Quarterly Property Market & Economic Update

New Zealand

Quarter 1, 2021

CoreLogic®

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About CoreLogic

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Executive Summary

If anything NZ's residential property market got even hotter in the first three months of 2021, with sales activity remaining high (even despite the lack of available listings), property values rising rapidly, and mortgaged investors remaining very active – at a 29% share of purchases in Q1 2021, a record high. Of course, the game has now changed, with the Government taking heed of political pressure to tighten the property investment rules.

On the CoreLogic House Price Index, average property values across the country have now hit $845,491, up by 16.1% from a year ago, or more than $117,000. If you consider that most first home buyers require a 20% deposit, the rise in average values over the past year means they're now having to find at least an extra $20,000 to $25,000. That has widened the gap between property owners (the 'haves') and would-be owners, increasing the political pressure on the Government to 'do something'.

Accordingly, they've tightened the rules for investors, especially in tapering/removing the ability to claim mortgage interest as a deductible expense for tax purposes. Any investment purchases of existing property from here on won't be able to claim any interest deductibility, but current owners can still claim some (gradually reducing) deductions until the 2025/26 tax year. It's yet to be finalised, but it would appear that investors buying new-builds will still be able to claim interest deductions, while they're also exempt from the 40% deposit requirements, and also exempt from the recent Brightline Test extension (from five to 10 years).

In a nutshell, we don't think existing investors will drive a big sell-off – their tax bills will take a while to increase, they'll still want to avoid Brightline tax, and other assets (e.g. term deposits) still don't look especially appealing either. However, there is likely to be a shift of any further leveraged investment purchases away from existing properties and towards the new-build segment. Those existing properties could see more buying activity in future from cash-rich investors and owner-occupiers. We'll certainly be watching for any gap opening up between the performance of new-build property values versus existing.

There's also been speculation about the policy changes causing rents to rise faster than they otherwise would have done. However, we're cautious about that view. After all, historically rents have been anchored by tenants' wages, not driven by landlords' costs. And if existing leveraged investors don't start to sell (or they release a few properties to less-indebted landlords), then the available stock of rental property won't change either.

It's also important to note that the loan to value ratio rules have been tightened, and will officially require a 40% deposit for investors from 1st May. Of course, the banks have already been asking for a 40% deposit for some time now anyway, and there are already signs that this has started to reduce mortgage lending to investors. Certainly, the last time the LVR rules were this tight (from late 2016 into 2017), the share of activity going to mortgaged investors fell quite sharply, and we would have expected this to happen again, even without the latest policy changes from the Government.

Accordingly, we suspect that some of the pressure on the Reserve Bank to help 'rein in' the housing market has been removed and that they will be able to focus more on simply supporting the economic recovery. Indeed, to us, the chances of restrictions on interest-only lending have reduced significantly, not least because investors themselves have more incentive now to boost their equity as fast as possible anyway (because the interest deductions aren't as valuable). Reduced pressure on the Reserve Bank also implies the official cash rate and mortgage interest rates staying 'lower for longer'.

Meanwhile, the mortgage deferral scheme has now ended, and the majority of people have rolled back onto some kind of loan repayments without undue strain. In addition, the unemployment rate fell in the fourth quarter of 2020 and at 4.9% is less than half the level that some thought it could be at this stage. These are positive indicators of the health of our economy, and of course the Australian travel bubble and vaccination programme are also encouraging. However, the economy is not out of the woods yet and we still face a slow recovery to get back to 'normal', while also having to face the reality of much higher government debt than before.

Overall, the recent strength of the property market was always going to be unsustainable and a slowdown likely to occur in the second half of 2021 – the Government changes just reinforce that. We expect total property sales volumes to be lower in 2021 than they were in 2020 (and potentially fall a bit further again in 2022 too), with property value growth slowing quite markedly too – but not turning negative. Our expectation that price falls won't be seen reflects underlying shortages of property around the country, although the incentives for investors to target new-builds should give developers the confidence to keep their output high.

As always, we keep a running monitor on the property market every week via our NZ Property Market Pulse articles, so be sure to check these out on our websit **http://www.corelogic.co.nz/news-research/all-news/**. Our podcast is also a great source of data and commentary: **https://corelogicnzpropertymarket.buzzsprout.com/**.

Macro Economic and Demographic Indicators

New Zealand Asset Classes

RESIDENTIAL REAL ESTATE

$1.46 trillion

$307 billion in home loans

COMMERCIAL/INDUSTRIAL REAL ESTATE

$232billion

NZ LISTED STOCKS

$183 billion

NZ SUPER & KIWISAVER

$134 billion

The value of residential property across the country as at Q1 2021 was $1.46T. Mortgages are secured against 21% of this value, or in other words, 79% of the value of the property market is household equity. However, it's also important to note that household debt is high relative to income, and to some extent the debt has only been sustainable in recent years because of low mortgage rates.

Since cyclical peaks in early and again in late January, the NZX 50 index has generally trended downwards, and at around 12,500 (mid-April), has dropped by 7-8% over the past 2-3 months. However, it's still higher than it was pre-COVID, and certainly a lot higher than the trough of less than 9,500 in last year's lockdown. In recent months, the NZ Super Fund and KiwiSaver pots have continued to perform pretty well, however, no doubt supported in their growth by ongoing member contributions.

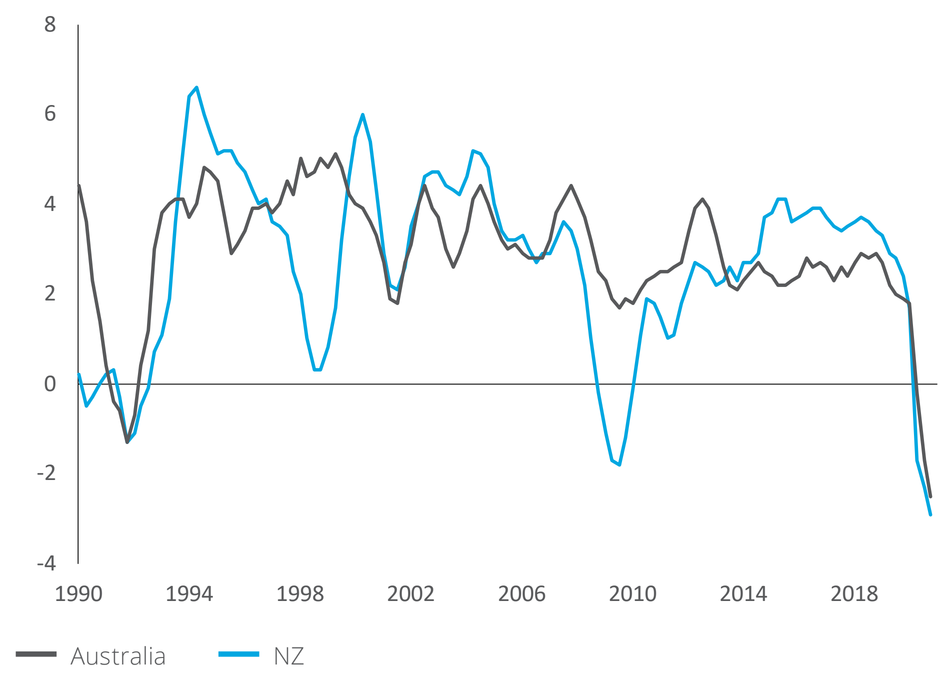
Sources: CoreLogic NZ, Reserve Bank of NZ, NZX, NZ Super Fund

New Zealand and Australia GDP growth

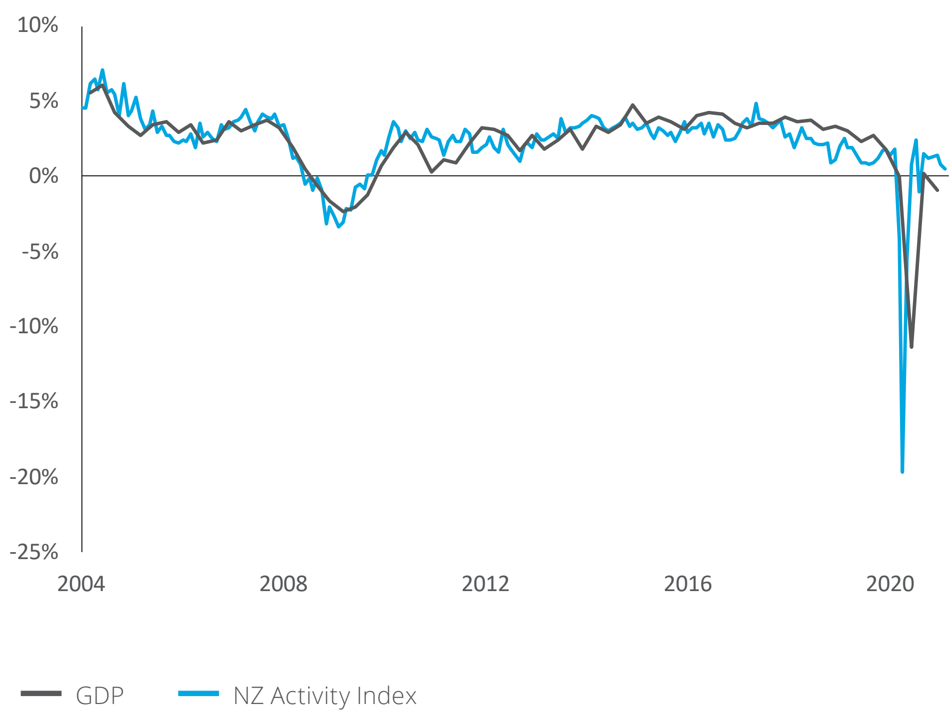
After a big drop in GDP in the second quarter last year followed by a large surge in the third quarter, the economy slipped a little again in the final three months of 2020 – contracting by 1% quarter on quarter. This was a bit weaker than most analysts had been anticipating, although the weakest sectors were no surprise, such as retail and hospitality (still affected by the lack of international tourists).

It's pretty widely accepted that GDP may well have fallen again in the first quarter of 2021, or in other words we're back in a 'technical recession' (or in reality, it could be argued we've never actually left recession). However, as the vaccination programme ramps up internationally and in NZ, as well as the positive effects of the re-opened border with Australia starting to flow through to the tourism sector, the hope has to be that GDP will get back on a steadier footing from now on.

Annual Average GDP Growth (%)



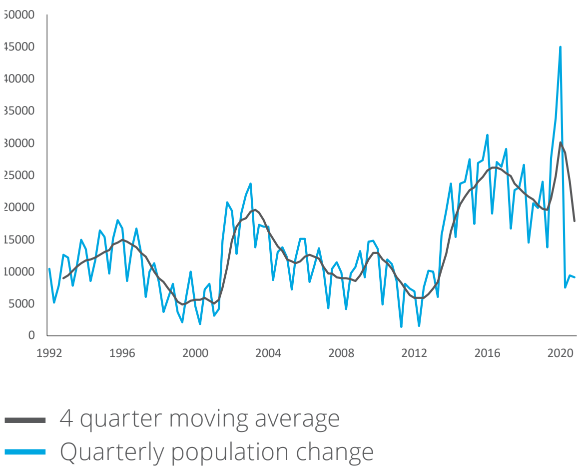
Annual Change in New Zealand Activity Index and GDP (%)



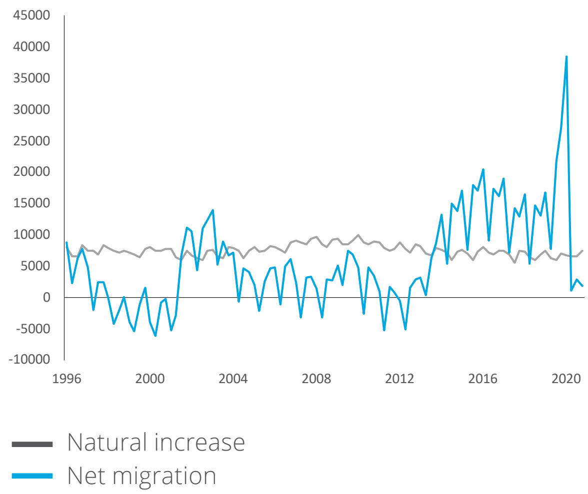
Source: Reserve Bank of New Zealand, Stats NZ

New Zealand Population

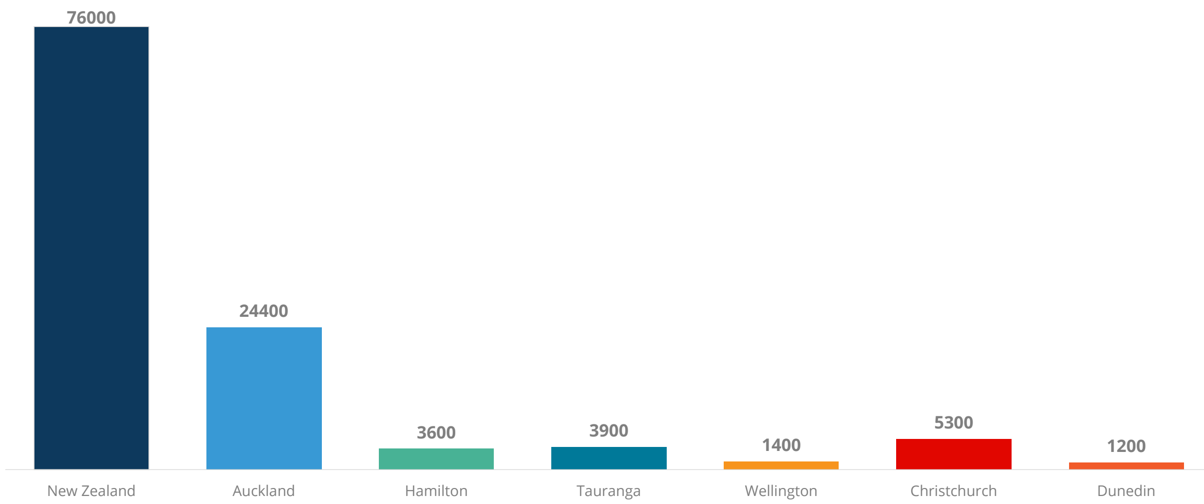
Quarterly Change in National Population (persons per quarter)



Population Change Composition (persons per quarter)



Annual Change in Population (persons)

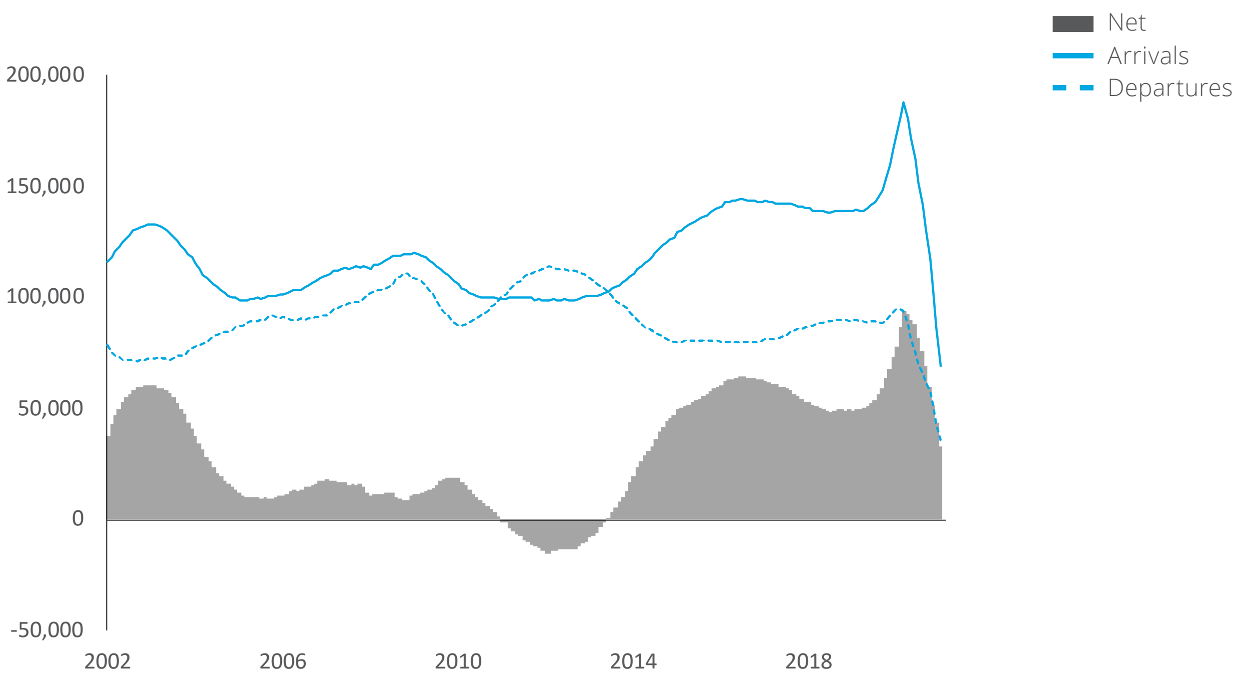


The slowdown in the rate of NZ's population growth has continued in the past few months, with the total now standing at 5.11m, only 1.4% (71,400) higher than a year earlier. In late 2019, that growth rate was running at more than 2% annually, and the latest figure of 1.4% is the slowest since Q4 2013 (1.2%). In terms of the components of population growth, the natural rate (births minus deaths) has of course remained pretty steady, at around 6,500-7,000 per quarter. Therefore the slowdown in the overall figure has obviously stemmed from far lower net migration, which was only 1,800 in the fourth quarter of 2020 (and has totalled only 5,800 over Q2-Q4).

