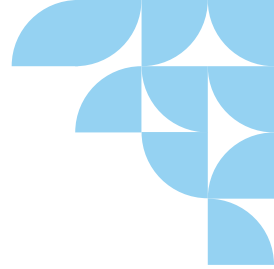


REINZ & TONY ALEXANDER REAL ESTATE SURVEY

April 2021



MARKET REACTION TO POLICY CHANGES EVIDENT

Welcome to the REINZ & Tony Alexander Real Estate Survey. This survey gathers together the views of licensed real estate agents all over New Zealand regarding how they are seeing conditions in the residential property market in their areas at the moment. We ask them how activity levels are changing, what the views of first home buyers and investors are, and the factors which are affecting sentiment of those two large groups.

Last month we noted that following the Reserve Bank's confirmation that LVRs were coming back at an increased deposit level of 40% for investors (it was 30% pre-Covid), there were signs of some easing off in the strength of the residential real estate market around New Zealand. Unsurprisingly, following the March 23 announcement of an extension of the brightline test from 5 to 10 years, and more significantly the removal of ability to deduct interest costs, additional signs of weakness have appeared.

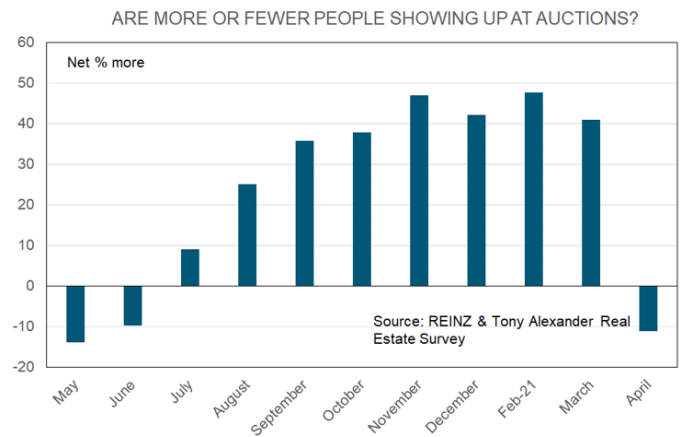
However, while the results we discuss below highlight areas of pullback, they also show that a net 56% of real estate agents continue to feel that prices are rising – the same proportion as in August. And a net 66% also feel that FOMO (fear of missing out) remains on the part of buyers – also a result little changed from that of August.

These results, alongside many anecdotes of continued firm bidding at auctions over the past two weeks, suggest that if it is a substantial and sustained slowing of the residential property market which the government is seeking, (in the face of continued extremely low interest rate stimulus from the Reserve Bank), then their work is not complete.

ARE MORE OR FEWER PEOPLE SHOWING UP AT AUCTIONS?

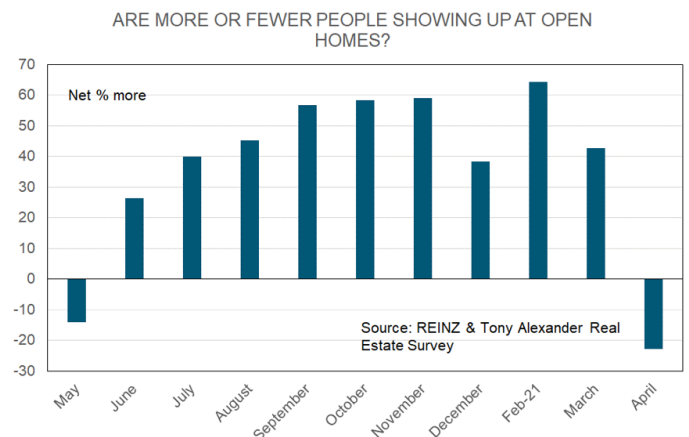
A net 11% of the 369 respondents in this month's survey have reported that they are seeing fewer people turning up at auctions. This result entirely reflects observations after March 23, and almost entirely before the Easter break. As such they could as easily be biased upward from opportunistic or desperate buyers hoping for reduced

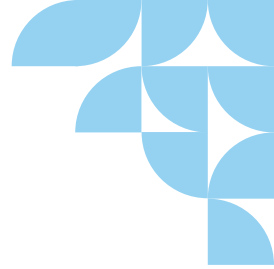
competition from investors, as downward from buyers holding off to see how things will develop. A number of the comments from real estate agents submitted in the survey suggest small numbers of both buyers and vendors have paused for the moment to see what will happen.



