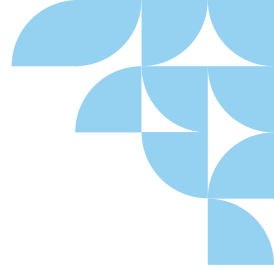


REINZ & TONY ALEXANDER REAL ESTATE SURVEY

May 2021



WAIT AND SEE FOR MANY

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.

This is our second survey undertaken since the government announced changes in housing policies on March 23. Of greatest significance in the announcement was the immediate removal of ability to deduct interest expenses from income for new buyers of existing property, and a phase in of the same deduction removal over four years for current property owners. New purchases of newly built properties will retain the deduction along with a five-year brightline test for application of capital gains tax, as opposed to an extension to ten years for new buyers of existing properties.

There has been considerable discussion about the impact of the changes on rents and availability of rental property. We cannot gauge such developments in our survey and in fact it may be a long time before the true impact becomes clear given the four-year phase-in period. But we can nonetheless gain coalface insights into how things are changing and in that regard every indicator we monitor has pulled back this month.

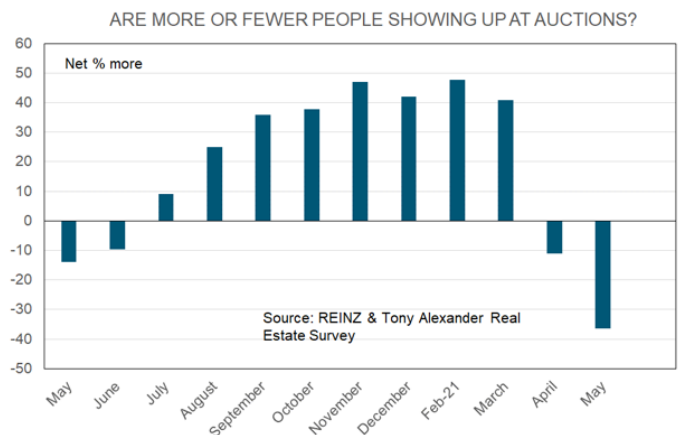
Of particular significance may be the reduction in the gross proportion of real estate agents saying that they are seeing FOMO (fear of missing out) on the part of buyers to 49% from levels above 90% over November to February, 90% in March, and 76% last month.

A net 63% of agents say that they are seeing fewer investors in the market and a net 8% fewer first home buyers. And it looks like the pace of prices growth is slowing with only a net 30% of agents reporting that in their area prices appear to be rising. This reading was 56% last month and 88% in February and is the lowest reading since June.

Each of the questions we ask agents is discussed below.

ARE MORE OR FEWER PEOPLE SHOWING UP AT AUCTIONS?

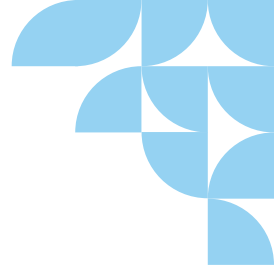
A net 36% of the 357 agents who responded in this month's survey said that they are seeing fewer people attending auctions. This is a further decline following the net 11% who in April reported fewer people at auctions and quite some distance away from the months from July to March when agents reported increases in auction attendance.



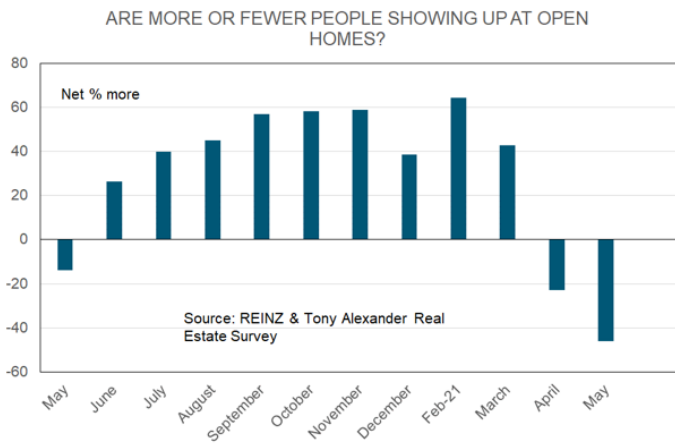
History tells us that when the residential real estate market is at its strongest there is high attendance at auctions, not just because a large number of people may wish to bid, but because people are eagerly seeking information on where market pricing in their area is sitting. This applies not just to buyers but to vendors wishing to sell and not wanting to under-price their property.

