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TONY ALEXANDER
Regional Property Insights

DECEMBER 2022



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Regional Property Insights

Introduction

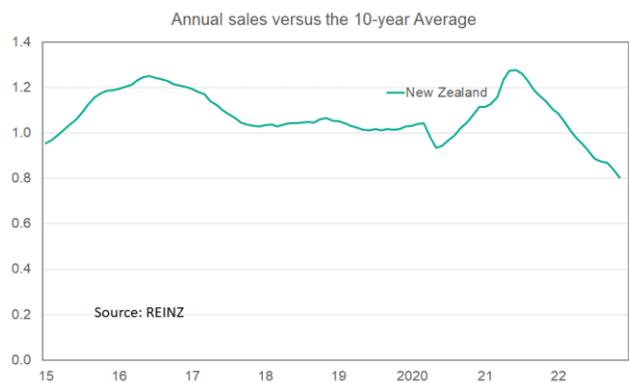
Welcome to the last issue of Regional Property Insights for 2022, prepared by Tony Alexander with the support of First Mortgage Trust.

In this month's Regional Property Insights I summarise for each region the changes in key measures of the housing market. They are prices as represented by the REINZ's House Price Index, sales, the number of dwelling sales, and if space allows the number of consents issued for the construction of new dwellings.

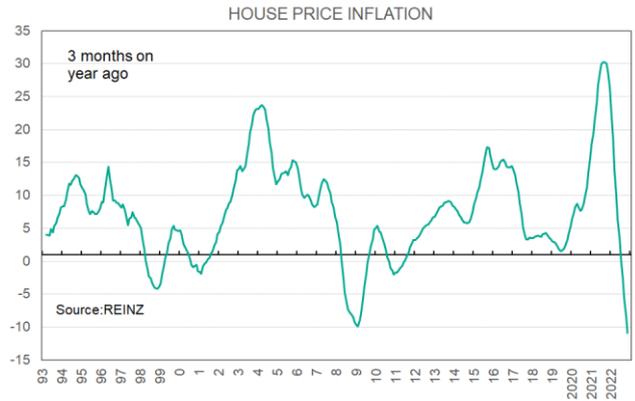
For the country as a whole sales added up to just under 65,000 for the year to November which was a decrease of 29% from a year earlier.



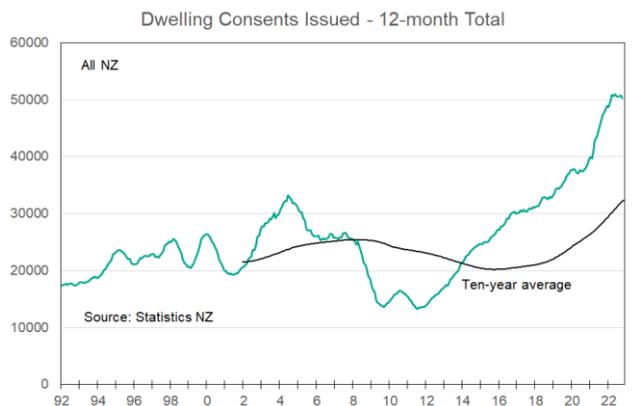
From being over 20% above ten-year average sales in mid-2021, annual sales are now 20% below, as represented by the 0.8 reading on the following graph.



Average nationwide house prices have fallen 13.7% from their November 2021 peak to sit back where they were in March 2021 just before changes to LVRs and new tax rules were introduced affecting investors.



The number of consents issued for the construction of a new dwelling has risen to 50,200 in the year to October (latest data) from 47,700 a year ago. But this total is down from a peak of 50,900 in March and looks set to fall much further.



As with all the material presented in RPI, my aim is to provide information which can be collected up over time and used as input into one's property purchase and divestment decisions.

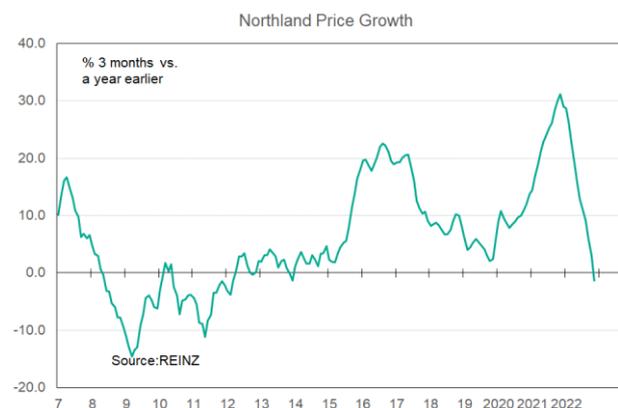
Previous issues of Regional Property Insights are available here. [First Mortgage Trust Articles](#)

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

Relative strength

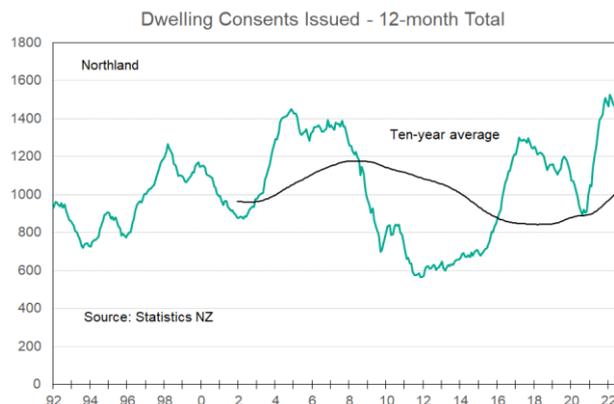
In the Northland region average house prices have fallen by only 4.9% from where they were a year ago. This is the fifth smallest decline across all regions and much less than the nationwide fall of 13.7% and the 18.4% fall in neighbouring Auckland.



The volume of sales has however fallen in a similar fashion to other regions. Annual sales come November were down by 25% compared with a 29% fall across all New Zealand.



And also like the rest of the country the annual number of consents issued for the construction of new dwellings has held up very strongly. At 1,494 the annual total was ahead just over 1% from the previous year compared with a 5% rise nationwide. But whereas in the three months to October consents for all NZ were down 2% from a year ago, in Northland they were ahead by 24%.



There is no correction underway as yet in house construction in Northland and this may reflect the shortage implied by the lesser decline in prices than the country overall. The region is one enjoying relatively firm population growth as people have left Auckland because of the pandemic.

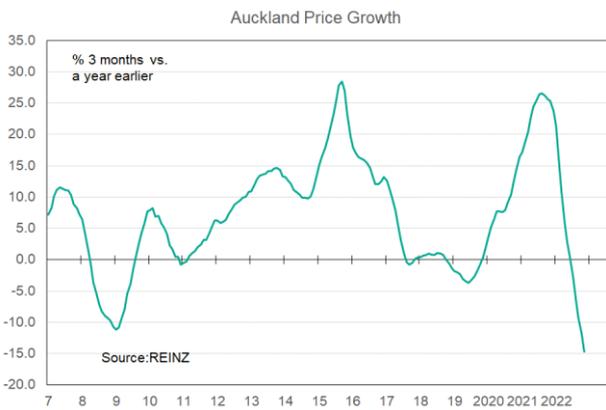
The issue from here will be the extent to which the shifting of people retiring out of Auckland has been undertaken earlier than planned because of Covid, and whether a few years of only light internal migration are now in prospect.

Also, with the ratio between average Northland house prices and those in Auckland rapidly shifting, the spare cash left after selling up in Auckland and buying up north is shrinking quite rapidly. This suggests that the region may show weakness in a lagged response to the downturn currently still rolling through Auckland.

