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TONY ALEXANDER
Regional Property Insights

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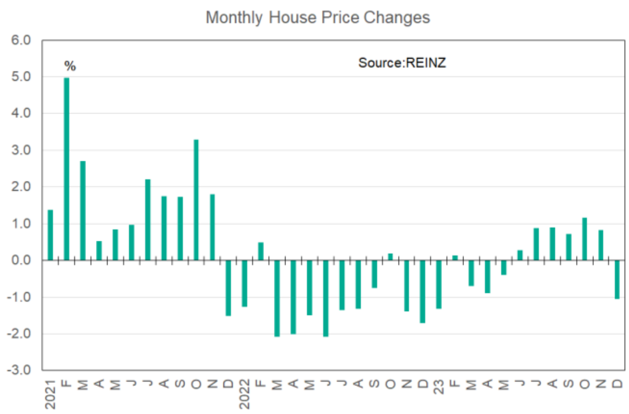
Contents

Introduction

Welcome to the first issue of Regional Property Insights for 2024, prepared by Tony Alexander with the support of First Mortgage Trust.

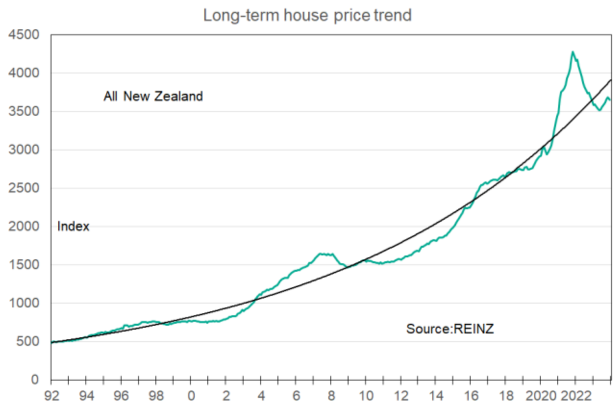
In this month's Regional Property Insights I look at how house prices have changed in each region I cover since the nationwide House Price Index from REINZ started the upward leg of its cycle in June of last year. For all of NZ, average prices have so far risen by 3.8% with a gain averaging 0.5% a month.

This graph shows the monthly price changes with the December 2023 fall of 1.1% looking like a (temporary) correction to an unusually rapid pace of price rises in the previous six months.



For each region I present a graph like the one just above but with prices averaged over three month periods. The monthly regional data can be very volatile, and it is best to never focus on just monthly regional changes.

I also include a graph such as this next one showing price levels for each region since 1992 with a polynomial trend line run through the observations. This is another tool aimed at giving some broad insight into whether a region might present as over or under-priced but this time relative to its own past and change tendency rather than the rest of the country as was done in the last issue of RPI.



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.

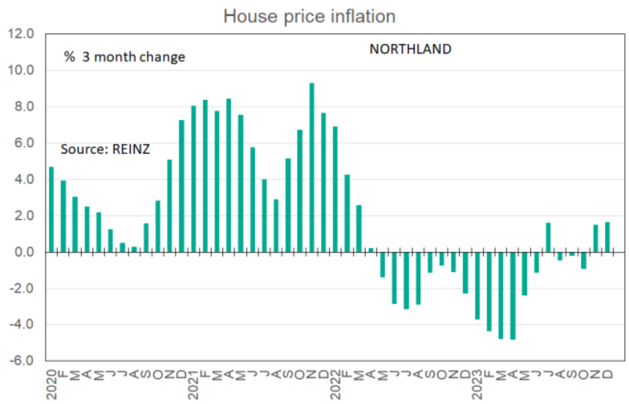
Previous issues of Regional Property Insights are available here. First Mortgage Trust Articles

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 cycle so far

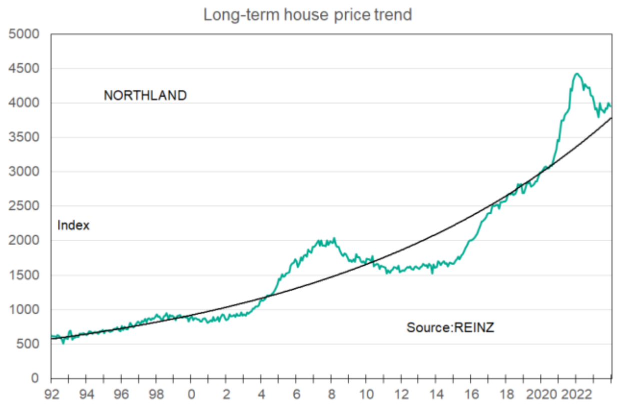
Since May NZ house prices on average have climbed by 3.8% but they have in fact fallen by 1.3% in Northland. The graph here shows that unlike the country overall the Northland region has not had an extended period of price rises. The gain in the past three months has however been 1.6% compared with 2.1% for all of the country. So, perhaps a small catch-up is now underway.



This would make sense in the context of the region tending to be closely tied to what is happening with Auckland's housing market and the firm growth now happening there with building assistance from strong net migration inflows.

One risk for Northland however has been the possibility that many Aucklanders who were planning to sell up and shift north may have already done so during the pandemic and there could now be an absence of these flows which would otherwise be happening now.

When we compare recent average house prices in Northland with their long-term trend, we can see that prices are slightly above trend.



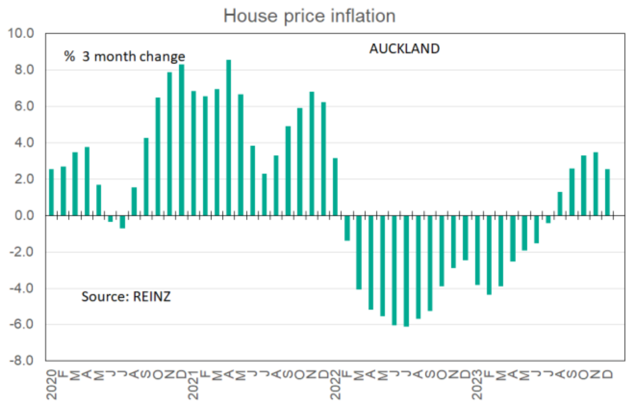
This does not tell us where prices are going to go in the near future. It just suggests that the degree to which upward pressures exist on house prices in Northland may be below average, especially compared with Auckland discussed on the next page.

For anyone contemplating retirement into Northland none of this really matters given the time span involved. But it could mean that there is slightly more time in hand to peruse potential purchases through 2024 than could be the case in other parts of the country.

Auckland

Outperformance

Since the bottom of the house price cycle in May average house prices in Auckland have risen by 4.2%. This is close to the 3.8% seen nationwide but enough above the 3.5% for all of the country excluding Auckland to be able to say that the city is broadly outperforming.