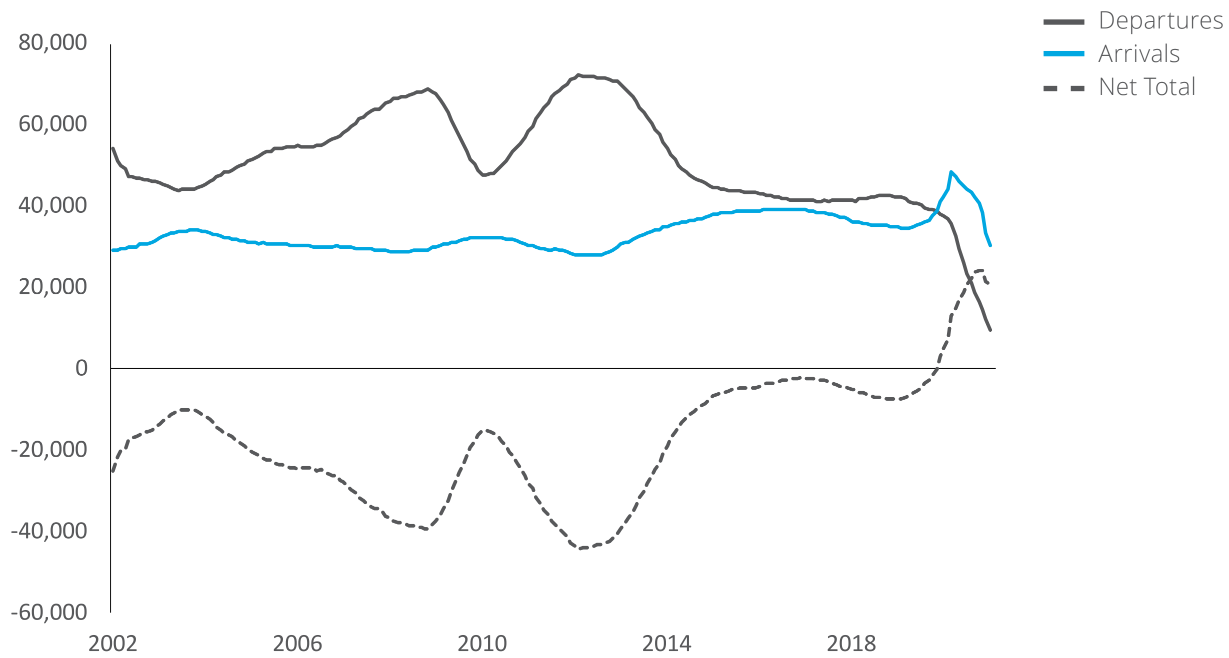
More generally, there are no surprises with these figures, given the continued border restrictions. However, over the coming quarters, the hope has to be that the opened travel bubble with Australia is the first solid step towards a resumption of 'normal' permanent migration, especially in conjunction with the global vaccination rollout. We'd be reasonably confident that NZ will benefit again from net migration in future (both non-citizens and returning New Zealanders), as it will still look to be a pretty attractive place to live. That suggests continued demand pressures in the housing market over the long term.

Source: Statistics New Zealand

Long term migration (12-month rolling totals)



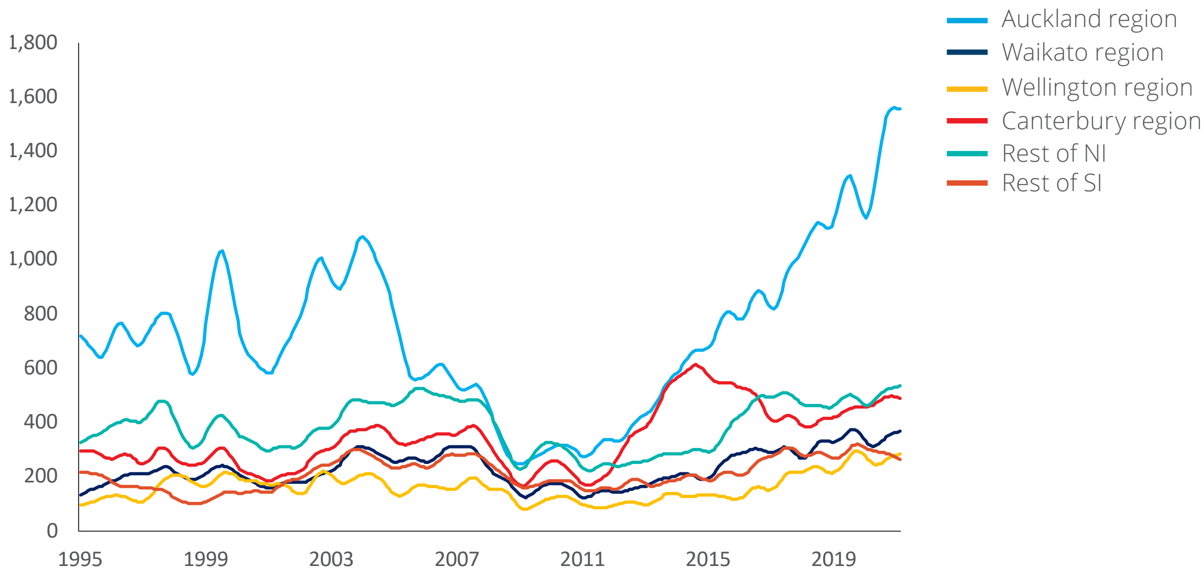
Migration flows for NZ citizens (12-month rolling totals)



Source: Statistics New Zealand

Regional Building Consents

New dwelling consents trend (consents per month)



The residential construction sector remains very busy, with dwelling consents running at historically high levels, driven in geographical terms by Auckland, and in terms of property type by smaller dwellings such as townhouses and apartments. This stands out as a desirable trend, given that a more intensified housing stock will be required to accommodate a rising population in future. Just to be clear about the numbers, there were 39,725 new dwelling consents in the year to February 2021, as high as any point since the mid-1970s. This high level of activity is also a bright spot for the wider economy, supporting overall employment and GDP growth.

But it's not just new dwelling construction that is running at high levels either; consents issued for alterations to existing properties (let alone non-consented work) are also strong, with more people choosing to 'love it' rather than 'list it'. Indeed, we suspect that the shortage of available listings on the market is a key reason why owner-occupiers are staying where they are instead and making their existing property better for their needs.

However, although dwelling consents are running at high levels in their own right, they're not quite as impressive when you look relative to our population. Indeed, we've recently been consenting about 7.5 new dwellings per year for every 1,000 people in the country, which is the highest for about 15 years, but still well below the figures of 13 in 1973 and 12 in 1974. In other words, we need to keep dwelling consents going at current levels for a number of years yet, or perhaps even raise them further.

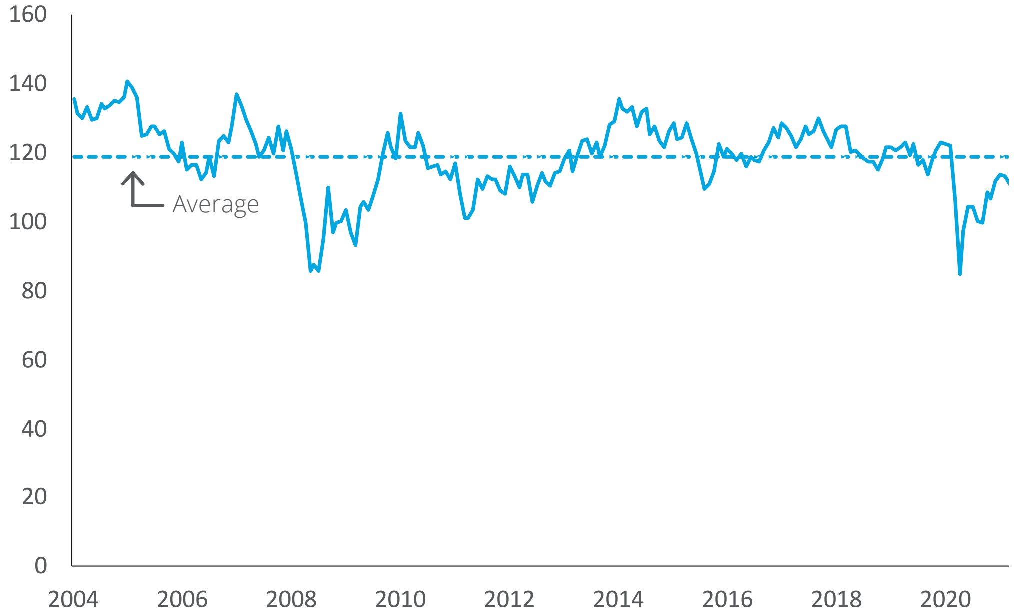
Certainly, the recent changes to the property investment landscape have certainly incentivised investors to look at new-build properties, which should give developers confidence about their future demand levels. These incentives for investors include exemptions for new-builds from the LVR rules and also the Brightline extension, while interest deductibility can also continue to be used.

Unfortunately though there are already signs emerging of cost pressures in the construction industry, reflecting rising land prices, labour shortages, and more recently materials pressures (e.g. shortages of structural timber for trusses, framing etc). This could restrain our ability to keep dwelling consents high over a series of years, something which is necessary to help improve long-term housing affordability.

Source: Statistics New Zealand

Consumer Confidence

ANZ-Roy Morgan Consumer Confidence (index, monthly)



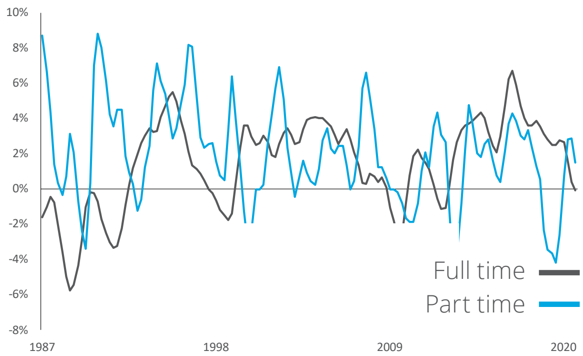
Over the course of December 2020 through to February 2021, the trend for the ANZ Roy Morgan consumer confidence measure had been upwards, presumably with the rising housing market playing a key role in bolstering the mood of households. However, March's result moderated a bit, which wasn't surprising given the most recent moves back up (and down) the alert levels, as well as the Government's policy changes to reduce the profitability of owning an investment property.

Despite the softer result for March, we suspect that consumer confidence will hold up pretty well over the coming months, especially given continued low mortgage rates, a reopened border with Australia, and the vaccination rollout. For sure, the tighter rules for property investment will hold back sentiment for some households, but the still-low risk of house price falls should also feed into support for consumer confidence too.

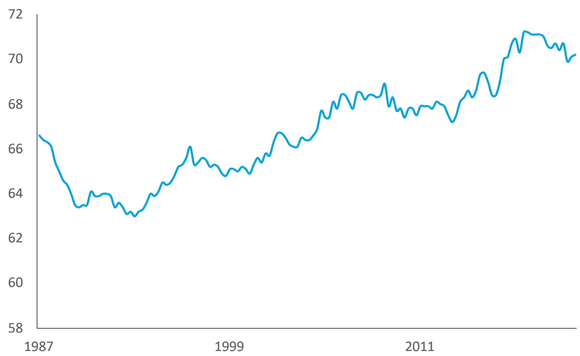
Sources: ANZ, Roy Morgan

Employment

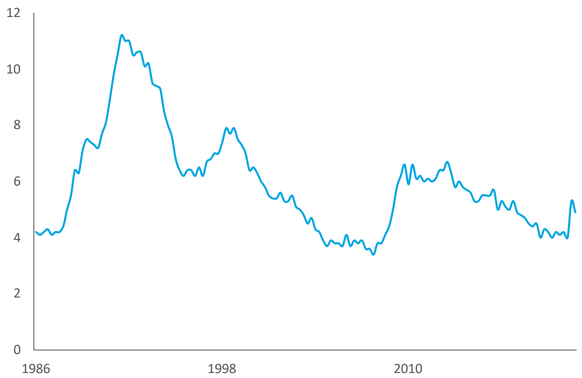
Annual change in employment, full time and part time



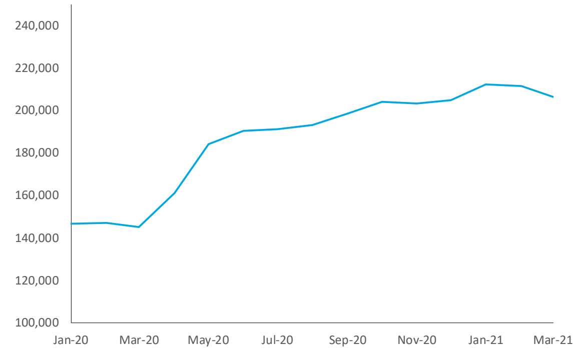
Labour force participation rate (%)



Unemployment rate (%)



Number of Jobseeker Support claimants



The labour market has been a 'success story' of the post-COVID era, but that doesn't mean it's as strong as it would have been without the pandemic. Indeed, although the level of employment has avoided the large falls that analysts had been anticipating, the rate of growth has certainly slowed – for example, after growing by an average of more than 2.5% in 2019, full-time employment was unchanged from a year earlier in Q4 2020. It's encouraging that part-time employment has at least begun to rise again (increase of 1.5% in the year to Q4 2020), but that hasn't been enough to outweigh the full-time slowdown. Total employment in Q4 was only 0.3% higher than a year earlier, the lowest figure since Q1 2013.

Meanwhile, the labour force participation rate (people employed or looking for work as a percentage of the working age population) has managed to hold up above 70% in the past two quarters, after a drop below that mark in Q2 2020. And reflecting the fact that employment has stabilised, the flipside is that the unemployment rate hasn't risen to anything like the extent that was forecast – indeed, the figure dropped from 5.3% in Q3 2020 to 4.9% in Q4 (a far cry from lockdown forecasts that it could reach 10% or so).

Looking ahead, the potential slow re-opening of global business activity as the vaccination programmes move forward would be a boost for our export-oriented economy, and hence help to support the labour market. In turn, that would also bolster the housing market, both in terms of sales activity and property values.