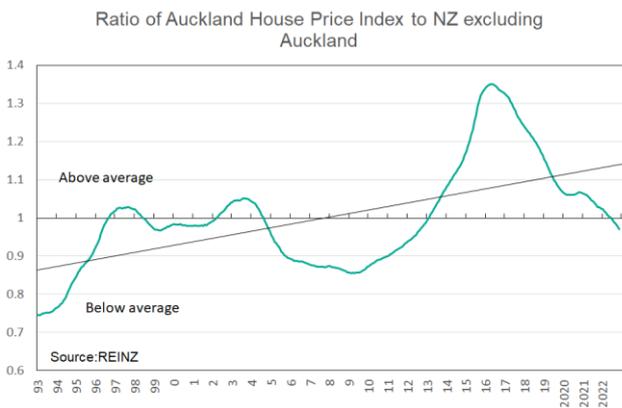
Auckland

Looking relatively over-sold

Auckland’s average house prices in November were down by just over 18% from a year earlier compared with a 10% decline for the rest of the country on average.



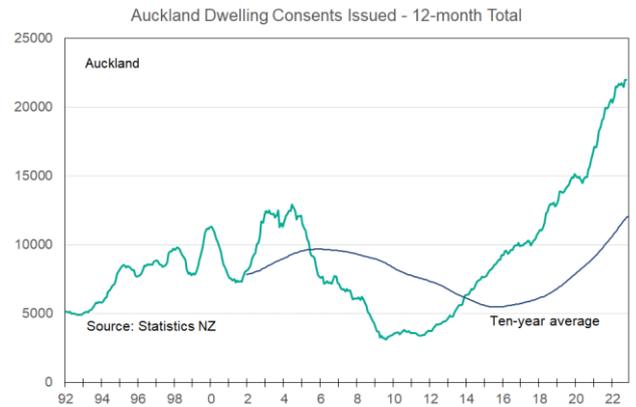
As noted recently, in a long-term sense Auckland is starting to look cheap compared with the rest of NZ.



Sales of residential property in the region have fallen by 36% in the past year compared with a 25% decline outside of Auckland.



But the number of consents issued for new dwellings to be built has risen 10% in the past year compared with a 2% rise elsewhere. There is a new supply boom underway in our largest city – largely of townhouses. Anecdotal feedback however tells us that many planned projects are not going to go ahead because of a widespread fall in demand from people scared off not just by high funding costs but stories of builders failing and cost escalations.



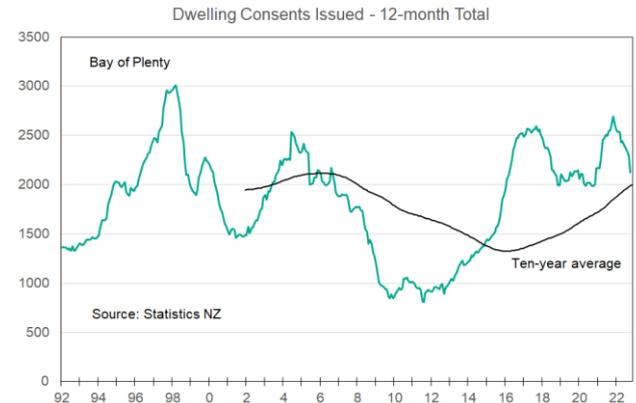
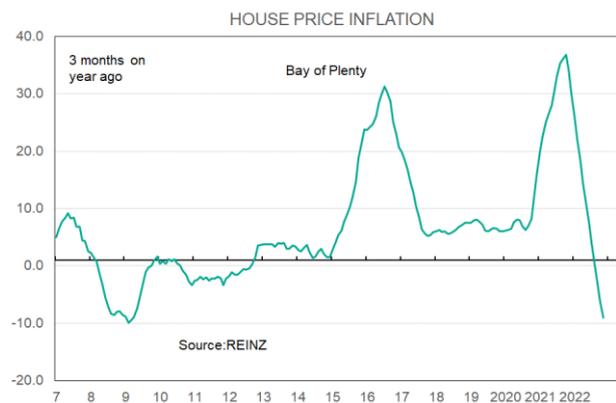
The situation in Auckland is very fluid and we can only guess at what the real eventual boost in supply will be from the record numbers of consents recently issued. But there is a risk that the market is getting oversold – especially as the rapid recovery in migrant numbers is set to benefit the city more than the rest of the country. Same for the return of foreign students and granting of special residency visas.

Bay of Plenty

Construction decline coming

In the Bay of Plenty region average house prices were 11.6% lower than a year earlier in November compared with a nationwide fall of 13.7%. Statistically the changes are about the same, but not when compared with neighbouring Auckland's 18.4% decline.

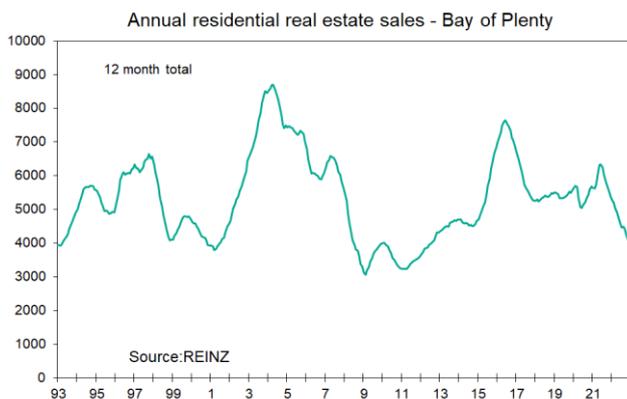
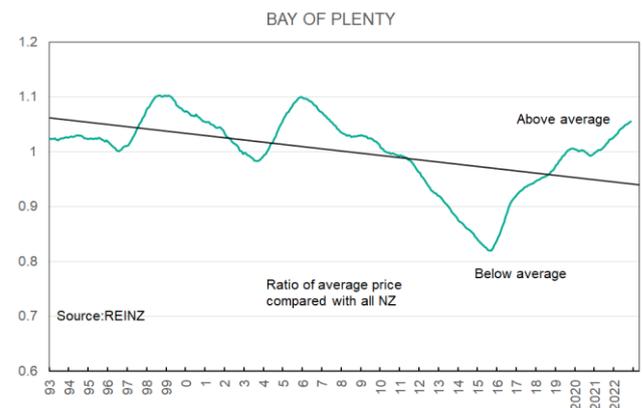
October consent numbers were down 36% from a year before versus a 2% decline NZ-wide.



Prices have declined 2.5% in the past three months compared with 2.4% nationwide, so the ending of price falls is not appearing to any degree.

The data tell us that a solid downward shift in house building is getting underway in the Bay of Plenty region. For the moment this won't prevent prices from falling further. But this has happened before, and such a move sets the scene for a period of superior price growth some years down the track. For now, though, extra price weakness may be in prospect.

Reflecting tough times in the residential real estate market, sales in the 12 months to November were down by 26% from a year earlier compared with a 29% fall nationwide. Again, the region is tracking the national average.



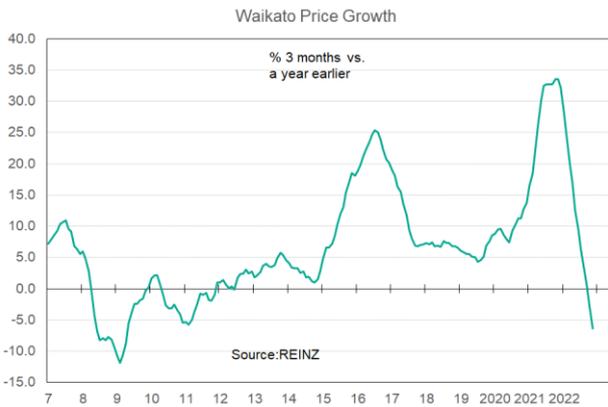
But when we look at dwelling consent issuance, the decline of 19% in the past year well exceeds the nationwide rise of 5%. In fact, for the three months to

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Waikato

Good long-term growth prospects

Average house prices in Waikato in November were 9.8% down from a year earlier which was a slightly smaller decline than the 13.7% fall nationwide. It was appreciably less than Auckland’s 18.4% fall but not as distant as Northland’s 4% fall. People are heading north with money for buying property to a greater degree than they are heading south and that could reflect the older demigraphich of people accounting for these internal migration flows.