ARE MORE OR FEWER PEOPLE ATTENDING OPEN HOMES?

There were mixed comments following the first weekend after the March 23 announcements regarding how many people were showing up at open homes. Most however noted that fewer people were appearing than agents had become used to in recent months and our survey result backs this up.

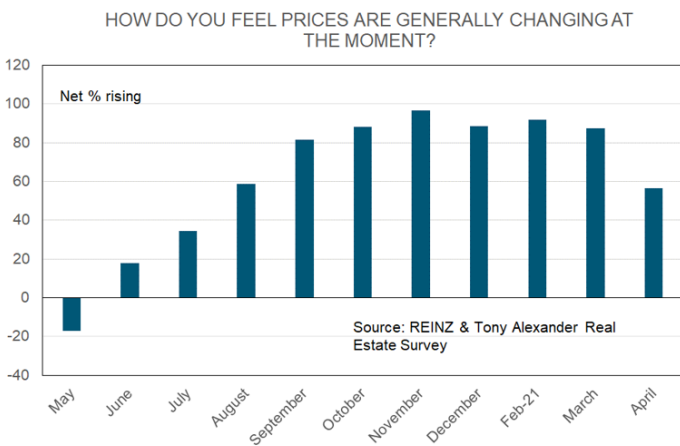




A net 23% of residential real estate agents around the country have reported fewer people in attendance at open homes. This is a sharp turnaround from the net 43% in late-February who reported more people attending and the lowest result since our survey started in May.

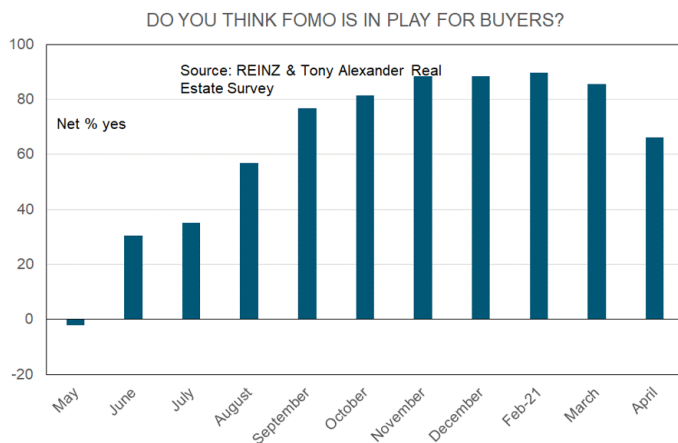
HOW DO YOU FEEL PRICES ARE GENERALLY CHANGING AT THE MOMENT?

A net 56% of responding real estate agents have reported that they are seeing prices rise in their location. This tells us that there has been no immediate downward correction in prices in response to the government’s housing policy announcements. But the result does cement in the ending of the period of rising price observations which started as soon as the nationwide lockdown ended. Between September and March there was no overall perception of a change in pricing pressures away from upward – but that has now shifted.



On average between 2011 and 2014 when this same question was asked in a previous similar survey, a net 31% of agents responded that prices are rising.

DO YOU THINK FOMO IS IN PLAY FOR BUYERS?



FOMO = Fear of missing out

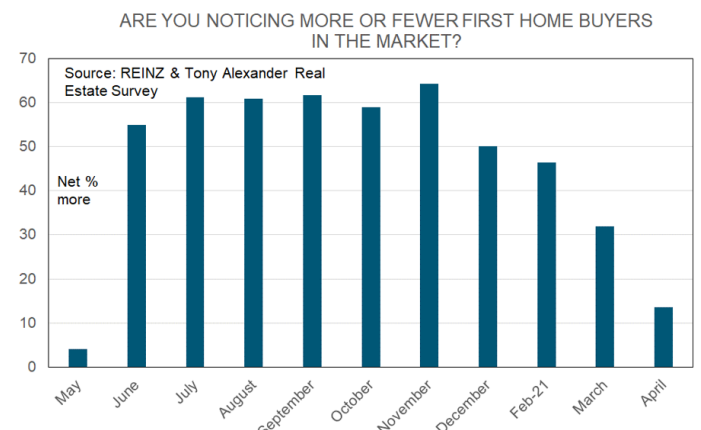
Agents continue to observe that prices on average are rising in their location, and they continue to report that buyers are displaying FOMO. A net 66% reported things this way at the end of March. This was the lowest result since August last year, but it is still firmly in positive territory and not suggestive as yet of any substantial correction in the market.

