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TONY ALEXANDER

Regional Property Insights

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Regional Property Insights

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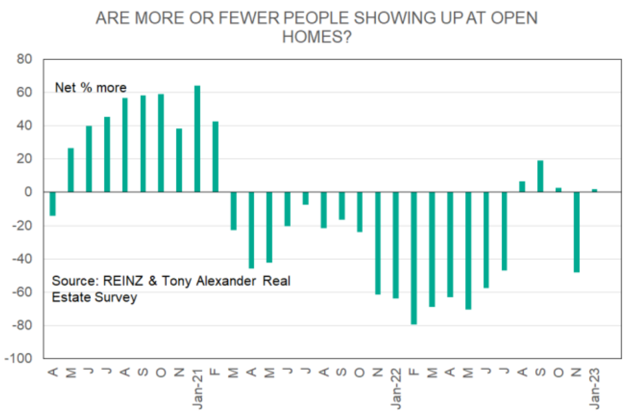
Introduction

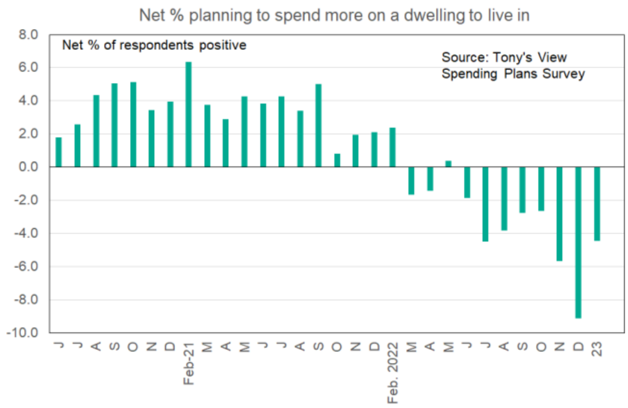
Welcome to the first issue of Regional Property Insights for 2023, prepared by Tony Alexander with the support of First Mortgage Trust.

In this month's Regional Property Insights I look at the latest insights for each region garnered from two of my monthly surveys. At the NZ-wide level we can see evidence of the residential real estate market pulling back from the brink after the surge in pessimism and restraint following the record tightening of monetary policy on November 23. The impact of that tightening three months ago was enhanced by the Reserve Bank warning about a recession and forecasting the unemployment rate rising from just over 3% to almost 6%.

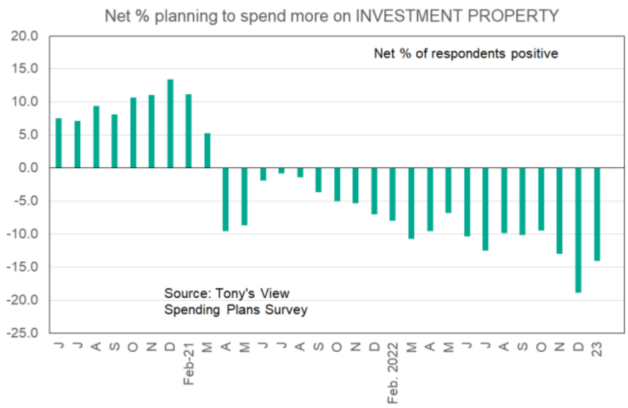
For instance, this graph shows the improvement in real estate agent observations of the number of people attending open homes. Things are better than late-November. But they are not back to late-September levels before fears of higher interest rates soared after the October 18 release of an annual inflation number 0.6% more than expected.



Also, from my Spending Plans Survey we can see an improvement in net respondent plans for buying a house they will live in – but not back to the levels of early-October before the bad inflation news.



The same goes for people's plans for buying an investment property.



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.

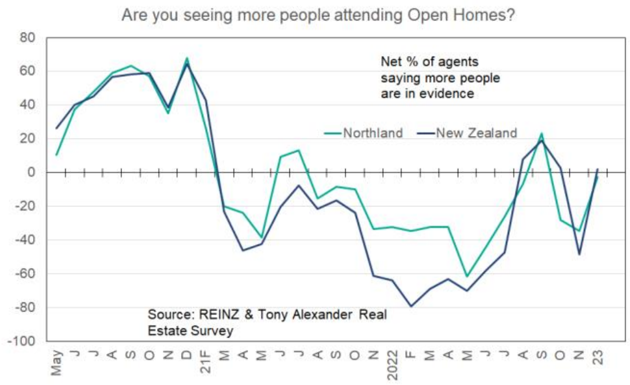
Previous issues of Regional Property Insights are available here. [First Mortgage Trust Articles]

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

Stronger than average

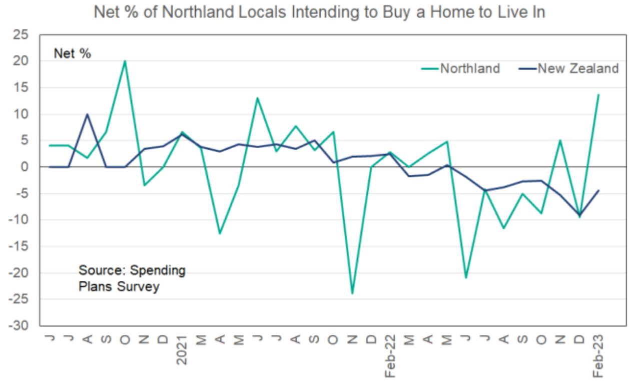
In the Northland region at the end of January a net 3% of agents responding in our monthly survey with REINZ said that they are seeing fewer people attending open homes. This was statistically the same as the net positive 2% for all of NZ and the graph here tells an interesting tale.



Northland experienced a period from early-2021 to mid-2022 when conditions in the real estate sector as measured by open home attendance observations were stronger than the country overall. But since August last year that out-performance has ended, and the region is tracking closely with what the country is doing.

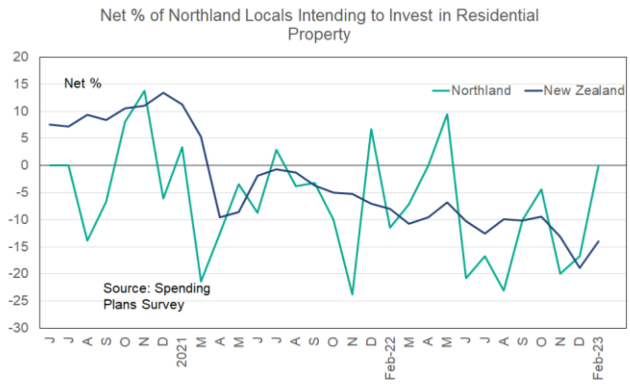
Open home attendance may no longer exceed the norm in Northland, but locals show a greater than average desire to purchase both a home to live in and an investment property according to results from my monthly Spending Plans Survey.

A net 14% of people in Northland are thinking about buying a house to live in over the next 12 months as compared with a net 5% nationwide planning not to.



Northlanders' intentions have exceeded the NZ-wide average two times in recent months and the gap this time is unusually large.

The same applies to the outcome of the question regarding purchasing a property as an investment over the next 12 months. A net 0% of Northlanders' say yes as opposed to -14% nationwide. Neither result is strong and investment demand for property all around the country has been weak since early-2021 when LVRs returned and tax rules affecting investors were changed.

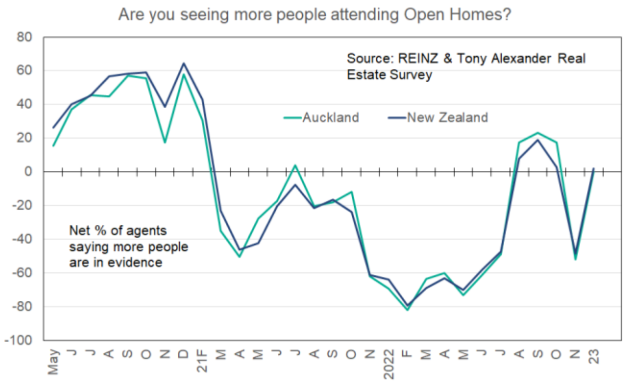


All up, our measures for Northland discussed here show a stronger than average residential real estate market.