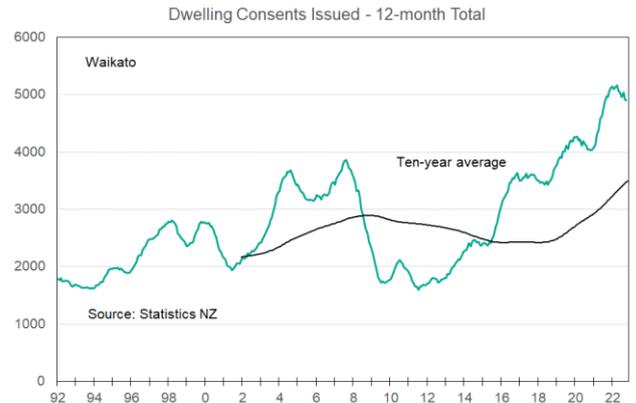


The fall in prices has been accompanied by falling sales. Sales added up to 6,200 in the year to November which was a 30% fall from the year before. That basically matches the 29% fall across all of the country.



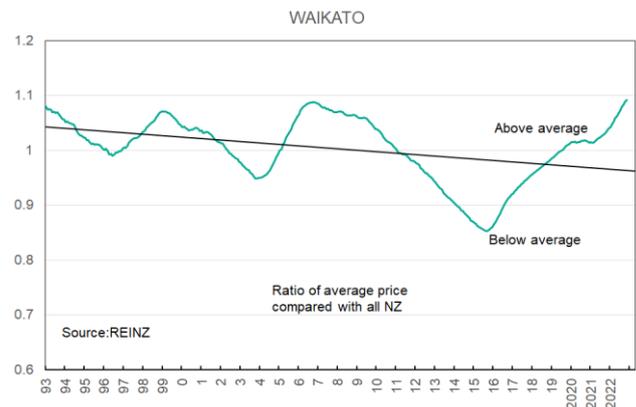
When it comes to the falling away of consents being issued for new dwellings to be built, we can see far less weakness than for the Bay of Plenty. Note the continuing large gap between the latest annual number

of 4,900 and the ten year average represented by the black line in the following graph.



Bay of Plenty’s latest annual total is almost equal to that region’s ten year average. Waikato is more like still above average Northland and Auckland.

The Waikato region is likely to enjoy good population growth over an extended period of time resulting from the aging population generating some migration of older cashed-up people out of Auckland, the existence of the expressway network, and the growth of Hamilton as a commercial centre with strengthening industry on its outskirts.



Gisborne

Prices over-extended

It is best to remember that in small regions like Gisborne changes in measures such as prices, sales, and consents can be quite extreme. With that caveat in mind, we can note that average house prices in Gisborne have fallen 12% in the past year which is almost the same as the average 13.7% fall nationwide and the 10% fall excluding Auckland.

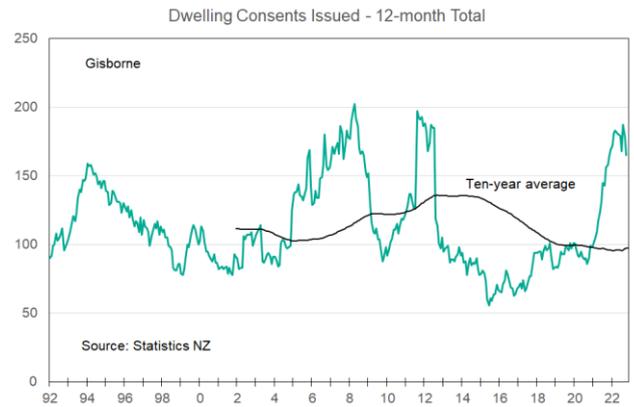


This new period of decline follows six years of rises which followed an eight year period of more falls than gains.

Annual dwelling sales in Gisborne have retreated back to near 2012 levels as has been the case for much of the country. Sales have declined by 23% in the year to November versus a 29% fall for all the country.

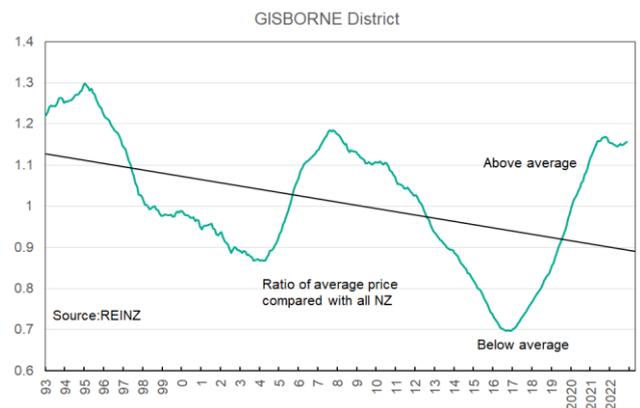


The annual number of consents issued for the construction of new dwellings in the region has risen by 4% in the year to October compared with a 5% rise nationwide. The 7% fall in the three months to October from a year ago is close to the 2% fall nationwide as well.



Auckland is fairly much tracking the national housing market including having consent numbers still well above the ten-year average.

House prices are however well above average.

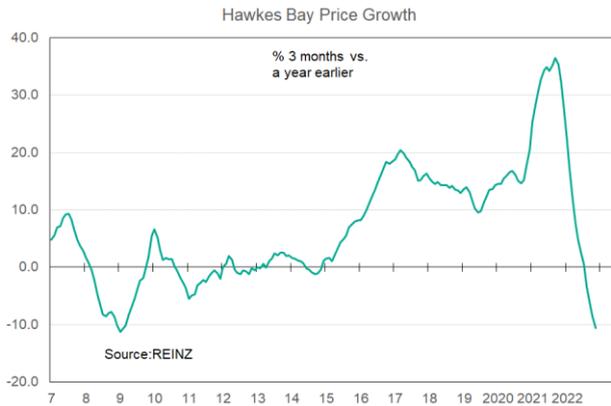


Given the ending of an internal migration driven surge in relative population growth, and a loss of Kiwis to Australia, an extended period of under-performance is likely in the offing.

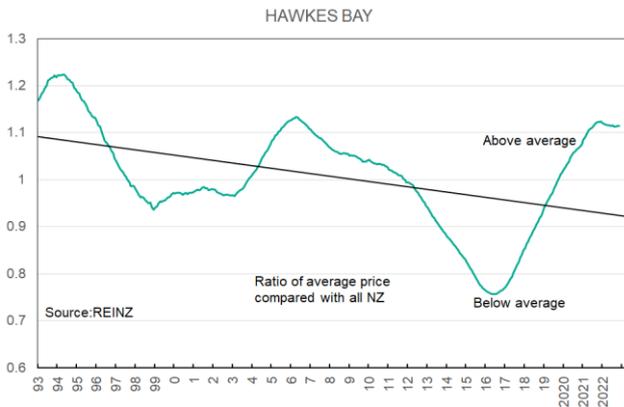
Hawke's Bay

Large construction correction underway

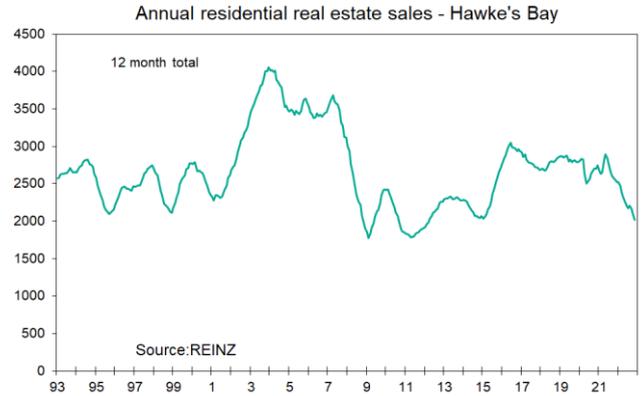
House prices in the Hawke's Bay region have fallen by exactly the national average of 13.7%.