ARE MORE OR FEWER PEOPLE ATTENDING OPEN HOMES?

A quick glance at this graph for open home attendance alongside that for auction attendance will show that the observations move very closely together. This month a net 46% of agents have reported that there are fewer people showing up at open homes. Buyers are voting with their



feet by easing back from their property searches for the moment amidst considerable uncertainty about the final details of policies announced on March 23 and further measures indicated to come in this year's Budget due on May 20.



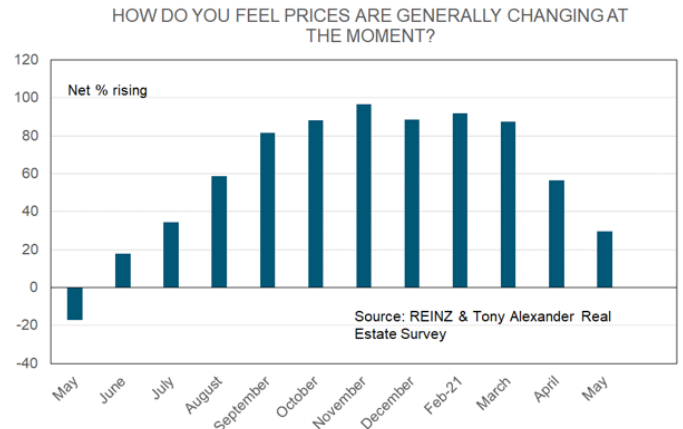
The latest reading for open home attendance is the lowest since our survey started in May last year when the nationwide lockdown was underway and understandably attendance at open homes was rather difficult.

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

The government has clearly stated that it wishes to produce a more sustainable level of house prices in New Zealand, and that is likely to be the view of the vast majority of people following the extreme price rises of 28% nationwide between May last year and March. Are price pressures easing? Agents responding in our monthly survey say yes.

A net 30% of agents report that prices are rising. This is down from 56% last month and readings above 80% from September through to March. This 30% reading is the lowest (slowest pace of perceived price rise) since June last year. But it is not yet close to the net 17% of agents who in our first survey in May 2020 reported that they perceived prices to be falling.

Note that of our 357 respondents only 24 (7%) said that they feel prices are actually falling in their area. Most, 57%, said prices are flat or they are unsure while 36% said prices are rising.



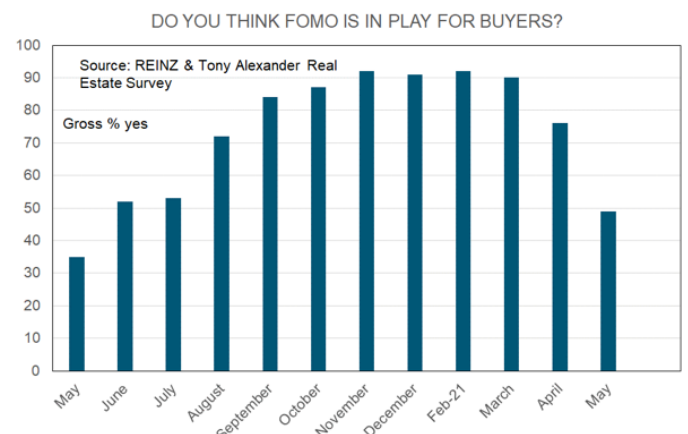
Note that on average between 2011 and 2014 when this same question was asked in a previous similar survey, a net 31% of agents responded that prices are rising. The nationwide pace of price increase back over that 2011-14 period of time averaged just over 5% per annum.