Source: Stats NZ, Ministry of Social Development

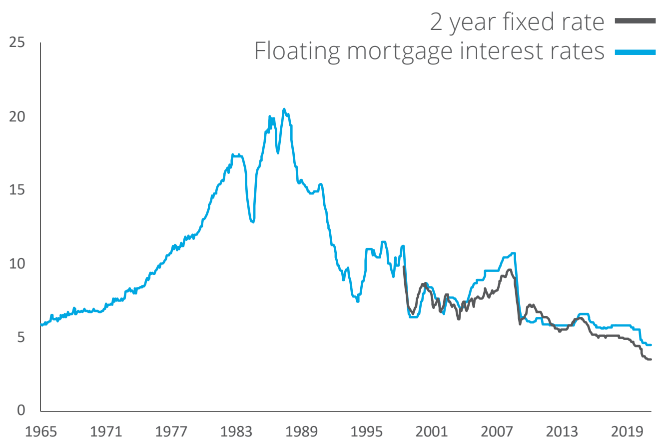
Interest Rates

The sharp falls in mortgage rates that were seen through the middle part of last year appear to have come to an end, with a typical two-year fix much more stable in recent months at around 2.5%, or perhaps a little less in some cases. The better-than-expected performance of the economy and housing market have reduced the scope for further falls in the official cash rate, which has contributed to the flatter picture for mortgage rates.

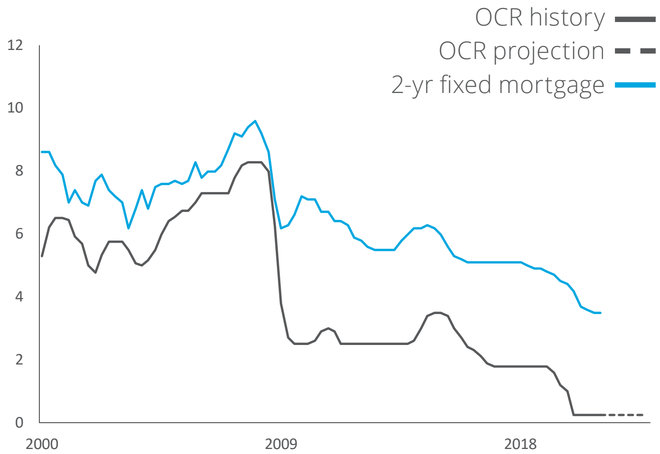
However, significant increases in mortgage rates don't look particularly likely for some time yet either. After all, although offshore wholesale interest rates have risen a bit in recent months, the banks in NZ still have the ability to access cheap finance here – e.g. via the Funding for Lending Programme, and also the wider cap on interest rates that is being provided by the Reserve Bank's large scale asset purchase programme.

Moreover, the economy is not out of the woods yet either, and although inflationary pressures are picking up a little (e.g. due to impacted global supply chains), the Reserve Bank won't be feeling much reason to raise the official cash rate for some time yet. At this stage, a reasonable estimate seems to be that mortgage rates may start to rise a little from the second half of 2022, but that remains uncertain, and even when they do start to increase the rises will probably be small and slow by past standards (still leaving rates at a low level).

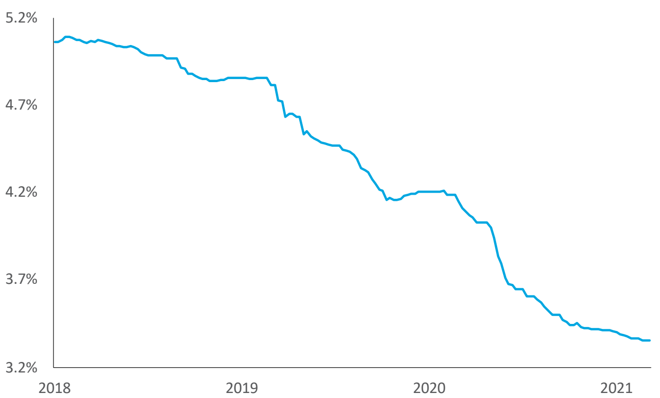
Mortgage Interest Rates (%)



Official Cash Rate and Mortgage Rates (%)

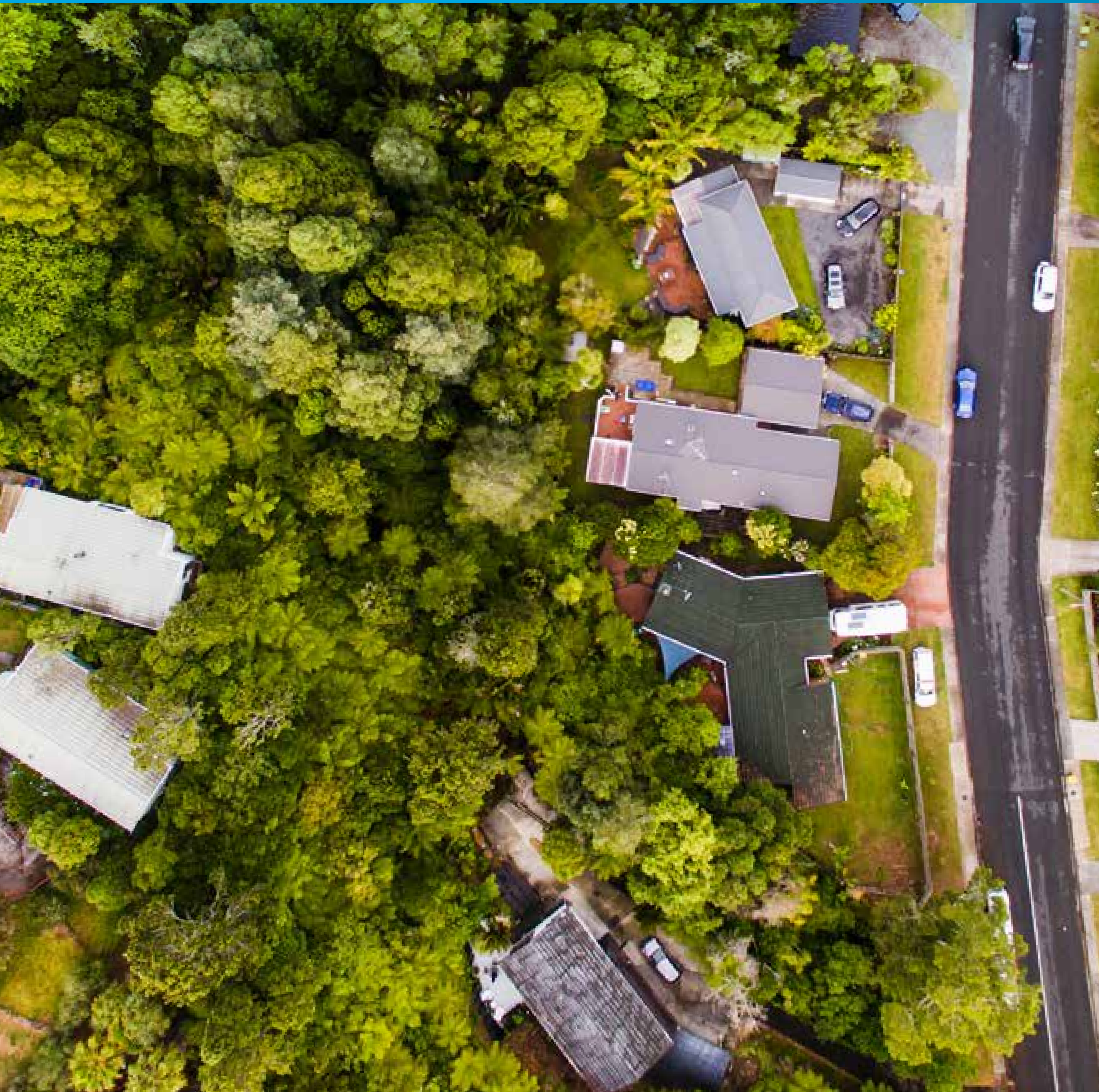


Average Two Year Fixed Mortgage Rates (%)



Source: Reserve Bank of NZ, interest.co.nz

Housing Overview



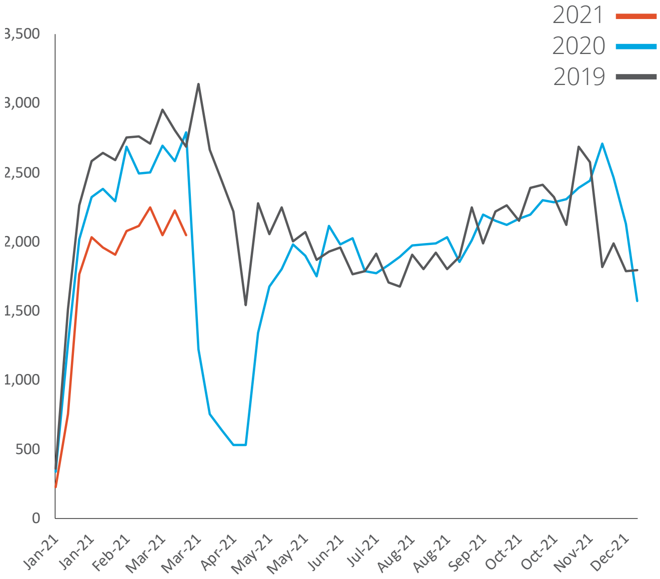
Early Property Market Indicators

During alert level four lockdown, measures relating to the early stages of a sale process – i.e. pre-listing (such as appraisals generated by real estate agents) and pre-mortgage (valuations ordered by banks) – fell away sharply, which was no surprise. However, as our Early Market Indicators Report shows, they then bounced back steadily, and have recently been running at around normal levels: **https://www.corelogic.co.nz/early-market-indicators**

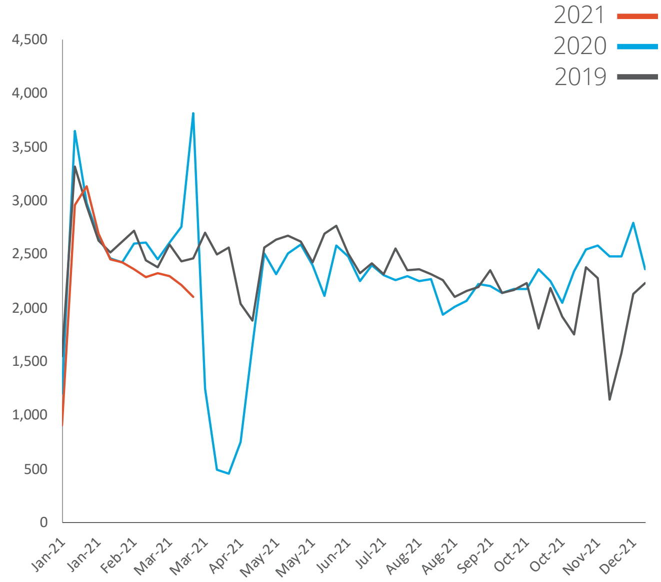
In other words, the early stages of both the supply (appraisals, which lead to listings) and demand (borrowers requesting a mortgage, hence the bank ordering a valuation) pipelines are holding up well, which points to further resilience for property sales volumes in the coming months. If anything, demand has been running ahead of supply, which suggests continued upwards pressure on property values too.

Listings

Weekly flow of new for-sale listings



Weekly flow of new for-rent listings



A key and ongoing feature of the NZ property market in recent times has been the low supply of listings available on the market, which has been bolstering property values as buyers continue to face limited choice. There has been no material change in the tight listings situation in the past three months either, with the total stock of existing properties available for sale running at multi-year lows. In turn, that has reflected both a continued stream of achieved sales (which removes listings at the end of pipeline) but also only a 'normal' flow of new listings coming onto the market at the start of the pipeline.

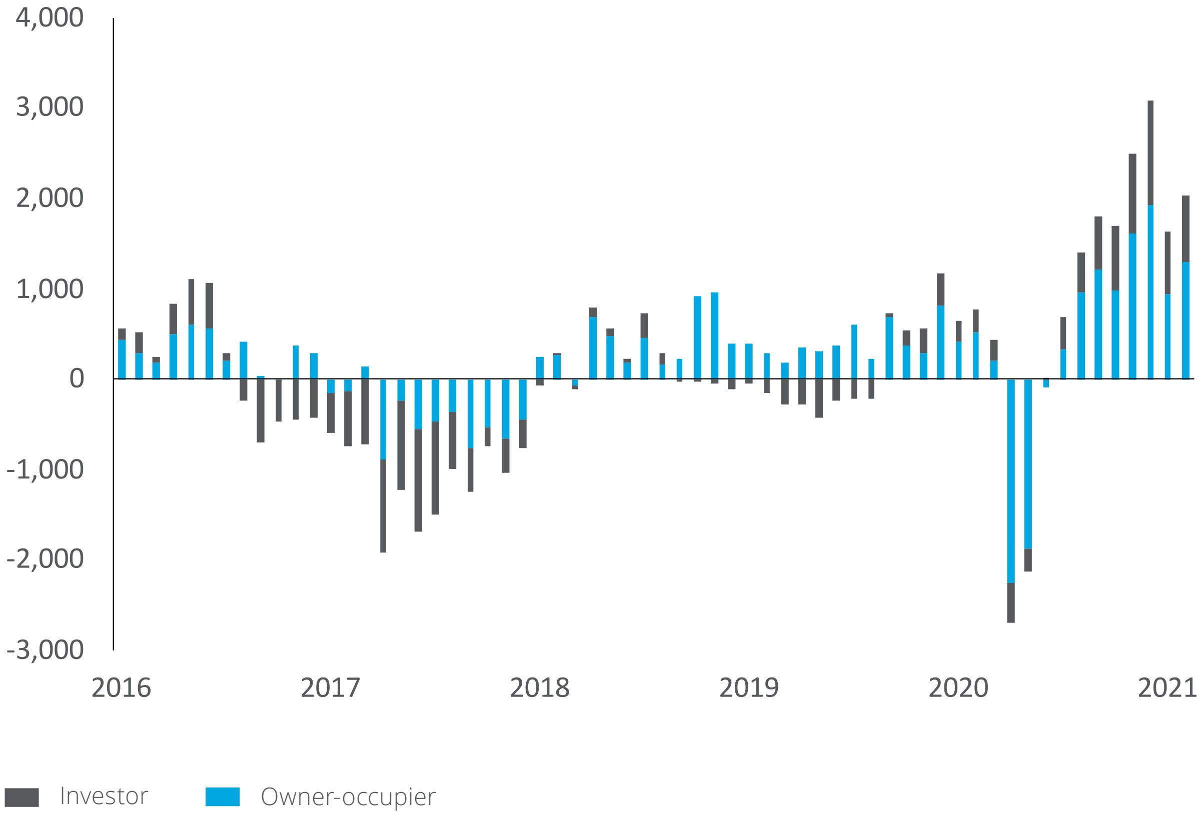
In some ways, there is a vicious circle going on for listings, with some existing owner-occupiers not moving house because they don't have much choice about their next property. And of course, those owners are then not listing their own house, which feeds back into even tighter supply conditions. Similarly, other active buyer groups at present – namely first home buyers (FHBs) and mortgaged investors – aren't generally selling any property before they purchase either (certainly FHBs are not selling anything, by definition).

That said, theory would tell you that listings may start to rise over the coming months as more would-be sellers (e.g. investors) react to previous strong capital gains and look to 'lock in their profits'. In addition, although we don't anticipate that the recent taper/removal of interest deductibility will cause a wave of selling by current investment property owners, there may still be some who will take that course.

Source: CoreLogic

Lending conditions

Annual Change in Gross New Lending Flows ($m per month)



Mortgage lending activity has remained very strong in the past three months, with the increase from a year earlier in each of December, January, and February coming in at more than $1.6bn (December's rise was more than $3.1bn). Especially in the final few months of 2020 investors were a key contributor to the growth in overall lending, but owner-occupiers have been providing pretty steady impetus too.

