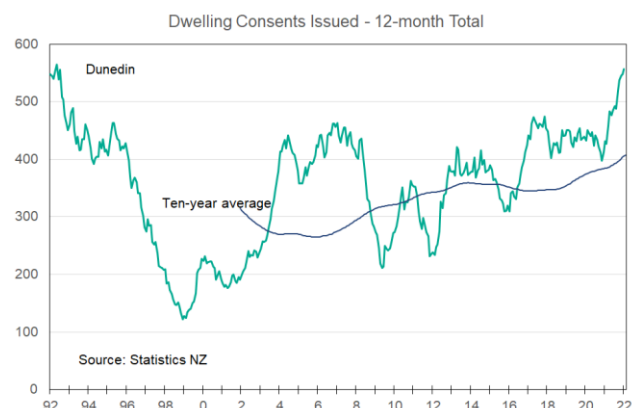


The city's economy in the next 2-3 years will be supported by the return of international tourists, good primary sector income growth, and some hefty construction projects including the much talked about hospital. However, the unusually high level of house prices relative to other cities will restrict the potential for internal population gains and in fact well below population growth could occur.

Despite some shifting to the regions these past 18 months from some older people bringing forward cashing up and retirement plans, and perhaps some flows related to working from home, it would be surprising if the sharp change in relative population growth seen below were to occur again.



House price weakness may be accentuated by the extended period since 2016 during which house construction has been at above average levels.



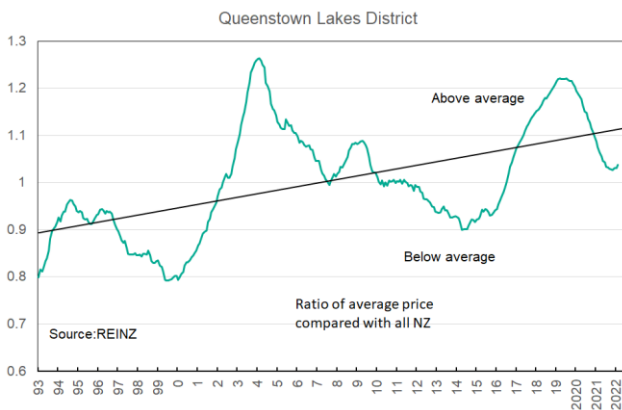


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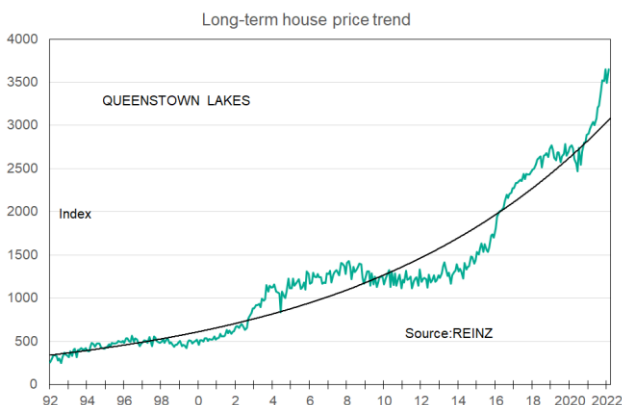
Queenstown Lakes

Any price decline will be minor

There are four regions in New Zealand where relative to the NZ average prices are appreciably below trend. But each faces very different dynamics which in Auckland's case (booming supply, net migration outflows) will not prevent prices falling. In Queenstown Lakes the global pandemic and loss of foreign visitors for more than two years has dealt a severe economic blow which has manifested itself partly in prices failing to soar as they have elsewhere in the country.