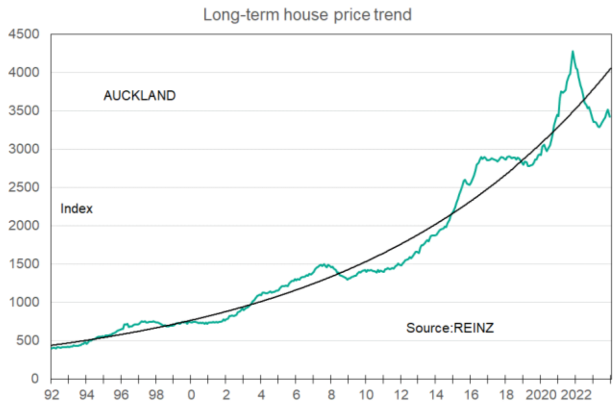


This would seem not too surprising when we consider the strong negative impact which the pandemic had on the city's pace of population growth and the economy overall from the multiple lockdowns.

Now, tourist numbers are recovering, foreign students are returning, and population growth has likely just reached 3% because ot the record nationwide net migration boom of 127,000 people.

Migrants go where migrants have gone in a non-frontier country like New Zealand and Auckland has been and will continue to be the main recipient of the strong foreign inflow.

Because of the pandemic population and economic shock it is not surprising that our next graph shows Auckland average house prices as being below trend.



This position will have been helped by the very strong lift in residential construction in Auckland in recent years, largely of multi-unit complexes. But construction levels are now falling away at the same time as population growth is strong. The eventual price impacts seem obvious and especially so considering how far Auckland prices are out of line with their three decade trend.

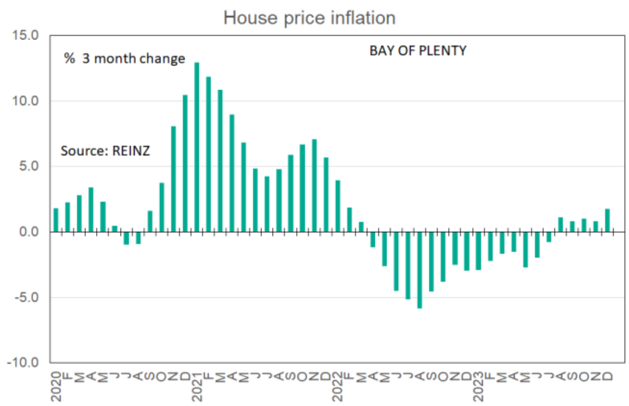
However, before one gets over-excited it pays to note that courtesy of the Unitary Plan effective from 2016 there is far greater potential for intensification within Auckland's existing urban boundaries than was the case for all earlier years.

Bay of Plenty

Rising steadily

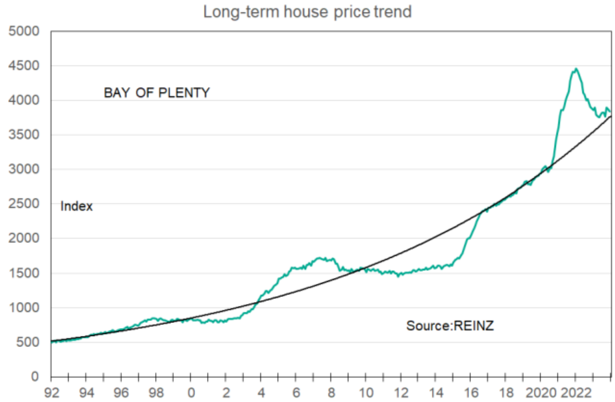
In the Bay of Plenty average house prices have risen just 2.3% since May. This is appreciably below the 3.8% gain nationwide on average and the 4.2% gain in Auckland. However, our first graph here shows that the Bay is recording a string of price rises commensurate with nationwide timing and the so far underperformance could simply be a lagged effect.

On average since June house prices have risen 0.5% a month nationwide and 0.3% in the Bay of Plenty region. Waikato has averaged a monthly rise of only 0.1%. So, this large region neighbouring Auckland is performing better than the other large region neighbouring our largest city.



The Bay of Plenty, like Waikato, tends to closely and quickly follow developments in Auckland's housing market. Auckland is likely to outperform because of the pandemic population effects now reversing. But the Auckland growth will have an impact in the Bay as people look outside our major city for cheaper buying options.

Our second graph which looks at the long-term trend in Bay of Plenty house prices shows a strong rise through time as is the case for everywhere around the country.



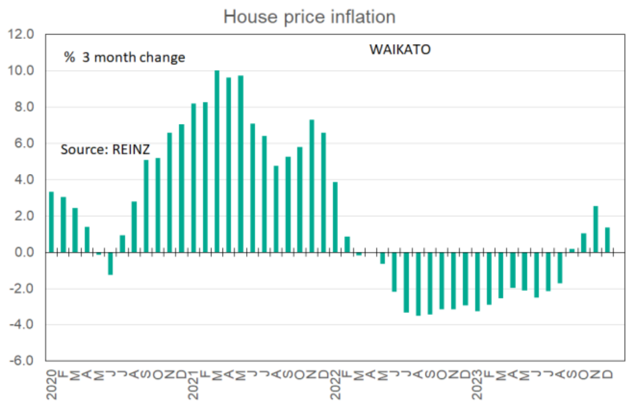
A period of above-trend price performance and levels has now completely ended, and the region does not present as being at risk of either unusually strong or unusually weak price growth compared with its long-term tendencies.

Waikato

A weak upturn so far

As noted just above, on average since the end of May house prices in the Waikato region have increased 0.1% a month. This is below the 0.5% average gain nationwide and 0.6% average monthly gain in Auckland.

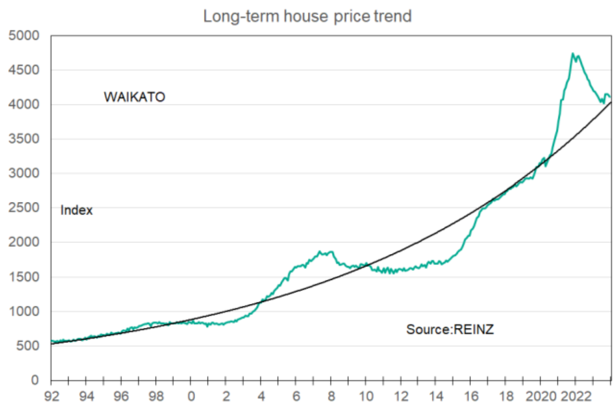
Put another way, on average since May house prices in the Waikato region have gone up just 1% whilst they have risen 3.8% NZ-wide and 4.2% in Auckland. The region for now is underperforming.



However, as noted above for the Bay of Plenty, Waikato's housing market and in fact overall economy and pace of economic growth, is heavily influenced by what happens in Auckland with a small lag.