However, we suspect that the peak for mortgage lending in this cycle may have already passed, or is near. For a start, although the reinstated loan to value ratio rules don't officially reach their full scope until 1st May (when the 40% deposit requirement kicks in again for investors), we know that the banks themselves have moved ahead of the rules, and actually went to a 40% investor deposit threshold a few months ago.

All else equal, tighter LVRs on their own would be anticipated to slow demand from investors as the months pass, exactly as they did throughout the course of 2017 when we last had a 40% deposit rule. Indeed, the RBNZ mortgage lending stats already show that this has been the case, especially for high LVR investors. In addition, we suspect that some investors have 'brought forward' purchases that ordinarily would have happened later in 2021, so this front-loading of activity is also likely to have a commensurate lull later on.

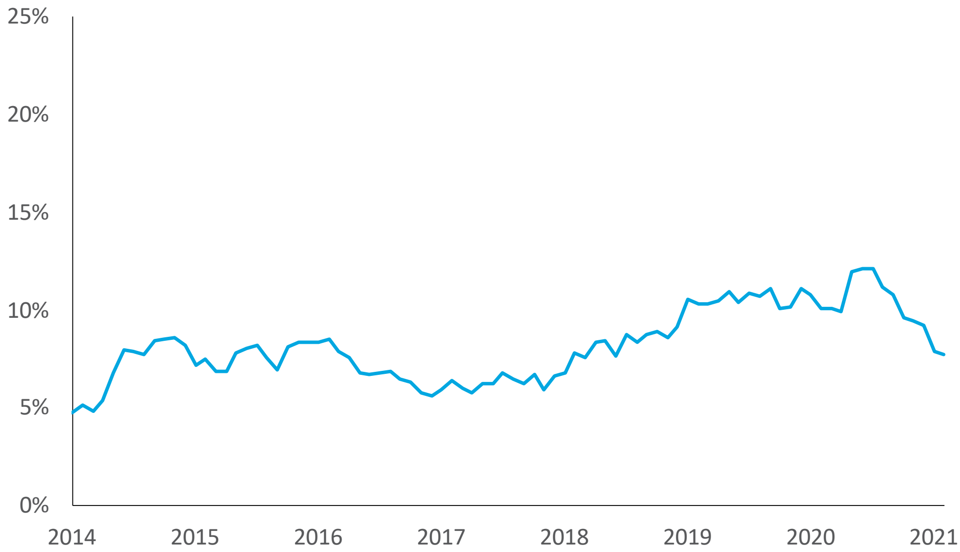
As an aside, it's important to note that lending conditions for owner-occupiers haven't really changed. Even without the LVR speed limits in place, banks were still requiring a 20% deposit (as well as income/expense testing and ability to service the debt at higher interest rates too), so the reinstatement of the official rules is unlikely to have any noticeable effect in this segment of the market.

Sources: Reserve Bank of New Zealand

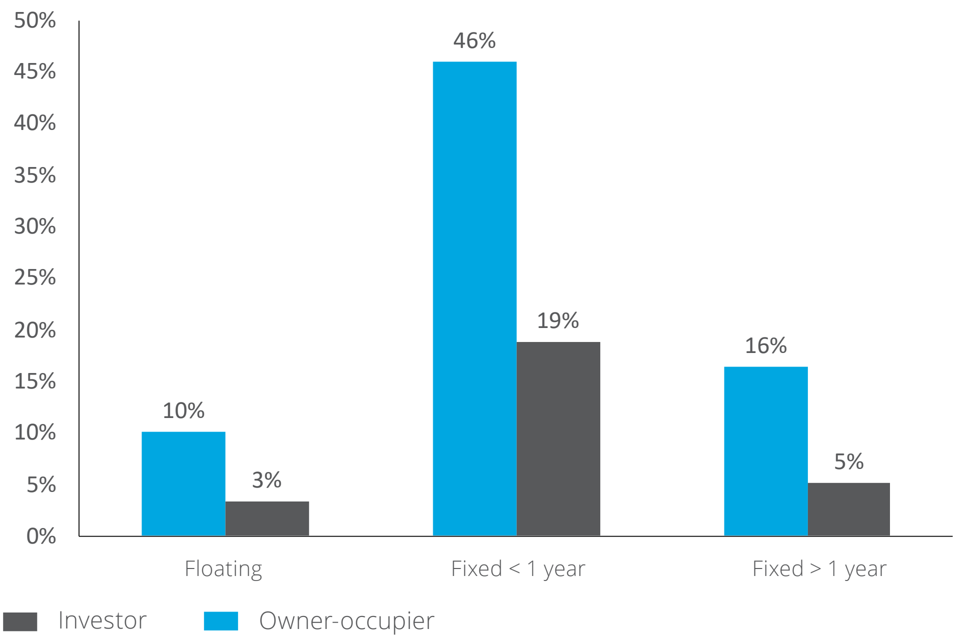
But in addition to higher deposit requirements, property investors will also find it less appealing to purchase existing properties from now on (although they might switch to new-builds), due to the loss of interest deductibility on their tax returns. There's also the possibility of restrictions being imposed on interest-only (I-O) lending in May, although we think that the Government's latest policy changes have reduced the likelihood of I-O limits, possibly significantly so. Indeed, equity is now king for property investors, so not only might they reduce their demand for new I-O finance, they may look to switch existing loans to a principle repayment set-up too.

Overall, a slowdown for mortgage lending activity in 2021 will go hand in hand with a reduction in property sales volumes, and also the pace of price growth (although we don't expect values to actually fall). It also needs to be noted that the mortgage payment deferral scheme has now ended, with almost all of these loans having rolled off their deferral without too much trouble.

High LVR Lending (% of new lending)



Refinancing Profile for Mortgages (% of stock)



Sources: Reserve Bank of New Zealand

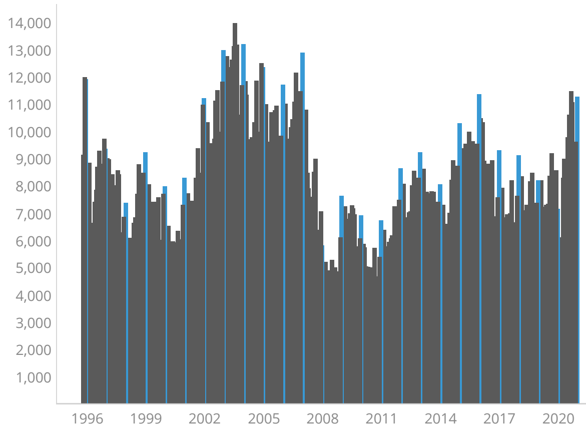
Sales Volumes

Property market activity levels have stayed very strong in the past 2-3 months, with the total for Q1 2021 as a whole (26,820) up by 25% from a year ago. That followed growth of 25% in Q3 2020 and 33% in Q4 2020. Some of that previous growth was probably a 'catch-up' after last year's lockdown, but that can't be said anymore. The recent activity has been genuine strength, and indeed may have been even higher still, were it not for the lack of available listings on the market – you can't buy what's not for sale.

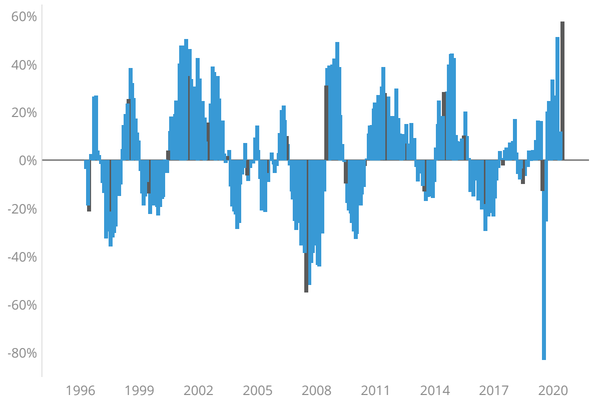
The rise in demand has reflected a number of factors, but most notably low interest rates – which have made it cheap to borrow and to buy property, but also reduced the incentive to hold other types of assets (e.g. term deposits in the bank). The temporary removal of the loan to value ratio speed limits last year also opened up new demand from some investors with say a 20-25% deposit rather than the 30% they previously needed.

That said, we think activity will slow into the second half of 2021. After all, some sales have been 'brought forward' to beat the reinstated LVR rules, which implies a commensurate lull later. And of course, the LVRs themselves will act to cool demand for property. On top of that, the latest housing policy changes of course reduce the appeal to investors of buying further existing properties. After a total of about 97,000 sales in 2020, we suspect the figure will dip to about 91,000 this year (still in line with the decade average), but closer to 85,000 in 2022, as regulation bites, the economy slumbers a bit, and mortgage rates potentially start to creep higher.

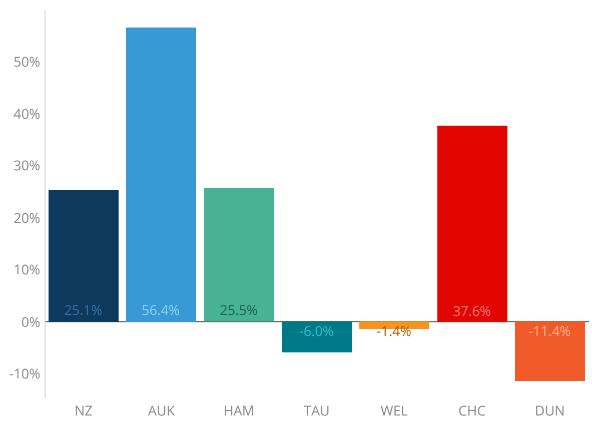
Nationwide Sales Volumes (monthly total)



Nationwide Annual Change in Sales Volumes (%)



Regional Sales Volumes (year-on-year % change)



Source: CoreLogic

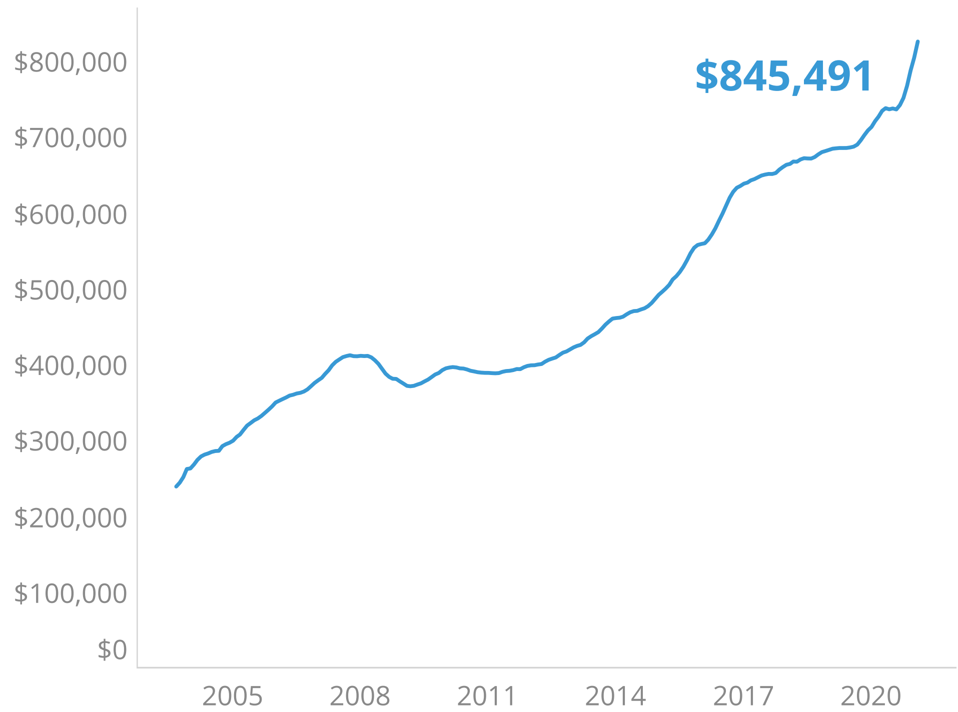
Values

The sharp upwards momentum in property values right across the country has simply continued on in the first three months of 2020, with the national average rising by 7.2% since December alone – and it now stands at $845,491 (about $56,500 higher than December). Over the past 12 months, even despite various lockdowns and COVID disruptions to the economy, the national average property value has risen by 16.1%, or $117,215.

There are obviously a multitude of reasons for that sharp rise, including of course low mortgage rates and the lack of available listings on the market, but also other factors such as the lack of attractive alternatives (e.g. term deposits) for investors and also the inability of people to go overseas and spend money on holidays – therefore prompting them to look at other uses for their funds.

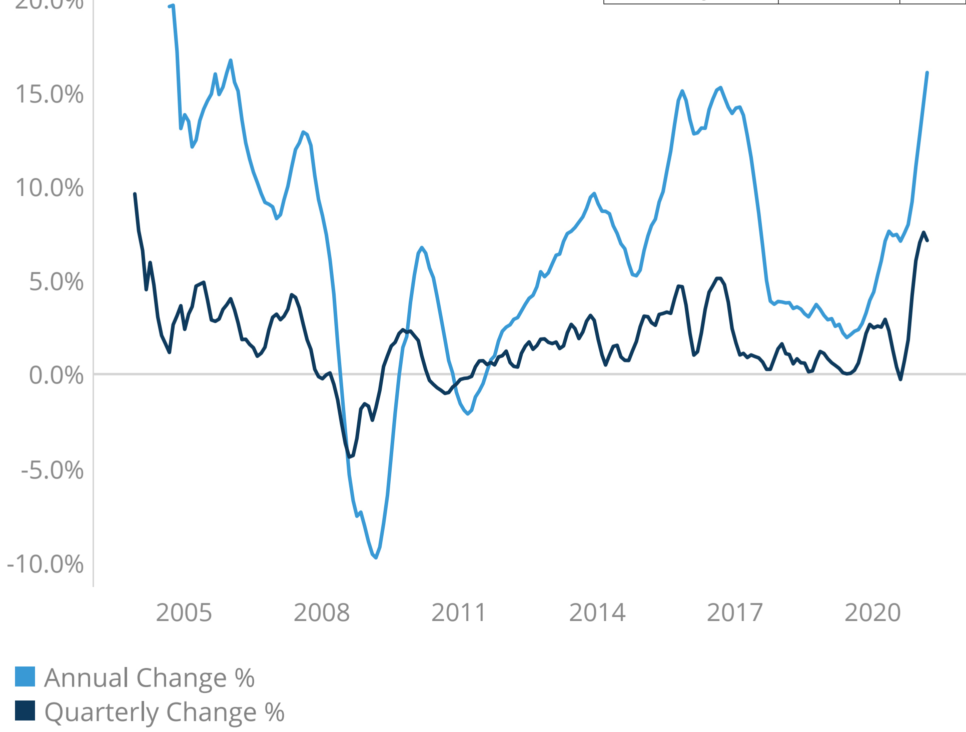
However, although there may be some further strength for property values in the next 1-2 months, the recent pace of growth has clearly been unsustainable and is likely to slow in the second half of 2020, at least partly due to tighter lending/tax rules and lower levels of market activity, but also the (un)affordability pressures that have accumulated in recent months (and years). However, for now, we don't anticipate values falling, just slower gains.