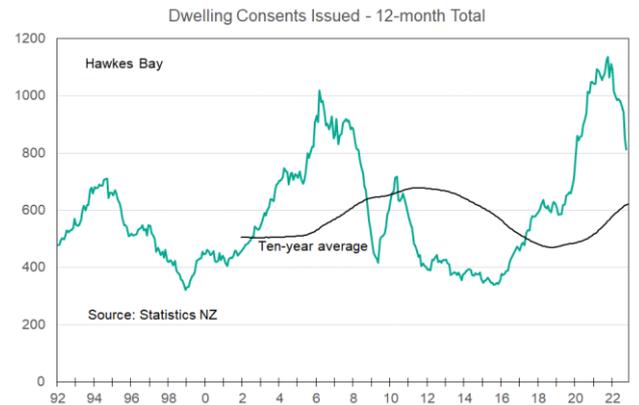
This means average prices remain well above their long-term trend relationship with the country overall and the region is vulnerable to a stronger correction downward should special negative factors emerge – such as collapsed consumer confidence and worries about recession.



The number of dwellings sold in the region has declined by 21% in the region versus a 29% fall nationwide. For now, the correction in turnover is less bad than for all the country.



But when it comes to changes in the number of consents being issued for new dwellings to be erected, the region is starting to aggressively under-perform. Consent numbers have declined by 29% in the past year versus a 5% rise nationwide.



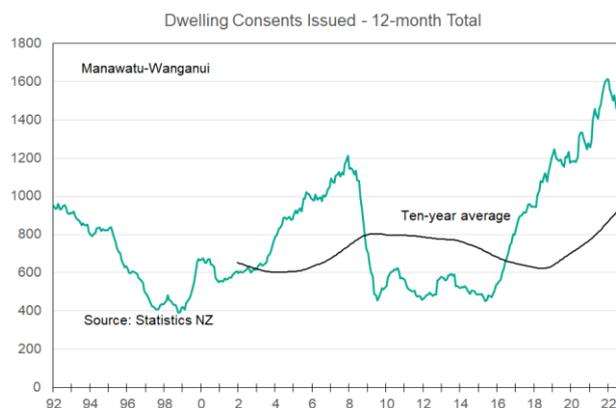
In the three months to October the number of consents issued was down by 45% from a year ago versus a 2% fall NZ-wide. I have for some time been warning about an imbalance in housing availability in some regions and Hawke's Bay in particular on the basis of people over-estimating the ability of population to keep growing at the special relative pace caused by the pandemic. The collapse in consent issuance underway may prevent a substantial fall in prices but will likely see much pain for builders in the region.

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Manawatu-Wanganui

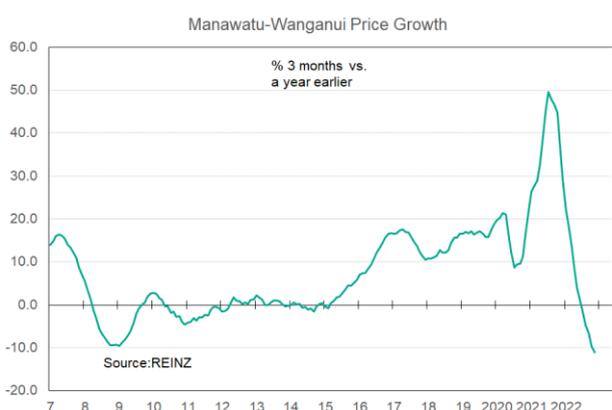
A price correction to come

The second region for which I have had concerns about a large correction in construction and potentially prices after Hawke’s Bay has been Manawatu-Wanganui. Over the past year prices in the region have fallen by 12% which is close enough to being the same as the 13.7% fall nationwide.

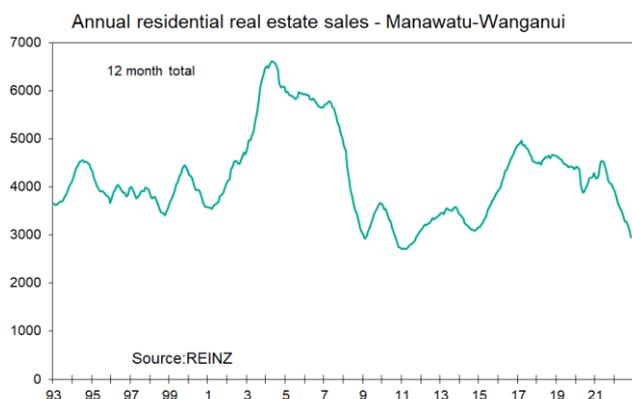
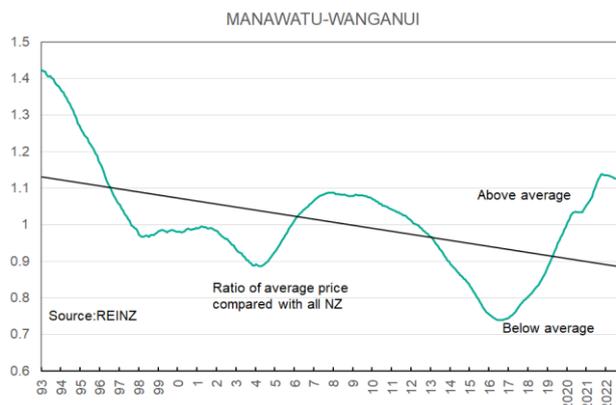


The construction sector is set for a sizeable correction in the region – but maybe not by as much as Hawke’s Bay. The region is set to benefit from the extension of the expressway system north of Wellington.

Prices are still well above their long-term trend when compared with the rest of the country. For the next few years a period of under-performance seems like a reasonable expectation to have.



The decline in sales for the past year of 27% is also basically the same as the 29% fall nationwide.



But the 12% fall in consent issuance exceeds the NZ pullback outcome which is still a rise of 5%, or 2% excluding Auckland. In the three months to October issuance was 20% weaker than a year ago versus a 2% decline NZ-wide.

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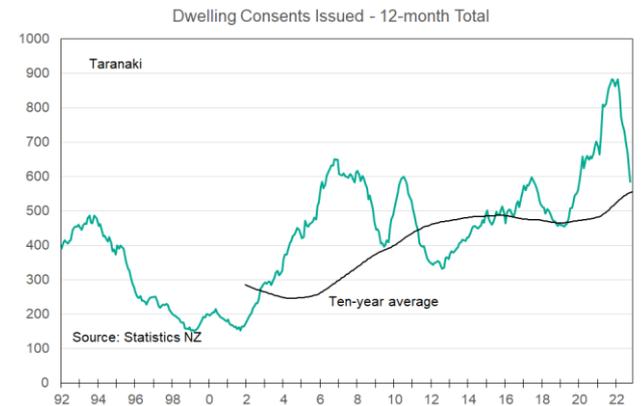
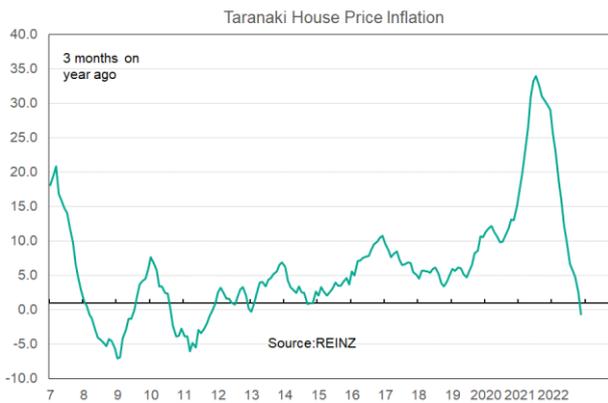
Taranaki

Only mild price correction

Taranaki is the only region outside Auckland in the North Island not to have seen a relative surge in prices in recent years. This helps explain why in the past year average prices have only fallen by 4% compared with 13.7% nationwide.