Auckland's economy is recovering on the back of stronger tourist inflows, more foreign students, much faster population growth, and the usual economic drivers including construction, infrastructure etc. but not so much primary sector activities. We can reasonably expect that as the reversal of Auckland's population growth underperformance continues and these extra special pressures manifest themselves in the city's housing market, that the usual spillover into Waikato will occur.

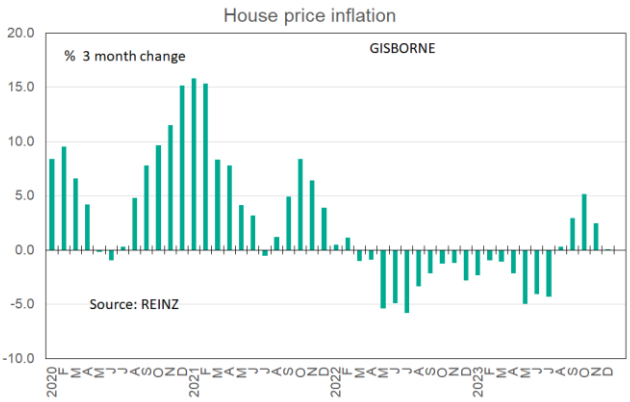
As is the case for the Bay of Plenty, Waikato region average house prices look neither high nor low compared with what their long-term trend since 1992 would suggest.



Gisborne

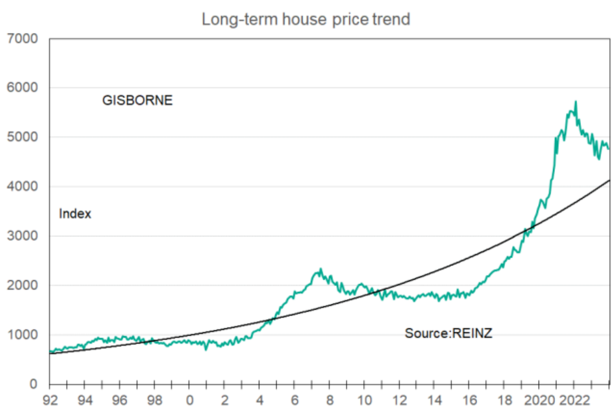
Relative price correction underway

As is the case for most other parts of the country Gisborne has experienced a cyclical recovery in prices since the middle of last year. Average house prices for this very small unitary authority location have risen by 3.5% which exactly matches the gain for all parts of the country on average excluding Auckland.



However, the price gains for the moment appear to have completely petered out. On average in the past three months nationwide prices have risen by 2.1%. But in Gisborne they have gone up only 0.1%.

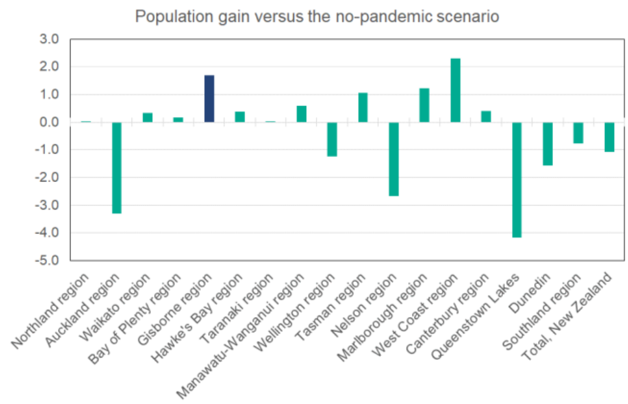
Perhaps our second graph can give insight into this situation.



We can see above that average Gisborne house prices remain highly elevated compared with where long-term tendencies suggest they “should” be.

Why might Gisborne prices have effectively got ahead of themselves – a theme I have forwarded quite frequently during the past three or so years? Because of the population boom caused by the pandemic.

The following graph shows for each region the proportion to which current population is above where it would have been had the pandemic not occurred and average annual population gains seen in the decade before the pandemic continued.



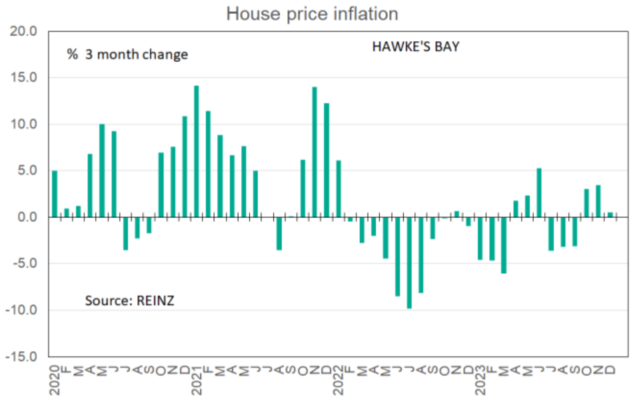
Note how Auckland’s population is still 3% below where it might otherwise have been. Gisborne is some 1.7% above such a level with only the West Coast region in the South Island being further above our population trend guesstimate.

As previously noted here, Gisborne is at risk of a period of slow population growth and return of some people to the cities. This is likely to constrain the pace of house price growth in the region through 2024.

Hawke's Bay

Correction happened?

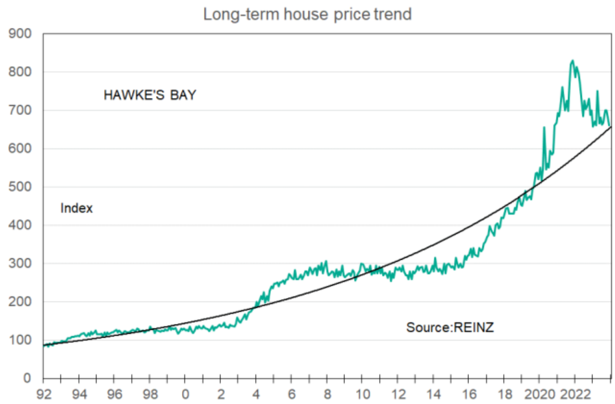
In the Hawke's Bay region median house prices have fallen 0.6% since their levels in May 2023. Over the same period of time prices have gone up 3.8% nationwide and 4.2% in Auckland.



My view for some time has been that like one or two other regions, Hawke's Bay enjoyed a period of excess house price growth and development during the pandemic which would eventually rebound in a period of some underperformance. We may be in that period now.

This is not to say that the economy is weak or the outlook poor. Just that the pandemic delivered a population boost to the region which may have encouraged development of new housing at risk of producing eventually a short-term over-supply.

In fact, any argument for sustained weakness is hard to make when we consider that average house prices displayed in our second graph are right on their long-term trend.



The fundamentals do not suggest the region is going to grossly underperform, and it is possible that the correction I have been warning about has already happened to a large degree.