Average Value of Housing Stock - New Zealand ($)



Annual and Quarterly Change in Value (%)

Quarterly Change	$56,524	7.2%
Annual Change	$117,215	16.1%
5 Year Change	$279462	49.0%

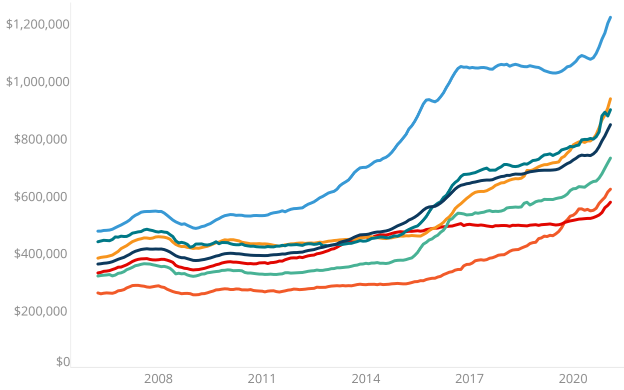


House Price Index

The upswing in property values has been seen right across the country, and although the 'provincial' markets are still seeing the largest gains, the main centres have accelerated too.

In fact, of 66 main territorial authorities across the country (excluding Chatham Islands), 61 saw double-digit average property value growth in the year to March. Tararua (36.4%), Rangitikei (35.9%), South Taranaki (33.1%), and Masterton (31.0%) all topped the 30% mark. Another 22 areas had growth in the 20-30% range, while only five areas saw growth in single digits – these included Timaru, Southland, MacKenzie, Central Otago, and Queenstown. Of course, Queenstown's figure of 5.0% year on year in March is nothing to be sniffed at, when you consider the economic shock that has hit that part of the country and also that property values were falling pretty sharply in the first few months after the lockdown in April last year.

Average Dwelling Value ($)

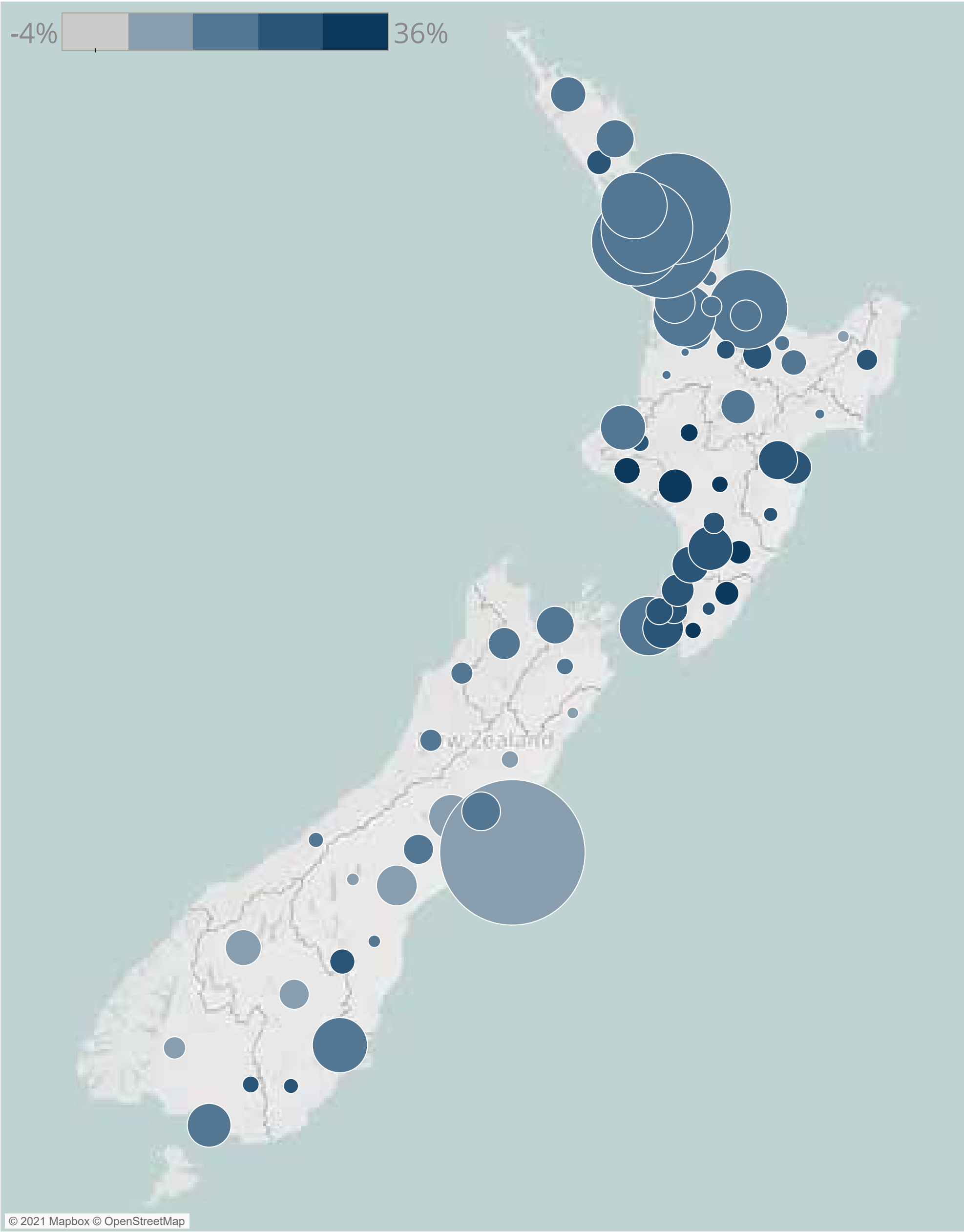


Amongst the main centres, the past three months have seen gains in average values of at least 6.7% everywhere bar Tauranga (2.4%). Wellington and Hamilton have both topped an 8% rise since December. And just to touch on Tauranga, given it's the least affordable of the main centres (if somebody is buying on local wages), it's perhaps no surprise to have seen a touch of underperformance in recent months.

Wellington (including City, Porirua, Lower Hutt, Upper Hutt) is leading the main centres in terms of annual growth, at 19.9%, and Christchurch is 'lagging', at 11.9%. However, that's still a strong figure in Christchurch, and reflects a sense that people have recognised its relative affordability and are keen to enter the property market. A slow drying up of land supply around the wider Christchurch area is something that's quite a stark change from the past decade or so, when development land has been plentiful.

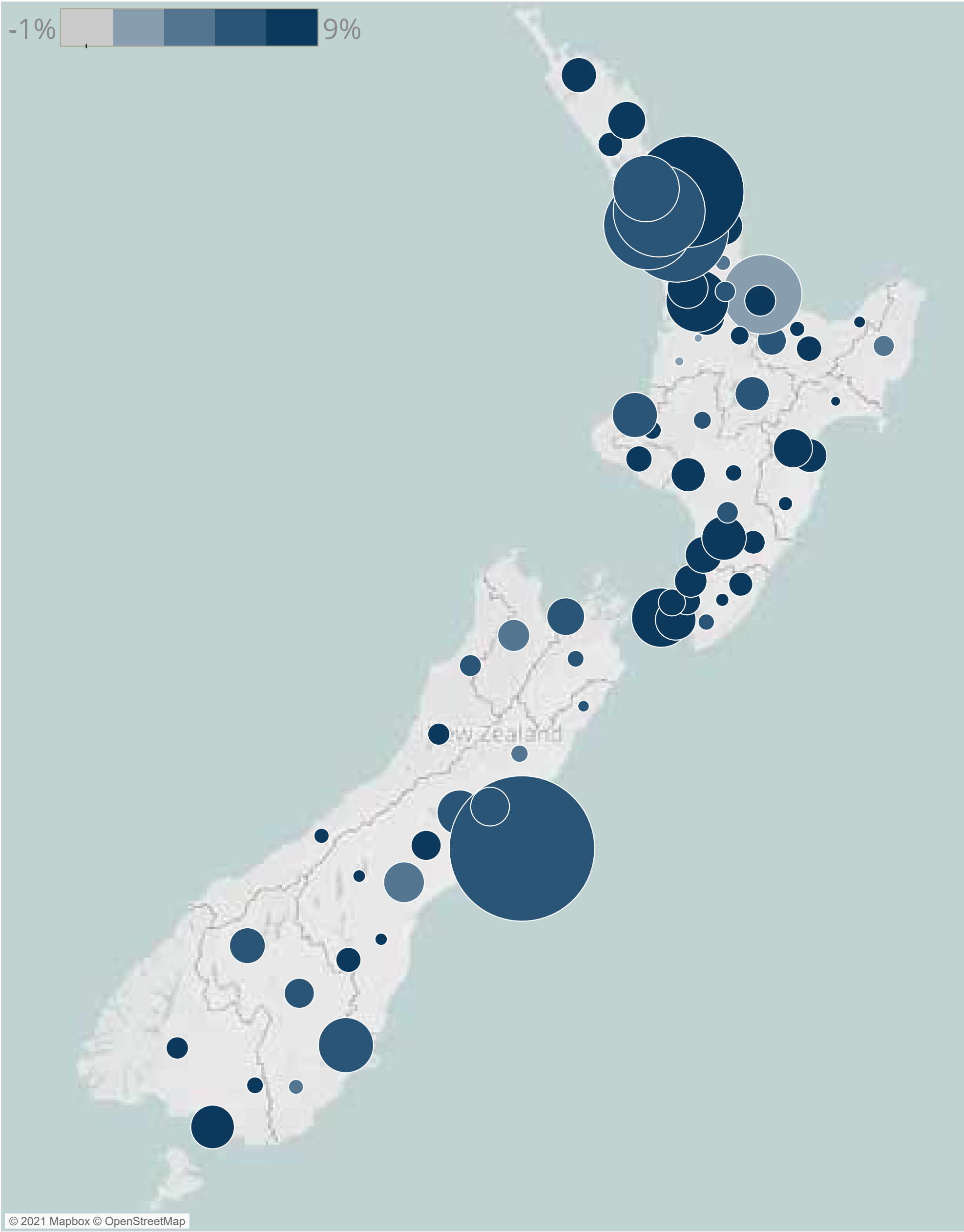
	March 2021				
	Current value	1 month	3 months	12 months	5 years
New Zealand	$845,491	2.2%	7.2%	16.1%	49%
Auckland	$1,219,183	1.7%	6.7%	14.4%	31%
Hamilton	$729,243	2.3%	8.1%	17.0%	58%
Tauranga	$897,586	2.5%	2.4%	16.2%	57%
Wellington	$935,575	3.5%	8.6%	19.9%	90%
Christchurch	$575,721	1.9%	6.7%	11.9%	19%
Dunedin	$620,990	1.6%	6.7%	15.4%	97%

Annual Value Change (%)



Over a 12 month horizon, average property values have risen in all parts of the country, with the most strength still evident in the central and lower North Island. Queenstown's values have also returned to growth, which is a sharp turnaround from the falls seen there in the first few months after last year's lockdown.

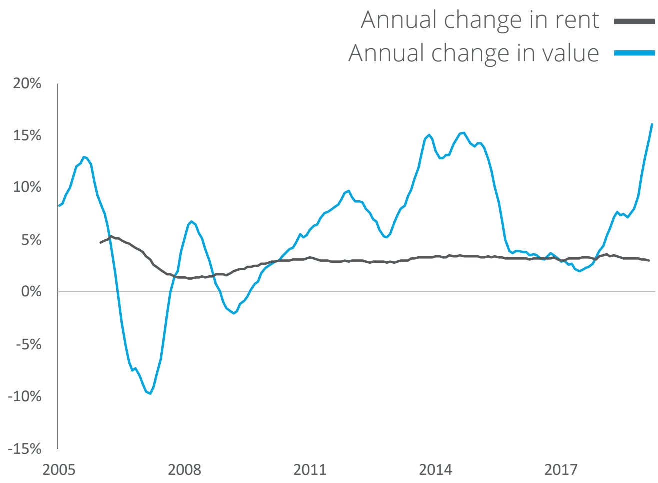
Three Month Value Change (%)



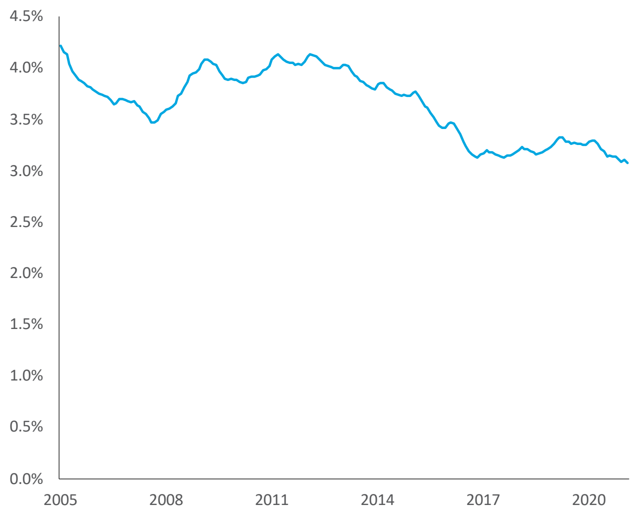
Over the shorter three-month period since December, the continued strong gains in the property market are clear to see right across the country. Within the North Island, Tauranga has been a little softer (but still growing), while the bottom half of the South Island has continued to rise.

Rent

National Annual Change in Value and Rent (%)



Gross Rental Yield – National (%)



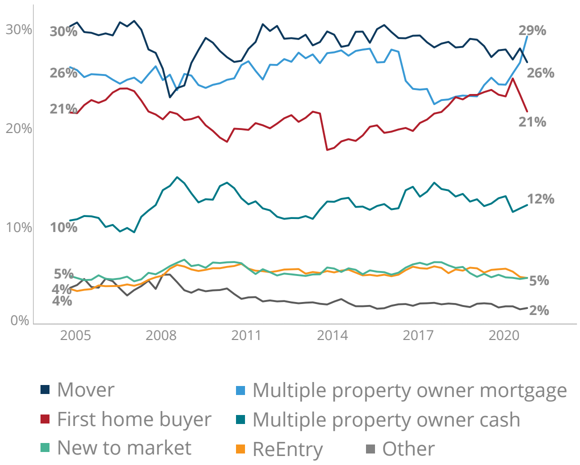
Methodology changes to the way MBIE report their rental bonds statistics mean that the best, timely indicator for national growth is Stats NZ's measure, and this has been pretty steady lately. Indeed, the stock measure of rents (covering existing tenancies) rose by 3.1% in the year to March, and has hovered around 3-3.5% for the past six years. The flow measure, or new tenancies, has shown rental growth of about 2% lately.

The Stats NZ figures indicate that rental pressures are strongest at the moment outside the main centres – e.g. Auckland's rents are basically unchanged from a year ago, but a typical figure for provincial areas around the North Island is more in the vicinity of 6% growth.

Looking ahead, it's certainly true that some landlords will be looking to push up rents faster than otherwise, in order to try and recoup some of their increased (tax) costs. But history has shown that can't always achieve this – e.g. rents tend to be anchored more closely to tenants' wages rather than landlords' costs, and regulations such as the Healthy Homes standards haven't prompted a noticeable jump in rents. Indeed, it's often the case that landlords want to keep a good tenant and avoid a vacancy rather than extract maximum rent.

Buyer Classification

Buyer Classification – New Zealand (% of sales)



NZ Property Transfers by Non-Citizens or no Resident Visa (% of total transfers)

The first quarter of 2021 continued the Buyer Classification trends that were in play in Q4 2020 (and earlier last year too) – mortgaged multiple property owners (MPOs or investors) remained very active, first home buyers are seemingly starting to struggle with ever-rising prices and hence required deposits, and other owner-occupiers are moving around less than they have done in the past.

In terms of the detail, starting with mortgaged investors, their surge has really been the key talking point in the property market since COVID first hit about a year ago and the loan to value ratio rules were temporarily removed. Investors who couldn't previously find a 30% deposit could suddenly access the market with only 20%, and of course in the meantime the costs to borrow fell and lower interest rates (especially term deposits) also reduced their incentive to have cash in the bank. From a share of all NZ property purchases in Q2 2020 of 24%, the share for mortgaged investors has now risen to a record high of 29%.

In turn, the growth for mortgaged investors has been driven by the smaller end of the market, i.e. those who have just bought their first investment property, or those that now own 2-3 rentals. In Q1 2021, 16% of all NZ property purchases went to mortgaged buyers across those categories.

