REINZ | REAL ESTATE INSTITUTE OF NEW ZEALAND

REINZ & TONY ALEXANDER REAL ESTATE SURVEY

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REINZ | REAL ESTATE INSTITUTE OF NEW ZEALAND

CREDIT CRUNCH IMPACTS STILL DOMINANT

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.

The results this month look very much like those from four weeks back. Clearly, planned changes to the CCCFA legislation have not elicited a positive response from buyers who continue to stand back from the market.

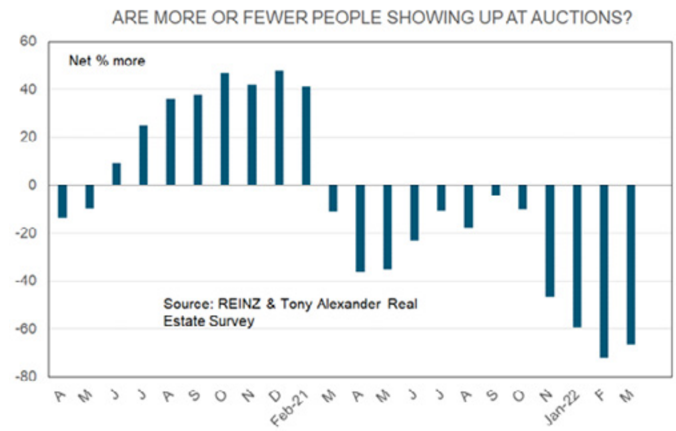
A firm majority of agents feel that house prices are falling in their location, FOMO is essentially non-existent, and fear of over-paying (FOOP) has risen to a gross 64% of agents observing it on the part of buyers.

The survey results show that the pullback in the New Zealand residential real estate market from the extremes of 2020 and 2021 has continued largely unabated this past month.

ARE MORE OR FEWER PEOPLE SHOWING UP AT AUCTIONS?

A net 66% of the 558 real estate agents replying in this month's survey have reported seeing fewer people attending auctions. This is better than the record net 72% in March who saw a deterioration. But that counts for little alongside the fact this month's result is the second worst on record. Buyers have lost their FOMO (see below) and perhaps with caution associated with the rapid spread of the Omicron variant of COVID-19 have decided for now to step back from attending auctions.

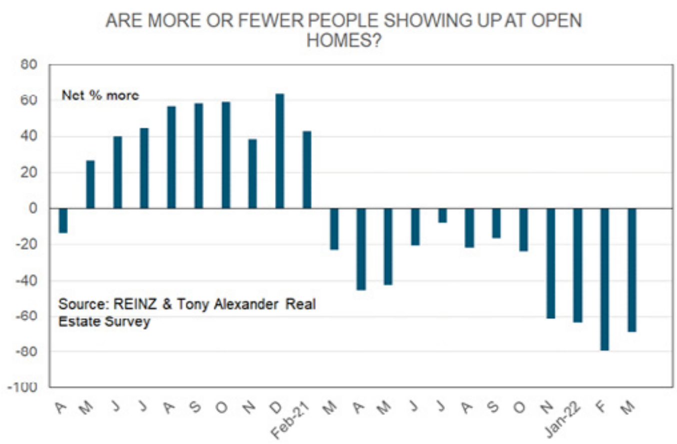
This is not surprising considering the established positive correlation between overall strength in the New Zealand residential property market and the number of people attending auctions — and the number of auctions held.



ARE MORE OR FEWER PEOPLE ATTENDING OPEN HOMES?

As was the case above for attendance at auctions, this month has produced the second worst reading on record for the change in attendance at open homes. A net 69% of agents have reported seeing fewer people at open homes, only a slight improvement from the record net 79% who last month reported seeing fewer people.

Again, we see evidence of buyers stepping back from the market, waiting to see what will happen, and perhaps most especially, waiting to see how other potential buyers and sellers react to factors such as rising interest rates, reduced credit availability and net migration outflows.

