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TONY ALEXANDER

Regional Property Insights

SEPTEMBER 2023



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Introduction

Welcome to the September 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

- A reminder of long-term price growth since 1992
- Latest data from my surveys for insight into whether the region is matching Auckland's recovery.

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.

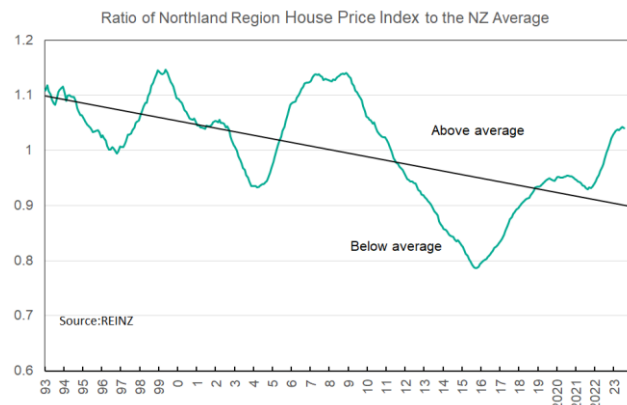
Previous issues of Regional Property Insights are available here. [First Mortgage Trust Articles](#)

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

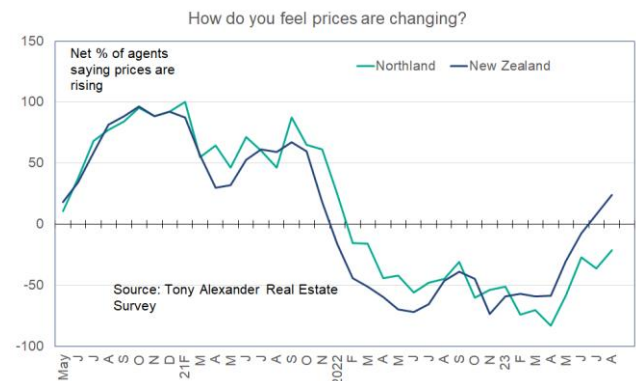
Lagging the recovery

Since 1992 Northland house prices on average have risen by 560% which is close to the NZ rise of 600%. The annual gain works out at just over 5.7% a year versus just under 6% for all the country. Compared with NZ prices on average Northland is above its slight downward trend. The graph does not suggest any particularly strong relative price correction is underway. But weakness in farm incomes alongside road network problems impeding benefits from the tourism sector recovery count as negatives.

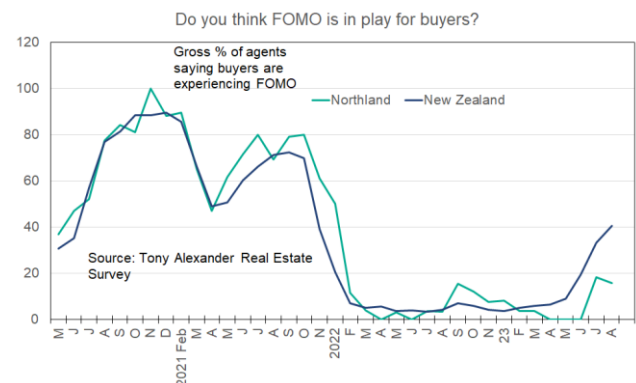


Offsetting this is the aging Auckland population which will tend to encourage some population shift to locations in Northland. To the extent that there is under-performance of prices in the Northland region in the near future as Auckland undergoes an overdue period of price out-performance, this period may not extend much beyond 2024.

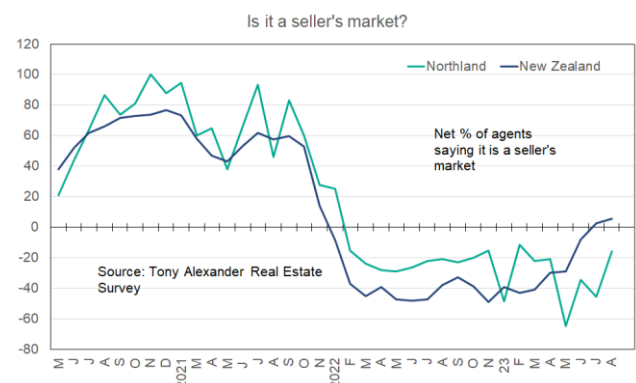
From my monthly survey of real estate agents some of the readings for Northland are for the moment noticeably weaker than for all NZ on average. Whereas around the country a net 24% of agents say prices are rising, in Northland a net 21% feel they are falling.



FOMO in Auckland is seen by 16% of agents versus 40% nationwide. A net 26% of agents in Northland say they are seeing fewer investors versus a net 0% nationwide.



A net 16% of agents in the region say that they are still in a buyer's market versus a net 6% nationwide saying a seller's market is now established.

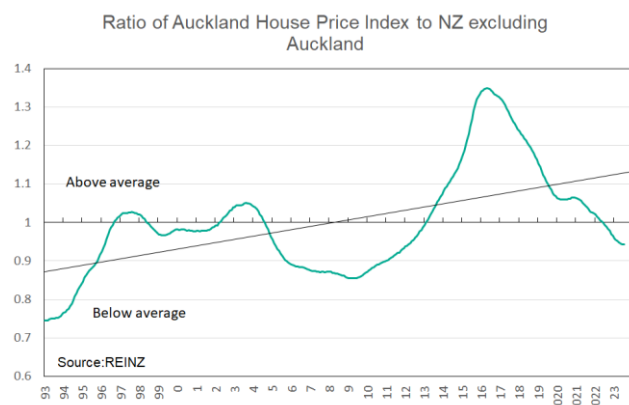


Overall, the readings are below average, and the region is for the moment lagging the upturn apparent in the cities.

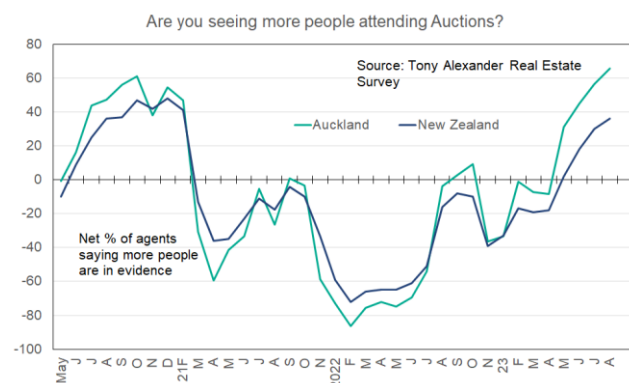
Auckland

Leading the upturn

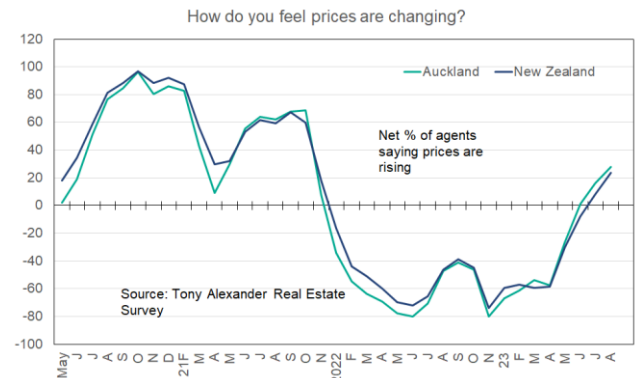
On average since 1992 Auckland house prices have risen by 710% or 6.5% per annum. This exceeds the gain for all of NZ excluding Auckland of 540% and 5.6% a year. The city enjoys good population growth and that is especially so now in the post-pandemic environment and with a migration boom underway. The position of Auckland prices relative to trend in the following graph, the population boom, and the lesser effect of weak farm incomes compared with the regions, all bespeak of a period of price out-performance in our biggest city for the next wee while.