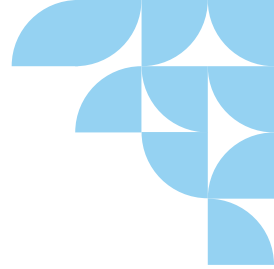
ARE YOU NOTICING MORE OR FEWER FIRST HOME BUYERS IN THE MARKET?

The government is hoping that by penalising people for providing rental accommodation in New Zealand, more first home buyers will be able to purchase a property. However, our survey shows that whereas in late-February a net 32% of agents were reporting more first home buyers in the market, this survey only a net 14% have done so. This is the weakest result since our first survey in May.

But back then, as soon as the nationwide lockdown ended first home buyers sprang strongly into the market hoping for listings, hoping for some price discounting, and looking to take advantage of reduced interest rates and the removal of loan to value ratio regulations.

But listings did not improve, and extremely few vendors needed to sell given low interest rates, mortgage holidays, wage subsidies and then the firmer than expected recovery in the labour market. This time around interest rates remain at record low levels for borrowers and term depositors, mortgage holidays and wage subsidies are gone and no longer needed by almost all previous recipients outside the tourism sector, but LVRs are back in place and new investors have lost interest expense deductibility for their business right away.

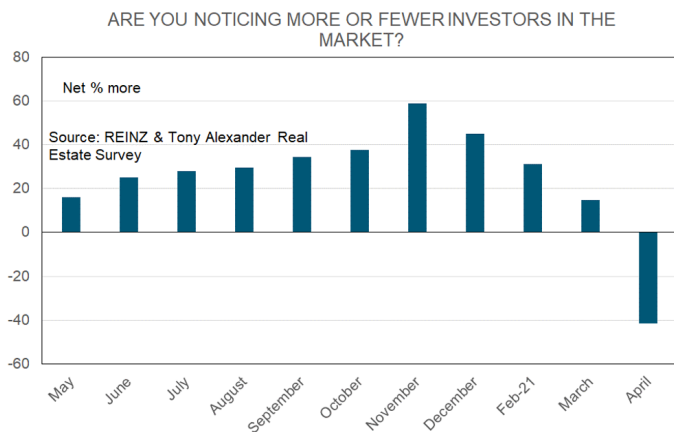




Are conditions more conducive now to a rush of vendors stepping forward and others not buying than they were a year ago? At this stage the answer from new buyers appears to be no – but as noted elsewhere, these are very early days following the policy changes and it will take some time to see how things settle down and in particular how many investors are truly dissuaded from buying.

ARE YOU NOTICING MORE OR FEWER INVESTORS IN THE MARKET?

The government has introduced policies which they hope will cause investors to do two things. One is to purchase fewer existing properties, and the other is to purchase more new properties and thus encourage their construction and boost the pace of growth in house supply. We cannot gauge the switch between property types explicitly from our survey, but we can observe overall changes in investor presence in the market.

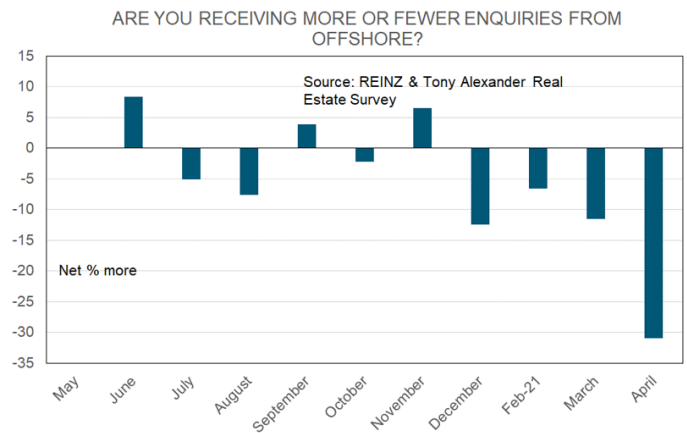


This survey a net 41% of agents have reported that they are seeing fewer investors in their market. This is the weakest result since our survey started in May last year and far removed from the peak pace of growth in new investor flows back in November. Government rule changes are clearly in play. But it pays to note that the flow of new investors has been easing off since December.