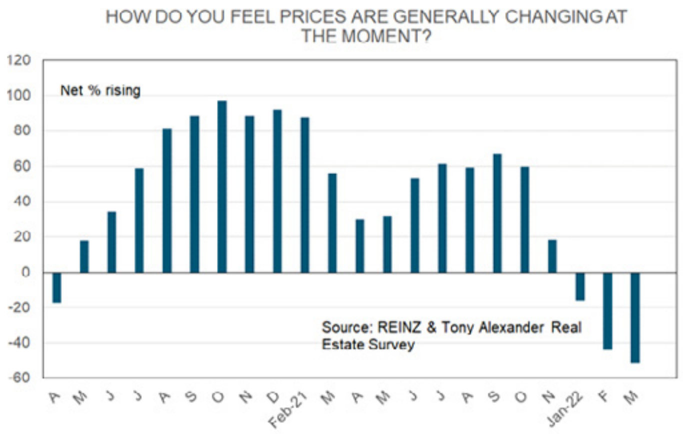


HOW DO YOU FEEL PRICES ARE GENERALLY CHANGING AT THE MOMENT?

Housing markets move in cycles and the cycle since the period 2012-15 has been firmly upward in all parts of the country. The cycle got a special non-cyclical boost from the global pandemic, and now that some aspects of the pandemic are waning, we are seeing the unwinding of some of that special boost. Prices will not decline back to where they were in March 2020 given the large and growing backlog of frustrated buyers back then. Also, house prices tend to be slightly 'sticky' downward.

When the market weakens many vendors simply step back from the market, waiting for things to improve before choosing to sell.

Our latest survey shows that whereas as recently as October a net 60% of agents felt that prices were rising in their location, now a net 51% feel that they are falling.

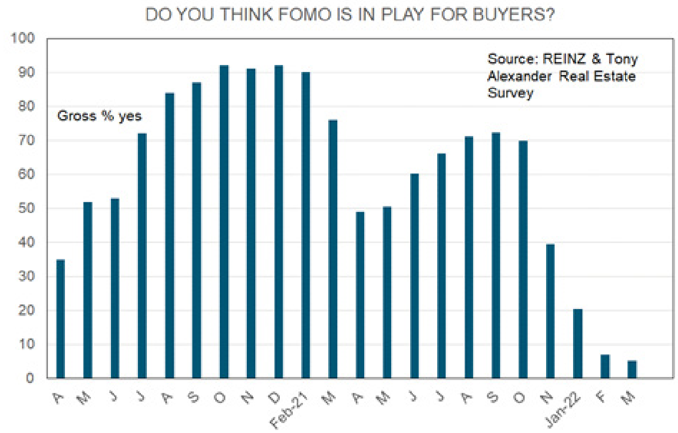


DO YOU THINK FOMO IS IN PLAY FOR BUYERS?

FOMO = Fear of missing out

Last month we noted that FOMO was no more. That situation continues with only 5% of agents saying that they are observing buyers feeling worried that they might miss out. Many buyers have been taken out of the market for now by the government's tightening of credit availability through changes to the Credit Contracts and Consumer Finance Act (CCCFA).

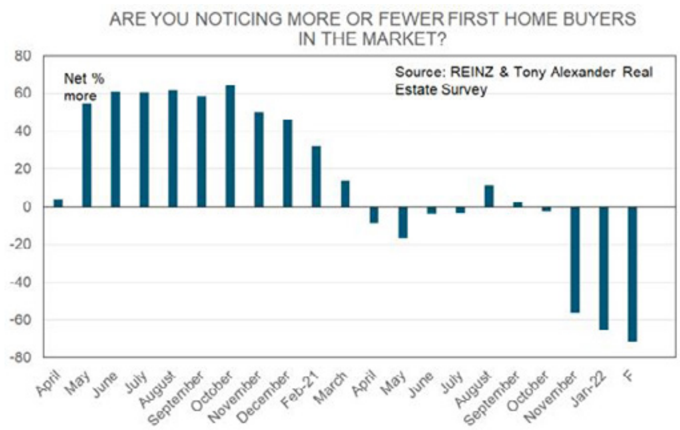
Other buyers know this situation, and in conjunction with other restraining forces in play such as the increasing removal of interest expense tax deductibility for investors, feel there is little need to hurry their purchase — for now.



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

A net 53% of agents have noted that they are seeing fewer first home buyers in the market looking to make a purchase. This is an improvement from March's net 71% seeing first home buyers withdrawing.

But it still means more young buyers are stepping back. The Government's proposed changes to the CCCFA have not brought forward the young buyers.