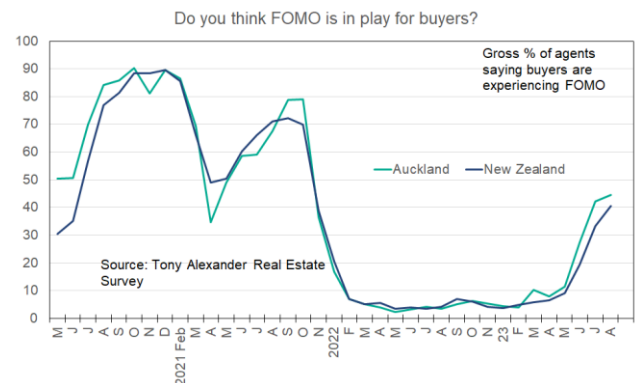
Whereas nationwide a net 36% of agents say more people are attending auctions, in Auckland the reading is 66% - meaning the non-Auckland reading is probably near 20%. Activity is rising fast in our biggest city where auctions tend to be the preferred sales method. This is not necessarily the case in other parts of the country, especially the further south one goes.



Many of the other readings are slightly better for Auckland than the national average, meaning better than the rest of the country excluding Auckland to greater degree than the comparisons tend to show. For instance, in Auckland a net 28% of agents feel that prices are rising compared with 24% for the country overall – or maybe 20% excluding Auckland.



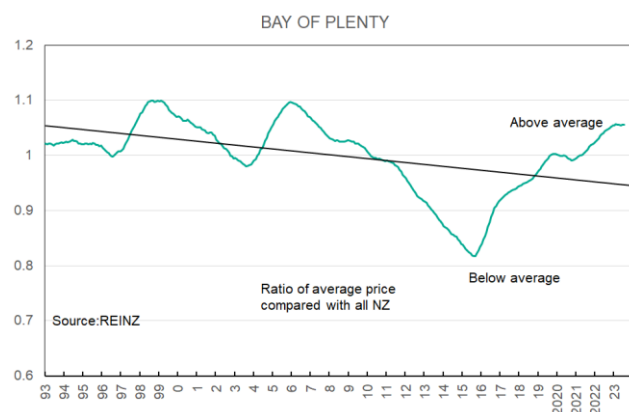
Perhaps worthy of note is that when I ask agents what buyers are most concerned about, 66% in Auckland cite a deficiency of listings. Nationwide this reading is 54% but Wellington is at 73% - probably because the volume of listings has fallen almost 50% this past year.



Bay of Plenty

Matching the national recovery

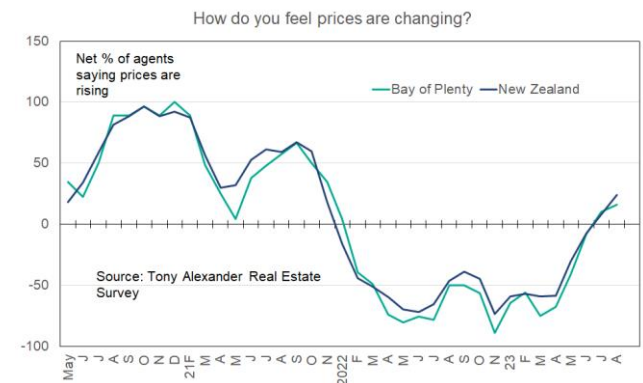
Like the Waikato region discussed below, Bay of Plenty has enjoyed average house price gains not far from the 600% all-NZ outcome since 1992 at 630%. The average rise per annum has been 6.1% compared with 6% nationwide. The extent to which prices have moved above trend versus the country as a whole in recent years has been relatively minor compared with many other regions in the North Island. Some flattening out of prices is now evident (in relative terms – meaning tracking NZ overall), and there may be some restraining effect from falling farm incomes. However, the recovering tourism sector is a positive as is long-term spillover of Auckland's economic growth into the region and the aging population retiring to Tauranga.



My latest monthly survey of real estate agents around the country shows that whereas on average a net 40% of agents say they are seeing buyers display FOMO, in the Bay of Plenty there is slightly less at 30%. But history suggests this difference will not be sustained.



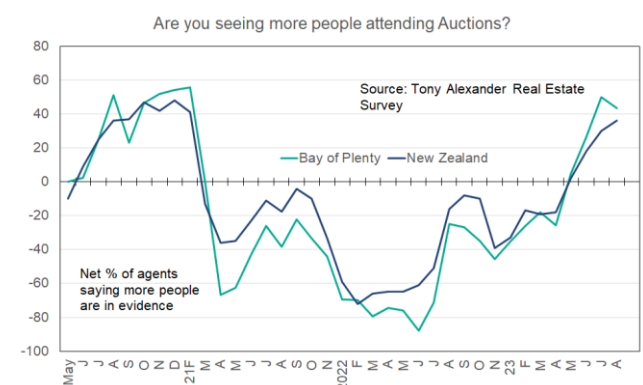
A net 16% of agents in the Bay of Plenty region feel that prices are rising locally. This is less than the 24% national average.



Again, the region tracks the country overall and this latest difference is of no significance.

Perhaps one thing suggesting there will be less of a lift at the upper end of the market should the general election produce a change in policy allowing foreign buyers for properties over \$2mn, is the net 41% of agents saying they are receiving fewer enquiries from offshore. The NZ average is 16%.

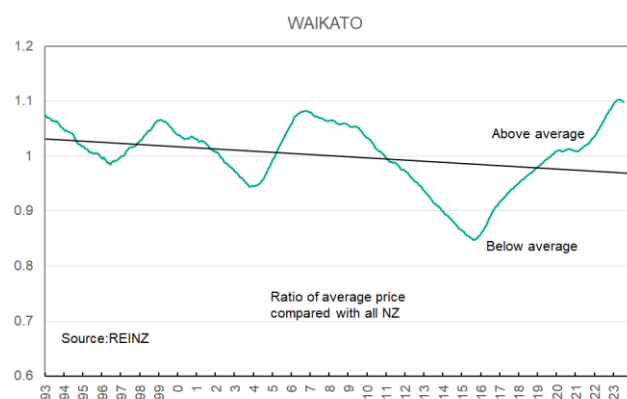
Auction attendance in the region is slightly above average, but not by much.



Waikato

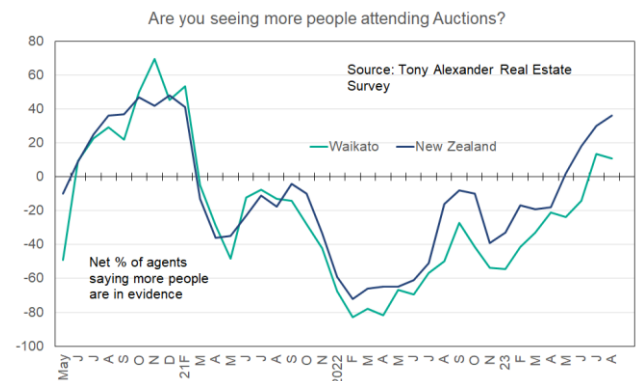
About average

The average house price in Waikato has risen by 610% since 1992 which is basically the same as the all-NZ gain of 600%. The average rise per annum therefore is almost equal to the 6% nationwide. As has been the case for most non-Auckland regions in recent years, Waikato has enjoyed price growth out-performance since 2017. But that out-performance is showing signs of turning back the other way. The extent of this will be magnified in the near future by weakness in farm incomes. However, much of New Zealand's economic development in coming decades is going to be concentrated in the lands around and especially south of Auckland region and the increasing lock-step nature of the Auckland and Waikato economies means the extent of any relative house price weakness for the region is likely to be muted.