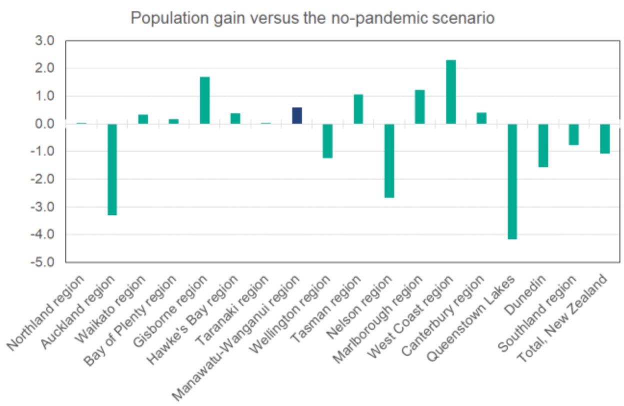
In the medium to long-term there is no clear reason for expecting price underperformance in the Hawke's Bay region.

Manawatu-Wanganui

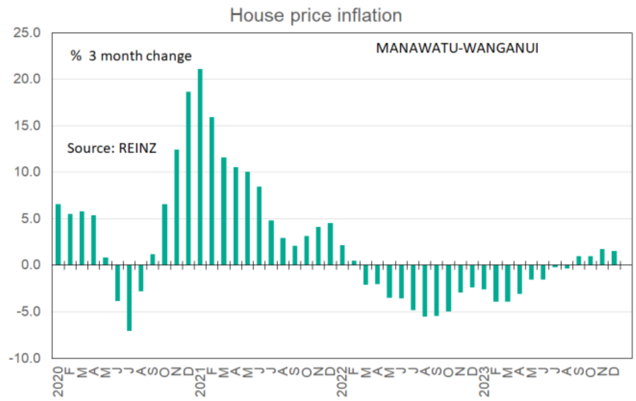
Relative price correction underway

The Manawatu-Wanganui region has enjoyed a sustained period of superior price growth. This outperformance initially reflected the simple pricing benefits to people of shifting into the region and away from more expensive housing markets elsewhere. But then there was a boost from the pandemic encouraging extra, hastened, migration to the regions, alongside extreme price hikes for housing encouraging people to look outside the cities to a greater extent than before.

This graph shows that the Manawatu-Wanganui region has enjoyed some extra population growth courtesy of the pandemic compared with what would have been the case had growth of the ten years leading into 2020 continued.

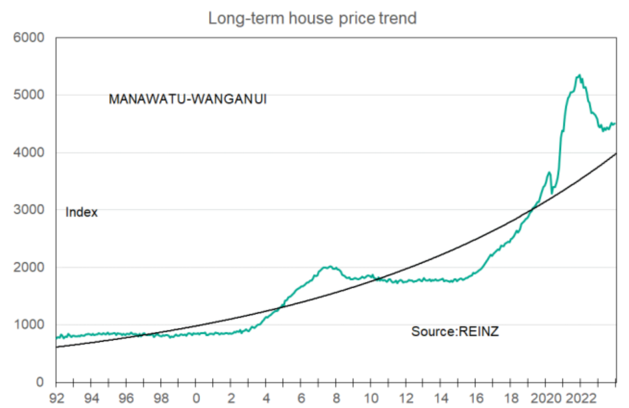


Is a correction in relative prices now underway as appears to be the case for Hawke's Bay discussed just above? On average since May house prices in the region have risen by 1.9% which is just half of the 3.8% rise nationwide. The average monthly gain since June has been 0.3% versus 0.5% NZ-wide.



The region has underperformed recently and there is a risk that this continues for the first half of 2024.

Our third graph here shows that when compared with where prices in the region would otherwise have been had past tendencies continued, things currently remain somewhat overpriced.

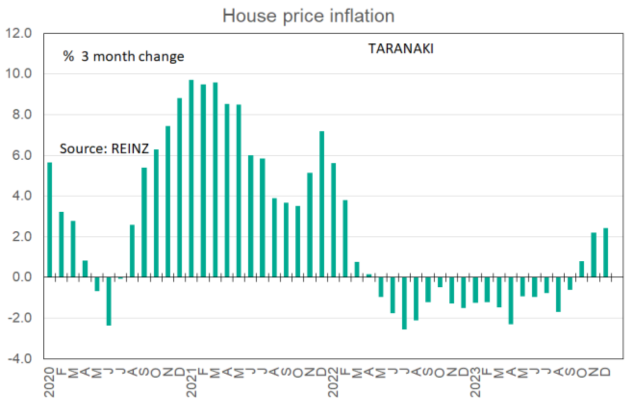


A sustained period of weak price performance extending beyond 2024 looks unlikely given the economic benefits and population growth implications of the roading network improvements north of Wellington. But for now a relative price correction is underway.

Taranaki

No correction pressures

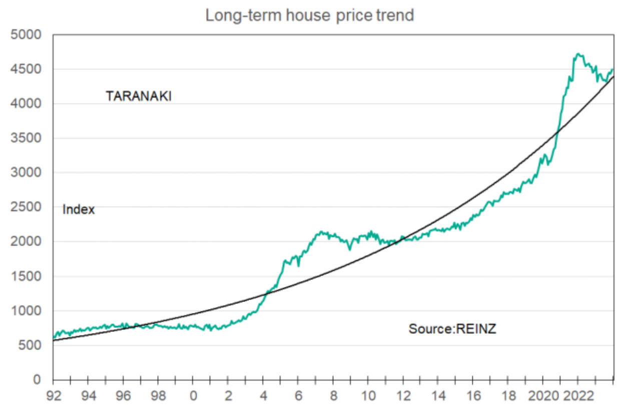
In the Taranaki region since May average house prices have risen by 2.8%. This is less than the 3.8% gain nationwide and 3.5% excluding Auckland. The region so far during this new upward leg of the house price cycle is underperforming.



One factor in play may be the absence of a population surge from the record levels of net migration inflows. Migrants tend to go to Auckland and our other large cities whereas the record numbers of Kiwis going offshore come from everywhere around the country.

But just because Taranaki is underperforming so far in the price cycle does not mean things remain this way.

Our graph of prices from 1992 shows that current price levels are about where the long term tendencies would suggest they could be. The region does not present as underpriced or overpriced.



That conclusion is not of much use to anyone considering making a purchase on the basis of whether a region looks cheap or not based on a variety of long-term gauges. But it does suggest that underperformance may only be likely if the Taranaki economy is to unusually suffer in the near future.