ARE YOU NOTICING MORE OR FEWER INVESTORS IN THE MARKET?

As previously noted many times – investors took a step back from the market right after the tax changes were announced late in March last year. Each month since then more agents have reported seeing fewer investors looking to buy than more and that situation continued in this month's survey. A net 67% of agents have reported seeing fewer investors, little changed from the record net 68% of March.

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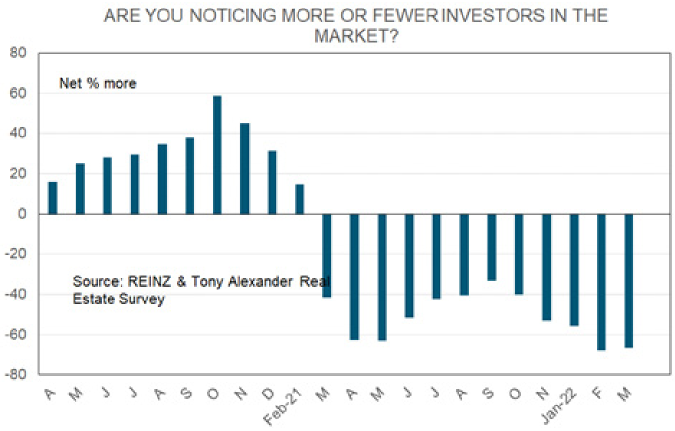
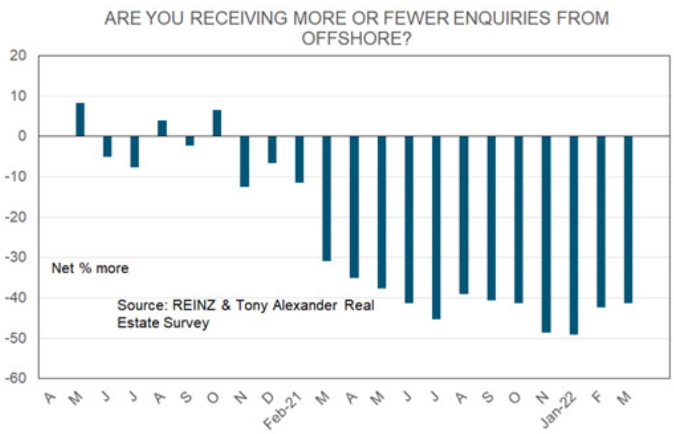


ARE YOU RECEIVING MORE OR FEWER ENQUIRIES FROM OFFSHORE?

There are two key points which I have been stressing for the past year. The first is that there will not be a wave of investors selling as a result of the tax changes from March last year. The impact will be and has been on reduced buying by investors.

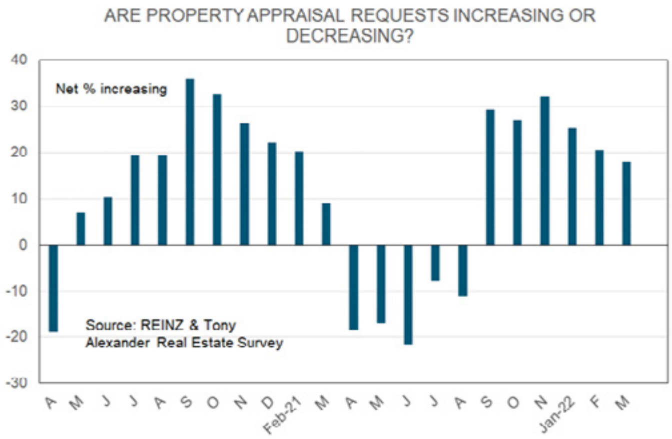
The second is that when the borders open up, we will not see a wave of Kiwis looking to purchase property. Those who wanted to do so as a result of the pandemic encouraging early shifting home have probably already done so. Instead, we are likely to see increased selling by Kiwis shifting to Australia — but that is not something we measure.

In this month's survey, a net 41% of agents reported that they are receiving fewer enquiries from offshore. There is no indication of this measure approaching net positive any time in the near future. Note however in the regional results table at the end of this document. For Queenstown Lakes this reading is 0%. That is starkly different from all other regions.



ARE PROPERTY APPRAISAL REQUESTS INCREASING OR DECREASING?