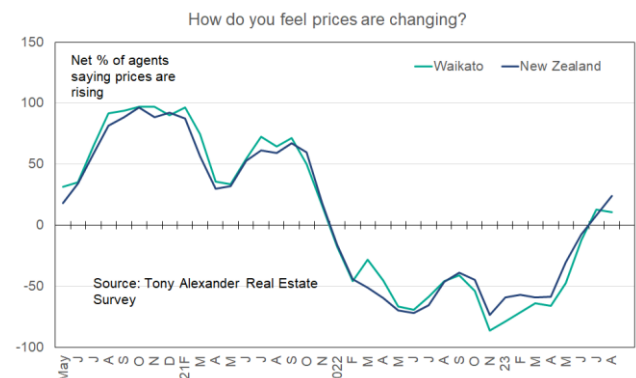


From my monthly survey of real estate agents the latest data show that in the Waikato region a net 11% of agents are seeing more people attending auctions. This is positive but quite weak compared with 66% in Auckland and 43% in the Bay of Plenty. IN the Waikato region buyers seem less motivated for the moment to transact.

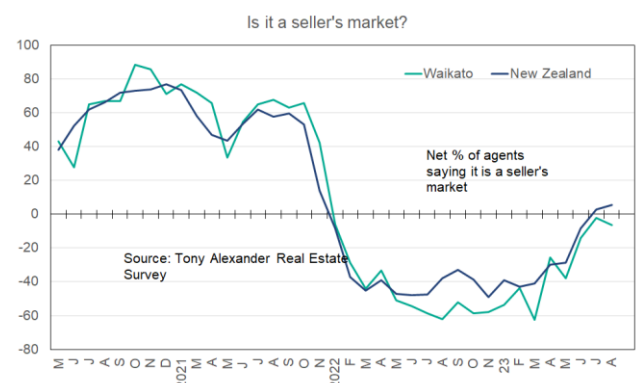
But the graph tells us that this situation is normal for the region and the gap between Waikato and the country overall is not out of line with the experience since early-2022.



A net 11% of agents in the region feel that prices are rising which is less than the net 24% nationwide. But again, this divergence is not unusual.



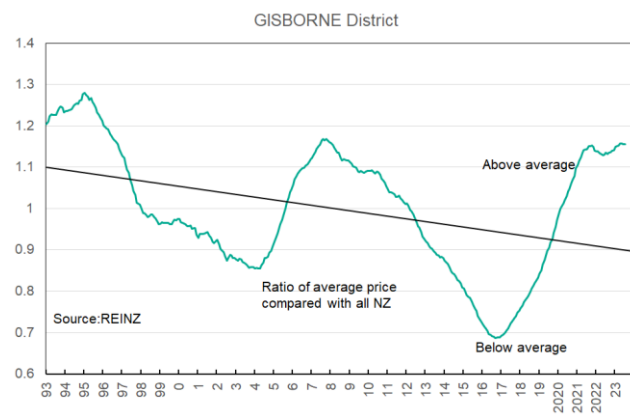
However, whereas a net 6% of agents nationwide and 9% in Auckland say we are now in a seller's market, a net 7% in Waikato still feel that buyers have the upper hand.



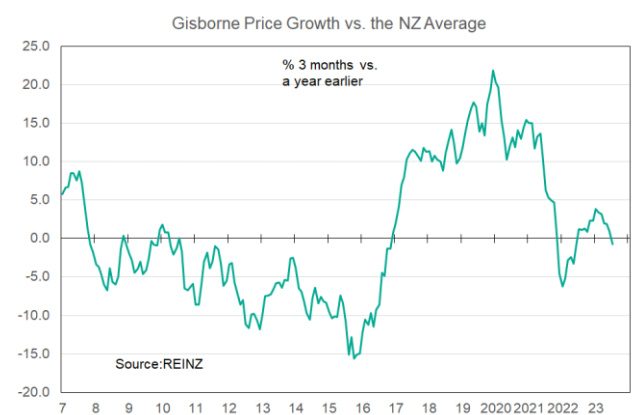
Gisborne

Lagging

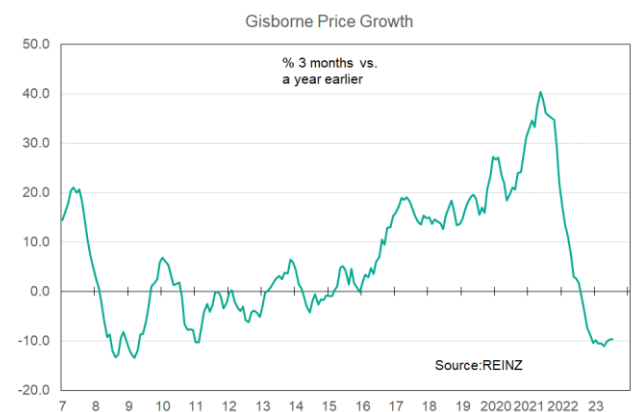
The Gisborne region has seen average house prices since 1992 rise by 560% or 5.7% per annum on average. The NZ gain has been 600% or 6% a year. The graph here shows that the region can experience extended and deep periods of above and below trend performance and we seem to have reached the end of an out-performance period. The population surge associated with the pandemic has likely ended and the migration boom currently underway will cause extra population growth in NZ's three main cities (but mainly Auckland) which will not be apparent in the regions. Weakness in rural incomes presents as a short-term impediment to housing market strength as perhaps does uncertainty over the future of the forestry sector and management of the terrain for which vulnerabilities were exposed in the 1988 Cyclone Bola devastation.



My monthly survey of real estate agents does not produce enough results from the small Gisborne region to permit any analysis to be undertake. So, here are a couple of extra graphs showing average house price movements. This next one reveals how a period of out-performance versus the country overall has come to an end.



History suggests a sustained period of under-performance beckons.

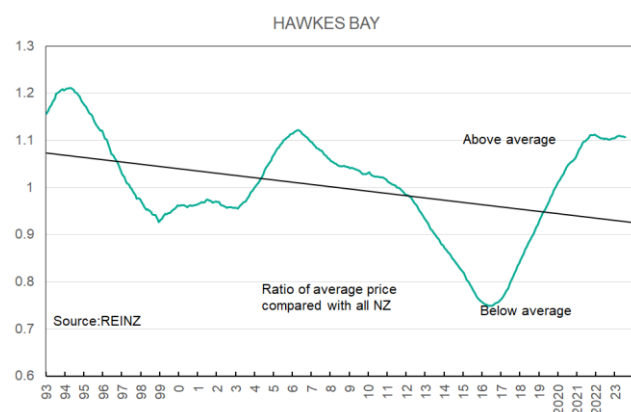


Hawke's Bay

Strong young buyer demand

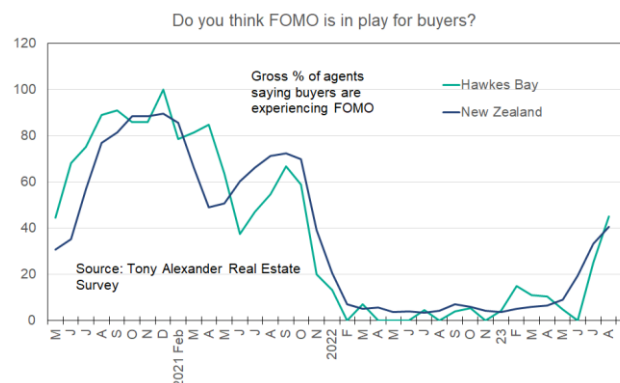
On average since 1992 house prices in the Hawke's Bay region have risen by 570% versus 600% for all New Zealand. The average gain per year has been 5.7% compared with 6% nationwide. The graph here shows the trend as decidedly down, but that could be because of the unusual Auckland strength post-GFC giving a downward bias to the datapoints around 2014-17.

From that time price gains relative to all-NZ have been strong. But the period of out-performance has ended.