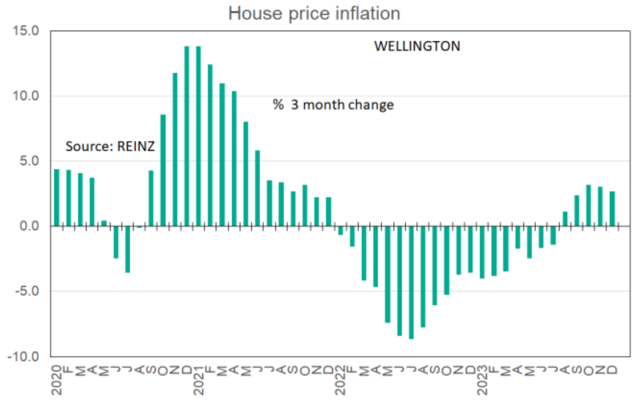
Such may not be the case given some recent recovery in dairy prices, new hopes for developments in the energy sector, and the increasing tendency for foreign travellers to seek experiences outside the city hot spots.

Taranaki experienced less of a prices boom than other North Island regions during the pandemic and our graph sometimes printed here showing prices relative to the country overall does not reveal the region to be overpriced.

Wellington

Rising firmly so far

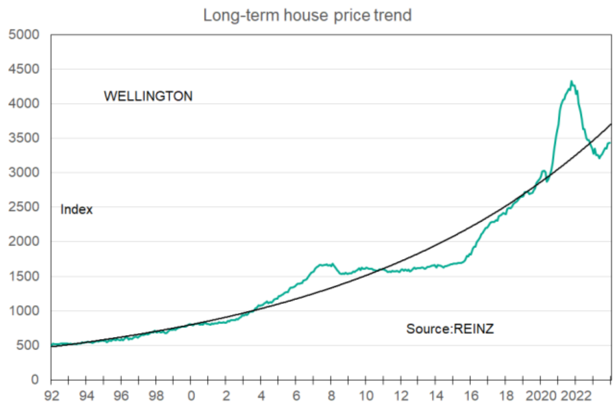
Wellington's average house prices have risen by 7.1% since the low point of the nationwide house price cycle reached in May. This easily exceeds the 3.8% NZ-wide gains, the 4.2% rise for Auckland and is exceeded only by the 8.8% gain in the Queenstown Lakes District amongst the specific areas we track here.



Average house price gains per month for Wellington since June have been 1% compared with 0.5% nationwide.

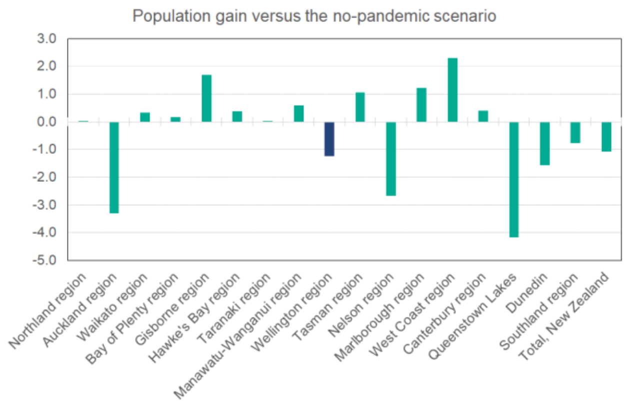
Factors contributing to the region's outperformance include weaker construction than many other parts of the country and a shortage of listings. Can this outperformance continue in the context of a new government looking to unwind the bureaucracy blowout under the previous administration?

Based on long-term trends from 1992 Wellington region prices are not presenting as excessive in our second graph.



When we place issues of affordability versus the likes of Christchurch alongside roading developments inducing population growth northwards, scope exists for price underperformance in the next couple of years.

However, as was the case for Auckland, Wellington's population growth suffered because of the pandemic and currently looks to be about 1% lower than would have been the case had the pandemic not occurred.

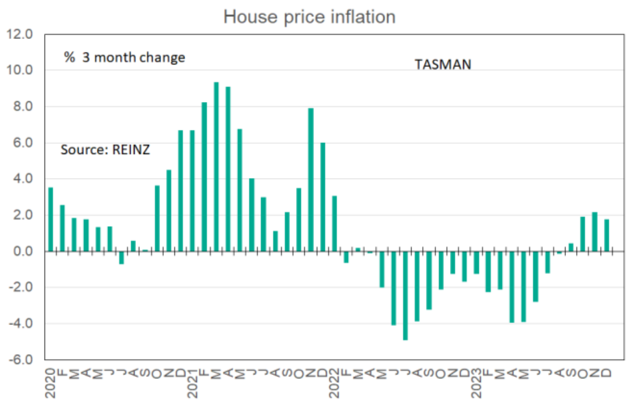


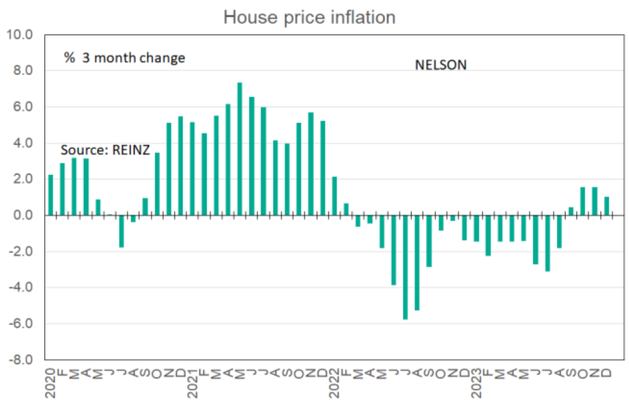
With a migration gain underway it is hard to make the case that Wellington region will underperform over the next year or two despite the overdue public sector rationalisation now occuring.

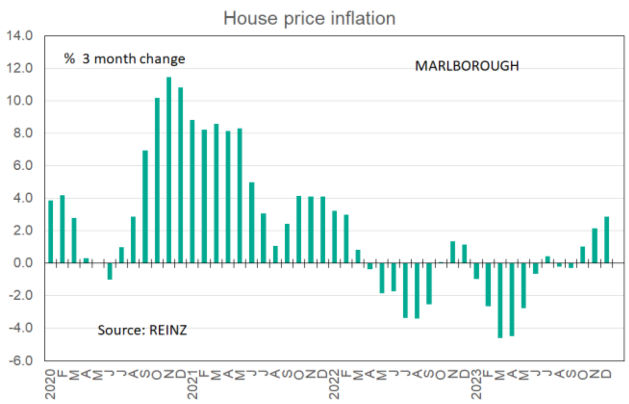
Nelson, Tasman, Marlborough

Tracking about average this year

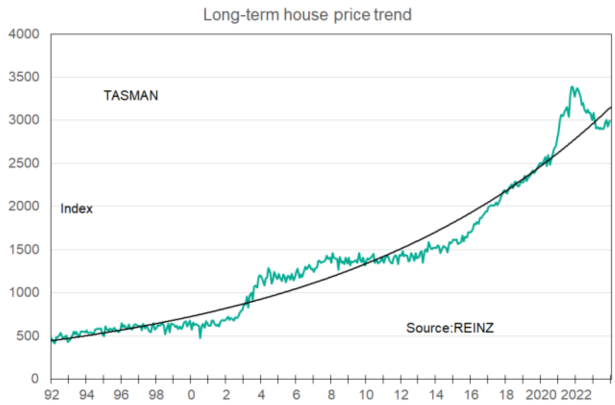
Over the past seven months during which average NZ house prices have risen 3.8% they have gone up by 3.3% in Tasman, 2.9% in Nelson, and 1.3% in Marlborough. All three regions are so far lagging the nationwide upturn but not by all that much. Even for Marlborough the latest data show an accelerating catch-up is underway.