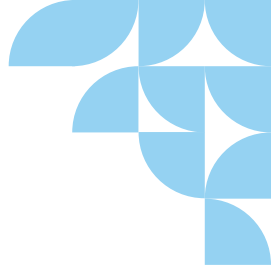
DO YOU THINK FOMO IS IN PLAY FOR BUYERS?

FOMO = Fear of missing out

For this question we report the gross proportion of respondents saying that they are observing FOMO amongst buyers. This month 49% of agents have replied that they are seeing FOMO. This is a decline from 76% last month, 90% in March, and is the lowest result since our first survey in May last year.

For many months now, media have been replete with stories of people, young people in particular, struggling to find, afford, and purchase a property. This struggle does not reflect a sudden population boom or shrinkage of the housing stock, but the incentive to buy now rather than waiting encouraged by the Reserve Bank cutting interest rates to record lows, removal of LVRs, and indicating low interest rates as likely to continue for a number of years.





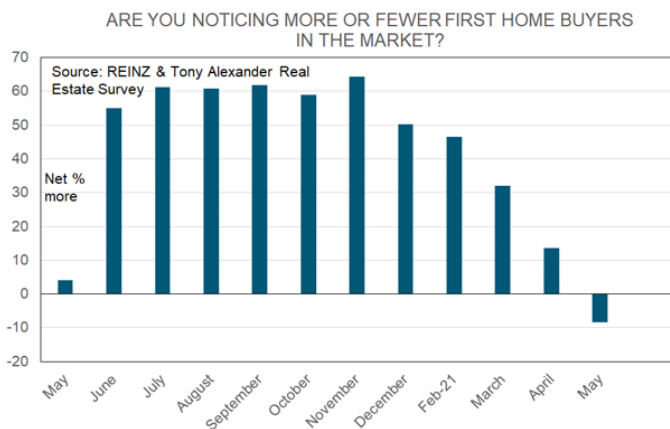
Coupled with expectations (undoubtedly not to be realised) of tens of thousands of Kiwi expats returning when the borders open, and people spending \$10bn previously allocated to overseas travel each year, we have seen a surge in residential property purchases develop in this unusual point in time.

It was always expected that at some point the visceral drive to purchase something would end. The actions of the government, along with the Reserve Bank's restoration of LVRs with a minimum deposit lift for investors from the old 30% to 40%, has, according to our survey, substantially cooled the animal spirits which have driven prices up 28% over a ten-month period.

In coming months, we can expect some further decline in our FOMO reading, due partly to extra measures the government has indicated will come in the May 20 Budget, along with winter naturally cooling people's heels. But the extent of this decline will be mitigated by the passage of time allowing investors to see things more clearly with respect to management of their property portfolio over the short and long-term. Realisation that selling and placing one's funds into a bank account where they will go backwards after tax and inflation is likely to stay the selling hand of many, whilst also encouraging some however to look at other assets such as equities.

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

The government's intention is to dampen investor demand for existing property. They are achieving that. But they are also causing a reduction in the buying interest of first home buyers. This month a net 8% of agents have reported that they are seeing fewer first home buyers in the market. This is the lowest result on record and well down from the net 64% of agents in November seeing more first home buyers looking to make a purchase.



We know from the many house price cycles New Zealand has seen in recent decades that when conversations switch from predictions of continued strong price gains towards prices flattening and maybe even falling for a while, young buyers pull back from the market. They become concerned about falling equity, and some with small deposits will worry even about moving to a negative equity position where the mortgage might exceed property value.