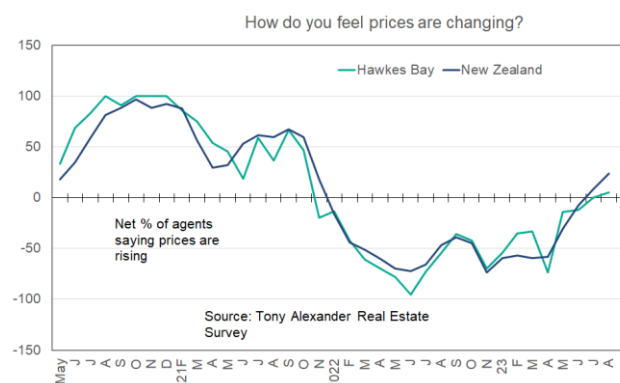


As noted here previously, there is a risk that construction for a short while exceeds population growth demands and this contributes to price under-performance through 2024. Weakness in rural incomes will tend to exacerbate this effect. But with an aging NZ population and the traditional desire of many aging people to live in the sunny Hawke's Bay region, the extent of relative price restraint may not endure all that long.

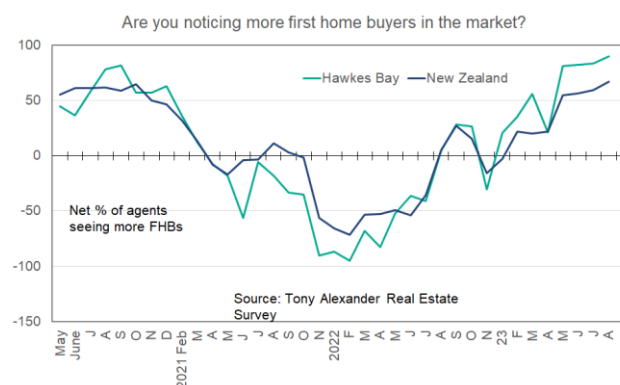
My latest monthly survey of real estate agents shows that in the Hawke's Bay region a net 45% say they are seeing FOMO. That about matches the NZ-wide 40%. The region is not sitting out the recovery in the housing market evident through most of the country.



Whereas nationwide a net 24% of agents feel that prices are rising, this is only 5% in Hawke's Bay. Price pressure for the moment in the region is lagging the country overall, but not by much.



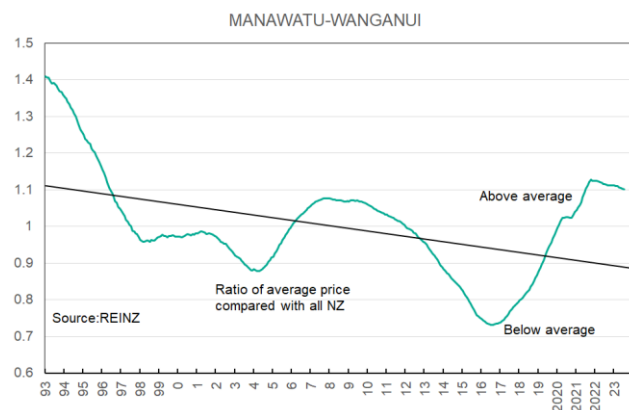
It is worth noting that a strong net 90% of agents in the region say that they are seeing more first home buyers compared with 66% NZ-wide.



Manawatu-Wanganui

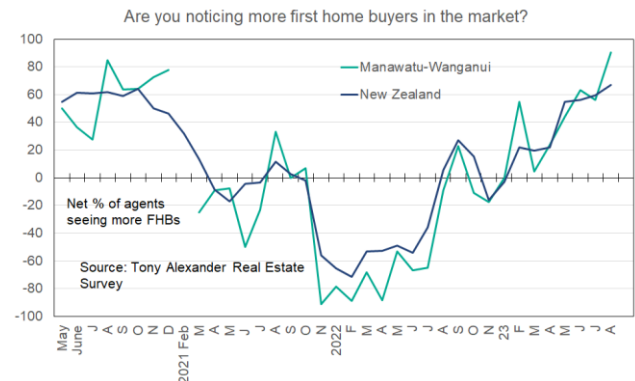
Taking part in the upturn

The Manawatu-Wanganui region has achieved average house price gains since 1992 of just 450% or 5% on average compared with 600% and 6% per annum for all of the country. However, good affordability has in recent years seen a strong surge in prices relative to the country as a whole, with extra strength generated by the pandemic. There is a risk that recent strong population growth associated with the pandemic will not continue and house construction may for a short time have outpaced likely immediate demand. Some relative price weakness is showing up as the green line sloping downhill.

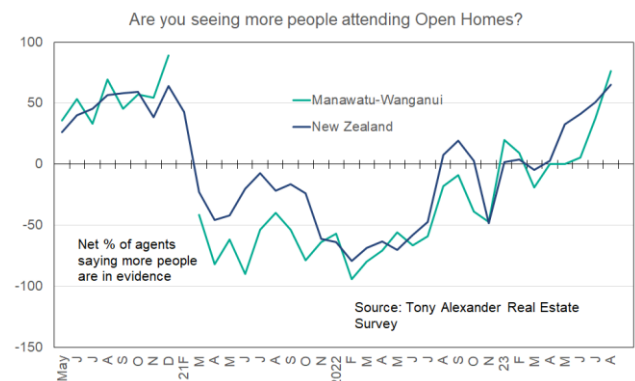


Weakness in farm incomes will affect the region's economic performance through 2024. However, road network expansion north of Wellington and good housing affordability are likely to keep investors and young buyers interested in the region. It would not be surprising if the long-term dark black trend line for the region changes slope to be less downward over the long-term.

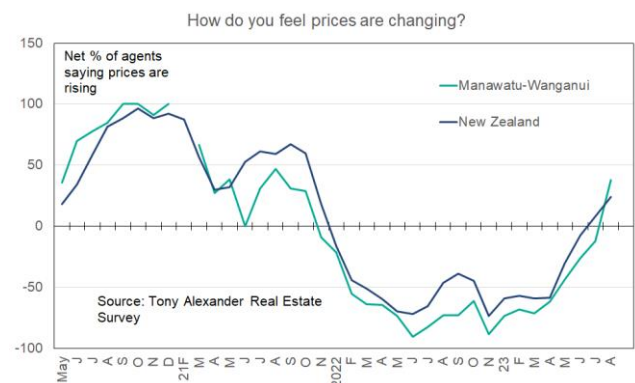
From my latest real estate agent survey a net 90% of agents in the region have said that they are seeing more first home buyers. This exceeds the 66% nationwide.



A net 76% of agents in the region report that more people are attending open homes versus 65% nationwide. The upturn has been quite sudden.



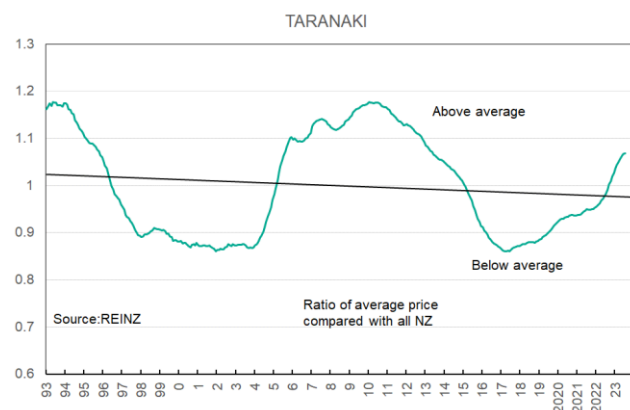
Finally, a net 38% of agents feel prices are rising in the region versus 24% nationwide.