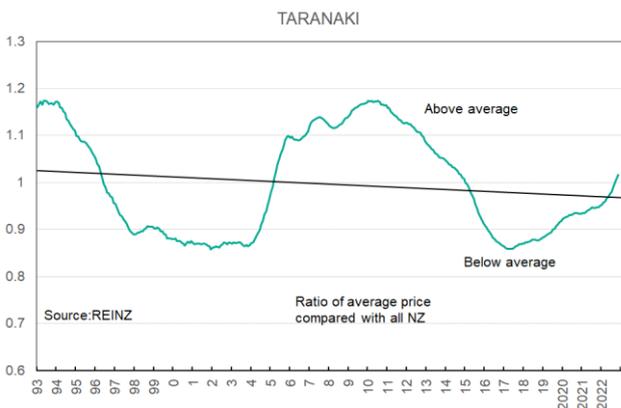


Consents however are a different story. They have weakened by 34% compared with a 5% nationwide rise. This is a surprisingly weak result.



Prices in the region are only just moving above their trend relationship with the rest of the country and a further period of out-performance seems likely – mainly against other regions apart from Auckland in the North Island.

The above graph shows that consent numbers are now almost back to their ten-year average. Further weakness however seems highly likely on the basis of sustained population growth weakness compared with other regions. Note that consent issuance tends to track population change long-term and that is why long-term average house price changes between regions do not differ as much as one would expect if looking only at population growth rates.



Dwelling sales over the past year have fallen 20% compared with 29% for all the country.

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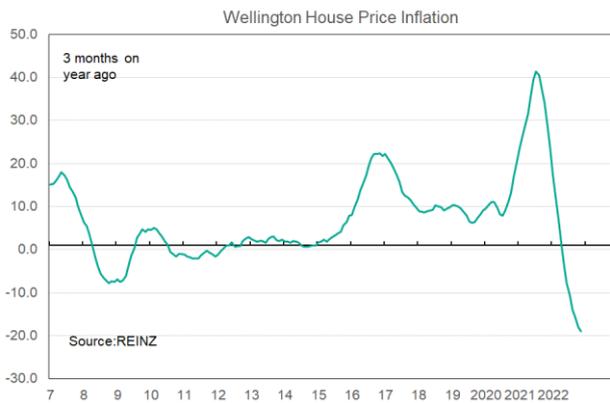
Wellington

Highly volatile

The Wellington region has been on a roller-coaster ride since the catch-up to Auckland’s earlier surge started in 2016. That catch-up overshot and as the second graph here shows, Wellington became well over-valued against the country overall.

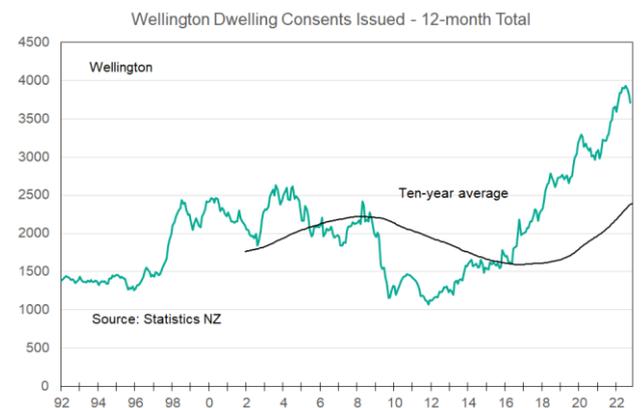
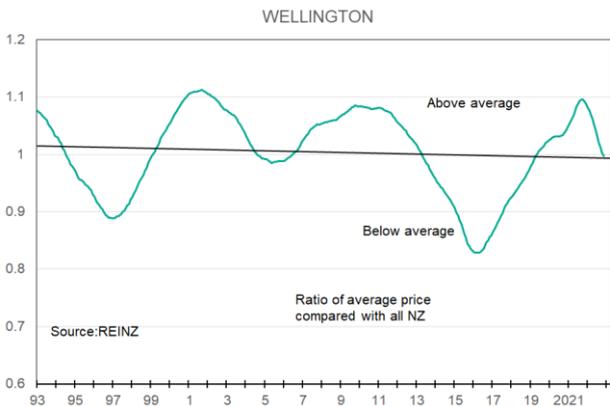
Wellington is now on its long-term average relationship with the country overall and an easing in price declines is possible. But it pays to keep in mind that the focus of the new city council is on cycle lanes and not business growth. So low population growth and shifting of businesses out of the city – perhaps up the coast but likely further north – will keep prices suppressed for potentially a period of time similar to that before the 2016 surge. Wellington has moved on a long way from the boom image times of Lord of the Rings.

Sales of dwellings in the Wellington region have fallen 25% in the past year which about matches the 29% nationwide decline.



We noted that the region was due for a price correction and this has been happening in spades. Average Wellington region prices have declined by 19.5% this past year compared with 13.7% nationwide. This decline is the worst of all regions.

Annual dwelling consents are ahead by 7% from a year ago versus a 5% gain nationwide. But a substantial retreat is likely.



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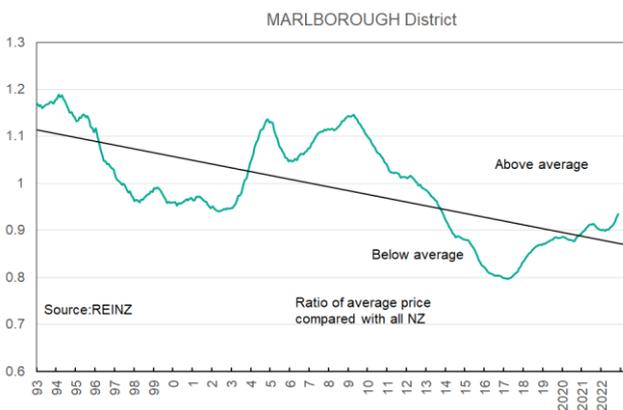
Nelson, Tasman, Marlborough

Didn't soar, so not plummeting

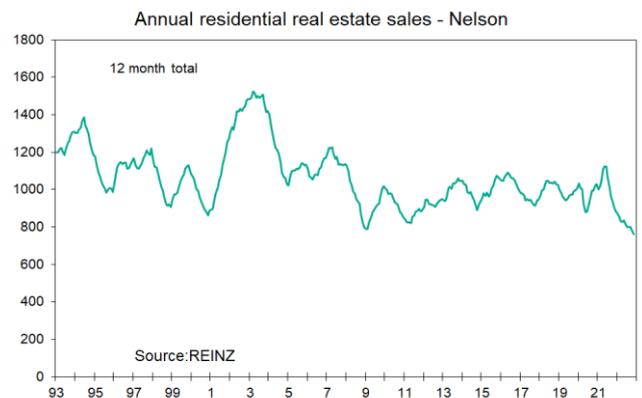
Average house prices in the Tasman, Nelson, and Marlborough regions have fallen by 8%, 7%, and 3% respectively in the past year. These falls are less than the nationwide 13.7% decline, just as the earlier pandemic rises were less than nationwide gains.