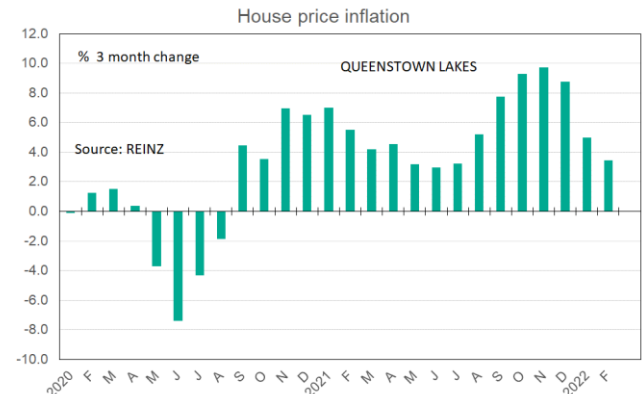


Prices are above the region's standalone trend, and this tells us that although the slowdown in price growth so far has been very mild, one cannot rule out some minor price decline over the coming year.

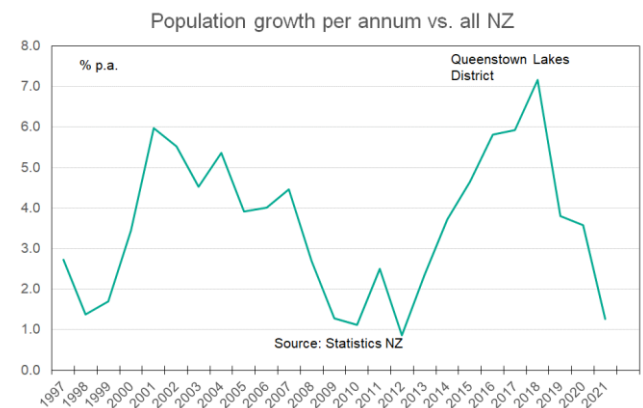


Over the three months to February average prices in the Queenstown Lakes District were ahead 3.5% from the three months to November. Only Taranaki at 4.1% and Northland at 4% saw stronger prices growth. A

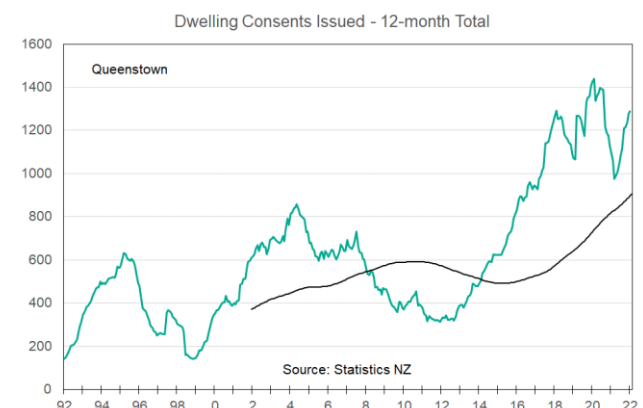
slowdown is underway, but it is mild.



The district's population growth rate was just 1.9% in the year to June 2021 from 9% three years earlier. But this was still above the NZ growth rate recently of 0.6%.



There has been a supply response to the earlier population surge, but not a spectacular one.



With the return soon of foreign tourists it is likely that the Queenstown Lakes District will produce superior house price performance than possibly all other region we cover in the next two years.