Taranaki

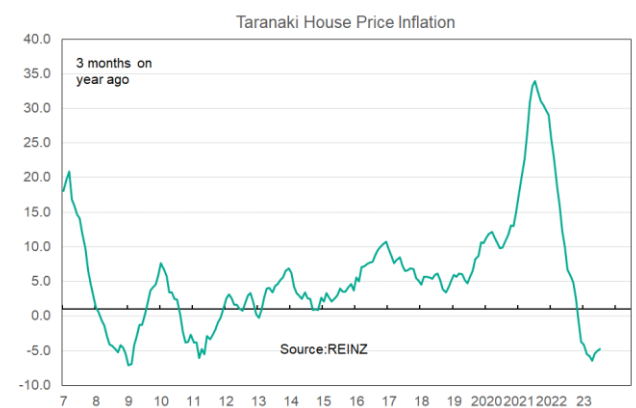
Out-performance

In the Taranaki region on average since 1992 house prices have risen by 550% or 5.6% per annum versus 600% for all-NZ and 6% per annum. The region is the only one outside of Auckland in the North Island which shifted to below trend price levels during the pandemic – or at least stayed at such levels. As such I have long mentioned here the potential for a price catch-up. The graph shows this is underway with the green line rising and now above trend.

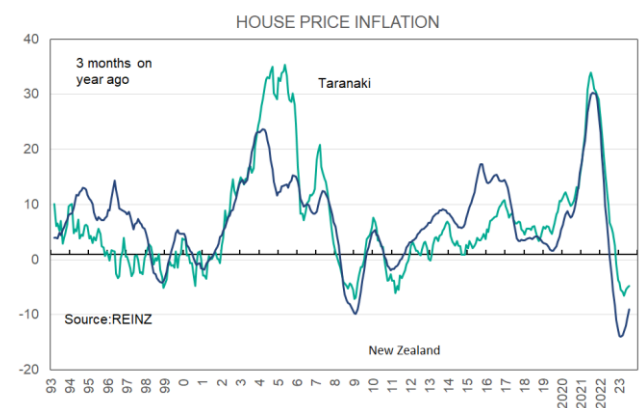


Given the window of opportunity for young buyers to secure a home purchase without much competition from investors could be closing in a few months, the affordability advantage of Taranaki may see some extra out-performance. The major caveat however is weakness in dairy prices, dairy farmer incomes, and therefore dairy farm spending over the coming year. Also, the Taranaki region tends not to benefit from foreign tourism to the extent many other parts of the country do. Buyers will need to weigh these factors up when forming a view on where prices may go in the next while.

Unfortunately, insufficient responses are usually received in my monthly survey of real estate agents to say anything strong about the results when they do come through – of which not enough did for analysis in recent month. So, as done for Gisborne above, here is a graph showing annual prices change recently. Falls have been recorded but the pace of decline is slowing.



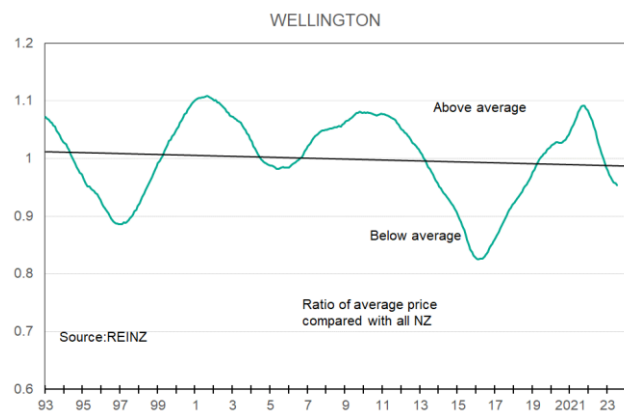
Note how the direction of price change in the region generally mirrors that of the country overall – just not usually the magnitude. The recent out-performance is shown in this last graph by the green line for Taranaki sitting above the blue line for all-NZ.



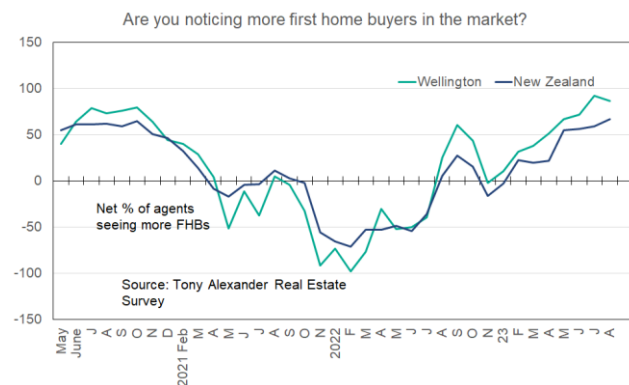
Wellington

Stronger than average recovery

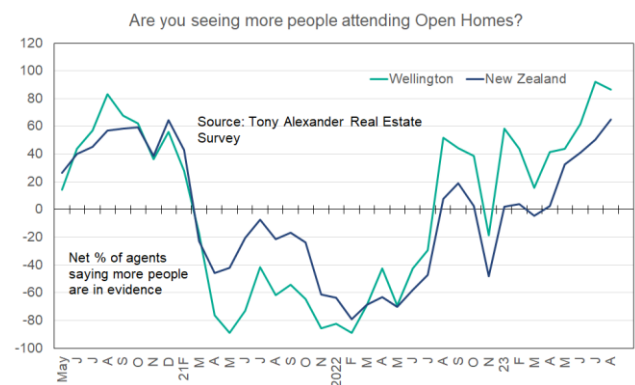
On average since 1992 Wellington house prices have risen by 520% which is less than the NZ gain of 600%. The annual gain has been on average 5.5% versus 6% for all NZ. The Wellington region displayed strong out-performance from 2017 until 2022 and although the green line is only just below the trend, there are elements in the Wellington real estate market which suggest the line could go back above average in coming quarters. Specifically, there is a strong shortage of listings and firm evidence on the ground of good buyer demand.



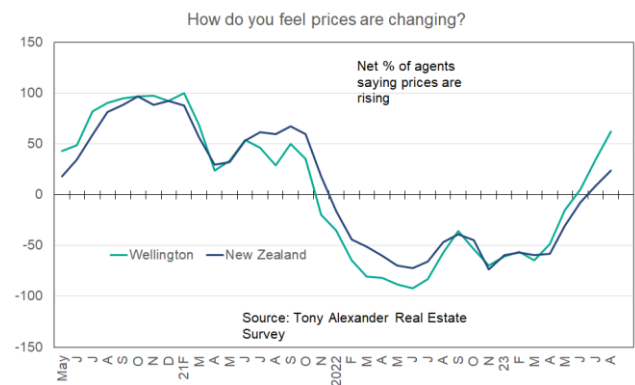
My latest monthly survey of real estate agents shows that a net 86% feel that there are more first home buyers in the market versus 66% nationwide. Young buyers are driving the market recovery.



A net 86% of agents say that more people are attending open homes compared with 65% nationwide. A few weeks back the media reported traffic jams resulting from a great number of people seeking to attend an open home in one Wellington suburb.



A net 62% of agents feel that prices are rising compared with 24% nationwide. This is the highest reading across all regions.