Of course, the reinstatement of the LVR rules (which the banks moved ahead of anyway) and now the Government's taper/removal of interest deductibility both mean that things are likely to look different for investors from now on. Indeed, there are already signs in the lending data that mortgaged investors are scaling back (especially those with low deposits), so the scene is set for their share to fall on our Buyer Classification series too. And of course, while we don't anticipate a major near-term sell-off by current property investors (or large rent rises), further purchases of existing properties now look less attractive due to the Government's new policies. Their demand is likely to divert towards the new-build segment, but that is a smaller part of the market anyway.

Meanwhile, the rapid growth in property values over the past 3-6 months now appears to be taking a clear toll on would-be first home buyers. The share of purchases going to this group peaked at 25% in Q3 2020, but has since fallen relatively sharply to 21%. They're still being helped by access to KiwiSaver funds for the deposit, but due to the rapid price gains, our data suggests that rising numbers of FHBs have either decided to hold back from the market and/or their bank has become more reluctant to lend.

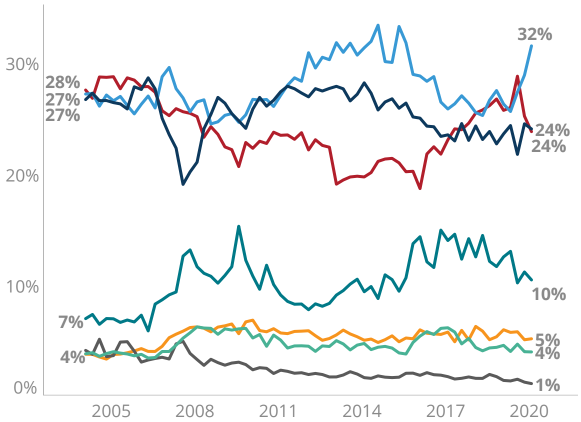
For movers, a market share of 27% is relatively low by past standards, and we suspect is due to already-high debt levels and/or a simple lack of listings and unavailability of the types of properties they'd want to buy.

Source: Statistics New Zealand

Main Cities Housing Market Indicators

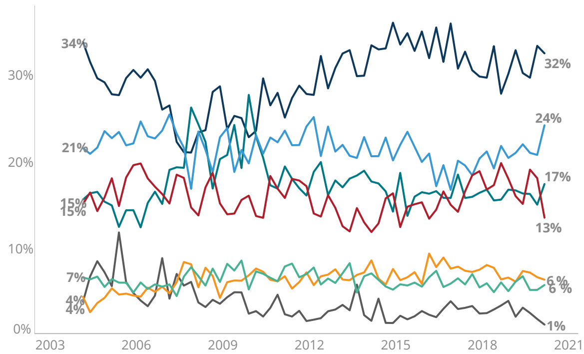
Auckland Market Activity

Buyer Classification – Auckland (% of purchases)



■ Mover ■ Multiple property owner mortgage
■ First home buyer ■ Multiple property owner cash
■ New to market ■ ReEntry ■ Other

Buyer Classification – Northland region (% of purchases)



■ Mover ■ Multiple property owner mortgage
■ First home buyer ■ Multiple property owner cash
■ New to market ■ ReEntry ■ Other

The national Buyer Classification trends over recent months have also been seen in Auckland, but perhaps to an even stronger extent.

Indeed, the share of purchases going to mortgaged investors in Auckland has spiked up to 31% in Q1 2021, higher than the national figure of 29%. In Q2 2020, the Auckland figure was down at 26%, so the turnaround there has been quite sharp, even though property values have got much more expensive and gross rental yields are lower in Auckland than elsewhere.

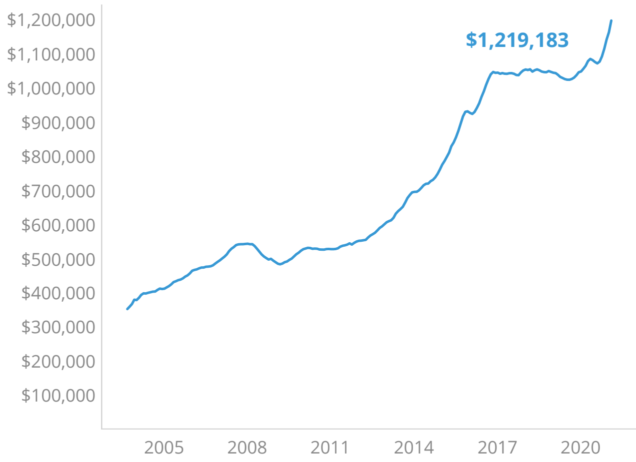
The rise in market share for mortgaged investors has come alongside a continued low presence for mo vers, with their share at just 24% in Q1 2021, roughly the lowest levels since 2009. Again, in some cases this is likely to reflect the shortage of listings and their inability to find the ideal next property.

Meanwhile, the market share for first home buyers in Auckland has dropped further in the past few months, now standing at 24%, down from 29% in Q3 2020 and 25% in Q4. Given the renewed upswing in property values (from an already high level of >$1m) in our biggest city, this is now looking clearly like 'fatigue ' from FHBs.

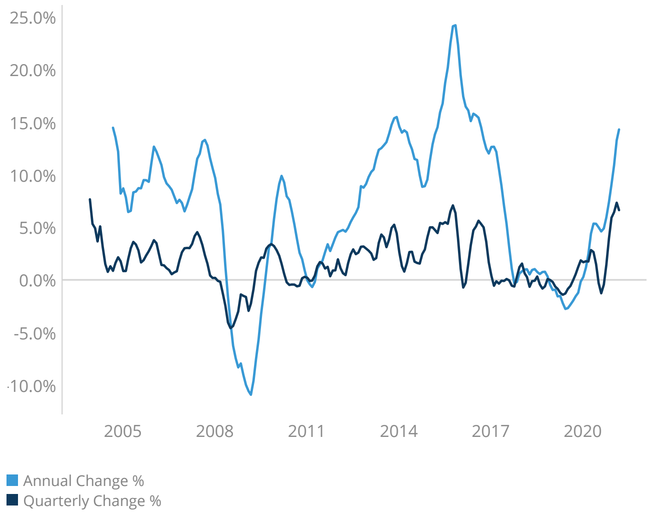
Around Auckland's neighbouring areas, the mix of buyers is quite different in Northland, with movers accounting for the highest share of activity, at 33% in Q1 2021. First home buyers have a much lower presence in this market, at just 14% in Q1, while mortgaged investors have picked up lately, now at 24%.

Auckland Values

Average value of housing stock Auckland ($)



Annual and quarterly value change Auckland (%)



The upturn in average property values for Auckland as a whole in the past few months has reflected rising markets across each sub-area. Indeed, over the past three months, the changes in average values have ranged from around 6% to 8% everywhere, with the North Shore and Waitakere closer to the bottom end of the range (but still strong), and Papakura at the top end.

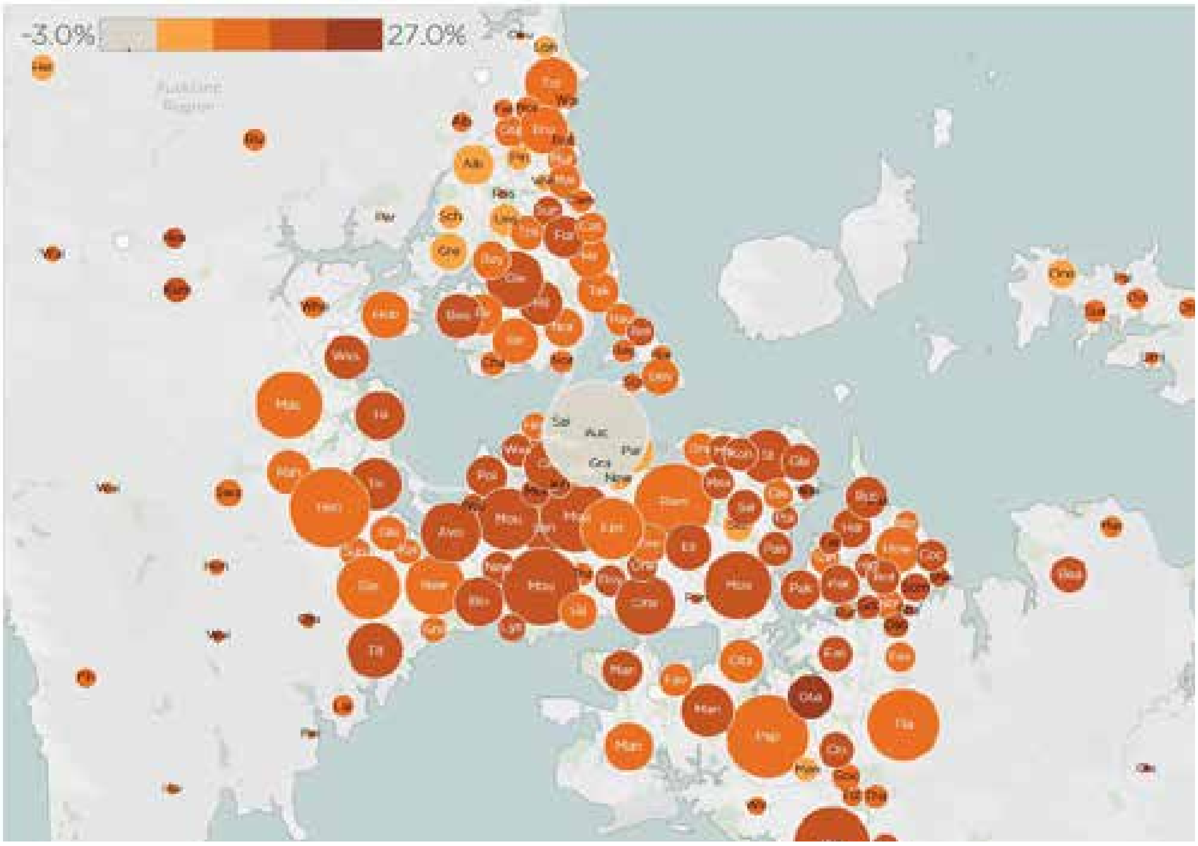
On an annual basis, the wider Auckland market has seen average values rise by 14.4%, to now stand at $1,219,183. In the sub-markets, those annual growth rates have been in a relatively tight range, from 12.4% in North Shore up to 16.2% in both Manukau and Papakura.

Although the growth has been relatively consistent across Auckland, there is still a correlation between stronger upturns tending to have been seen in the cheaper areas (e.g. Papakura). Many factors could explain this, but an obvious driver is simply that the cheaper areas are more accessible for more buyers (i.e. a given amount of cash deposit goes further), or in other words their lower base gives them more room to grow. The cheaper areas tend to be where first home buyers and higher leveraged investors tend to be more active, whereas movers are more prominent in expensive areas (where a higher amount of equity is required).

			MARCH 2021		
	Current value	1 month	3 month	12 months	5 years
Rodney	$1,112,460	2.0%	6.9%	14.1%	34%
North Shore	$1,385,394	1.1%	5.7%	12.4%	29%
Waitakere	$970,876	2.4%	6.4%	15.5%	31%
Auckland City	$1,439,312	1.5%	7.2%	14.5%	32%
Manukau	$1,071,928	2.3%	6.6%	16.2%	34%
Papakura	$831,459	2.5%	7.7%	16.2%	36%
Franklin	$791,665	1.9%	7.0%	15.2%	34%

Auckland Suburb Value Change

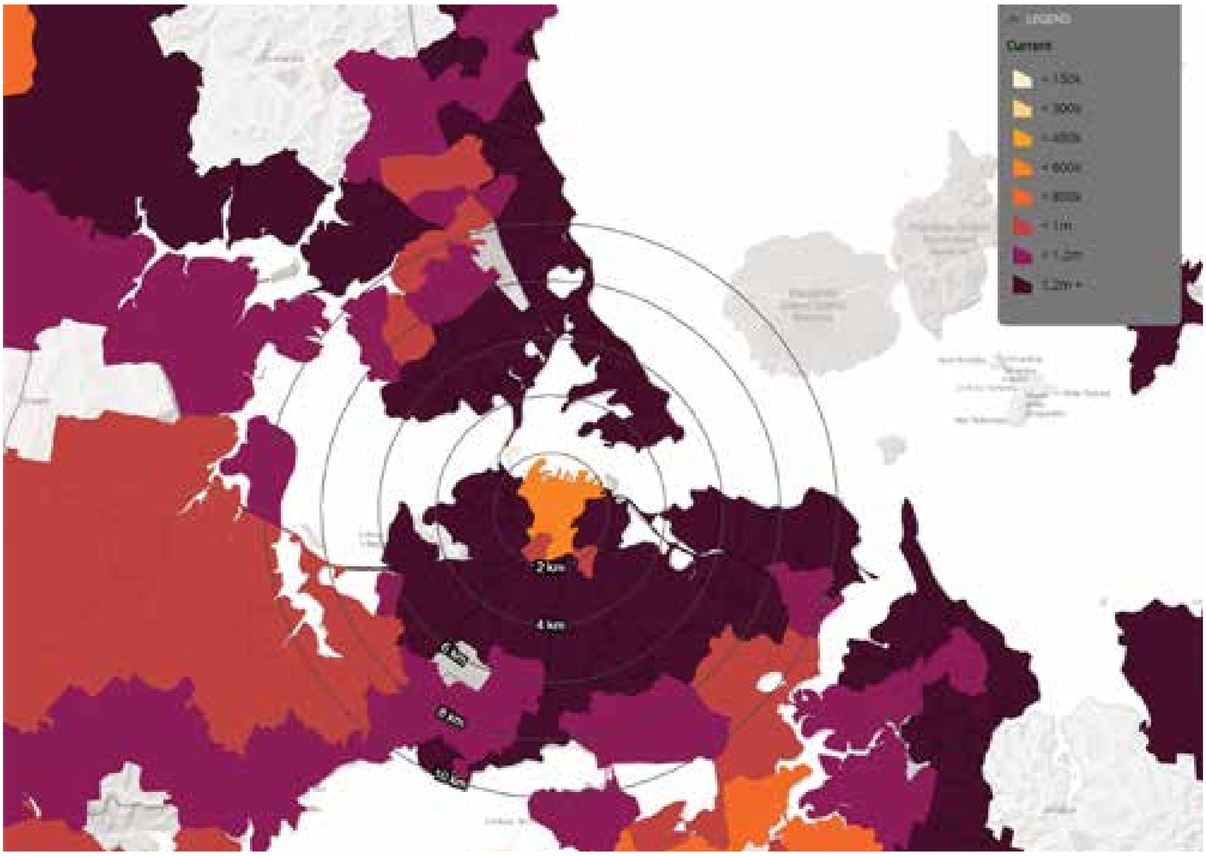
Twelve month value change (%)



The upturn in Auckland property values in the past few months has been pretty broad-based, with all suburbs across the city now seeing solidly rising values.

