CoreLogic Market Pulse

22nd December 2020

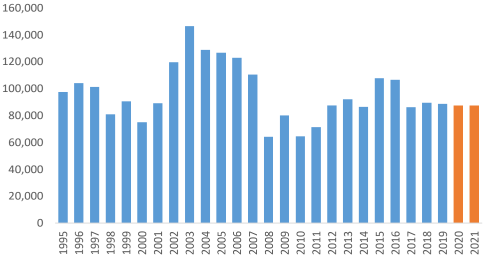
The balance of evidence suggests 'more of the same' into 2021 for the already-rising housing market

Given that property listings are likely to remain tight into 2021, and that low interest rates are both encouraging borrowing and reducing the incentive to hold cash in the bank, the direction of travel for the housing market will probably remain upwards for at least the first half of next year (assuming no COVID shocks). This means property will stay firmly at the forefront of our political landscape – especially since mortgaged investors' share of purchases has now hit a four-year high.

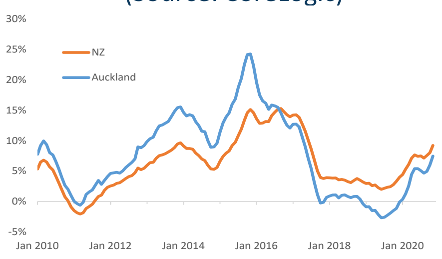
Needless to say, 2020 has been a crazy year for the economy and the housing market, but what might 2021 have in store? Here are some thoughts and key points to note.

- After it appeared in April/May that sales volumes might fall by perhaps 20-25% for the calendar year, the remarkable turnaround since then means we're on track for another total of around 90,000 sales, similar to last year.
- Given the prospect of continued low mortgage rates in 2021 and scope for GDP to start to expand again, our projection is that sales could hit a similar figure again next year (see the first chart). That might seem 'boring', but some sort of stability is probably pretty welcome right now!
- Related to that, if the supply of available listings on the market wasn't so low, it's conceivable that sales activity would be higher still. In addition, the lack of listings is one of the factors that has been pushing property values up sharply in the past few months (see the second chart).
- It's hard to see much of this turning around anytime soon. Indeed, with first home buyers (by definition) not selling anything before they enter the market and few investors selling any properties at the moment either, the pressure on the supply/demand balance could well remain strong into 2021, putting further upwards pressure on values.
- That said, the 30% deposit requirement looks likely to be reimposed on investors from 1st March next year (although it's effectively already back now due to the early action taken the banks themselves), which will hinder some would-be buyers. But if there's no let-up in the RBNZ's financial stability concerns, a 40% deposit requirement next year couldn't be ruled out – and when this last happened in 2016, investors' market share certainly dropped (see the third chart).
- The 'headwinds' such as losing out on our normal Summer tourism spike need to be kept in mind, but other pressures are easing. For example, unemployment now looks set to peak much lower than previously thought (see the fourth chart), and more than 80% of mortgage payment deferrals have already ended (well ahead of 31st March deadline).
- No doubt it'll be another fascinating year for the property market in 2021. With further value growth looking likely, property will certainly remain a political feature, and we'll be watching to see what happens with any potential policy measures – a possible extension to the Brightline Test seems to be first cab in the rank.

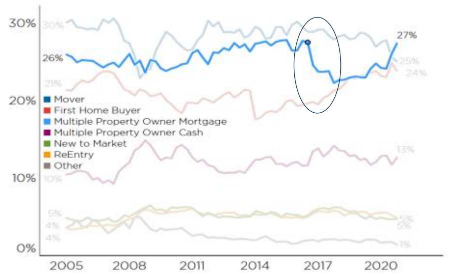
Annual historical sales volumes and 2020-21 forecast (Source: CoreLogic)



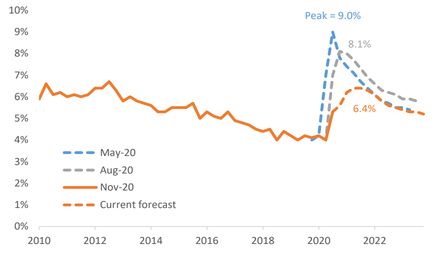
Annual % change in average property values (Source: CoreLogic)



NZ % share of purchases (Source: CoreLogic)



Unemployment historical and RBNZ forecast (Source: RBNZ)



Kelvin Davidson Senior Property Economist –
027 355 3813, kelvin.davidson@corelogic.co.nz