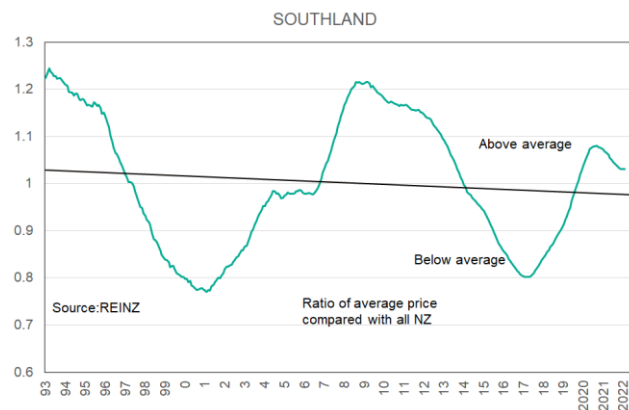


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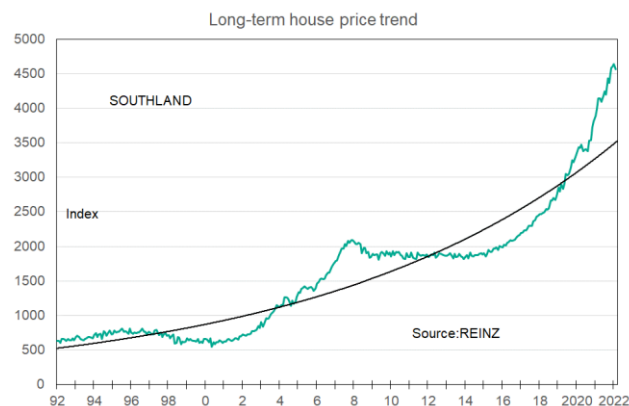
Southland

Only a mild price correction in prospect

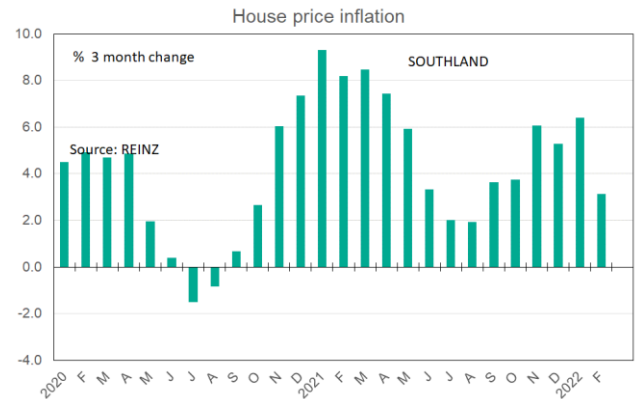
Average house prices in Southland have been correcting back from well above trend levels versus the country overall since the start of the pandemic. This has come about via prices rising at a slower pace slightly than for the country.



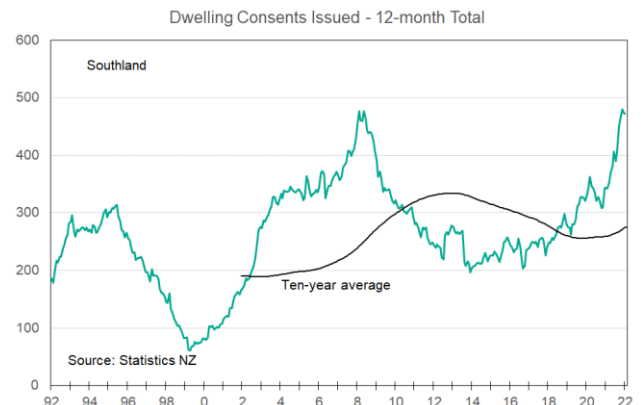
Prices however remain elevated by historical standards of the region on a standalone basis.



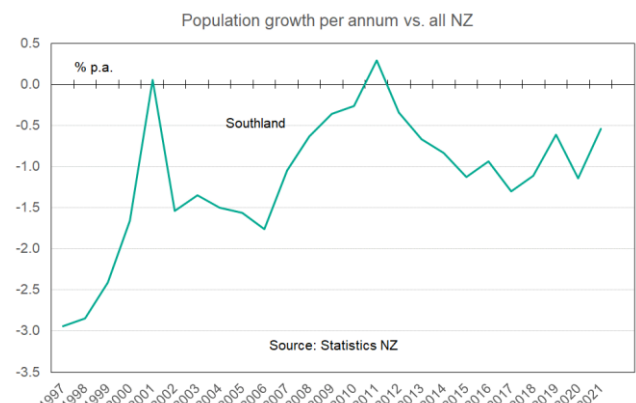
Price growth has slowed recently, but not by all that much.



The region is going to receive a lift from strong dairy prices and the eventual return of international visitors come summer. There is good economic support already from redevelopment of the CBD. An economic stimulus remains from the strong surge in new dwelling consents issued recently.



But the region has not enjoyed a population surge relative to the rest of the country during the pandemic as many other (warmer) regions have.





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