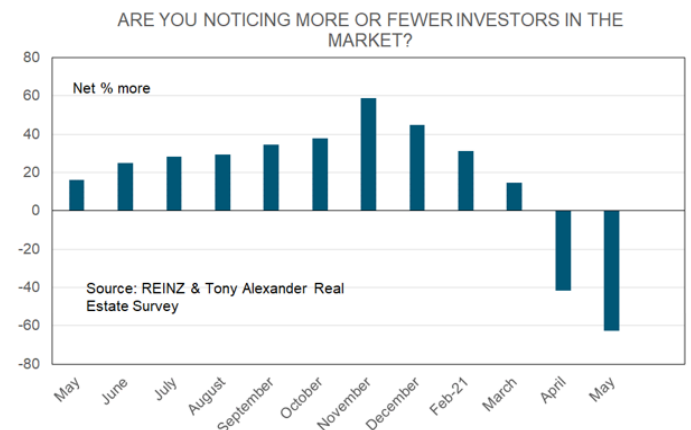
At the very time conditions move in favour of young buyers they tend to step back, taking their queue from what other parties such as investors are doing.

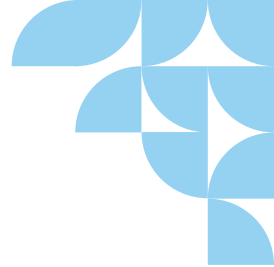
There is however an additional downward force on first home buyer demand this time around stemming from the March 23 announcements. In recent years more and more young people have sought to build a good deposit to allow purchase of a house they will occupy by purchasing a rental property to rent out and awaiting anticipated capital gain.

But this route has been all but closed off by the government through removing their ability to deduct what for them will be quite high interest costs and forcing them to hold the property for ten years to escape capital gains tax rather than five years.

ARE YOU NOTICING MORE OR FEWER INVESTORS IN THE MARKET?

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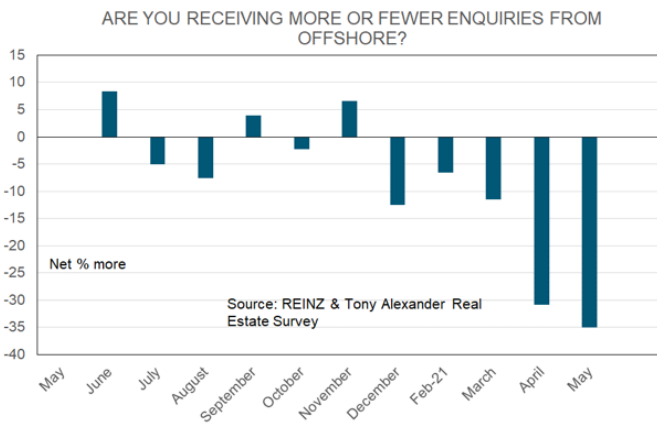


looking to make a purchase.

This month a net 63% of agents have reported that they are seeing fewer investors. This is a continuation of the initial decline post-March 23 to a net 41% seeing fewer investors, which itself was an accelerated continuation of a downward trend in investor presence growth underway since the start of December.

ARE YOU RECEIVING MORE OR FEWER ENQUIRIES FROM OFFSHORE?

There are many reasons why so many people have felt incentivised to make a house purchase over the past year. Some have been bringing forward in time purchases they had been planning for perhaps out to five years away. Others have reacted to removal of LVRs. Some have sought a quick gain on the basis of an expectation that a great horde of Kiwi expats will return home to our shores when the borders fully open.