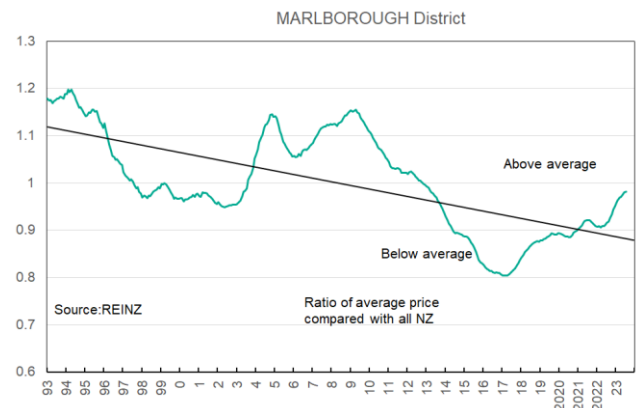
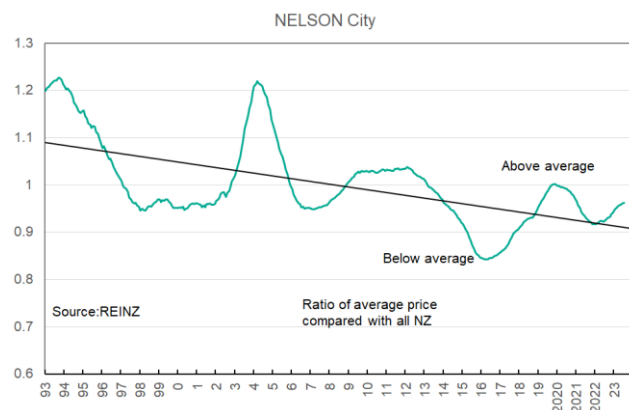
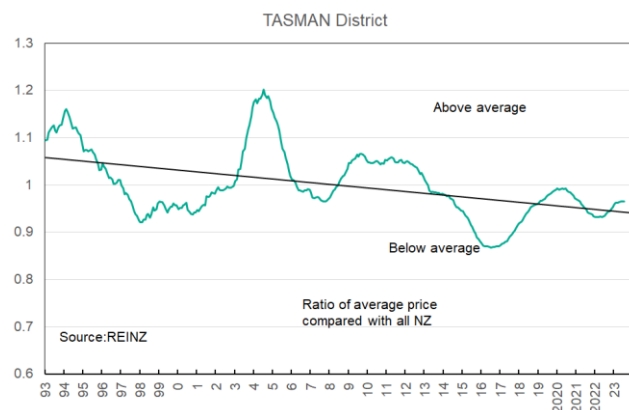


Nelson, Tasman, Marlborough

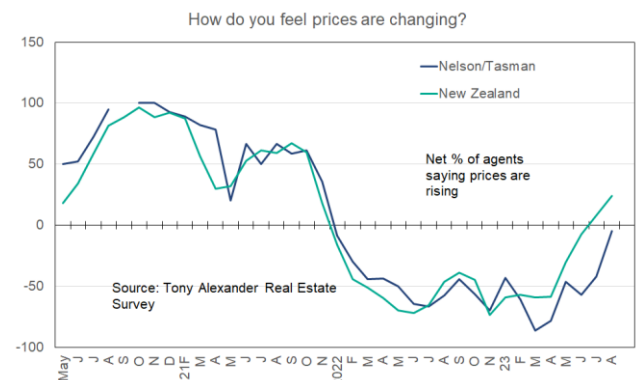
Catch-up due

The total price gains on average for dwellings in Tasman, Nelson, and Marlborough since 1992 have been 510, 460%, and 490% respectively. The annual average rises have been 5.4%, 5.1%, and 5.3% respectively. NZ prices over this time have risen 600% or by 6% per annum.

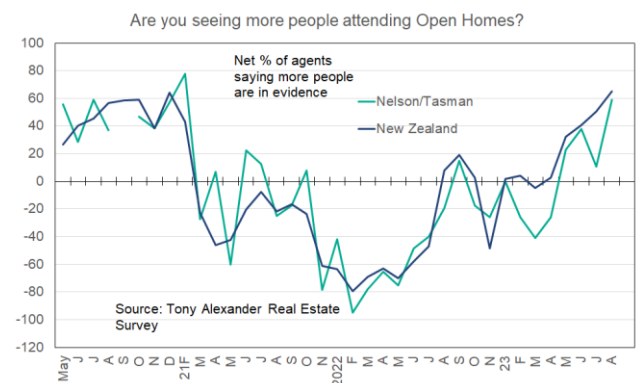
The following three graphs show all three locations on an improving path versus the NZ average for prices and this is perhaps not surprising. During the pandemic while prices surged to well above trend levels in all North Island regions bar Auckland and Taranaki, the South Island did not see the same price effect. The top of the South Island in many regards presents as due for a period of relative price out-performance.



My latest monthly survey of real estate agents shows that a net 5% however feel that prices are falling in the region versus a net 24% feeling they are rising nationwide. The region has yet to much feel the effects of the housing recovery.



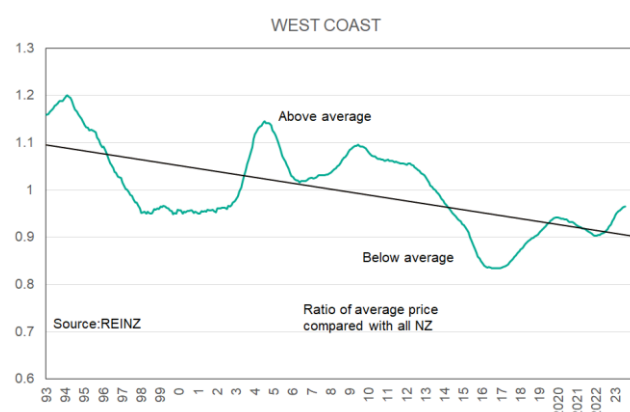
But open home attendance is about par for the country, so gains may be imminent.



West Coast

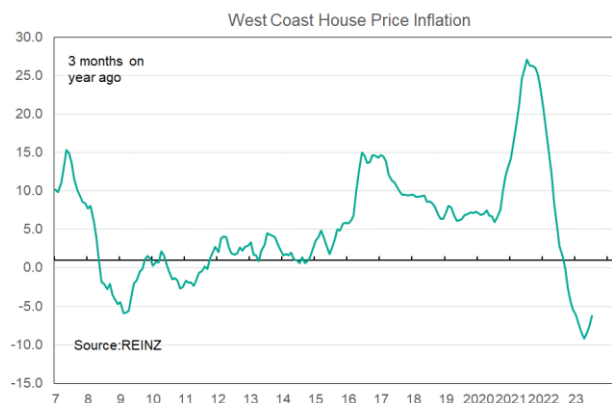
Always a long-term venture

On average since 1992 house prices on the West Coast have risen by 480% or 5.2% per annum versus 600% for all New Zealand and 6% per annum. These gains have occurred despite essentially no population growth these past three decades because of low construction of new houses.

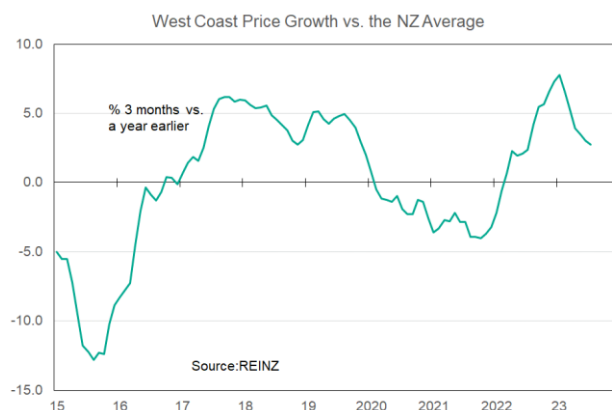


The rebound in inbound tourist numbers is proving quite beneficial to the West Coast region at the moment. But there will be some restraint on the local economy and employment from the downturn in dairy incomes and therefore dairy farmer spending.

My monthly survey of real estate agents never produces enough responses to allow statistical analysis. So, as has been done above for Taranaki and Gisborne, here are some extra graphs regarding house price changes. Price falls are easing off.



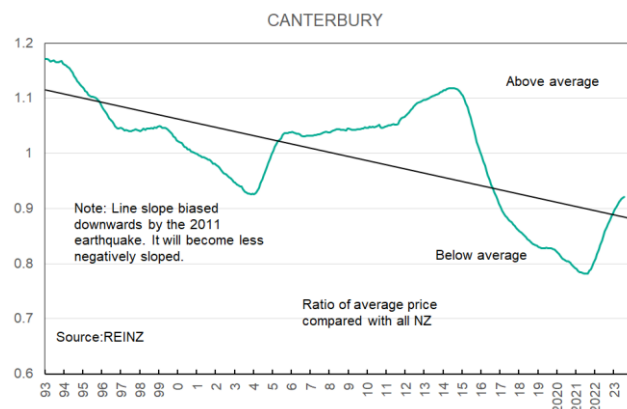
A period of price changes better than the NZ average is now fading away.