Auckland

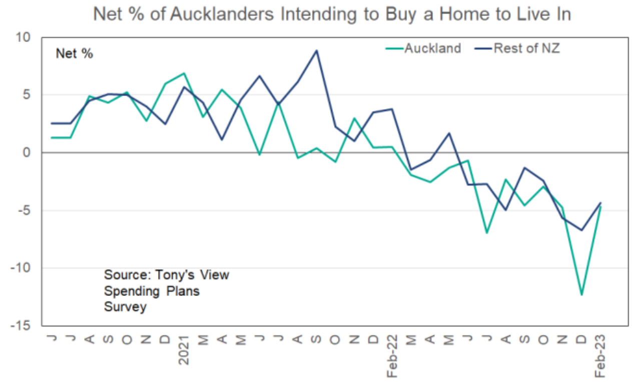
Home buying vs investment gap

Like all other regions Auckland has seen a substantial change in agent perceptions of the presence of people at open homes recently – as shown in the following graph.



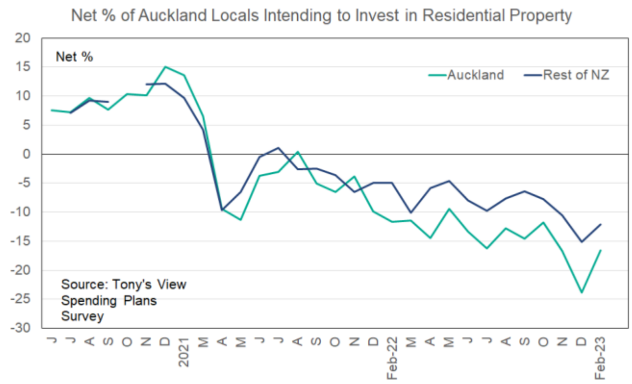
Over the past three years (almost) that we have been running our survey, Auckland's open home attendance has rarely varied from what is happening in the country overall. To see differences, we need to look at the individual regions other than Auckland – hence this publication!

From my monthly Spending Plans Survey we can see a clear difference for Auckland between the market presence of home buyers and investors. The following graph shows as the green line the net proportion of people responding from Auckland who are planning to buy a house to live in over the next year. The reading is generally slightly weaker than the rest of the country and was exactly the same at the end of January.



The unusually strong dip in buying intentions following the November 23 tightening of monetary policy and warning of recession has been completely reversed. But intentions are still a net 5% negative.

With regard to plans for buying an investment property we see a recovery in sentiment in the latest survey, but to a lesser degree than for buying one's own home. More importantly, plans for buying an investment property held by people in Auckland have been weaker than for the rest of the country on average since prices started falling late in 2022.

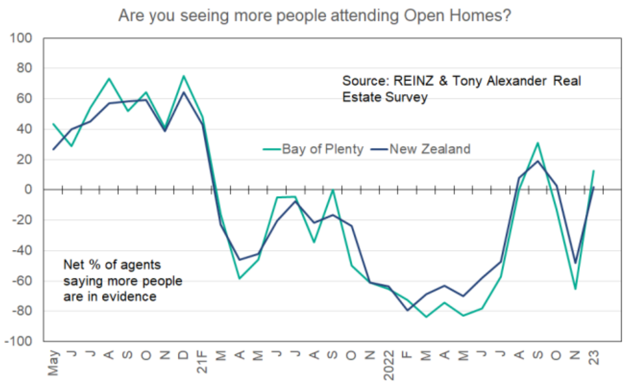


Perhaps in Auckland there is greater sensitivity of investors to pricing developments than elsewhere.

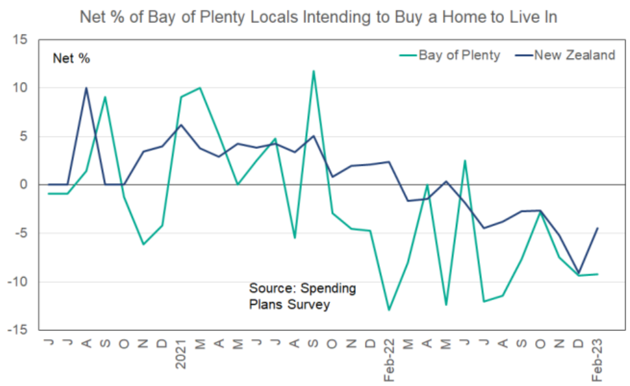
Bay of Plenty

Open homes busier

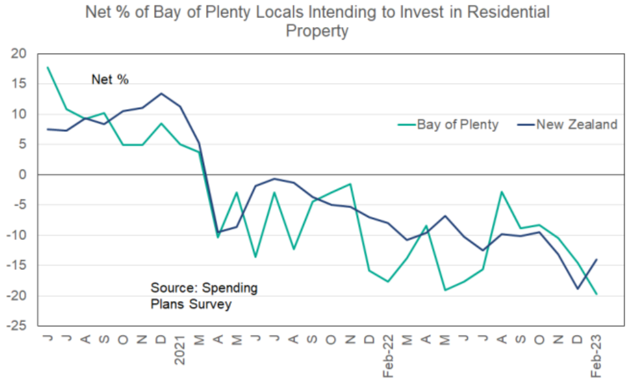
The Bay of Plenty region has experienced some extreme changes in open home attendance over recent months. From a net 57% of agents in July saying they were seeing fewer people the reading soared to +31% in September before plunging to -65% at the end of November. The reading now is 13% which is the second strongest result since February 2021.



In the Bay of Plenty people responding in my monthly Spending Plans Survey have generally revealed weaker than NZ average plans for buying a property to live in. This remained the case at the end of January with a net -20% result compared with -14% nationwide.



With regard to buying a property as an investment the following graph tells us that over 2021 and the first half of 2022 such intentions were below average.



However, since just after the middle of last year investment intentions have been mainly firmer than average though with a relatively weak result early this month. The net 20% of people planning not to buy an investment property is weaker than the 14% NZ average and the absence of any recovery since the post-November 23 monetary policy change is unusual.

The Bay of Plenty region by this measure is showing no indication of a return of investors anytime soon.

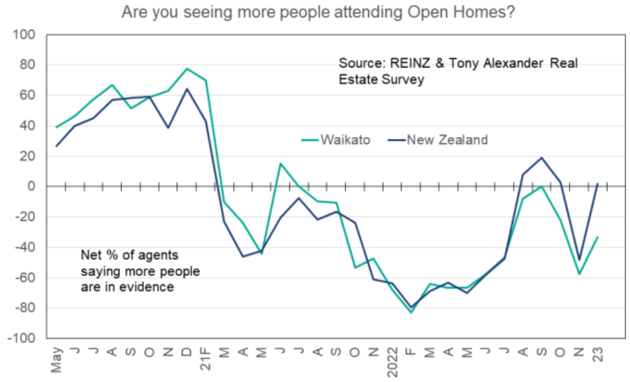
Here are some observations made by real estate agents regarding conditions on the ground in the Bay of Plenty market early in February.

- Investor buyers still waiting to buy until they see a price flat line. Good tidy homes fully compliant and well presented still sell with relative ease.
- There are appears to be a lot more first home buyers in the market prepared to buy now.
- Beach market is poised and if and when the weather improves, we believe buyers will be back at holiday destinations as most prices are at the current market level with room to negotiate.
- The market in my area from early December has certainly seen an increase in buyers and buyers that are wanting to purchase. They seem fed up with the negative media rants and interest rate hikes. If they are ready now they want to buy, rather than wait and then not be able to.

Waikato

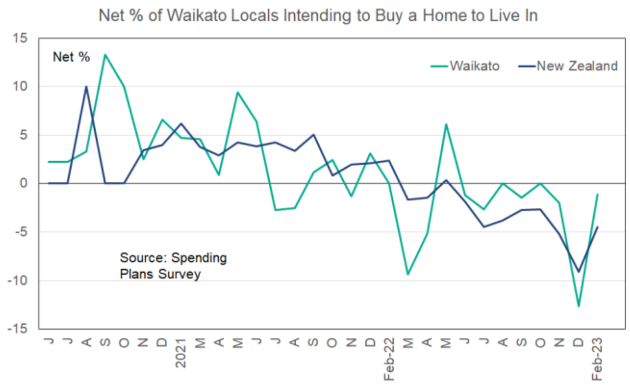
People not showing up

Open home attendance in the Waikato region is weak. There has not been a net positive proportion of agents saying that they are seeing more people showing up since June 2021. Essentially numbers are reported to have been weak since very early in 2021.