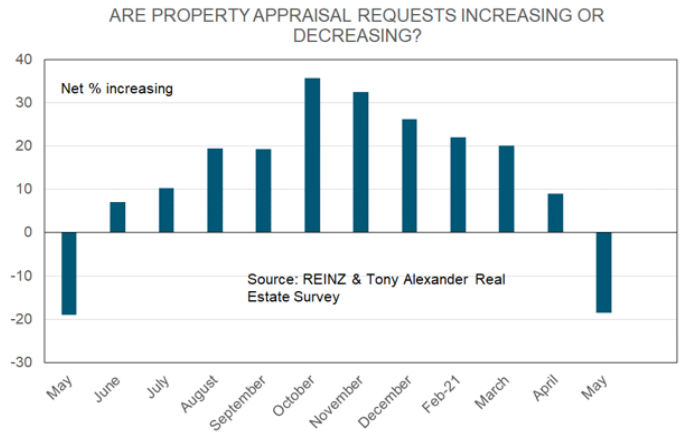


However, since December last year in each of our surveys agents have been reporting reduced interest in New Zealand from people located overseas. This month a net 35% have reported reduced enquiry, a deterioration from a net 31% in April and 12% in March.

There is no basis provided by these responses to strongly expect a rush of Kiwis back here either taking advantage of the opening of the Trans-Tasman bubble, or when the international borders fully reopen, presumably next year.

In fact, given the surging Australian economy and spike in demand for tradespeople particularly, we should not be surprised if there is a net loss of Kiwis across the Tasman over the coming year to take advantage of the strong Australian jobs market and the higher remuneration on offer there than here.

ARE PROPERTY APPRAISAL REQUESTS INCREASING OR DECREASING?



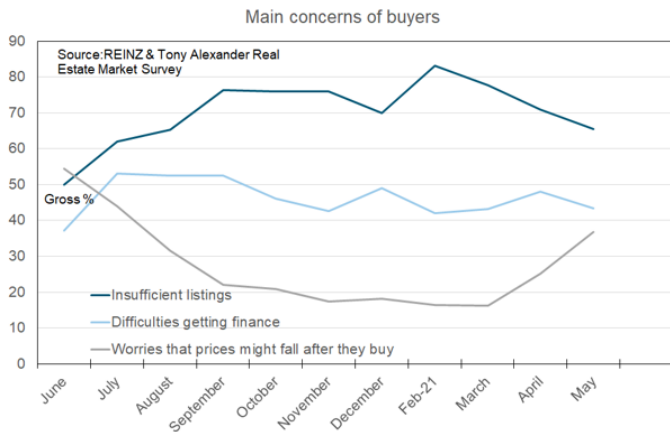
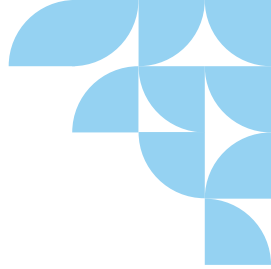
This month a net 18% of responding agents have reported that they are seeing fewer enquiries for appraisals of a property’s market value. The increase in the number of people looking to potentially place their property on the market has been easing since a peak in October last year and this latest result suggests that caution about immediate price movements may have dissuaded a number of people from listing their property – for now.

Markets eventually settle down and when they do the normal process of people looking to upsize, downsize, shift location for work etc. will come back into play.

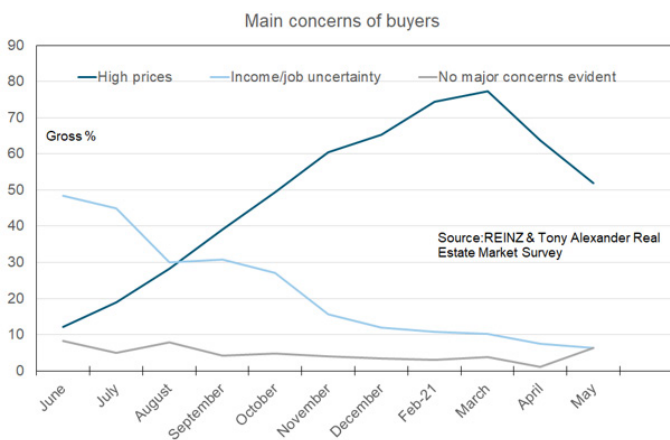
WHAT ARE THE MAIN CONCERNS OF BUYERS?