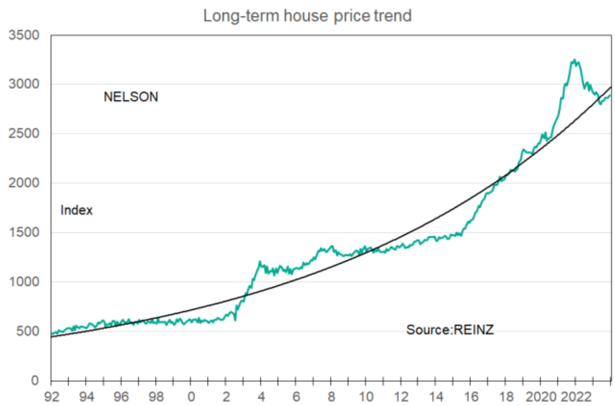


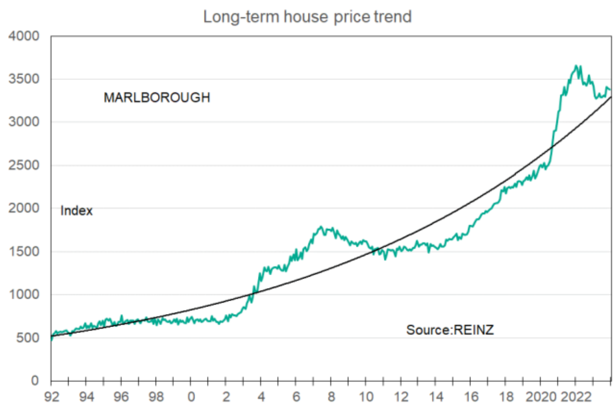




All three small regions display current prices not sufficiently removed from where long-term trends suggest they would be to be able to offer any meaningful insight into whether risks for change lie on the slow or fast side.







Recovering tourism will benefit all three regions and affordability as especially compared with Christchurch and Wellington, alongside internal migration of an aging population, suggests there is little reason for

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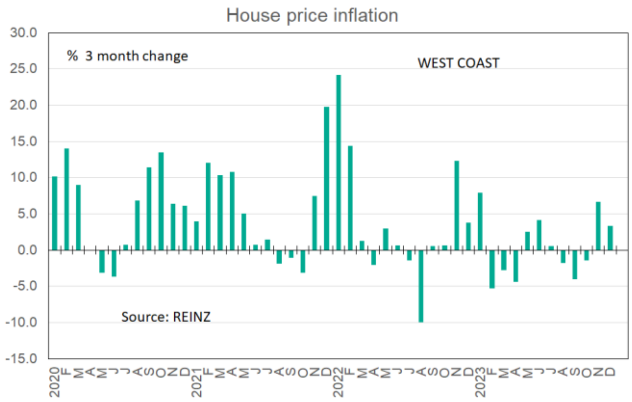
expecting price underperformance in the next 1-2 years.

West Coast

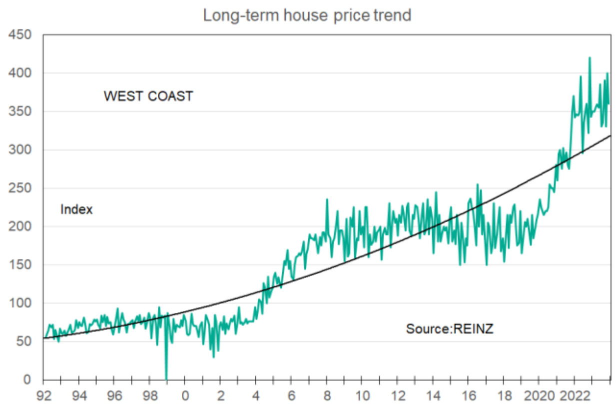
Outperformance unlikely

On the South Island West Coast average house prices since May have risen only 1.4% compared with 3.8% nationwide. The region is so far underperforming. But like Marlborough discussed just above there is some catchup underway. In the past three months West Coast prices have risen 3.3% compared with 2.1% for all of the country and 1.9% excluding Auckland.

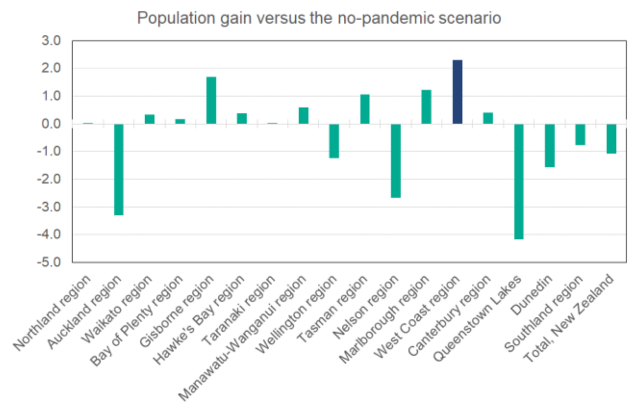
Note the higher volatility in short-term house price inflation rates revealed in the first graph below as compared with the same graph for other regions. This reflects the expected volatility for a small region though Gisborne is less volatile.



Average house prices on the West Coast sit somewhat above their long term trend. This suggests that there is little reason for expecting outperformance of the West Coast housing market this upward leg of the house price cycle.



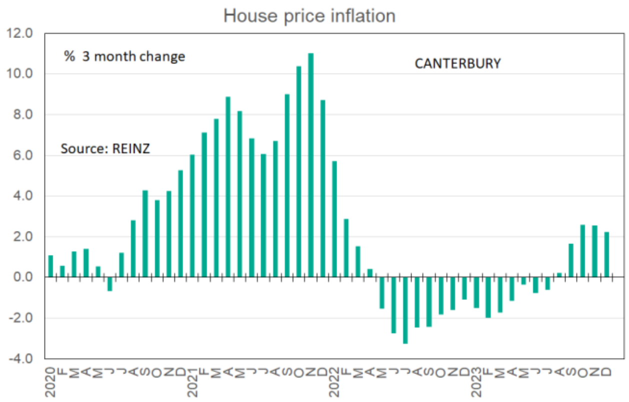
This may especially be one's conclusion when considering that the pandemic has produced extra growth in the region's population as shown in the next graph. There is scope for weaker than normally weak population growth (actually shrinkage) on the West Coast in the near future though support from an affordability viewpoint is likely to be maintained from those retiring or able to work from home.