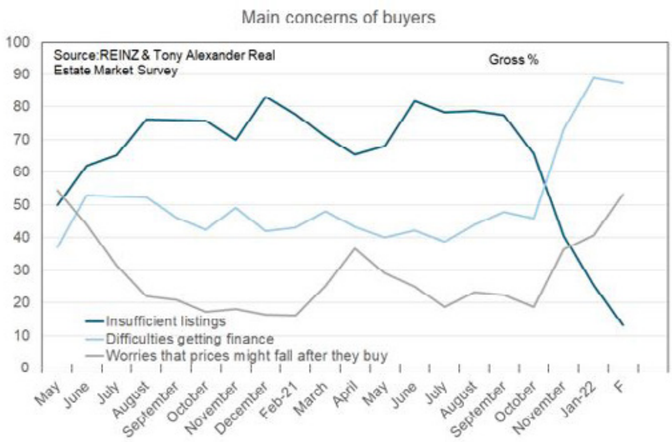
There continues to be a strongly positive net proportion of agents reporting that they are receiving more requests to appraise the market value of a property. The level of such enquiry jumped sharply in September, perhaps reflecting more owners wanting to take advantage of the strength in the market amidst early reports of credit availability tightening up. But there is also likely a strong role played by the earlier jump in mortgage interest rates encouraging some bringing forward of transaction plans.



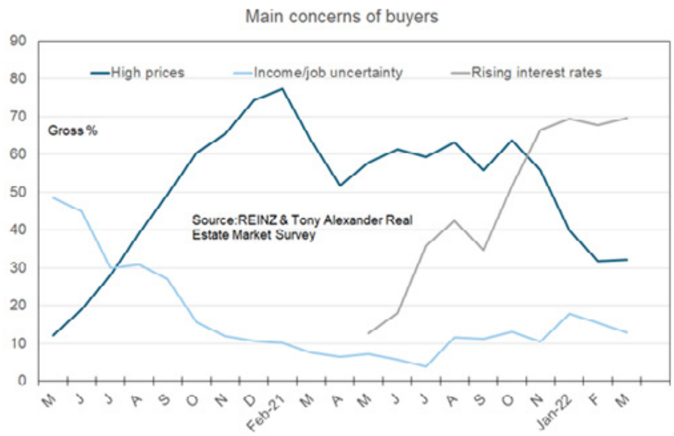
WHAT ARE THE MAIN CONCERNS OF BUYERS?

We ask agents to note which things are concerning buyers most of all. Buyer concerns about sufficient listings being available have all but evaporated. Over the period of time that these concerns have collapsed we have seen a jump in worries about getting finance and potentially over-paying. FOOP = fear of over-paying and this month a record gross 64% of our 558 agents have said that buyers are displaying price decline worries.

This is shown as the grey line in the following graph.

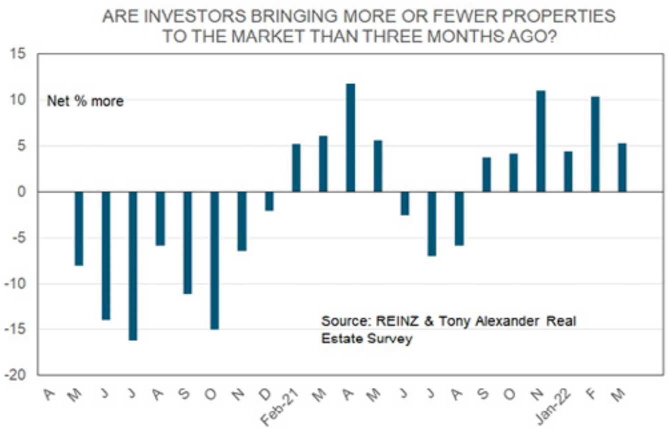


Our second graph addressing buyer concerns shows a levelling off in worries about rising interest rates (interesting), low worries that prices are too high, and no great level of concern about employment income.