Answers to this question can be very useful in putting some flesh on the bare bones of market developments identified in responses to our main questions already discussed above. We ask agents what the main things are which buyers are concerned about. For ease of presentation the results are split across the following two graphs. The first graph shows us that while worries about a lack of listings remain very high, such worries are on a downward track. The light blue line tells us that there is no trend change in financing difficulties. But the grey line tells us that there has been a rise in worries that prices might fall. We can call this a measure of FOOP = fear of over-paying.

People have likely pulled back from the market for the moment amidst high levels of uncertainty about what other people will do, partly because they see a chance that the frenzy of previous months could have pushed prices to unsustainable levels on average in some locations. When things settle down these FOOP concerns will dissipate. But for now, FOOP has increased in relevance to a gross 37% of agents from 25% last month and 16% in March.



Our second graph displaying agent perceptions of buyer concerns shows a firm reduction in worries about high prices but still very low perceptions of concerns about incomes. This latter development will reflect the strong state of the labour market in New Zealand and is a key reason why much of the commentary in this report is along the lines that much of the emerging weakness we see in real estate market indicators will be temporary. Strong economic and employment growth and job security tend to underpin demand for housing.



From next month we will include an option of “Rising interest rates” for agents to choose as a key cause of buyer concern.

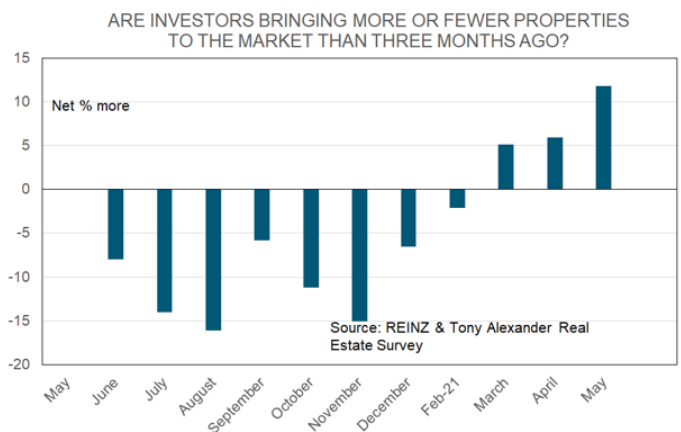
ARE INVESTORS BRINGING MORE OR FEWER PROPERTIES TO THE MARKET TO SELL THAN THREE MONTHS AGO?

As noted above, the government wants to dampen investor demand for existing property. Beyond that they have not stated what they would like investors to do. They have however provided them with an incentive to switch their holdings from existing properties to new builds. But there is an unspoken message that they would probably like them to sell out completely and make properties of all types more available for owner-occupiers. So, are we

seeing investors backing up their threats to sell and reduce rental supply by in fact selling to place their funds in a bank where returns after tax and inflation will be negative? Slightly.

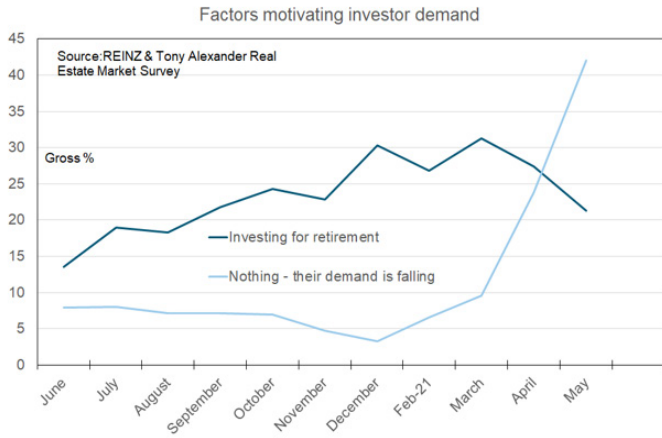
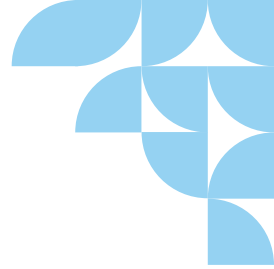
This month a net 12% of agents have reported that they are seeing more investors coming forward to sell their property. This is the highest reading on record and a continuation of a trend in place since December. This is one reason for expecting that the pace of average house price gains in the next few months will at least slow.