ARE YOU RECEIVING MORE OR FEWER ENQUIRIES FROM OFFSHORE?

There has been a substantially falling away of offshore enquiry this month with a net 31% of real estate agents around New Zealand reporting fewer offshore calls. This result is of substance because it substantially differs from results in all other months. But it is also consistent with a downward trend in this measure which has been underway since December.

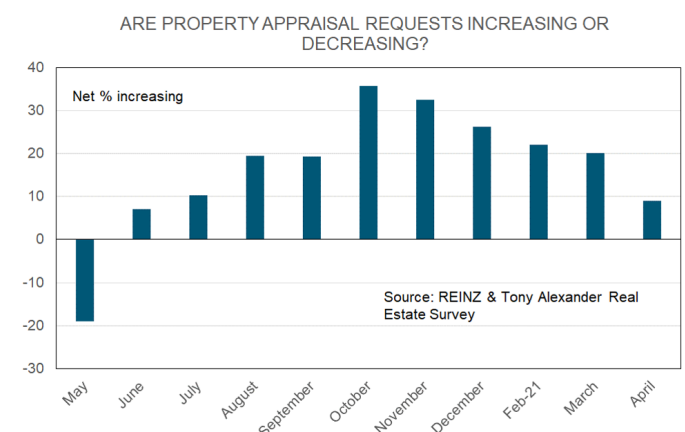
We will have to wait and see to what extent this result reflects sheer uncertainty by distant buyers as compared with their actual reduced willingness to purchase.

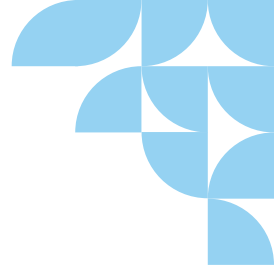


ARE PROPERTY APPRAISAL REQUESTS INCREASING OR DECREASING?

We include this question because we hope it will be able to give an early indication of vendors capitulating to market changes and choosing to sell their properties through a feeling that potential for further price gains is low. But it could just as easily be capturing changes in appraisal requests based on willingness to spend money from capital gains on paper.

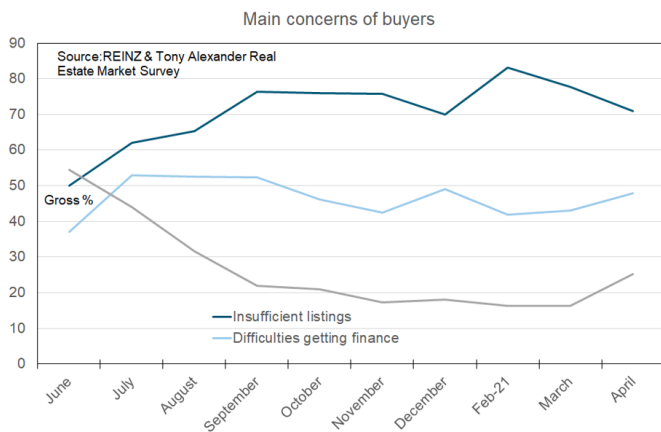
Either way, it does have capacity to give a leading indication of where the pace of growth in sales overall may be headed. In that regard the latest result is a continuing of an easing growth trend in place since November. The results suggest that sales will continue to grow in the near future but at a slowing pace.