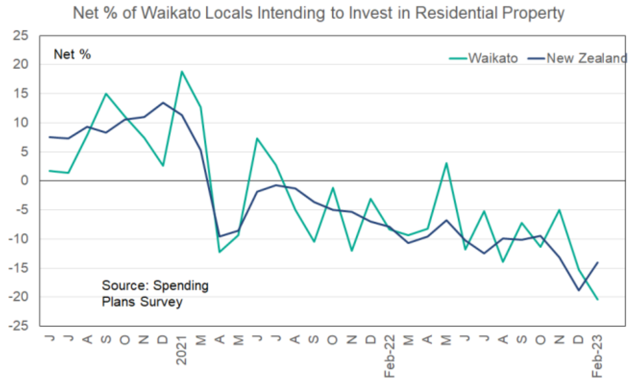
The latest result is a net 33% of agents in my monthly survey with REINZ saying that they are seeing fewer people at open homes. This is a slight improvement from a net 58% seeing fewer at the end of November, but the small 25 point improvement is much less than the nationwide shift up of 50 points from -48% to +2%.

With regard to plans for buying a house to live in, my Spending Plans Survey shows a net 1% of people responding from Waikato intend not doing so. This result is a firm bounce back up from the net 13% of early-December following the change in monetary policy and warning of recession from the Reserve Bank.



As things currently stand Waikato locals reveal less weak home buying intentions than the country overall and this has generally been the situation since the June quarter of last year – negative but less negative than elsewhere.

With regard to plans for buying an investment property the following graph shows no discernible difference between the Waikato region and the country as a whole. However, as is the case for Bay of Plenty already noted, it is unusual that there has been no improvement in investment buying intentions between December and February.



Here are some observations made by real estate agents regarding conditions on the ground in the Waikato market early in February.

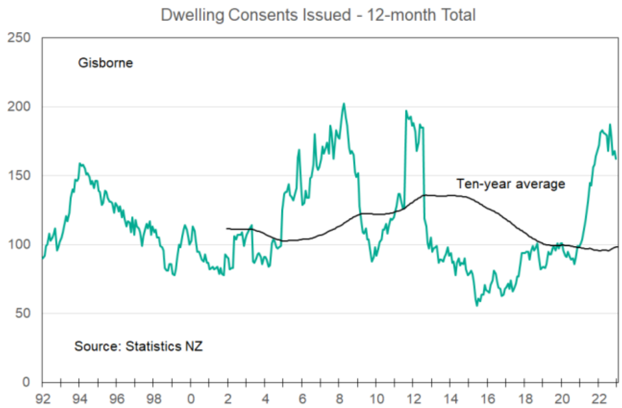
- Potential buyers have no sense of urgency, taking longer to get offers.
- The market is starting to bottom out.
- I am finding the market is very dependant on the property for sale. While residential properties are tough to sell and taking longer, lifestyle properties are getting good enquiries, visits to open homes and sell through.
- Residential properties that have been presented well for sale and vendors are happy to meet the market are also selling. Vendors not wanting the meet the market will still be the owners of their properties.

Gisborne

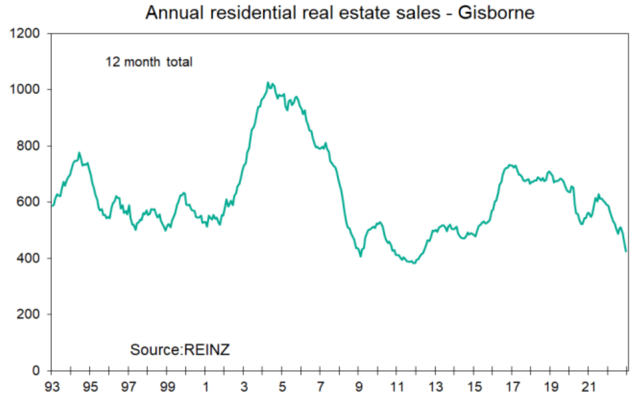
Mild correction underway

From my various monthly surveys, we almost never receive enough responses from the tiny Gisborne region to allow presentation of any data. That is a pity but understandable given the region holds just 1% of New Zealand's people. Statistics NZ do however have some good data series available and REINZ do have numbers available from their monthly sales release. So, here are some indicators for Gisborne.

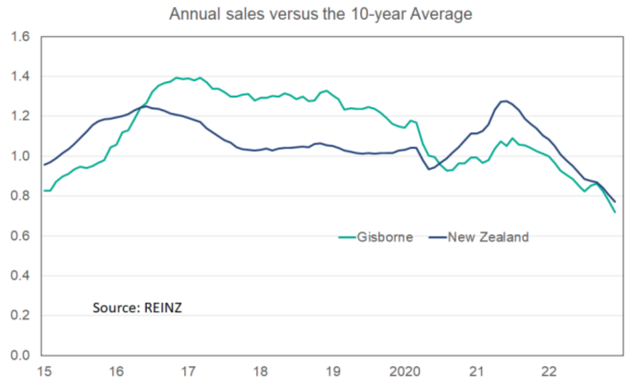
The number of consents being issued for new dwellings to be built in Gisborne is trending down after a strong surge from the start of 2021. Activity levels look like remaining above average this year. But the effects of high borrowing costs and ending of a pandemic-driven population shift to some regions will depress activity through this year and 2024.



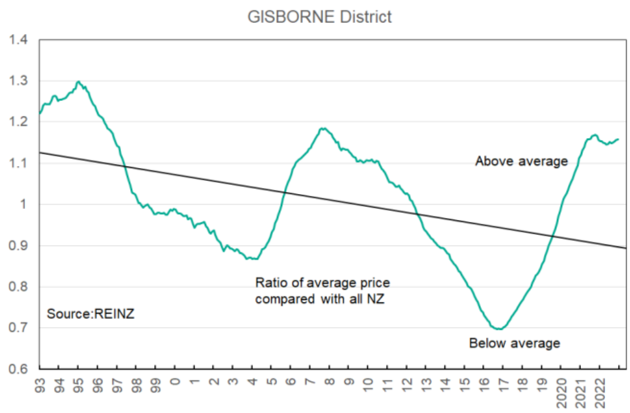
The annual number of dwellings sold in Gisborne has been trending down since the start of 2017 and the decline has accelerated over recent months.



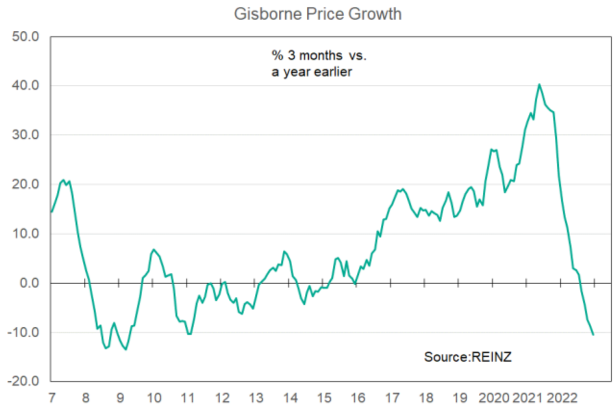
The number of dwellings sold in Gisborne is now well below average and more so than for the country overall.



Average dwelling sale prices in the Gisborne region sit well above their long-term trend with the overall country.



Compared with a year ago prices have declined around 10% which is slightly better than average.


Gisborne Price Growth
% 3 months vs.
a year earlier
Source:REINZ
50.0
40.0
30.0
20.0
10.0
0.0
-10.0
-20.0
7
8
9
10
11
12
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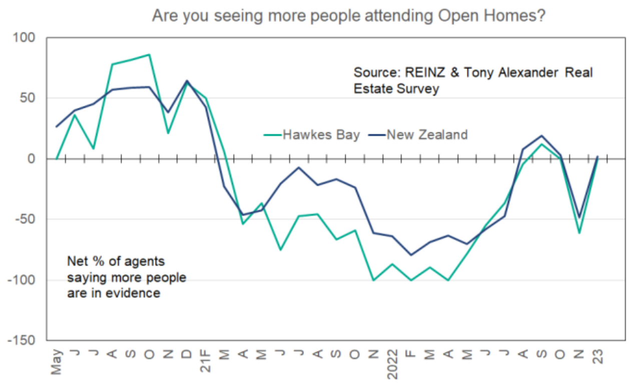
2020
2021
2022

Hawke's Bay

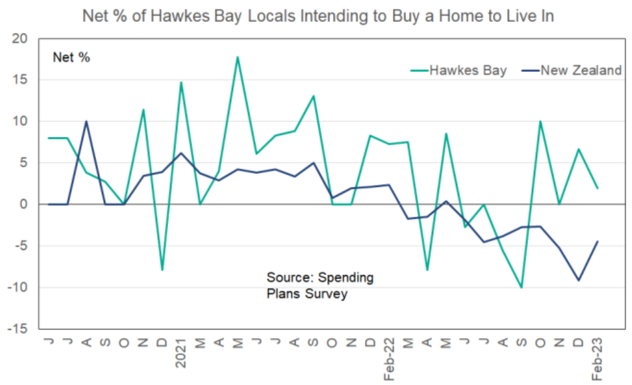
Average or slightly better

At the end of October, a net 0% of agents in Hawke's Bay said that they were seeing more people attending open homes. That plunged to -61% at the end of November but now has recovered back to 0% which essentially equals the NZ-wide +2% result.