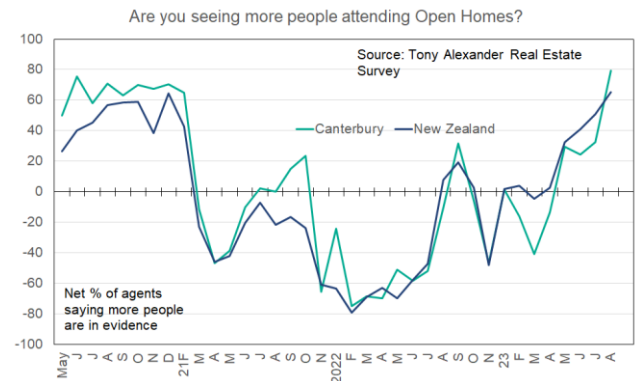
Canterbury

Strengthening

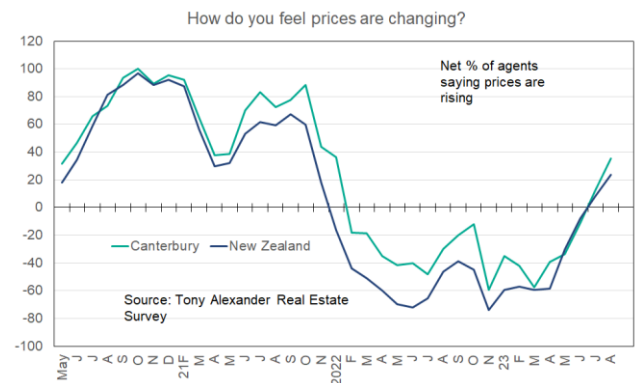
Canterbury region house prices on average have risen by 460% since 1992 versus 600% nationwide. The average annual gain has been 5.1% versus 6% and this under-performance is shown by the downwardly sloping black trend line in the following graph. However, there is a bias in these numbers one suspects as a result of the effects of the 2011 earthquake, and it is worth noting the way Canterbury prices relative to those for all the country are edging upward as shown by the green line going uphill. This trend is likely to continue for some time given the affordability advantages of Canterbury, the running out of extra development land made available in the years after the earthquake, the bounce in tourism, and the recovery of the CBD – especially when compared with the downtrodden and shabby centres of Wellington and Auckland.



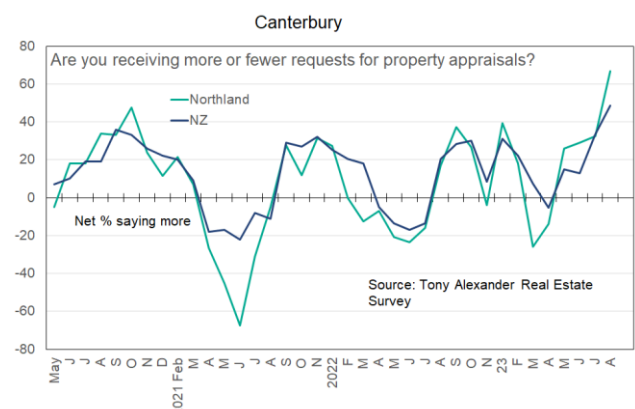
A net 79% of agents in my latest monthly survey say that more people are attending open homes compared with 65% nationwide.



A net 35% say prices are rising compared with 24% nationwide.



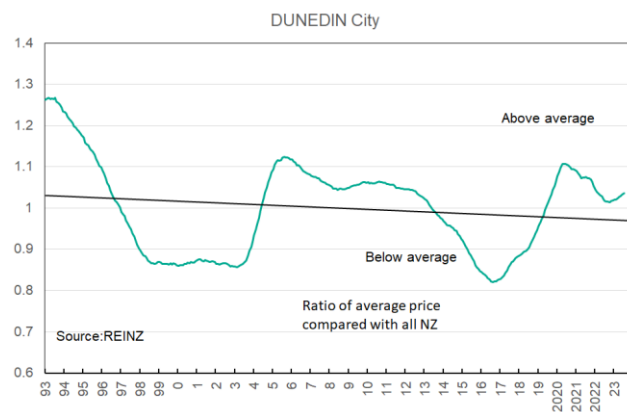
A net 67% in the region versus 49% nationwide say that they are receiving more requests for property appraisals. More property looks likely to hit the market through Spring.



Dunedin City/Otago

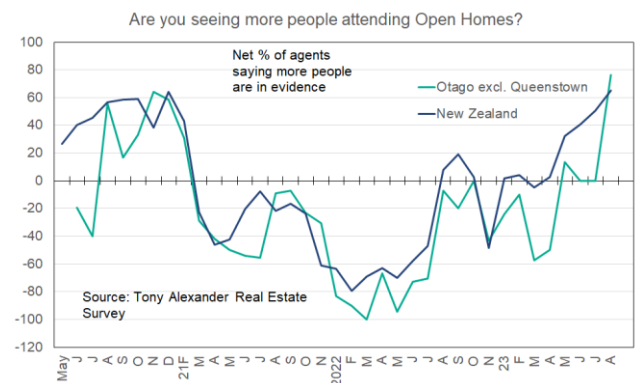
On track upwards

Average house prices in Dunedin City have grown by 480% since 1992 versus 600% nationwide. The annual gain has averaged 5.2% versus 6% for all the country. Prices recovered firmly versus the rest of NZ and Auckland particularly from 2017 but there has been some under-performance up until recently – represented by the green line sloping downhill for a while.

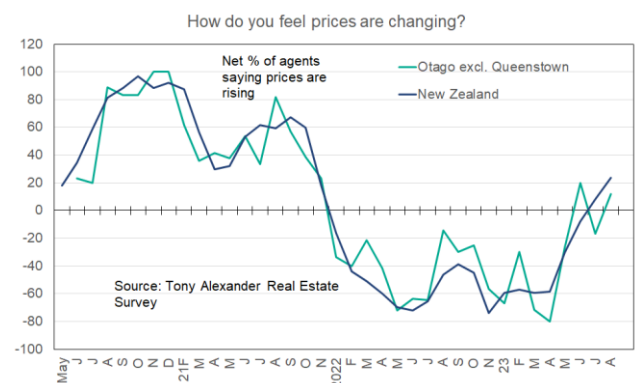


Dunedin tends to be the first part of the country to feel the effects of a downturn in the farming sector as long as that downturn greatly affects red meat. There is weakness in meat prices currently, but the dairy sector is more heavily indebted and price weakness there means Dunedin may not be as much to the forefront of economic weakness through 2024 as would normally be the case. Rising house prices nationwide will at some point next year lead young people to once again focus on Dunedin's good affordability – though discussion of bailing out South Dunedin residences set to go underwater in coming decades will inject an extra element of caution more generally.

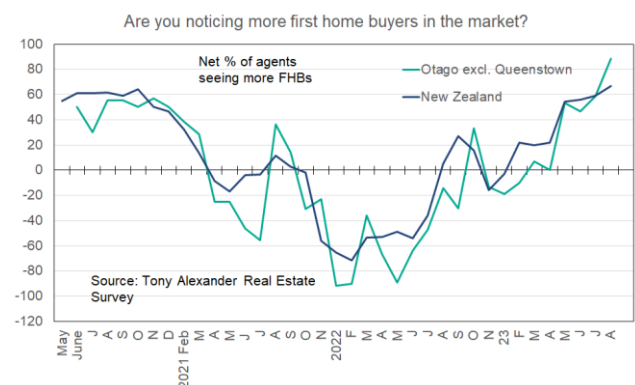
My monthly survey of real estate agents shows that a net 76% are seeing more people at open homes versus 65% nationwide.



Only a net 12% at this stage feel that prices are rising in the city versus 24% nationwide. But the series tend to track together, so this under-performance may not persist.