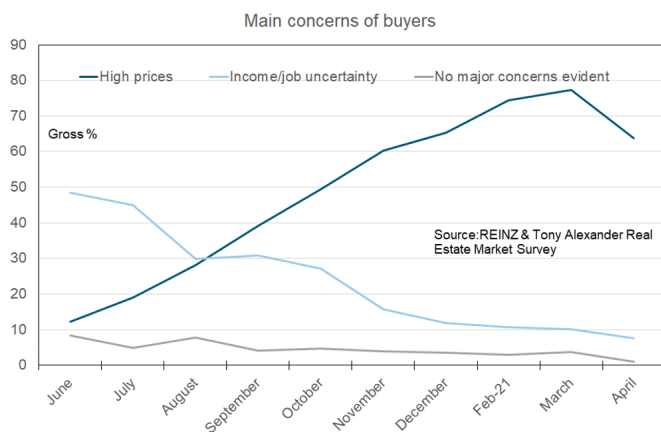


WHAT ARE THE MAIN CONCERNS OF BUYERS?

A gross 71% of agents still feel that buyers are concerned about the shortage of listings. But this is the lowest such perception since August and that could reflect buyer hopes that rule changes will bring forth some more vendors. There is no trend change obvious regarding perceptions of buyer difficulties getting finance. But there is an interesting rise in perceptions of worries that prices might fall to a gross 25% from 16% in late-February. The first graph following shows readings for these three areas of concern since June last year.



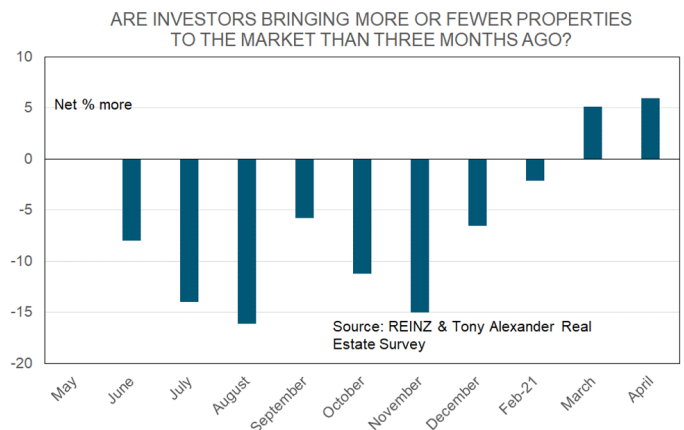
Worries about prices being high remain themselves high at a gross 64%, but this is down from a peak of 77% a month ago. Income and employment concerns continue to trend down, backing up many other indicators suggesting strength in the labour market.

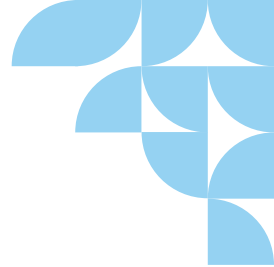


ARE INVESTORS BRINGING MORE OR FEWER PROPERTIES TO THE MARKET TO SELL THAN THREE MONTHS AGO?

The government will be hoping that regulation changes will encourage more investors to sell. There has been a trend change in agent perceptions of willingness to sell since the recent peak in unwillingness back in November. But we cannot conclude from the small rise in selling intentions this month that the announcements of March 23 have had any impact on willingness of investors to sell.