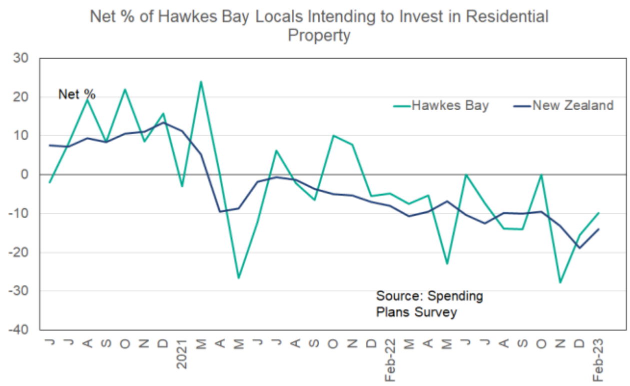


The region has actually improved relative to the country as a whole, with the graph showing below average observations of open home attendance from early-2021 through to the middle of 2022. It is now average.

But when it comes to intentions of buying a house to live in, revealed in my monthly Spending Plans Survey, things have tended to be well above average in the Hawke's Bay region. This has especially been the case since October last year.



However, when it comes to plans for buying an investment property the situation is different. Net intentions have not shown any sustained divergence above or below the national outcome for almost the duration of this particular survey.



Most recently intentions have recovered more strongly than elsewhere. But with a net 10% of locals planning not to buy an investment property the situation is not far removed from the nationwide reading at -14%.

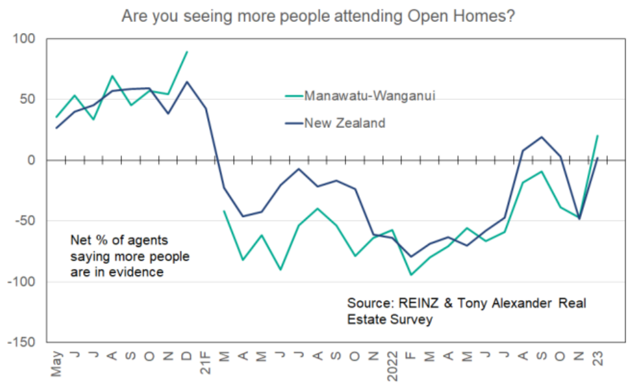
Here are some observations made by real estate agents regarding conditions on the ground in the Hawke's Bay market early in February.

- It appears, maybe prematurely, that we are flattening off the price decline curve
- Hastings/Havelock North - All listings in January were in in the middle to upper quartile. Interesting.
- There are signs that the market is levelling so that it is even between buyers and owners, with more owners becoming more aware of the market and that they are not the ones now in control and it is tipping towards the buyers

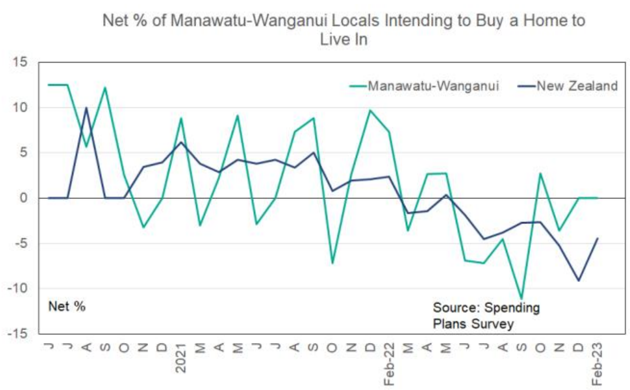
Manawatu-Wanganui

Above average readings

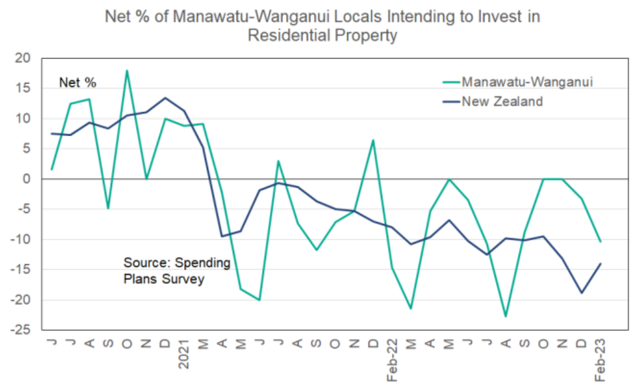
The net proportion of agents saying that they are seeing more people attending open homes in the Manawatu-Wanganui region has risen to the greatest margin over the NZ average since the end of 2020. A net 20% of agents have reported seeing more people versus 2% nationwide. The 20% result is a big change from -47% at the end of November as people were experiencing the shock of the Reserve Bank's record tightening of monetary polcy and warning of recession.



Is this positive result repeated when we look at the results of my monthly Spending Plans Survey? Yes, when it come to purchasing a home. A net 0% of people responding from the region have plans for buying a house to live in compared with a net 5% nationwide planning not to. Negativism is less than elsewhere.



The same comment applies when we look at people's plans for buying an investment property in the coming 12 months. Such plans are negative at a net -10%. But this is not as bad than the -14% nationwide.



This measure however has shown a strong tendency to oscillate from one extreme to the other, so the results should be treated with some caution.

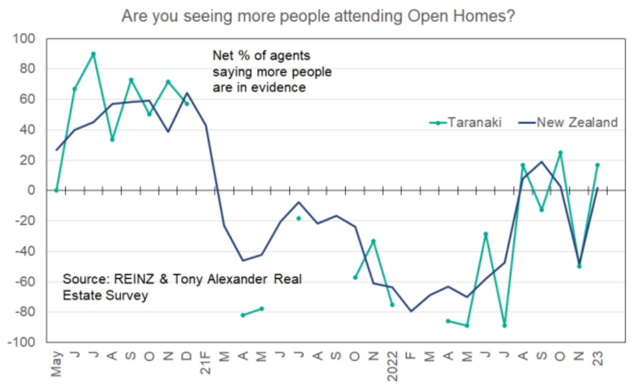
Here are some observations made by real estate agents regarding conditions on the ground in the Manawatu-Wanganui market early in February.

- Some sellers are still hoping to achieve 2021 prices
- We are in the midst of the trough in the Real Estate/economic cyclic clock
- Buyers appear motivated to buy until they speak with the bank or lender.

Taranaki

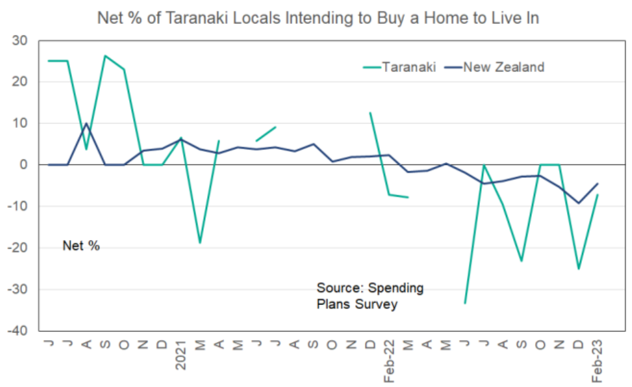
Near average readings

As noted many times here previously, the Taranaki region has not enjoyed the same pandemic price surge as other regions in the North Island and does not present as having prices well above trend as all those other regions do, except Auckland. However when we look at agent insights into the number of people attending open homes we see no substantial divergence from nationwide outcomes.