Each region currently displays house prices very close to long run averages compared with the country overall, with Marlborough a touch above trend but to a far lesser degree than during the 2004-13 period. No region seems due for any particularly strong correction in prices downward.



For sales there have been declines of 13%, 16%, and 19% respectively for Tasman, Nelson and Marlborough this past year. These falls are again less than the nationwide decline of 29%.



The three graphs above tell us that only Nelson sticks out as being on the weakish side for sales and as noted here many times before, that reflects a lack of stock for sale.

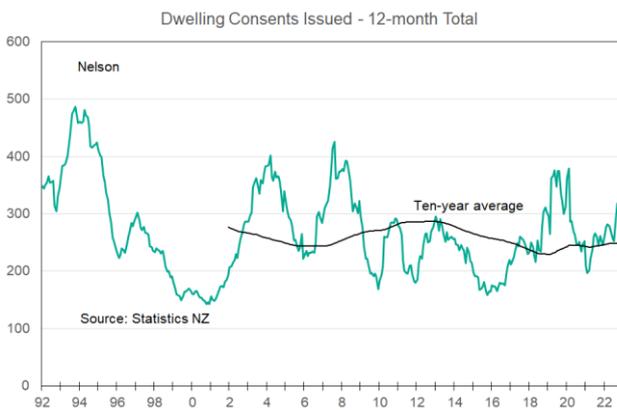
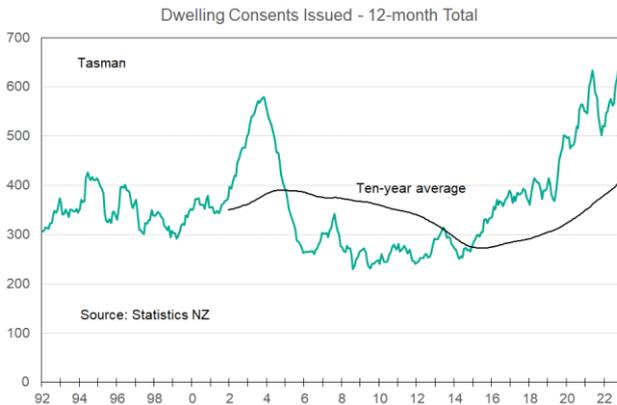
With regard to construction activity as represented by consent numbers, growth continues in Tasman and Nelson with gains for the past 12 months of 23% and 14%. But consent numbers are down in Marlborough by 8%. The NZ-wide change has been a rise of 5%.

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Nelson, Tasman, Marlborough

...continued

Note however that when we switch to looking at the three months to October compared with a year earlier, we see rises of 58% in Tasman and 92% in Nelson versus no change in Marlborough and a 2% fall nationwide. These numbers can move violently for small regions, so we need to treat these comparisons with caution. Probably the best thing to say is that construction in Tasman has been strong and seems to still be on a well supported track. But Nelson and Marlborough are about average.

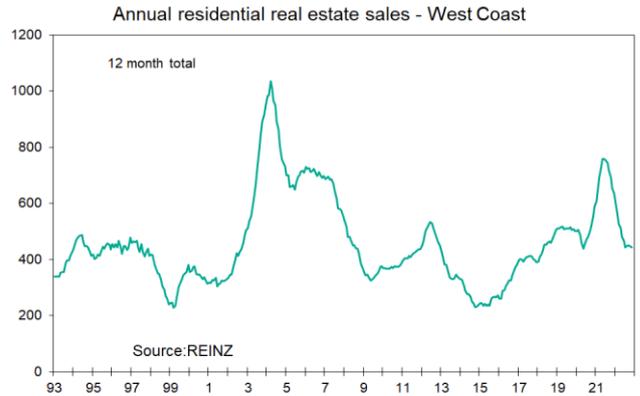


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West Coast

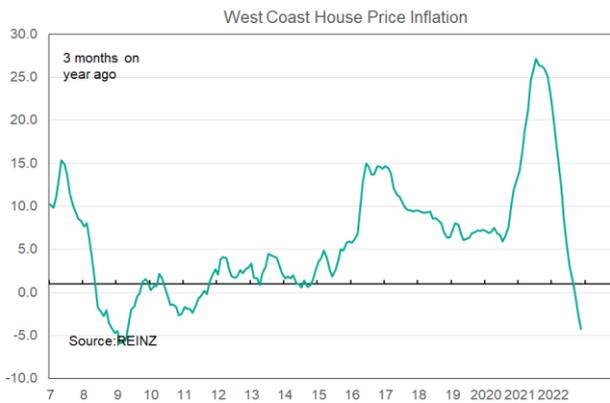
A construction boom

On the West Coast of the South Island average house prices have risen by 5% in the past year while they have fallen 13.7% across the country as a whole. However, in more recent times prices have retreated, as shown by the following graph comparing three month averages with a year earlier. Falls are underway now.

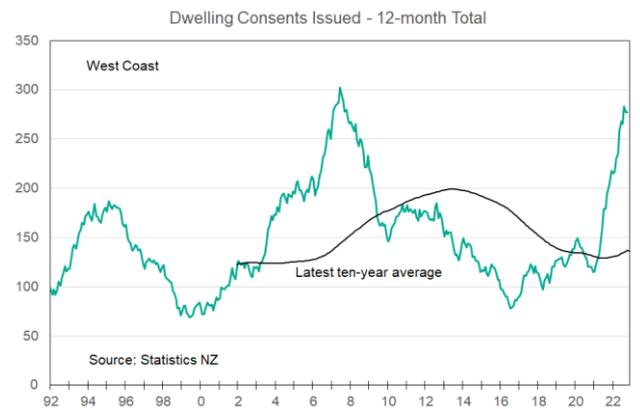


But as the above graph shows, sales are still relatively firm compared with the average for the post-GFC period and that is not necessarily the case for the entire country.

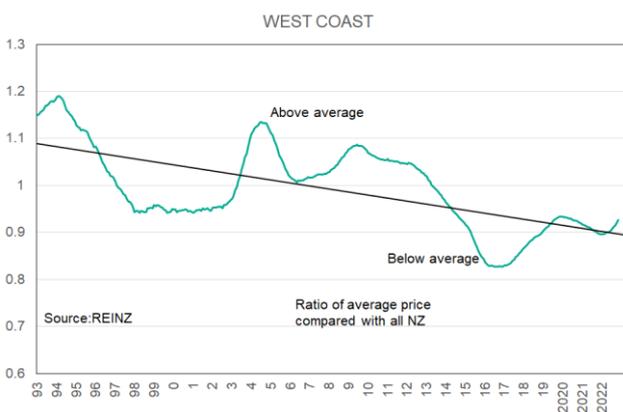
There has been a surge in dwelling consent numbers issued over the past year of 37% which well exceeds the NZ-wide rise of 5%. Even the total for the past three months at 21% higher than a year ago is better than the NZ-wide change of a 2% decline. Construction is firm on the West Coast and at well above average levels.



The region is displaying prices only just above trend versus the country overall and that means little extra upward or downward pressure than average is in prospect.



However, with Kiwis leaving the country while foreigners come in but largely go to the big cities, low if not negative population change in the near future is likely to see construction activity levels decline not long from now.