Current Suburb Values: 'Mapping the Market'

Auckland suburb value change 2021 ($)

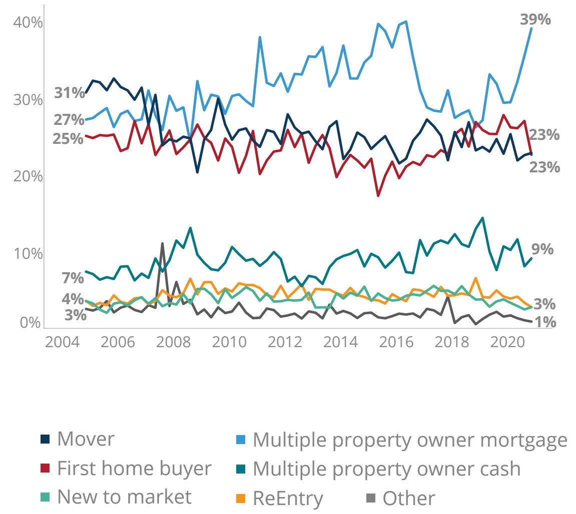


The upturn in property values over the past 6-9 months has been seen across almost all suburbs, with some areas seeing very stark increases. CoreLogic's interactive 'Mapping the Market' product shows the changes over the past 12 months, it's freely available and updated quarterly. The heatmaps in 'Mapping the Market' are point-in-time snapshots of median values from 2020 and 2021, and show the % and $ change over that period too. See **www.corelogic.co.nz/mapping-marke**t

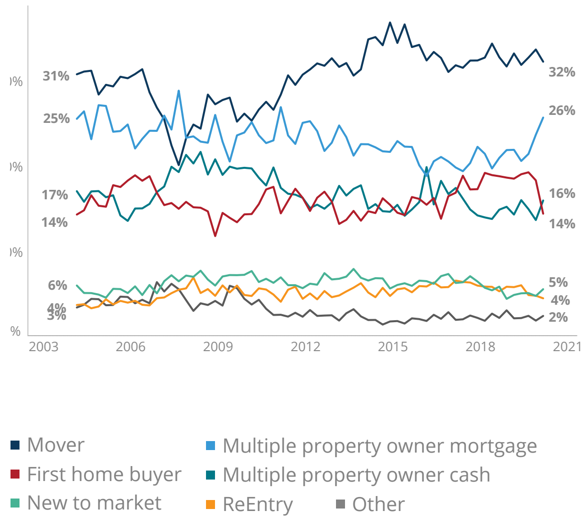
Auckland is illustrated in the heatmap here. Herne Bay remains the highest priced suburb in Auckland (and the entire country), with a median property value now of $3m. There are 12 suburbs across Auckland with a median value at least $2m, and 139 with a value at least $1m. All suburbs have seen median values rise over the past year, ranging from more than 20% in Otara, Manurewa East, and Red Hill, down to 1% in Auckland Central. When converted to dollar terms, the largest rise has been in Saint Marys Bay, at $323,350, while 144 other suburbs have seen gains of at least $100,000.

Hamilton Market Activity

Buyer Classification – Hamilton (% of purchases)



Buyer Classification – Waikato region (% of purchases)



Hamilton's Buyer Classification trends have also mirrored the national picture lately, but mortgaged multiple property owners always tend to have a higher market share than the national average, while the recent rise for this group has been stronger too.

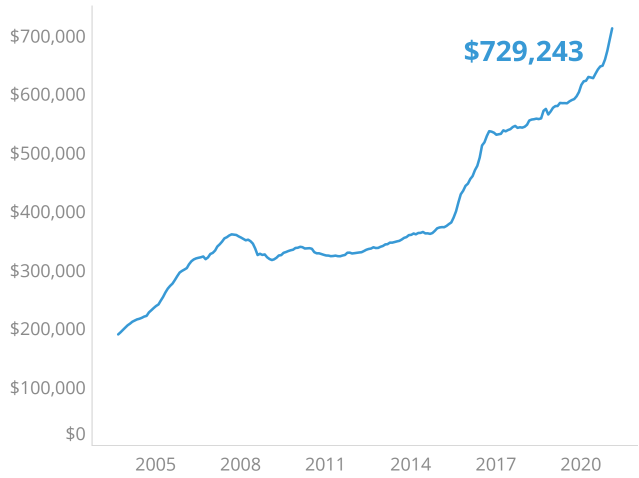
Indeed, in the first quarter of 2021, mortgaged investors accounted for 39% of property purchases in Hamilton, well above the national figure of 29% (which itself was a record high). Again, low term deposit rates are likely to be diverting funds towards buying investment property in Hamilton, alongside cheap mortgage rates that are encouraging borrowing.

Meanwhile, first home buyers had a 23% share of purchases in Hamilton in Q1 2021, down pretty sharply from 27% in Q4 2020. Although the number of purchases by FHBs in Hamilton has held up pretty well, the loss of a little market share hints at a declining ability to keep up with those investors and the ever-rising deposit requirements (on the back of sharply rising property values).

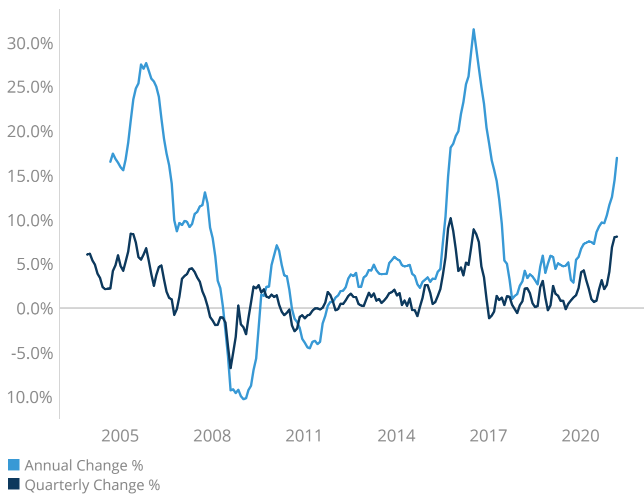
At 23%, the market share for movers in Hamilton has also been relatively low in the first quarter of 2021, reflecting a lack of listings and a preference for existing owner occupiers to just stay where they are, because they can't always find their ideal next property.

Hamilton Values

Average value of housing stock Hamilton ($)



Annual and quarterly value change Hamilton (%)



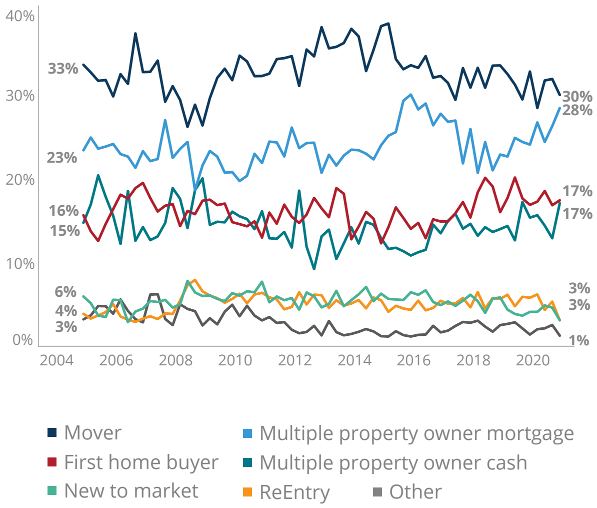
Hamilton's average property values rose by another 2.3% in March alone, and have risen by 8.1% since December, and 17.0% over the past year. At $729,243, they've broken through the $700k mark very quickly in the past few months.

The growth in March was very even across Hamilton, at between 2.0% and 2.4%. On a three-month basis, the North East (6.7%) has been a little softer than the other parts of Hamilton, but still pretty strong in its own right. The three-month change in Central & North West has been in double digits, but over a 12-month horizon, the 'cheaper' South West of the city has been the strongest (19.9%).

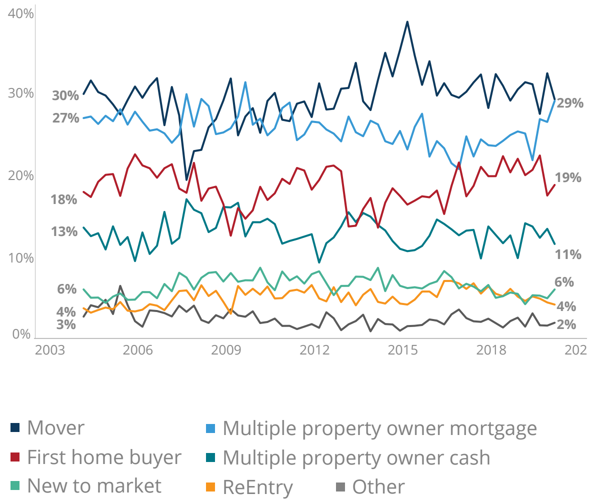
			MARCH 2021		
	Current value	1 month	3 month	12 months	5 years
Hamilton Central & North West	$681,784	2.4%	10.3%	16.9%	59%
Hamilton North East	$891,643	2.3%	6.7%	15.3%	54%
Hamilton South East	$673,957	2.1%	8.2%	16.6%	58%
Hamilton South West	$660,227	2.0%	7.7%	19.9%	62%

Tauranga Market Activity

Buyer Classification – Tauranga (% of purchases)



Buyer Classification – Bay of Plenty region (% of purchases)

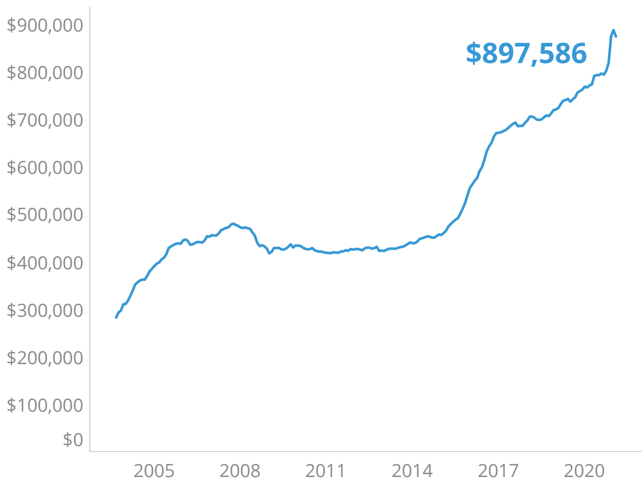


Over the first three months of 2021, movers remained the key buyer group in Tauranga, accounting for 30% of purchases. The high market share for movers contrasts with all of the other main centres, and potentially illustrates how a solid base of equity/wealth is important in Tauranga, rather than necessarily local wages being a key driver for a property purchase.

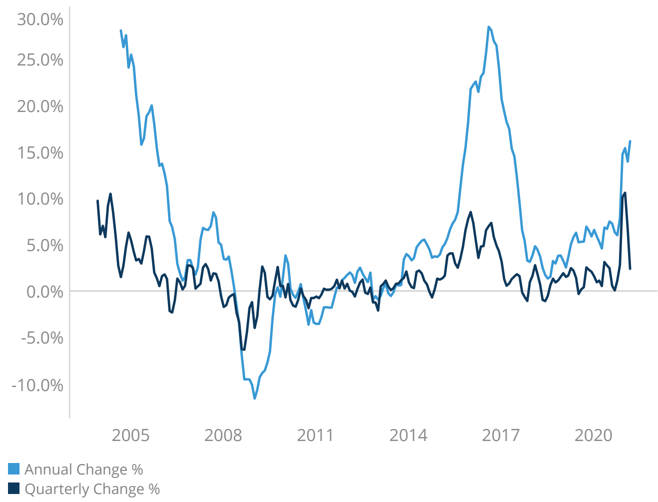
Meanwhile, first home buyers' market share was relatively stable in Tauranga at 17% in Q1 2021, still broadly in line with past norms. The big shift came from mortgaged multiple property owners, who have raised their market share from 24% in Q3 2020 to 28% now – the highest figure since late 2016, and is a consistent trend with many other parts of the country.

Tauranga Values

Average value of housing stock Tauranga ($)



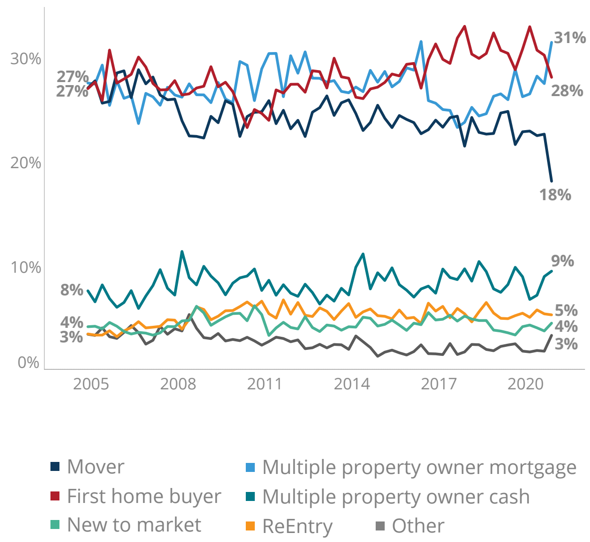
Annual and quarterly value change Tauranga (%)



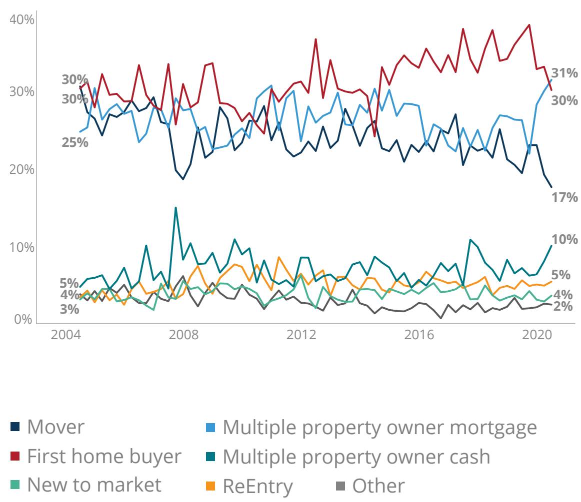
Tauranga's average property values had a bit of a soft patch in the past 2-3 months, 'only' changing by 2.4% since December. However, the increase over the past 12 months as a whole has still been 16.2%, which equates to $125,143. The level for average values in Tauranga is now within sight of $900,000, which would be the third main centre to go above that mark (behind Auckland and Wellington).

Wellington Market Activity

Buyer Classification – Wellington (% of purchases)



Buyer Classification – Lower Hutt region (% of purchases)



Across the four main territorial authorities in Wellington (City, Lower Hutt, Upper Hutt, Porirua), first home buyers were no longer the largest buyer group in Q1 2021 – that mantle shifted to mortgaged multiple property owners (MPOs), or in other words, investors.

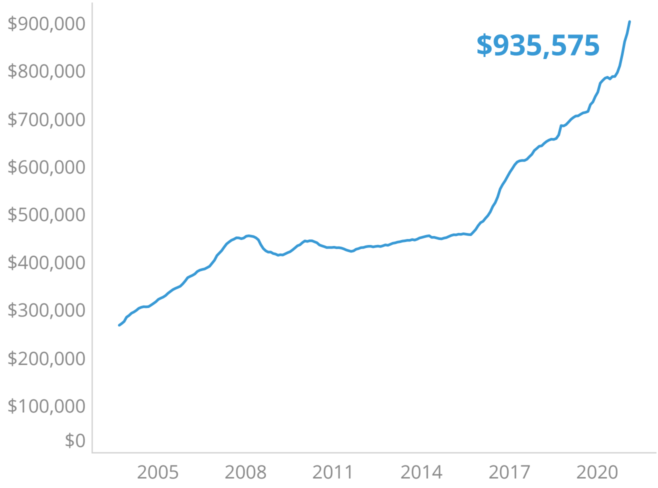
Indeed, investors' share of purchases climbed from 27% in Q4 2020 to 31% in Q2 2021, matching the previous record high seen in Q3 2016. Low returns on other asset classes, the previous removal of the loan to value ratio speed limits, as well as low mortgage rates, have all been factors behind the rise in investors' presence in the property market around Wellington. It's likely that the continued strength of capital gains has drawn in a few new investors too, even if those gains may not be as strong in future.

Lower Hutt and Wellington City itself have been key contributors to the overall rise in mortgaged investors' market share lately, while Upper Hutt and Porirua have actually remained stronger markets for first home buyers. In Porirua, FHBs had a 29% market share in Q1 2021 (versus 25% for mortgaged investors), and Upper Hutt's figure was 36% (versus 30%).