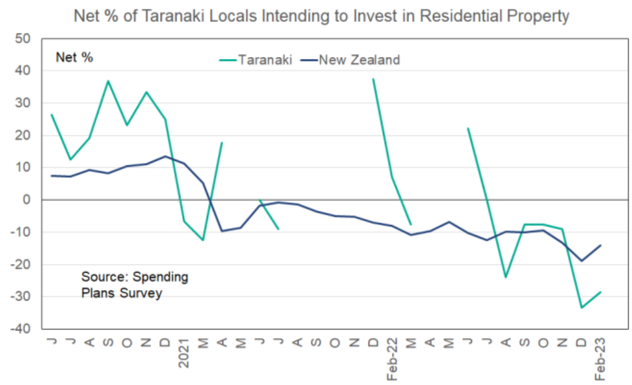


The region has most recently experienced a recovery in open home attendance slightly better than the national average.

When it comes to plans for buying a home to live in, revealed in my monthly Spending Plan Survey, we can observe that things are tending to be slightly weaker than the NZ-wide average.



The readings for buying an investment property have been highly volatile for the Taranaki region and for that region we should treat the latest outcomes showing well below average buying intentions with caution.



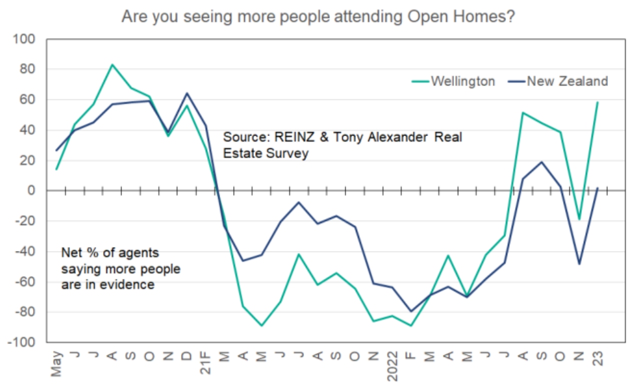
Here are some observations made by real estate agents regarding conditions on the ground in the Taranaki market early in February.

- Half of the offers we are receiving in my office are Subject to Sale. This is down from the end of last year where we were seeing closer to 80% Subject to Sale. A noticeable number of properties that we have listed in January have been owned and lived in for under two years.
- Market in Taranaki is moving, not rushing out the door, but prices have remained fairly static here in Taranaki. Finding bottom end of the market buyers keen to put in an offer, but falling short on finance as we have had 2 houses under $400,000 fall over 2 to 3 times because of buyers not able to get finance. Banks are tightening up which is not helping young buyers get into the market and rising interest rates do not help anyone except the banks making more money for their investors. Bit of a tight market but on the other side top end is moving relatively fast, having an offer in within 2 to 3 weeks, as they are business people or professional people buying and have finance all sorted so is not an issue.

Wellington

Mixed readings

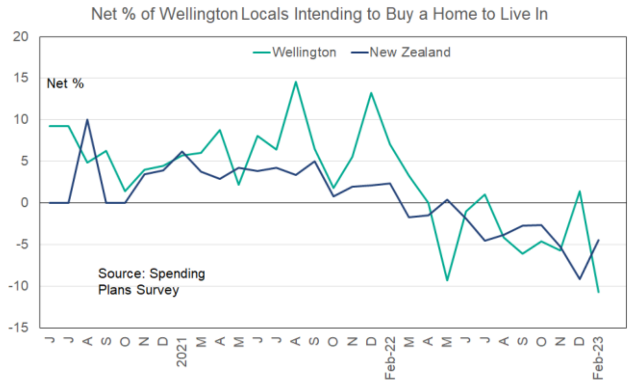
The Wellington residential real estate market went nowhere from 2008-15 then experienced soaring prices which reached very unsustainable levels. Then most recently prices have fallen much more than on average for the country since November 2021 as corrective forces have kicked into action. Now, is that correction ending? It would seem reasonable to believe that Wellington is past it's worst. Since August last year agents have noted far greater open home attendance than for the country as a whole.



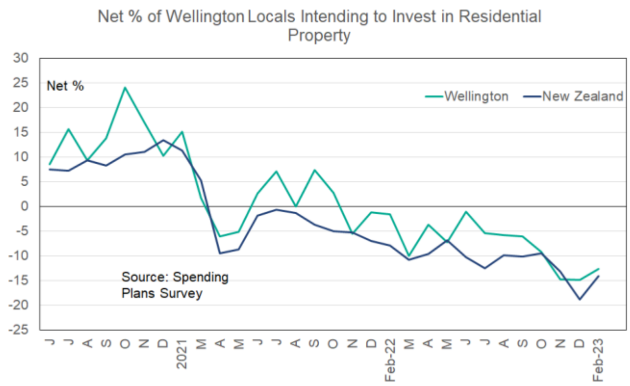
As for all the country there was a dip following the November 23 monetary policy shock and now a strong recovery is underway.

However, when we look at results from my monthly Spending Plans Survey, we do not see the same out-performance in prospect for the Wellington region.

A net 11% of people do not have plans to buy a house to live in over the next 12 months compared with -5% nationwide. Sentiment has deteriorated quite a bit from early-December in contrast to the improvement nationwide shown by the rise in the blue line.



With regard to buying a property as an investment, plans revealed by people in Wellington this month are not sufficiently different from the NZ average to say anything meaningful. Intentions are weak.



Here are some observations made by real estate agents regarding conditions on the ground in the Wellington market early in February.

- Massive lift in FHB numbers and as stock levels climb there seems to be good buyer interest. While rates are climbing they have decided to get in now.
- Open homes busy when prices are dropped. Buyers out there but they want a deal.
- Lots of buyers viewing at open homes but almost zero willing to commit to a S & P.
- The market locally seems to have found 'transaction level' at about 15% below the highs of 2021/22

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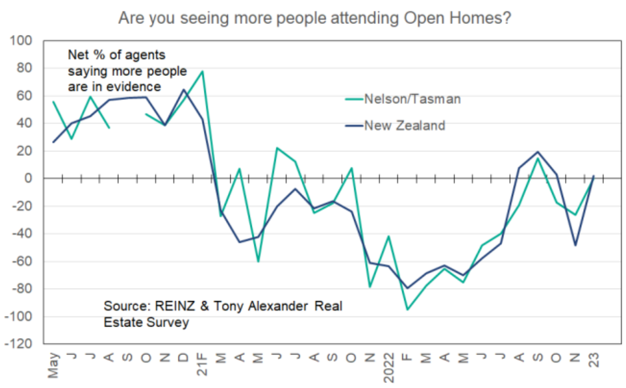
Nelson, Tasman, Marlborough

Open homes better attended

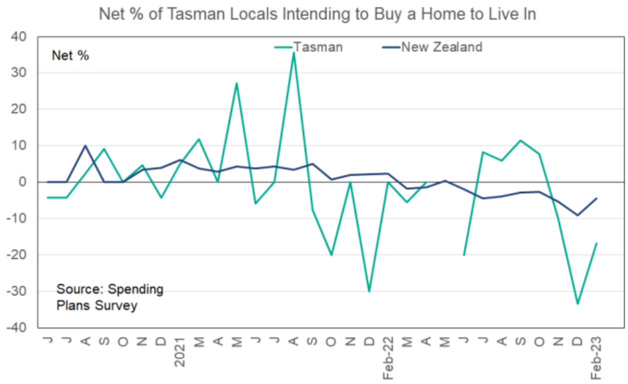
From the survey of residential real estate agents which I run each month with REINZ we gather results from all three regions at the top of the South Island into one grouping. This is because variable response numbers mean often insufficient numbers reply to allow reporting on each region. But this is not the case for my monthly Spending Plans Survey, as seen below.

From the survey of real estate agents with REINZ we can see that the situation with regard to open home attendance closely tracks the nationwide outcome. There has been a strong improvement recently as people have backed away from an embracing of worst-case scenarios for housing, the economy and interest rates following the monetary policy tightening of November 23.

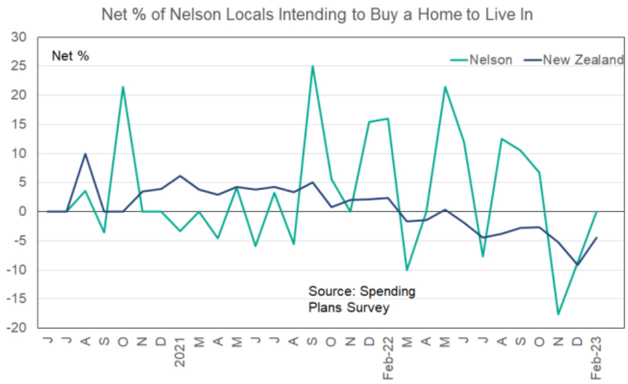


From my monthly Spending Plans Survey we more often than not get sufficient responses to allow presentation of results for each of the regions at the top of the South Island.