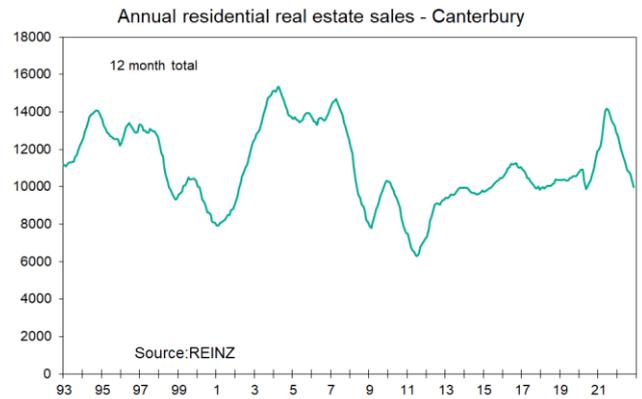
Dwelling sales have fallen 32% in the year to November which is essentially the same as the 29% fall nationwide. The region has been affected like elsewhere by the dampening effects on demand for rising interest rates.

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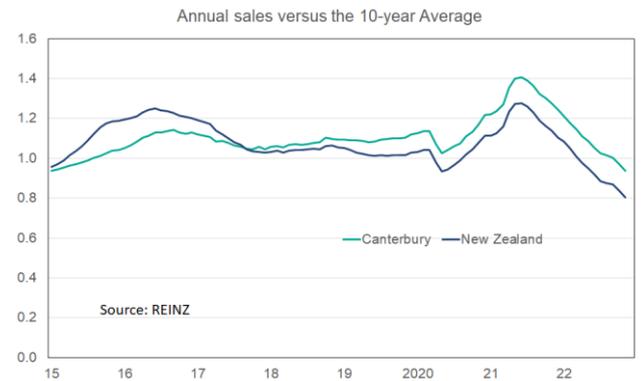
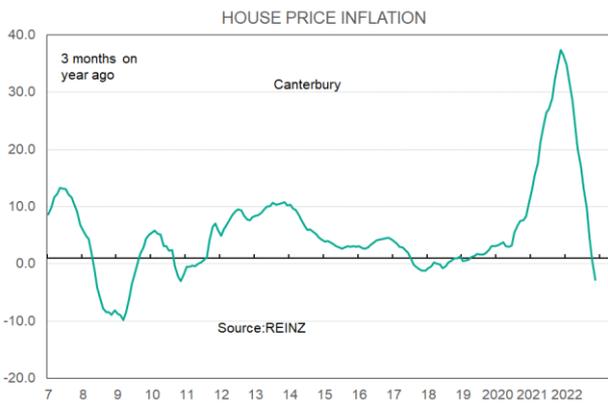
Canterbury

Best performing of the big regions

Average house prices in Canterbury started their post-earthquake catch-up with the rest of the country in the June quarter of last year. This process has continued in terms of house prices falling less than elsewhere after rising more than elsewhere. The change in November from a year ago for Canterbury has been a decline of just 5% compared with almost 14% nationwide and bigger falls in the other two large cities of 18% for Auckland and 20% for Wellington.

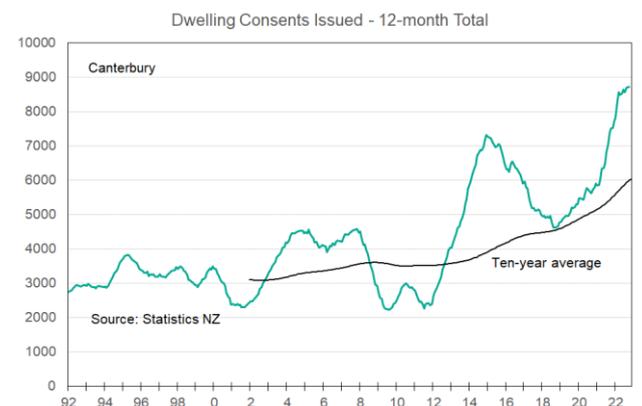
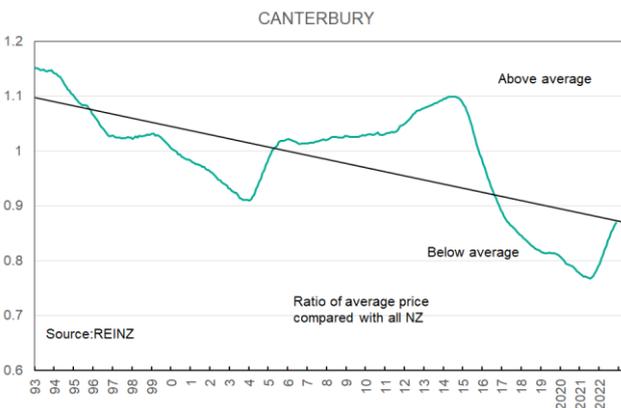


But whereas sales are below the ten year average in Auckland and Wellington now, they remain above in Canterbury, as shown here.



Average prices in Canterbury are now right back on their long-term trend average with the rest of the country.

Reflecting internal migration likely to continue for a while longer and relatively firm interest from investors, consent numbers in Canterbury are still well above average and rose 16% in the past year versus 5% nationwide. A decline is in prospect however as buyers now step back.



Sales of dwellings in the Canterbury region have fallen 25% in the past year which about matches the 29% fall nationwide.

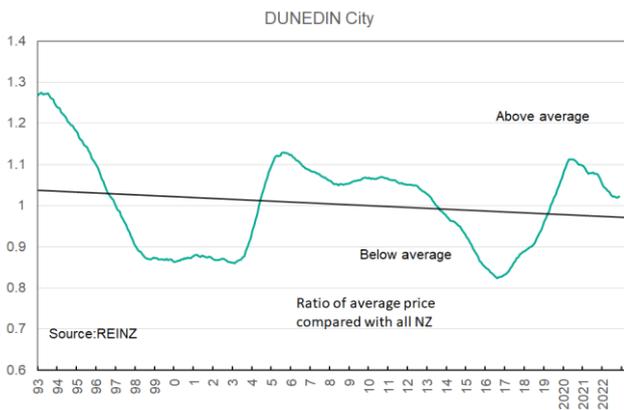
Dunedin City/Otago

Milder price falls ahead now

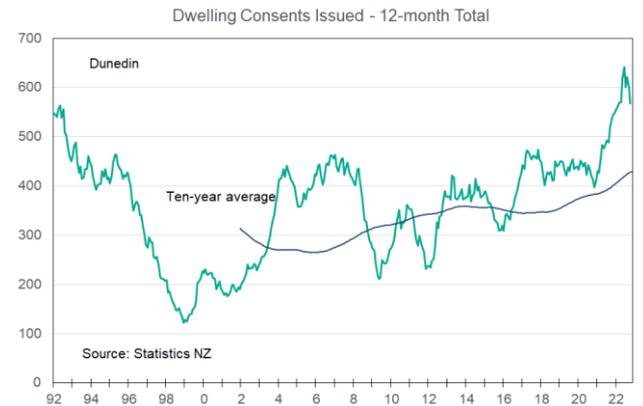
I warned for some time that Dunedin had become over-priced especially when compared with Christchurch City. A solid correction has been underway with reversion of average prices back towards but not yet at the long-term average relationship with the country overall, as shown in this first graph.



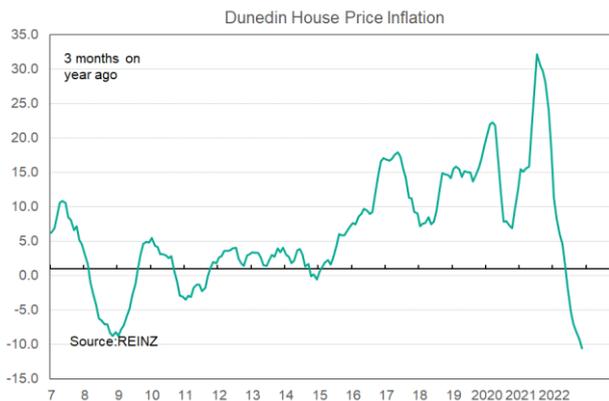
Dwelling consent numbers meanwhile have been at high levels since 2017 but a correction is now underway. Consents issued in the year to October were up 6% from the year before which about matches the 5% rise nationwide. But the 23% decline in the past three months from a year ago well exceeds the NZ fall of just 2%.