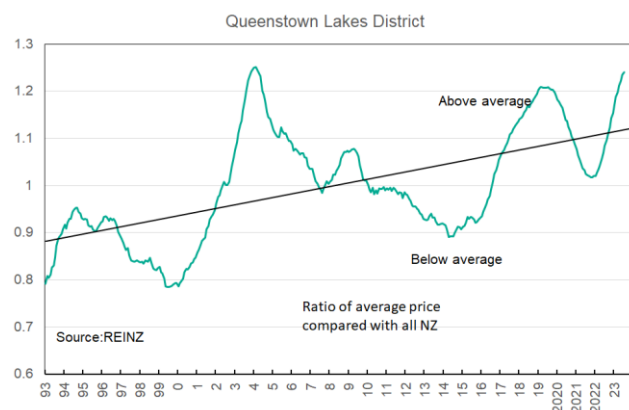
A strong net 88% of agents are seeing more first home buyers versus 66% nationwide.



Queenstown Lakes

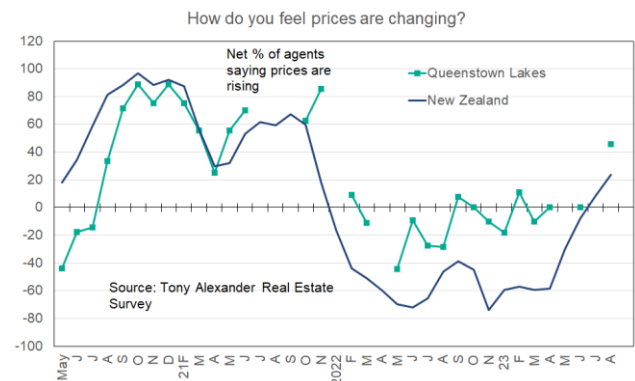
Been rising for some time

It is not surprising that the long-term trend for average house prices in this mountainous part of the country is upward. Many people want to live there yet land available to build on is of limited quantity. The graph here shows an obvious hit to prices relative to the country overall during the pandemic, and the recovery now underway as post-pandemic nice-living desires on the part of the world's population come to the fore for a while.

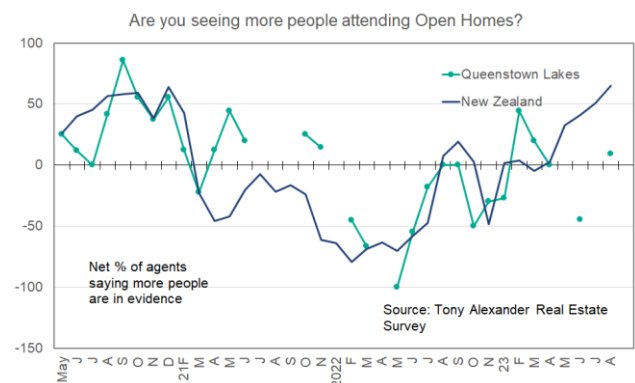


Since 1992 while average NZ house prices have risen by 600% or 6% p.a., the Queenstown Lakes gain has been 1,050% or 7.9% a year on average. From many years ago I can recall locals expressing amazement at the way prices were rising and how expensive the location is to buy in. I hear the same comments today as the population has grown some 450% since the early-1990s versus 55% for all of the country.

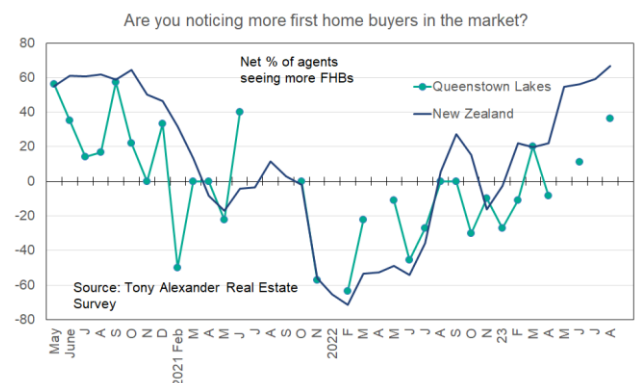
A net 45% of agents in my monthly survey felt that prices are rising in the region versus 24% nationwide.



Price out-performance has been strong for some time and perhaps this helps explain why only a net 9% of agents say more people are attending open homes versus 65% nationwide.



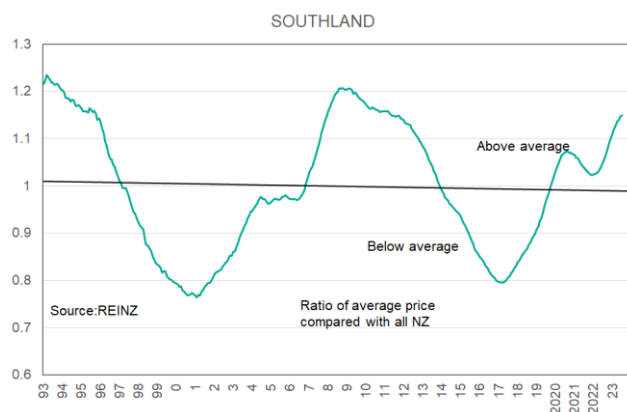
Perhaps unsurprisingly given price levels, only a net 36% of agents say they are seeing more first home buyers versus 66% nationwide.



Southland

Out-performance ending

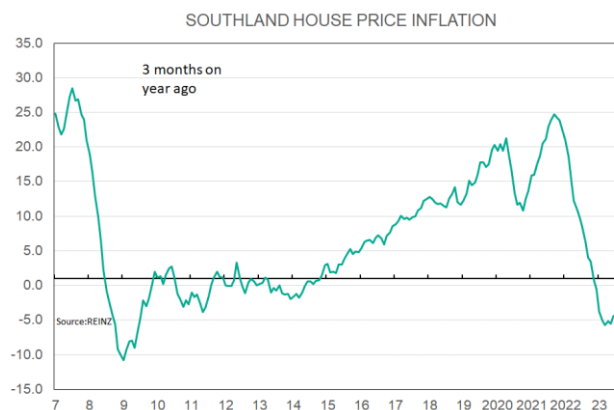
Southland house prices on average since 1992 have risen by 570% versus a 600% gain nationwide and 540% gain for all NZ excluding Auckland. The region does not lag when it comes to house price gains, and this is why many investors find Invercargill particularly to be attractive. The yields are generally far better than in other locations and the long-term gains not out of line.



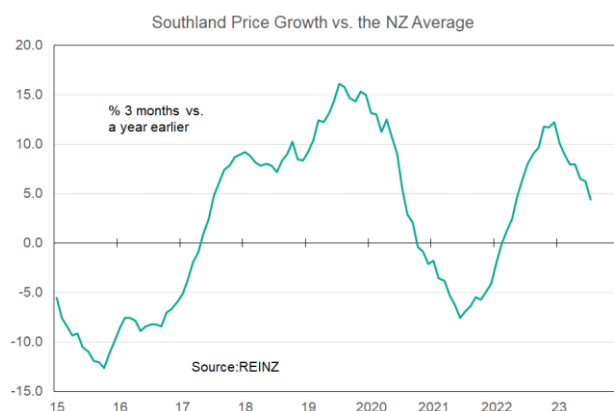
The above graph suggests further scope for out-performance exists though it will be worth watching what happens with the local economy as dairy farmers cut their spending. Then again, the tourism recovery is a big plus.

As is the case for West Coast, Taranaki, and Gisborne, in most months not enough responses from agents come in to allow reliable calculations of net percentages for the Southland region in my monthly survey. So, here is extra pricing insight using the REINZ House Price Index data.

House price inflation looks to be on the cusp of becoming less negative.



A period of out-performance versus the country overall is ending.



The migration boom is a factor in driving the upward leg of the housing cycle. As migration inflows tend to strongly benefit the population of Auckland particularly but the three large cities generally to a greater degree than locations in the regions, price under-performance for the Southland region looks highly likely through 2024.

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

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TONY ALEXANDER Regional Property Insights

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