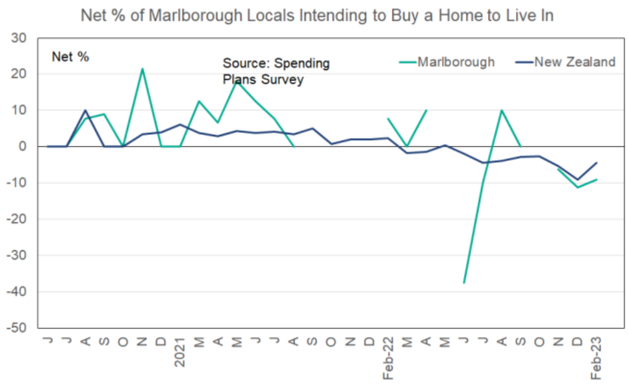
In Tasman, intentions of buying a property to live in oneself have recently proved much weaker than average after a brief period of out-performance in the second half of last year.



For Nelson the high volatility of outcomes does not allow us to meaningfully say that the most recent out-performance is necessarily an accurate reflection of what is happening on the ground with home buyers.



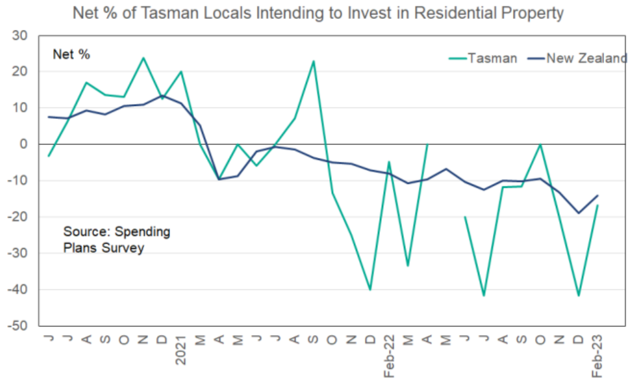
For Marlborough it looks like plans for buying a house to live in are tracking close to the NZ average after a fairly shocking pullback in the middle of last year.



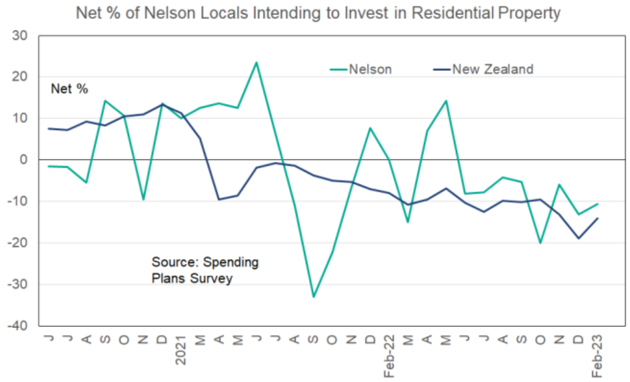
Nelson, Tasman, Marlborough

Continued...

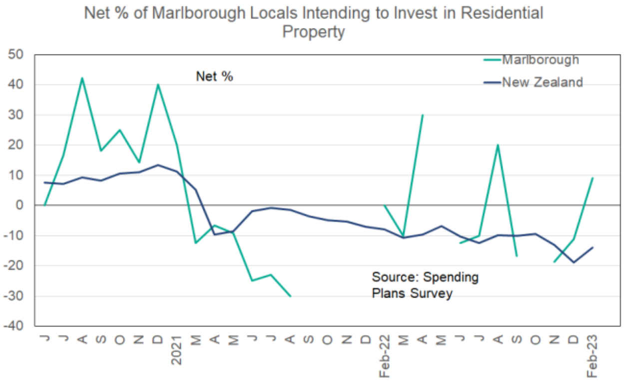
When we shift to looking at people's plans for buying a property as an investment, we see similarly high volatility for Tasman and Marlborough. Tasman shows a tendency for weaker than average investment property buying intentions.



In Nelson such intentions have recently improved to less dire than average levels.



In Marlborough intentions also have shifted to slightly above average.



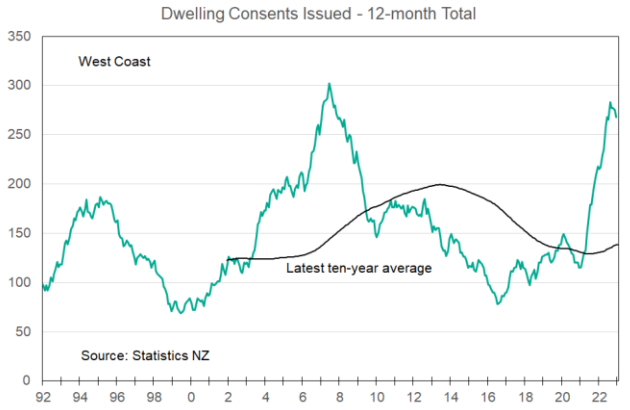
The top of the South Island regions did not enjoy the same surge to well above trend levels of prices during the pandemic as most regions in the North Island. The dynamics in play are different and that may mean that the period of decline will be less intense than elsewhere.

West Coast

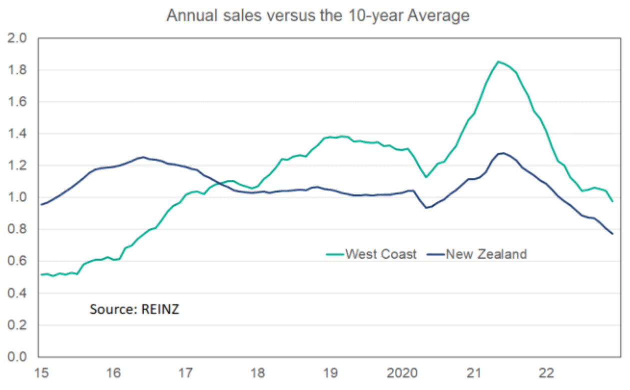
Still out-performing

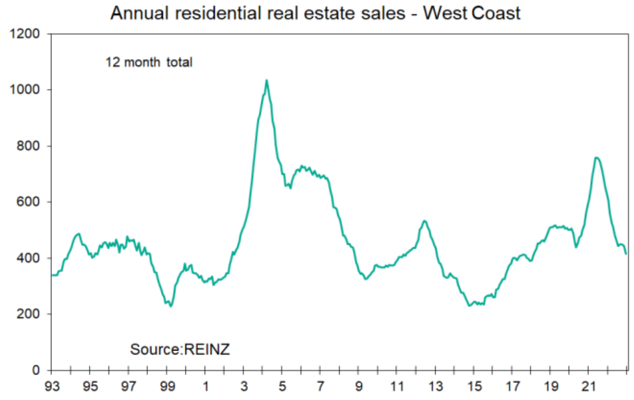
As is the case for Gisborne, the West Coast region accounts for such a small proportion of the country's population that I do not receive enough response in my monthly surveys to allow any valid statistical analysis. So, here is some of the other data showing what is going in the region's residential real estate market.

The number of consents issued for the construction of new dwellings on the West Coast of the South Island has soared to well above average levels since the middle of 2021. An easing has started but the magnitude so far is very small.

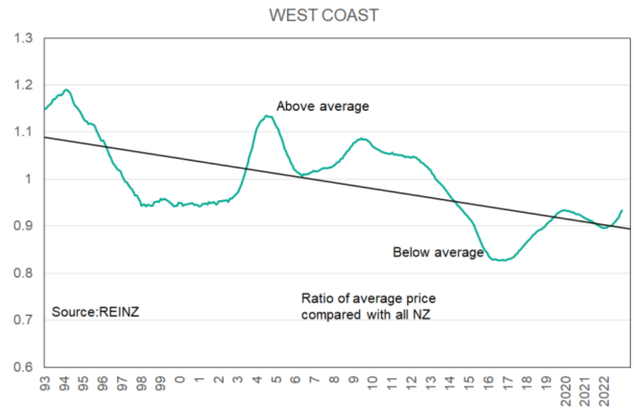


Real estate agents have been experiencing good conditions on the West Coast in recent years with sales above average since 2018. Only recently have sales shifted to below ten-year average levels, yet they remain relatively strong compared with the country overall.