Canterbury

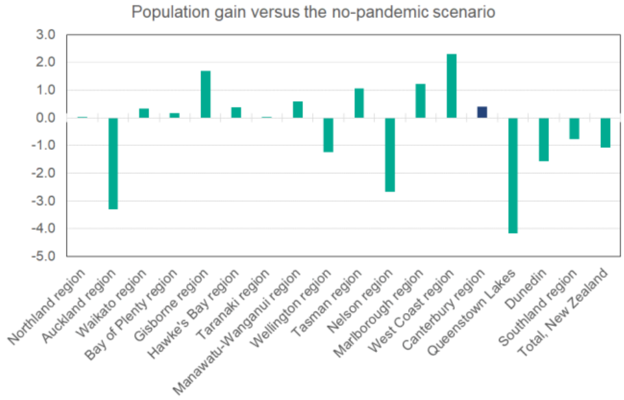
Not under or over-priced

While average house prices nationwide have risen by 3.8% since the cyclical low point in May, in Canterbury they have gone up by 3.4%. This is insufficiently different to be able to run any story of the region bucking the national price trend in any particular way thus far.

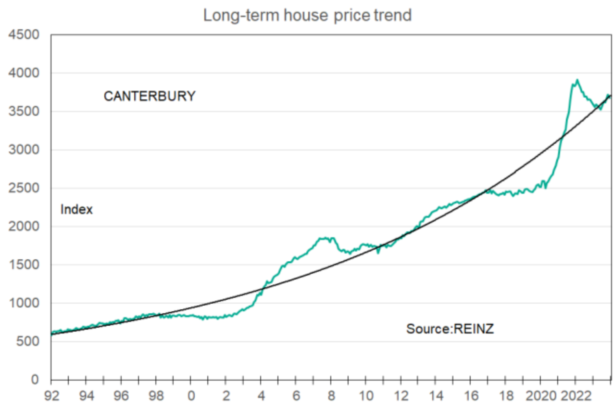


Even the 2.2% rise in prices in the three months to December about matches the 2.1% gain nationwide for the same period.

Canterbury's population currently sits about where one would expect it to be had the population growth rate in the decade leading into the pandemic been sustained. There is no particular upward or downward pressure on population growth apparent for the next 1-2 years as compared with Auckland and to a lesser extent Wellington.



Our third graph also suggests no great scope for outperformance or underperformance as current prices are right on their long-term trend.



However, with prices rising more rapidly in Auckland and Wellington we can expect more people to be looking at Canterbury from an affordability point of view. The region will gain some population boost from migration though not as much proportionately as Auckland.

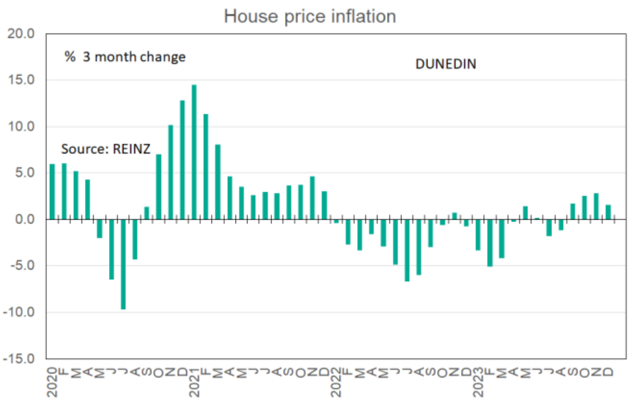
The return of international tourists is a definite positive along with passage of time since the 2011 earthquake opening up greater opportunities to attract international students.

The region is likely to show prices growth of at least the national pace over the next couple of years with some potential for outperformance.

Dunedin City/Otago

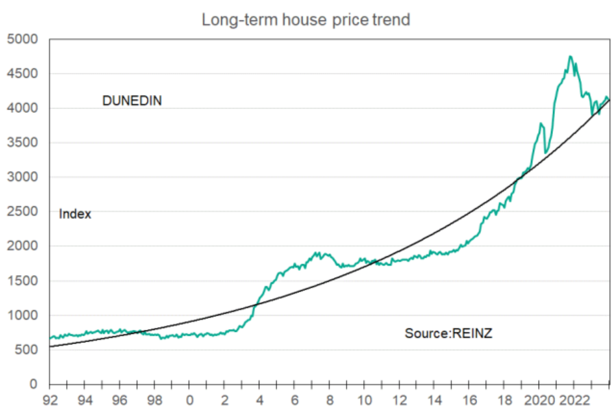
Minor outperformance possible

Average house prices in Dunedin City have risen by 3.2% since May which is not far enough away from the 3.8% rise nationwide or 3.5% rise excluding Auckland to allow us to say anything particularly interesting. The city is on the upward leg of the house price cycle along with almost all other regions apart from Hawke's Bay and Northland.



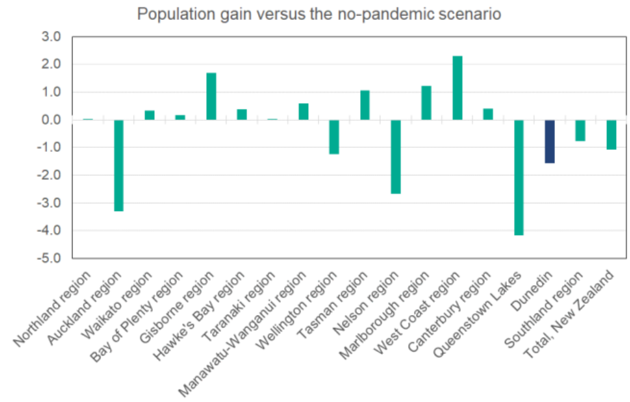
The average monthly price gain since June has been 0.5% in Dunedin, broadly the same as nationwide.

Our second graph which runs a line through price levels in Dunedin City since 1992 shows current prices are right where one would expect them to be if past trends were continuing.



Again, this leaves us in no position to warn about potential for price outperformance or underperformance in the coming 1-2 years.

However, there is scope for some population growth catch-up/outperformance in the near future given the negative effect which the pandemic had on population growth whilst the greatest effects were being felt.



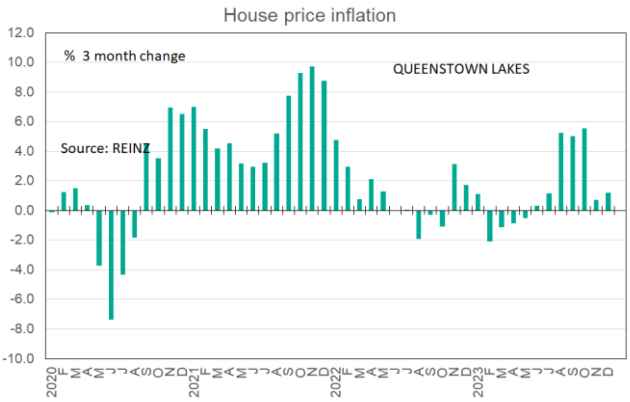
Allowing for the firm recovery in foreign visitors to New Zealand we might see mild scope for price growth outperformance in the next future. But if it occurs it is unlikely to be by all that much these graphs suggest.