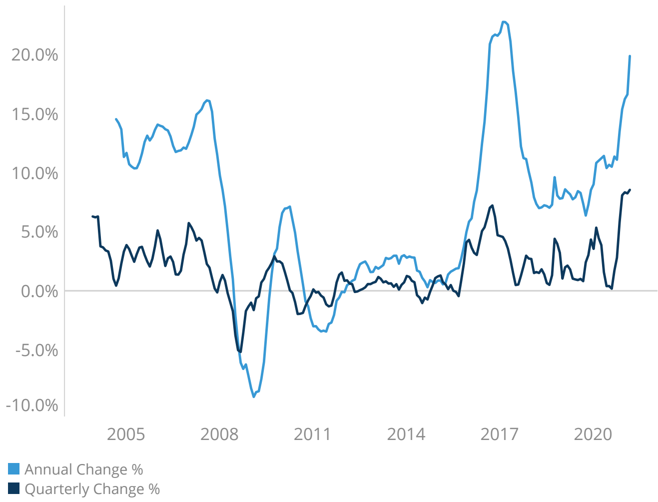
Meanwhile, movers remain very quiet around the wider Wellington area, with these existing owner occupiers only accounting for 18% of purchases in Q1 2021, with a more normal figure being in the mid-20%'s. The very tight supply of listings in Wellington is clearly prompting property owners to just stay where they are instead of trying to find their next property when the choice available is low.

Wellington Values

Average value of housing stock Wellington ($)



Annual and quarterly value change Wellington (%)



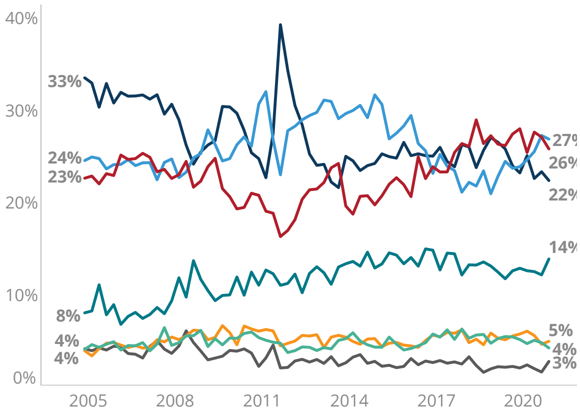
The wider Wellington area has been right at the heart of NZ's property market upswing in the past 6-9 months (and prior to COVID too), with values in Q1 2021 alone rising by between 5.7% in South Wairarapa up to a 'rampant' 15.1% in Carterton. Upper Hutt and Kapiti Coast also saw a double-digit increase in average values from December to March, with Lower Hutt not far off (9.7%).

On an annual basis, growth has been more than 30% in Masterton, and close to that mark in South Wairarapa and Carterton. Around the wider area, only Wellington City has seen an annual rise of less than 20%, but at 17.4% you'd hardly call its figure weak. Indeed, Wellington City has seen such growth that the average value of property is now above $1m.

	MARCH 2021				
	Current value	1 month	3 month	12 months	5 years
Porirua	$850,067	3.5%	7.9%	24.4%	108%
Upper Hutt	$788,679	5.4%	11.5%	25.7%	126%
Lower Hutt	$823,080	3.1%	9.7%	21.9%	108%
Wellington City	$1,046,576	3.4%	7.8%	17.4%	76%
Carterton	$614,330	4.5%	15.1%	27.1%	118%
Masterton	$561,322	2.7%	8.1%	31.0%	126%
South Wairarapa	$733,934	0.3%	5.7%	29.0%	128%
Kapiti Coast	$825,590	3.1%	10.7%	25.5%	105%

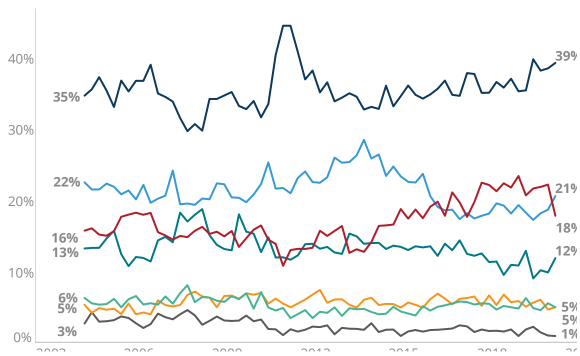
Christchurch Market Activity

Buyer Classification – Christchurch (% of purchases)



■ Mover ■ Multiple property owner mortgage
■ First home buyer ■ Multiple property owner cash
■ New to market ■ ReEntry ■ Other

Buyer Classification – Canterbury region (% of purchases)



■ Mover ■ Multiple property owner mortgage
■ First home buyer ■ Multiple property owner cash
■ New to market ■ ReEntry ■ Other

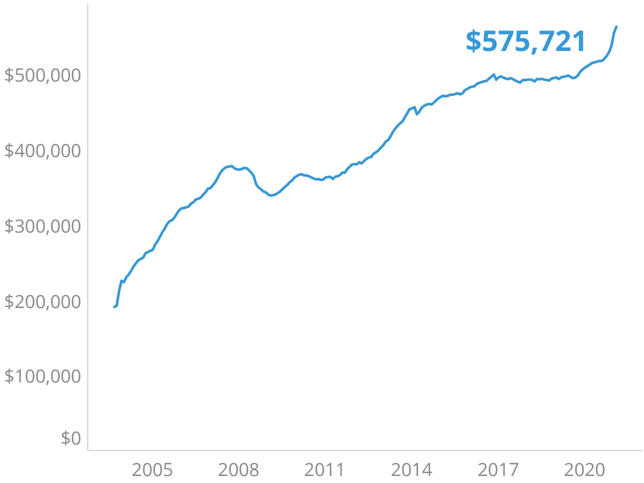
Christchurch is seeing similar Buyer Classification trends to the other main centres, with mortgaged investors on a rising trend and movers relatively quiet. However, first home buyers are still a bit stronger in Christchurch than some of the other parts of the country.

In the first three months of the year, mortgaged investors had a 27% share of property purchases in Christchurch, the same as Q4 2020 (and a bit below the national figure of 29%). First home buyers saw their market share drop a little from 27% in Q4 2020 to 26% in Q1 2021, but still above the national figure of 21%. At 22%, movers' share of activity in Christchurch is at a relatively low level.

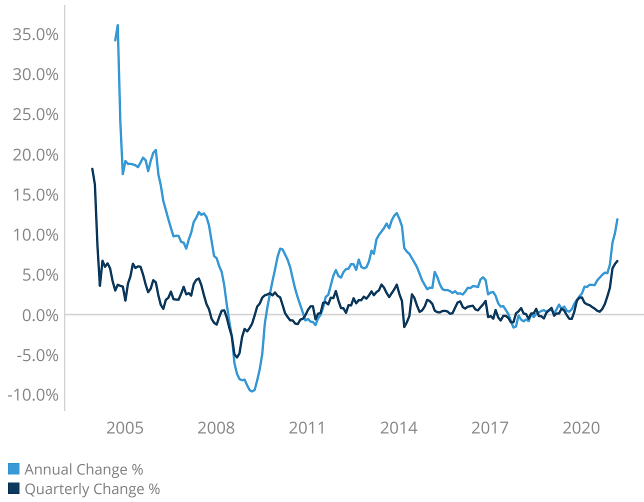
Meanwhile, in Selwyn, it's a different buyer mix – movers account for a very strong 42% of activity, versus just 23% for mortgaged investors and 16% for first home buyers. In Waimakariri, movers also dominate, with a 42% share of purchases in Q1 2021

Greater Christchurch Values

Average value of housing stock Christchurch ($)



Annual and quarterly value change Christchurch (%)



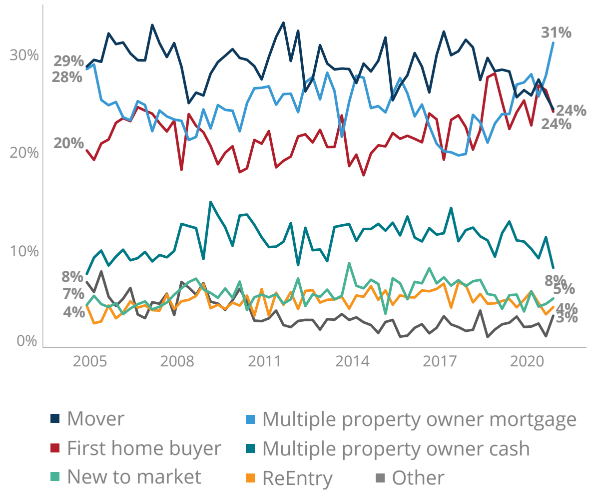
The wider Christchurch market has been part of the national upswing in property values in recent months, with areas like Selwyn and Christchurch South West seeing rises in average values of at least 2.5% in March alone. Over the first three months of the year as a whole, the increases have ranged from around 5% in Waimakariri and Christchurch Hills up to more than 7% in Christchurch East and South West.

On an annual basis, each sub-market has seen a double-digit increase in average property values, with Christchurch Hills and East, as well as Waimakariri, all registering 12% or more. Anecdotally, the supply of new development land coming on stream around Greater Christchurch isn't as plentiful as in the past, so it'll be interesting to watch this market's supply/demand balance over the medium term.

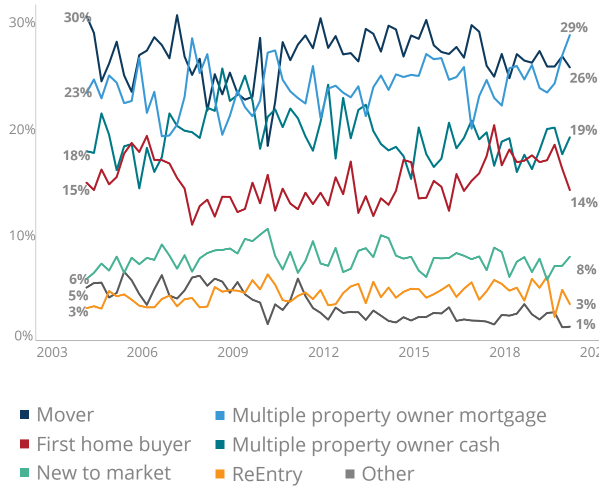
	MARCH 2021				
	Current value	1 month	3 month	12 months	5 years
Banks Peninsula	$609,483	1.1%	5.7%	10.9%	24%
Christchurch Central & North	$670,393	1.5%	6.4%	11.8%	17%
Christchurch East	$441,320	2.0%	7.5%	12.7%	20%
Christchurch Hills	$788,627	1.9%	5.1%	12.0%	21%
Christchurch Southwest	$546,785	2.5%	7.2%	11.7%	18%
Selwyn	$628,534	3.1%	6.5%	11.5%	18%
Waimakariri	$519,781	2.0%	5.0%	12.6%	23%

Dunedin Market Activity

Buyer Classification – Dunedin (% of purchases)



Buyer Classification – Otago region (% of purchases)

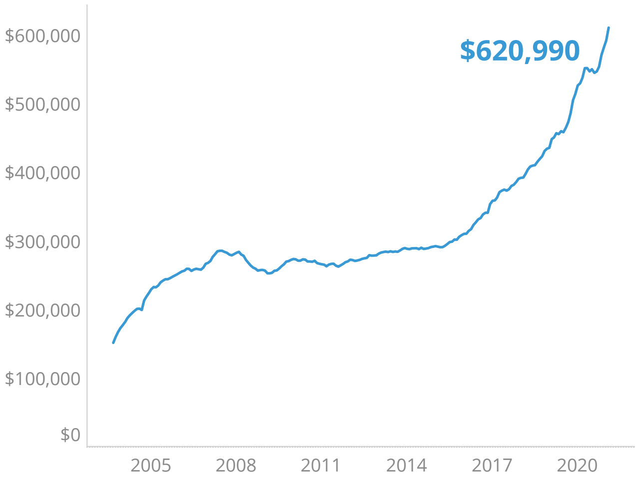


Mortgaged investors pushed up to a new record high in terms of their market share of property purchases in Dunedin in Q2 2021, reaching 31% (the previous mark was 28%). This buyer group has been active right across the country, driven by low returns on other asset classes, the low cost to borrow, and until recently the absence of the official RBNZ deposit requirements (or LVR speed limits).

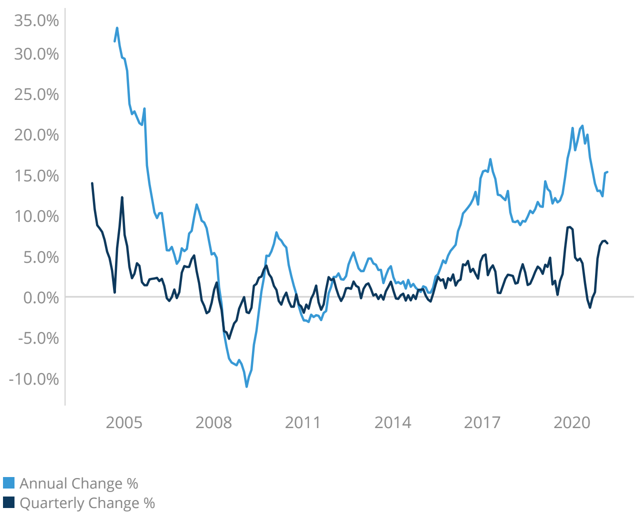
At the same time, movers in Dunedin had only a 24% market share in Q1 2021, the lowest on record – we suspect many of these existing owner occupiers will have been forced to stay where they are due to lack of available choice/listings. Meanwhile, the market share for first home buyers has also dipped in the past few months too, from 26% in Q4 2020 to 24% in Q1 2021.

Dunedin Values

Average value of housing stock Dunedin ($)



Annual and quarterly value change Dunedin (%)



After a lull for a few months mid-way through 2020, Dunedin's property market upswing has resumed more recently, and values soared by between 5.1% (South) and 8.0% (Central & North) in the three months to March alone. The annual gains have ranged from about 14% (South and Taieri) up to 17% in Dunedin Central & North.

			MARCH 2021		
	Current value	1 month	3 month	12 months	5 years
Dunedin Central & North	$644,033	1.8%	8.0%	17.3%	96%
Dunedin South	$594,244	1.8%	5.1%	13.5%	98%
Peninsula and Coastal	$565,795	1.5%	7.7%	15.2%	100%
Taieri	$640,714	1.1%	6.3%	14.3%	95%

CoreLogic Data and Analytics

Suburb Scorecard

Detailed housing market indicators down to the suburb level, with data in time series or snapshot and segmented in most cases across houses, flats and apartments. The Suburb Scorecard data includes key housing market metrics such as median prices, median values, transaction volumes, rental statistics and vendor metrics such as median selling time.

Market Share Reports

CoreLogic is in a unique position to monitor mortgage related housing market activity. Transaction volumes, dwelling values and mortgage related valuation events all comprise our Mortgage market report which provides an invaluable tool for mortgage industry benchmarking and strategy.

CoreLogic Indices

The suite of CoreLogic Indices range from simple market measurements such as median prices through to our flagship house price indices – both quarterly for completeness and monthly for reactiveness. The Quarterly CoreLogic House Price Index has been specifically designed to track the value of a portfolio of properties over time and is relied upon by New Zealand regulators and industry as the most accurate measurement of housing market performance.

Sales Volumes

CoreLogic tracks sales from a number of different sources to provide up to date insights on recent sale. Where applicable CoreLogic also applies estimation for expected final sales in recent months where not all sales have been collected.

Market Activity

Based on all valuations run through the centrally managed valuation panel CoreLogic provides an index for market activity which tracks as a lead indicator for sales in the market.

Buyer Classification

A unique and flagship product to CoreLogic, Buyer Classification classifies all purchases into types of buyer based on their current ownership of NZ property. Used at a record level by Government organisations to assist policy decisions.

To view the latest report online and subscribe to receive it in your inbox on a monthly basis, visit: **www.corelogic.co.nz/property-market-and-economic-update-report**

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Published date: **Quarter 1, 2021**

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