But the 12% reading is still relatively low and not suggestive of a wave of selling as such emerging. But we will be paying close attention to this gauge of market sentiment and potential activity as the months proceed. If the government did truly want to encourage investor selling for owner occupiers to buy, what chance might there be of an incentive to do so (temporarily reduced brightline test) in the May 20 Budget or later in the year?

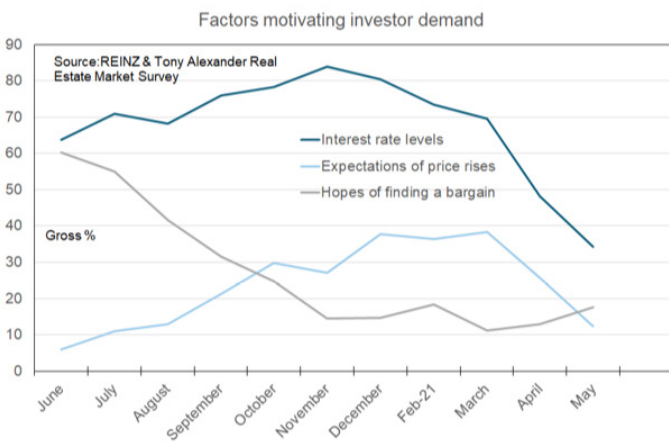


WHAT FACTORS APPEAR TO BE MOTIVATING INVESTOR DEMAND?

As with responses to the question regarding buyer concerns, we spread responses to this query about investor motivation across two graphs, drawing attention first to the light blue line in our first graph. It measures the gross proportion of real estate agents reporting that they are seeing a fall in demand from investors. A high gross 42% of agents report falling investor demand, up from 24% last month and 10% in March.

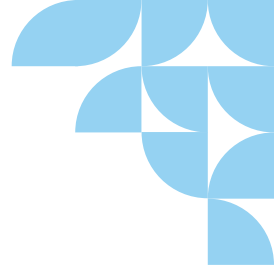


Unsurprisingly, our other measures of investor purchase motivation have declined, except for that regarding investor hopes of finding a bargain. This measure has ticked up to a gross 18% from 13% last month and 11% in March. But it remains well away from the high readings of May to September when many presumably cash-rich investors were hoping that stresses in the economy would produce some cheap buying in the property market.



Of final interest here may be the quick decline in low interest rates as a factor motivating investor demand, commensurate with rising discussion about increasing mortgage rates amidst signs of strong growth offshore.





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	17	-47	-12	-24	65	47	-18	-41	-35	-6
Auckland	121	-26	-60	-50	9	35	-10	-71	-31	18
Waikato	42	-10	-29	-24	36	69	-7	-36	-43	2
Bay of Plenty	24	-38	-67	-58	25	50	-13	-67	-42	-13
Gisborne	5									
Hawke's Bay	13	0	0	-54	54	85	-8	-77	-62	46
Taranaki	11	36	-9	-82	27	64	-36	-73	-45	27
Manawatu-Wanganui	11	-9	-27	-82	27	45	-9	-73	-55	9
Wellington	25	-4	-24	-76	24	44	4	-72	-40	28
Nelson/Tasman	14	7	7	7	79	79	0	-64	-21	-7
Marlborough	5									
West Coast	0									
Canterbury	45	-27	-27	-47	38	58	4	-62	-36	22
Queenstown Lakes	8	-25	-13	13	25	63	0	-13	25	-25
Otago exc. Q'town	12	-25	-17	-42	42	42	-25	-58	-50	-17
Southland	4									
New Zealand	357	-18	-36	-46	30	49	-8	-63	-35	12



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