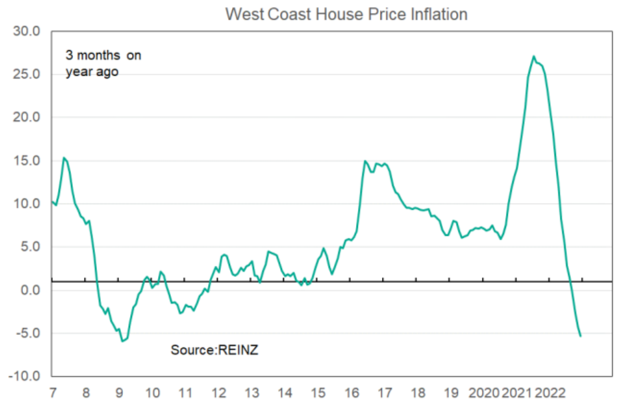




On the West Coast prices are only just above their long-term trend relative to the rest of the country.



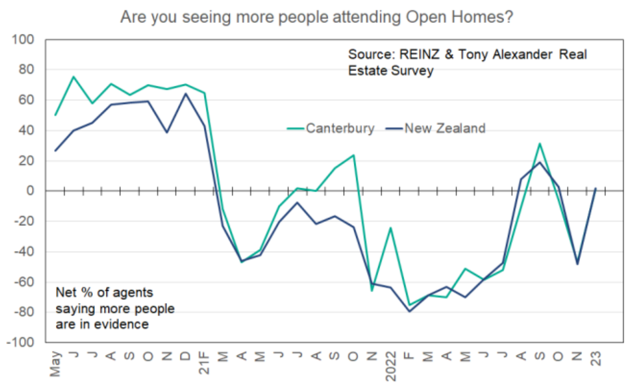
Prices are falling but by less than NZ overall.



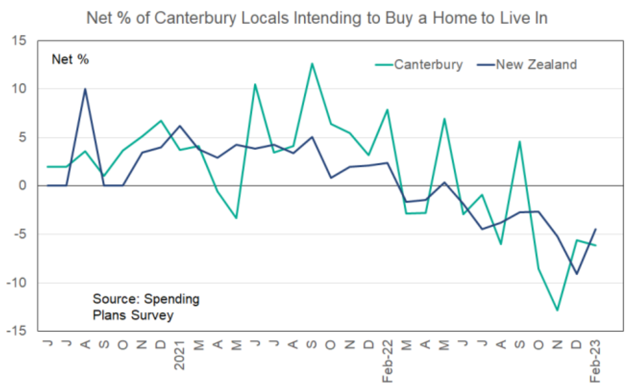
Canterbury

Investment plans less dire

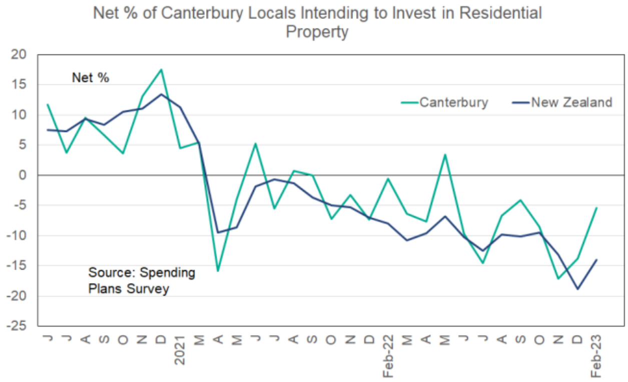
As the first graph here shows, there has been an improvement in agent observations of open home attendance in the Canterbury region which exactly matches the improvement recorded across the country as a whole. The period of strongest out-performance of the region as recorded by this open home attendance measure occurred over the second half of 2021. Since then, the region has tracked the country overall though prices have continued to out-perform in a continuation of their post-earthquake catch-up which started in the June quarter of 2021.



From the early part of 2021 through until the September quarter of 2022 there was a tendency for people in Canterbury (Christchurch largely) to have home buying intentions which exceeded the NZ average. But this period of extra interest appears now to have ended.



This is not necessarily the case when it comes to buying an investment property. The intentions of locals to do so, revealed in my monthly Spending Plans Survey, have been above average most months since the start of 2022 and are more so now. Note however that such intentions are still firmly negative.



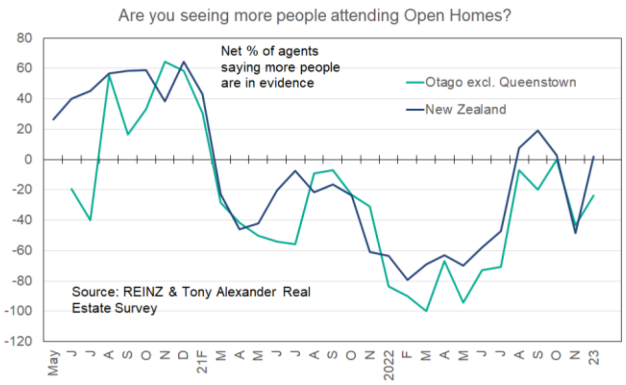
Here are some observations made by real estate agents regarding conditions on the ground in the Canterbury market early in February.

- Since the start of the year, the general feeling is that buyers are back out and looking to buy more so than the last quarter of 2022.
- There is a lot of wait and see with buyers especially if the open homes are a little light on buyer numbers. "Has it had much interest" is one of the key questions, along with "what's the lowest they will accept?
- This week is busy for appraisals & people becoming focused on 2023.
- Properties are selling but vendors are having to adjust their price expectations.
- Some RVs appear too high and vendors are confused by this, expecting more than market value. Properties under $600K selling well, middle bracket harder to sell as chains of "subject to sale" starting to appear.
- Fickle/hesitant buyers who are not organised/ready to buy yet are out in force in our area

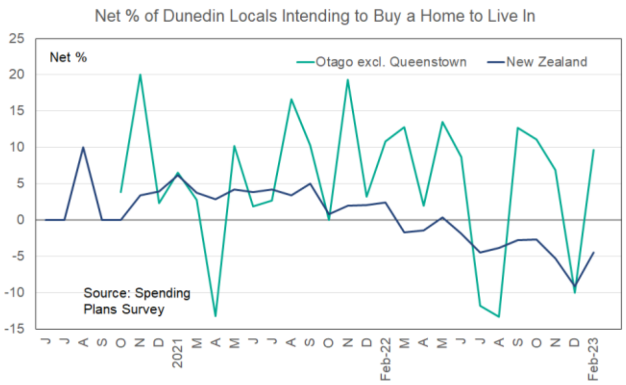
Dunedin City/Otago

Locals looking for homes

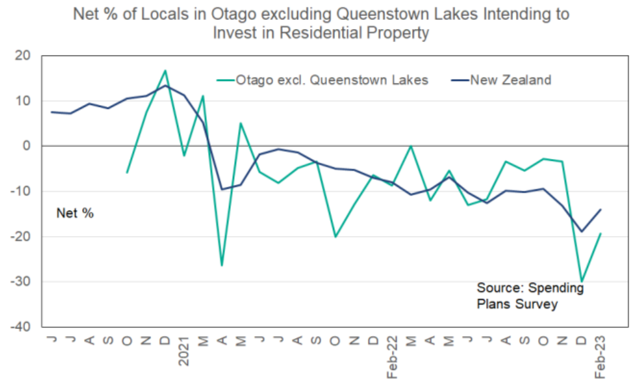
There has been far less of a recovery in agent observations of open home attendance for the largely Dunedin based real estate agents responding in my monthly survey than has been the case for the country all up. But this may be consistent with the broad under-performance of the market as measured by this gauge since the start of last year.



Under-performance however is not what we see when we look at the plans which locals have for buying a property to live in over the coming 12 months. Such plans have been at above NZ-average levels for almost all months since the middle of 2021 and remained firmly so this month. A net 10% of people expressed intentions of buying a house to live in versus -5% nationwide.



However, when it comes to plans for buying an investment property there is no tendency for greater strength in Dunedin and the non-Queenstown part of Otago.