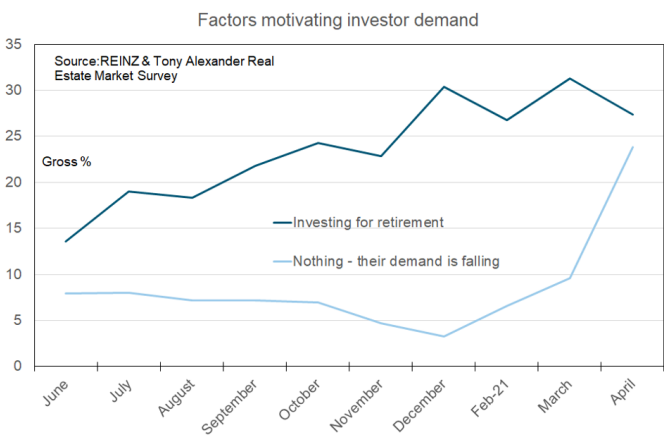
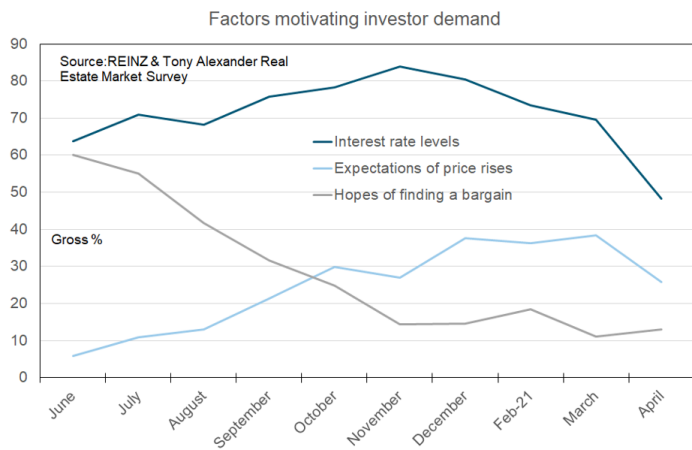
In fact, there is naturally a disincentive to sell caused by the extension of the brightline test for new purchases. But our research has struggled to find any impact on sales volumes of past rule changes and the expiry of the initial two-year test period, and it is unlikely that the extension to ten years from five years will elicit any clearly measurable response in the market over coming years. Of greater impact may be the incentive to investors to switch to a buy and sell model rather than long-term hold caused by the removal of interest expense deductibility. Property development by investors itself has not been directly incentivised, but relative to buying and providing rental accommodation it has been.

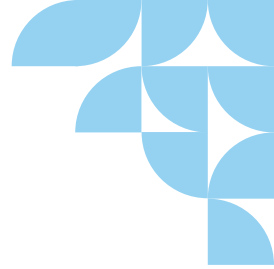




WHAT FACTORS APPEAR TO BE MOTIVATING INVESTOR DEMAND?

Interest rate levels remain the prime motivator of property demand from investors with a gross 48% of agents reporting this. But there has been a downward trend underway in this factor since December and the latest result merely represents a slight acceleration in that trend rather than necessarily a strong shift. Expectations of price rises have eased slightly but remain positive. The last line in the second graph backs up the result regarding whether agents are noticing more or fewer investors in the market. We noted above that a net 41% of agents have reported seeing fewer investors and here we note that a gross 24% of agents report that investor demand is falling in their area.





REGIONAL RESULTS

The following table breaks down answers to the numerical questions above by region. No results are presented for regions with fewer than 7 responses as the sample size is too small for good statistical validity of results. Even for regions with responses between 7 and 20, caution needs to be applied as results may prove quite volatile from one month to the next. Nelson and Tasman results have been joined together.

- A. # of responses
- B. Are property appraisal requests increasing or decreasing?
- C. Are more or fewer people showing up at auctions?
- D. Are more or fewer people attending open homes?
- E. How do you feel prices are generally changing at the moment?
- F. Do you think FOMO is in play for buyers?
- G. Are you noticing more or fewer first home buyers in the market?
- H. Are you noticing more or fewer investors in the market?
- I. Are you receiving more or fewer enquiries from offshore?
- J. Are investors bringing more or fewer properties to the market to sell than three months ago?

	A #obs	B Appraisals	C Auction	D Open H.	E Prices	F FOMO	G FHBs	H Invest.	I O/seas	J Inv. selling
Northland	20	0	5	-20	55	55	-5	-50	-5	-10
Auckland	126	12	-29	-35	43	52	13	-46	-35	15
Waikato	39	-8	-5	-10	74	74	31	-41	-46	-5
Bay of Plenty	31	29	3	-16	48	71	6	-35	-29	-6
Gisborne	1									
Hawke's Bay	16	31	19	6	75	81	13	-63	-44	19
Taranaki	4									
Manawatu-Wanganui	12	-25	-17	-42	67	67	-25	-58	-33	25
Wellington	35	14	3	-17	69	77	29	-34	-37	12
Nelson/Tasman	11	-18	-9	-27	82	91	-27	-36	-45	-18
Marlborough	3									
West Coast	1									
Canterbury	43	7	5	-12	65	81	23	-33	-7	14
Queenstown Lakes	9	33	-22	-22	56	67	0	-33	-22	-11
Otago exc. Q'town	14	-7	-21	-29	36	64	29	-43	-29	-14
Southland	4									
New Zealand	369	9	-11	-23	56	66	14	-41	-31	6



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