Queenstown Lakes

Outperformance likely – same old

The Queenstown Lakes District has unique characteristics that make analysis more difficult than for any other part of the country. Even the locals I have found struggle to accurately pick where the market is headed with that substantially due to the on and off presence of foreign buyers. Local buyers can also flood in for early retirement and lifestyle as happened eventually during the pandemic, or not do so.

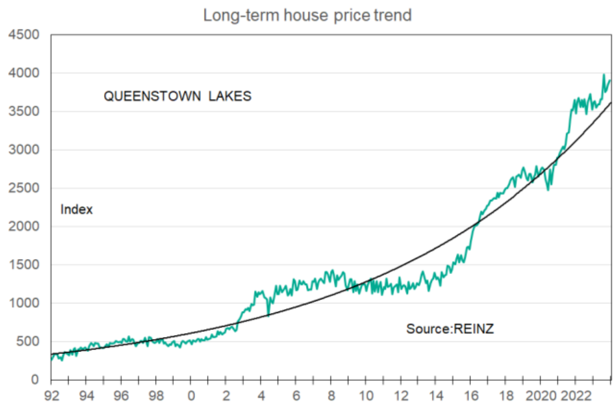
What we can see from the latest data from REINZ is that whereas nationwide average NZ house prices have risen by 3.8% since May, in Queenstown Lakes they have gone up by a very strong 8.8%.



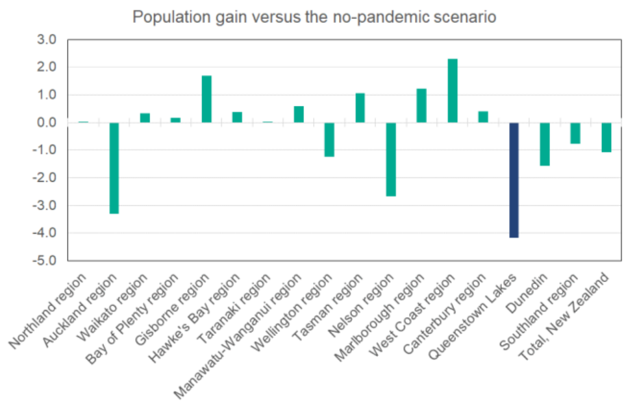
Our first graph however shows that an initial large surge in prices during roughly the September quarter period has eased off for now and in the past three months prices have risen just 1.2% compared with 2.1% nationwide.

The long-term trend in Queenstown prices is decidedly upward, driven by very strong population growth in an area without easy options for residential construction and high costs of doing so.

Prices currently sit above trend and on that basis, one might say there is scope for underperformance.



But the current population for Queenstown is about 4% less than would have been the case without the pandemic. There is scope for catch-up and this will place extra upward pressure on prices.

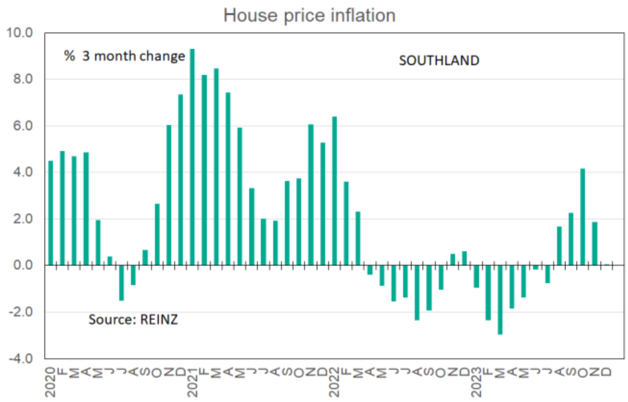


Pressure will also come from an aging population and the strong tourism recovery.

Southland

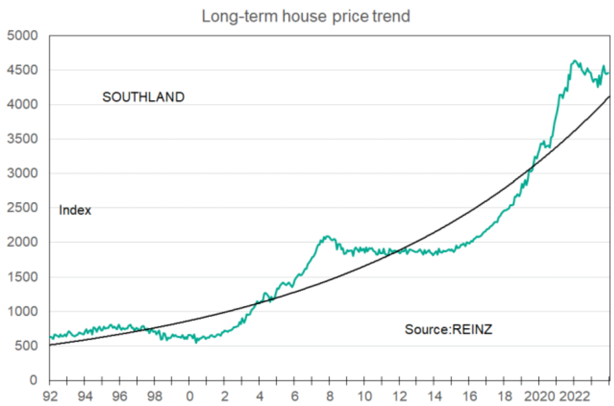
Keeping pace likely

On average since the nationwide cyclical low point for prices in May, house prices in the Southland region have gone up by 4.8%. This exceeds the 3.8% nationwide gain and 3.5% excluding Auckland.



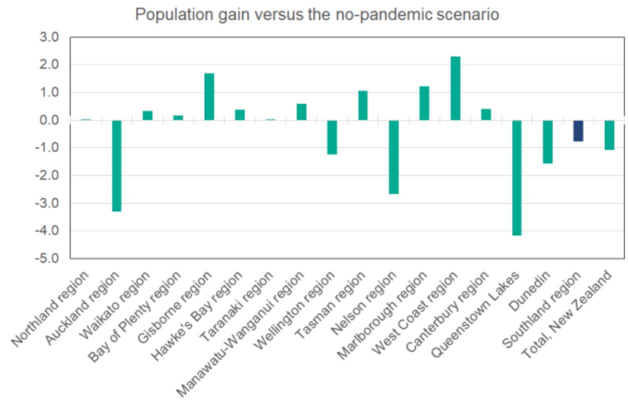
Is the region on a tear to continuing outperformance? Not really. A slowdown has recently occurred with prices in the three months to December up just 0.1% versus 2.1% nationwide.

The region has house prices rising but from levels above trend suggested in our second graph presented here.



The region will benefit from recovering tourism but is unlikely to see the same sorts of internal population inflows as many other, warmer, parts of the country as the population ages. The region will also not tend to enjoy the relative population boom from migration flows as other parts of the country have felt and will feel through 2024.

The population looks to be less than 1% smaller than would have been the case without the pandemic. So, it would be hard to run an argument of much extra price boost from population catch-up as will be the case for the likes of Auckland, maybe Nelson, and Queenstown Lakes.



In Southland prices will face upward pressure from the usual macro-factors for the next couple of years such as falling interest rates and investor tax changes. But no firm scope obviously exists for relative outperformance.

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

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