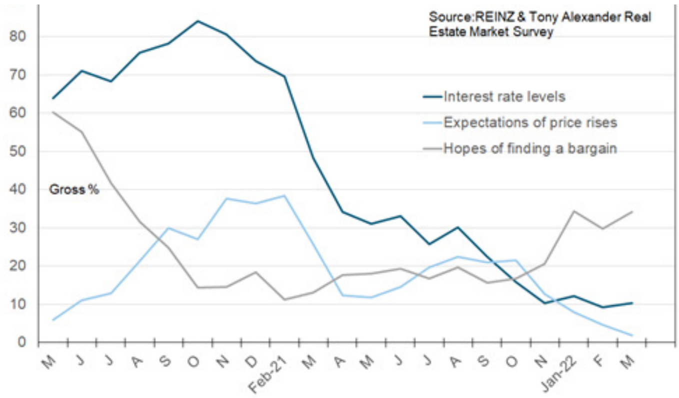
ARE INVESTORS BRINGING MORE OR FEWER PROPERTIES TO THE MARKET TO SELL THAN THREE MONTHS AGO?

As noted above, one of my key theories this past year has been that despite factors like tax changes and rising interest rates, we will not see a wave of investor selling. No such wave has happened since the end of March last year and this month there has been a decrease in the net proportion of agents seeing more investor sellers — to 5% from 10% last month.

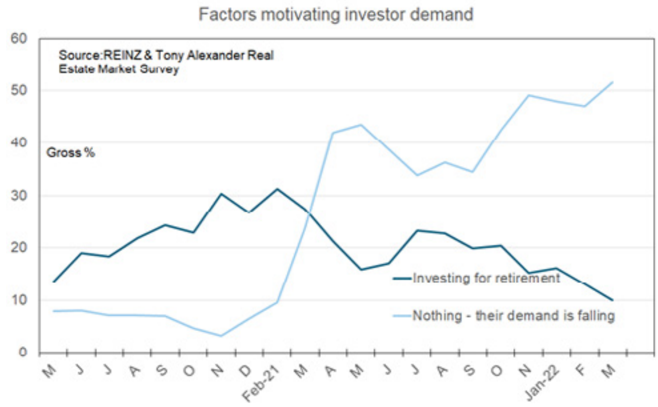


WHAT FACTORS APPEAR TO BE MOTIVATING INVESTOR DEMAND?

Low interest rates have become a very small driver of investor demand now. Instead, we are seeing a rising trend in the proportion of agents saying that investors appear to be motivated by hopes of finding a bargain. 34% of agents are now saying they see this factor in play, the same as two months ago but lower than in the early days of the pandemic.



Our second graph of investor motivations clearly shows that following the March 2021 tax announcement demand from investors backed off substantially.



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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. The three top of the South Island regions are amalgamated into one and Gisborne is joined with Hawke's Bay.

Best use of the table is achieved by picking a variable and comparing a region's outcome with the national result shown in bold in the bottom line. For instance, nationwide a net 51% of agents feel that prices are falling in their area. But in Northland this is only 16% whereas in Auckland it is 64% and Wellington 81%.

The table shows net percentages apart from the FOMO question in column F. The net percent is calculated as the percentage of responses saying a thing will go up less the percentage saying it will go down.

If anyone is interested, I can make available time series for each measure shown here. Contact me at **tony@alexander.nz**.

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 Auctions	D Open H.	E Prices	F FOMO	G FHBs	H Invest.	I O/seas	J Inv.selling
Northland	25	36	-32	-32	-16	4	-52	-52	-24	-32
Auckland	218	7	-76	-63	-64	5	-54	-71	-41	1
Waikato	50	38	-78	-64	-28	10	-48	-64	-38	8
Bay of Plenty	49	35	-80	-84	-49	4	-55	-71	-39	16
Hawke's Bay	28	50	-79	-89	-61	7	-68	-86	-36	18
Taranaki	6									
Manawatu-Whanganui	25	24	-44	-80	-64	4	-68	-44	-44	-16
Wellington	52	19	-48	-69	-81	0	-77	-73	-52	10
Nelson/Tasman	27	30	-44	-78	-44	0	-44	-70	-48	27
Canterbury	48	-13	-58	-69	-19	10	-31	-38	-35	10
Queenstown Lakes	9	-11	-78	-67	-11	11	-22	-56	0	22
Otago exc. Q'town	14	0	-50	-100	-21	0	-36	-79	-64	7
Southland	5									
New Zealand	**558**	**18**	**-66**	**-69**	**-51**	**5**	**-53**	**-67**	**-41**	**5**

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This publication is written by Tony Alexander, independent economist.
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