The pace of relative decline has however slowed with prices down by 11% in the past year which is better than the 13.7% fall nationwide.



Dunedin will benefit less from the turning in migrant inflows and outflows than the likes of Auckland, Wellington, and Christchurch and that relative easing of population growth will likely see a period of slight price under-performance for coming years.



Sales of dwellings in Dunedin City have weakened 13% in the past year which is substantially less than the 29% fall nationwide.

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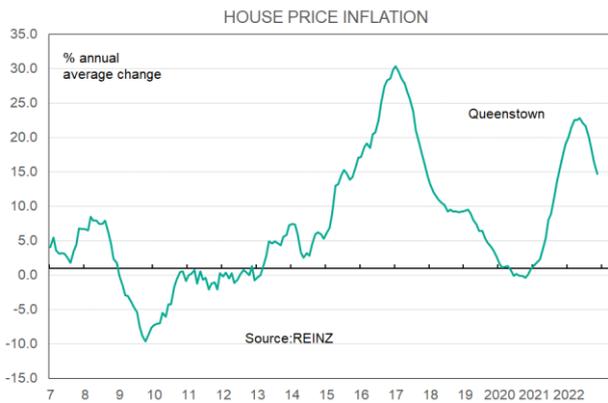
Queenstown Lakes

Out-performance is clear

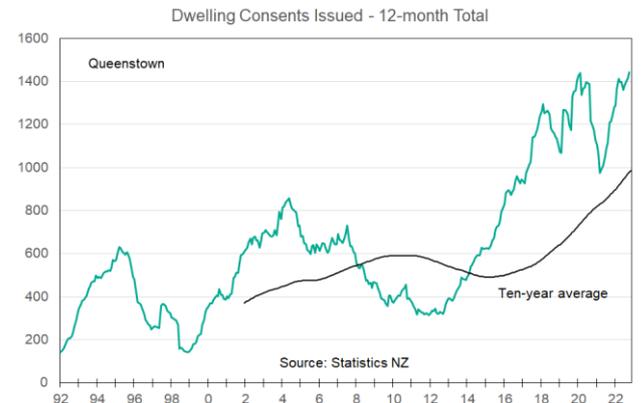
In Queenstown average house prices were almost 6% higher than a year earlier in November and this is the only region to have seen a price gain this past year. Clearly this reflects the current and expected impact on economic activity of the return of foreign tourists. Internal migration to the region also appears still popular with many Kiwis.



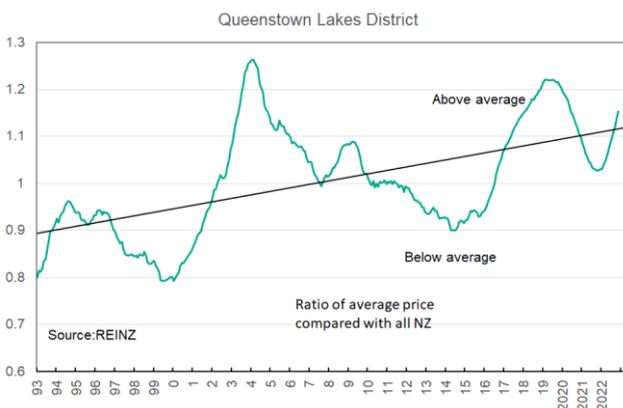
With strong population growth comes strong construction growth, as seen in the following graph. Consent numbers for the Queenstown Lakes District have risen 19% in the past year versus 5% nationwide. Numbers were also 17% higher in the past three months from a year ago versus a 2% fall across all the country.



Prices are only just back into above trend levels compared with the rest of the country and further diversion from trend on the upside seems highly likely over the next couple of years.



With tourists returning it seems reasonable to expect construction activity levels in Queenstown to be more driven by availability of land than buyer flows in the next few years.



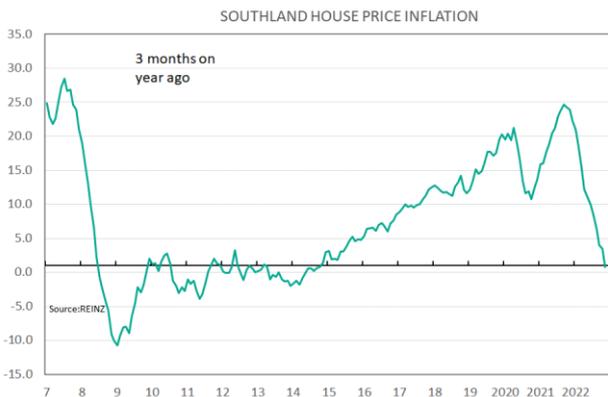
Dwelling sales numbers have fallen 16% in the past year which is a lesser decline than 29% nationwide. Sales in fact are still relatively firm compared with previous years.

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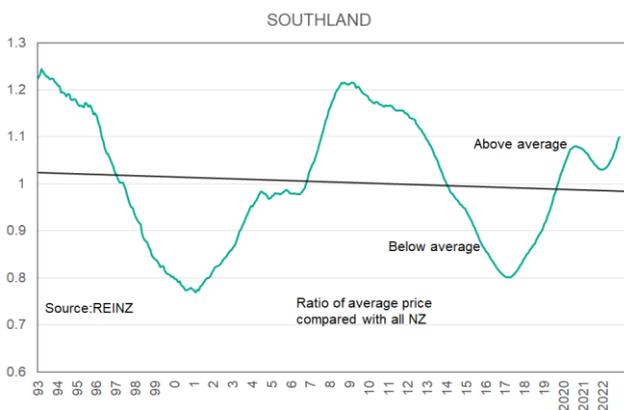
Southland

Mild price out-performance

In the Southland region average house prices over the past year have fallen only 2% compared with a 13.7% average decline nationwide.



This relative out-performance is seen in the following graph of relative prices moving into above average territory during the period of the pandemic. There is as yet no sign of this reversing.

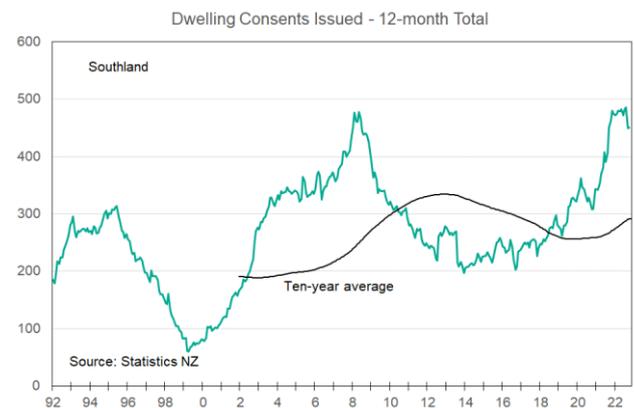


The region will benefit from the return of foreign tourists. But low population growth remains in prospect for coming years with the location less likely to benefit from the return of migrants than other regions with higher temperatures and larger urbanised economic bases.

Sales of dwellings in the past year have fallen 23% which is less than the nationwide pullback of 29%.



Dwelling consents issued have fallen by a small 3% in the past year versus a 5% nationwide rise. And in the three months to October consents were down by 22% from a year ago versus a 2% NZ-wide fall.



A continued downward correction in house building levels looks highly likely. But there is little reason to believe the cyclical pullback will be much different from the country on average.

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

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A light green map of New Zealand is positioned in the background, showing the outlines of the North and South Islands with regional boundaries.

TONY ALEXANDER

Regional Property Insights

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