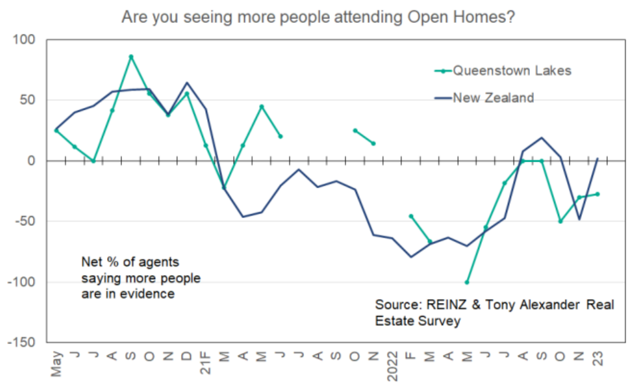
Here are some observations made by real estate agents regarding conditions on the ground in the Dunedin/non-Queenstown Otago market early in February.

- Definite change in demand over Xmas/ New Year, prices stabilising.
- More interest in owner/occupied than Holiday homes in this area. People getting 6% investment rates vs concern on property price levelling/fall. Much more conservatism around.
- There are buyers from other areas constantly looking in our town. Investment/semi-retirement mainly or holiday homes to suit them. Looking for the perfect fit for their requirements rather than just purchasing. Price is needing to be realistic and if so, they will purchase.
- There are a lot of purchasers that are subject to sale especially in the lower end of our market.
- Sellers are still wanting the higher dollar and buyers are struggling with the changing bank criteria's

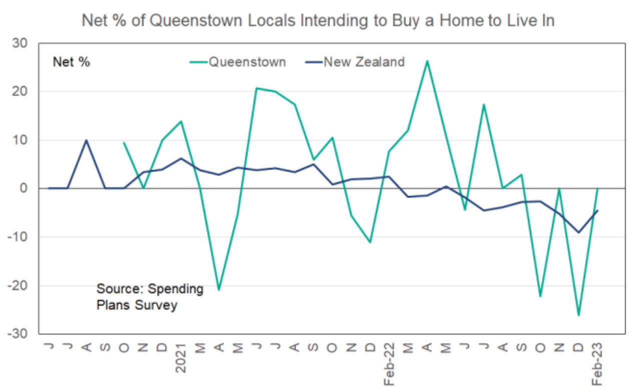
Queenstown Lakes

Investors looking

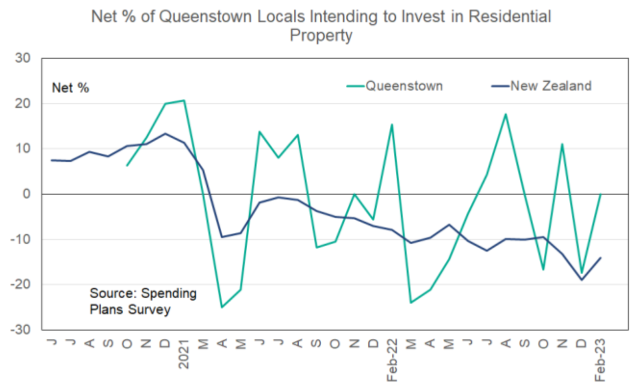
We don’t always get enough agents from the Queenstown Lakes District responding to allow calculation of net open home attendance results. Hence the gaps in the first graph here. Nonetheless, it seems fair to say that after a period when the area well out-performed the country overall in 2021, things have weakened to below average more recently. However, we know that this shift is not resulting in price under-performance with the area enjoying a sizeable economic recovery now that the country’s border is open once again.



Things are quite volatile in our survey results for the intentions of locals to buy a house to live in. The latest level of intentions is above the NZ average but not by much and certainly not in any continuation of greater relative strength.



There is however a firm tendency towards greater local investment intentions than the average for all the country, as revealed in the following graph. In fact, there is only slight evidence of a downward trend in such intentions from early-2021 in comparison with the obvious trend for the whole country.



Here are some observations made by real estate agents regarding conditions on the ground in the Queenstown market early in February.

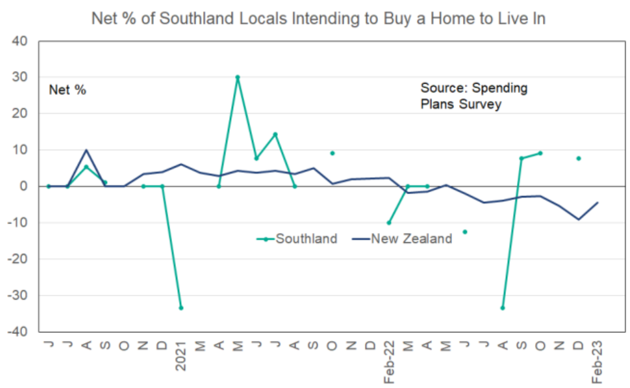
- Auctions resume in Feb so that activity has not started yet in 2023. Can't comment yet on the success rate.
- A much tougher market, with less buyers, more listings coming to the market

Southland

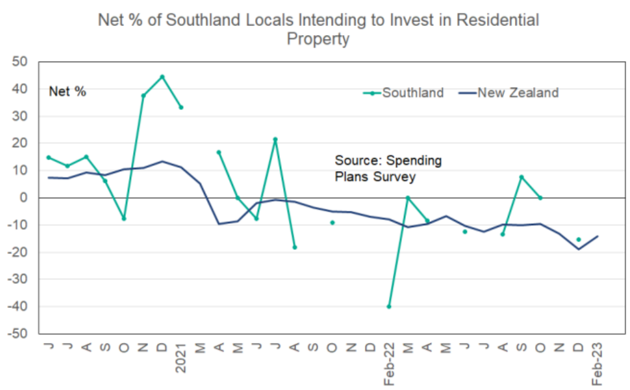
Firmer than average

Unfortunately, we do not get enough real estate agents responding from the small Southland region each month to allow calculation of our various measures including open home attendance. So, let's go straight to the results from my monthly Spending Plans Survey.

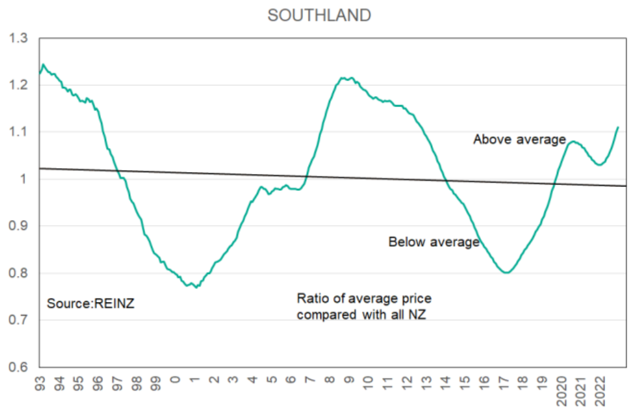
We need to treat these results with caution because of the low response numbers. But what we can see is that recently the intentions of locals to buy a house to live in have been much stronger than around the country on average.



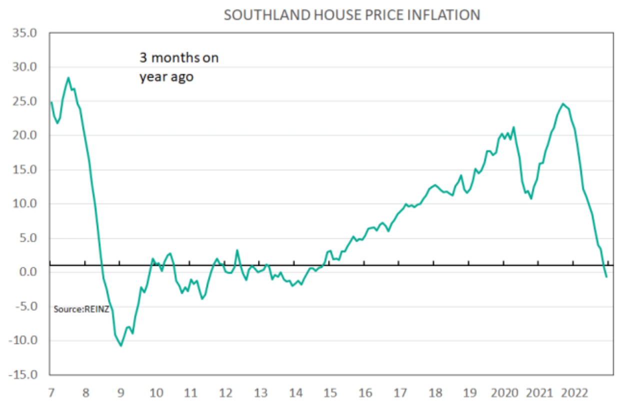
We cannot however reach this conclusion when it comes to local plans for buying an investment property. The intentions look to be about on a par with those nationwide.



Average house prices in Southland are slightly above their long-term average relationship with the country overall.



Strength in the market has been such that only recently have prices started falling on an annual basis.



Here are some observations made by real estate agents regarding conditions on the ground in the Southland market early in February.

- Buyers looking for lake/mountain property to land bank. See real estate as good long term investment with the right property. See Southland as a new opportunity.
- Receiving more enquiry from people wanting to relocate from North, this has been a 12 month trend.
- Farmers not buying holiday homes at the moment. Waiting for exports to improve.
- People are looking at upgrading as prices level off.

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

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