Pain and Gain Report

New Zealand | Quarter 1, 2022

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Data to March 2022

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New Zealand
Quarter 1, 2022

About CoreLogic

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Executive Summary

The Pain and Gain Report is an analysis of homes which were resold over the previous quarter (excluding leasehold). It compares the most recent sale price to the home's previous sale price, determining whether the property resold at a gross profit ('gain') or gross loss ('pain'). It provides a proxy for the performance of the housing market and highlights the magnitude of profit or loss the typical seller of a home makes in each area.

Key findings from this report (for resales between 1 January 2022 and 31 March 2022) include:

Last quarter, we cautioned that the resale performance of properties could begin to weaken a bit from the first quarter of 2022 as the wider market started to turn down and pricing power shifted in favour of buyers (or at least those that had managed to secure finance in the current restrained and costlier mortgage environment).

And in the event, this has become reality, albeit nothing dramatic yet. Over the first three months of 2022, the share of property resales made for a gross profit/gain (i.e. received a sale price higher than they originally paid) edged down from 99.3% to 99.1%. As noted, nothing major, but perhaps the first signs of a turning point.

In fact, we shouldn't necessarily expect the turning point for the wider market to flow through significantly and immediately to the 'pain & gain' figures, due to the fact that hold periods play a key role. Somebody who's owned their property for 7-10 years before selling will inevitably make a gross profit, even if market values have fallen a bit from their recent cyclical peak.

In terms of the scale of resale gains and losses, there is also evidence of a turning point here too. In Q1 2022, the median resale profit was still a hefty $406,000, but was down from the record high of $435,000 in Q4 2021. Just two years, pre-pandemic in Q1 2020, the median resale gain was 'only' $233,632.

However, it's also important to note that for owner-occupiers, these resale gains are not generally cash windfalls (unless they're downsizing or moving to a cheaper location). After all, in most cases, any equity accumulated needs to be recycled straight back into the next property purchase, with 'trade ups' actually likely to involve higher debt levels in many cases too.

Overall, it's not dramatic yet, but there is further evidence here that property resellers aren't having it all their own way anymore – and this trend is set to continue. It's increasingly likely that the frequency and scale of resale profits for both houses and apartments will fade in the coming quarters (as well as across different areas and whether it's owner occupiers or investors), as available stock on the market continues to rise and buyers have the power when it comes to pricing.

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 website www.corelogic.co.nz/research-news. Our podcast is also a great source of data and commentary: corelogicnzpropertymarket.buzzsprout.com.

National Overview

Across New Zealand as a whole, the proportion of properties being resold for more than the original purchase price (i.e. a gross profit, or "gain") in Q1 2022 was 99.1%. Clearly, that is a high level and the overwhelming majority of resellers in the first three months of 2022 still got a price higher than what they originally paid – especially if the hold period between buying and selling was long.

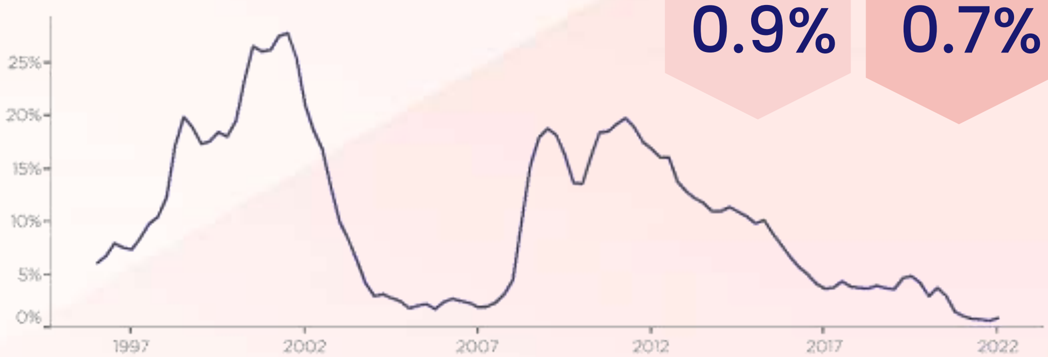
However, it was a slight drop from 99.3% in Q4 2021, and could possibly just be the first sign that property resellers aren't having it all their own way anymore. That would certainly be consistent with all of the other evidence we're seeing out there in the market – sales volumes down, listings up, price pressures fading, and the balance of power shifting in favour of property buyers (or at least those that have managed to secure finance).

The drivers for those patterns aren't new either. Primarily, credit criteria have tightened – including the loan to value ratio rules, and the Credit Contracts and Consumer Finance Act – while mortgage rates have risen sharply too. On top of that, the full impact of higher mortgage rates is yet to be felt, given that many borrowers are still on fixed rates taken out a year or two ago. But as the approximately 50% of NZ loans that are currently fixed but due to be repriced over the next 12 months roll onto new higher rates, this true impact of rising mortgage costs will start to be felt.

Proportion of total resales at a loss

Q1 2022
0.9%

Q4 2021
0.7%



	Median Difference	Total Value
Pain	-$37,500	-$7,491,331
Gain	$406,000	$4,667,316,967

Of course, as far as Q1 2022 is concerned, the pain & gain figures were still tilted in sellers' favour. Indeed, just 0.9% of resellers got a price lower than what they originally paid, and that's consistent with other indicators showing that seller/mortgage distress across NZ remains very low. For example, banks' non-performing loan ratios are negligible and mortgagee sales are almost non-existent (apart from a small but rising number of problems in the property development segment) – where mortgage distress arises, both parties are currently working hard to rectify it without a sale.

In terms of the scale of profits and losses in Q1 2022, the median resale gain was $406,000 – down from the record high figure of $435,000 in Q4 2021, but still the second highest figure in the 26-year history of our data. Just two years, pre-pandemic in Q1 2020, the median resale gain was 'only' $233,632. In Q1 2022, the median resale loss was $37,500.

It's important to note that for owner-occupiers, these resale gains are not generally cash windfalls (unless they're downsizing or moving to a cheaper location). After all, in most cases, any equity accumulated needs to be recycled straight back into the next property purchase, with 'trade ups' actually likely to involve higher debt levels in many cases too.

Median Hold Period

Across New Zealand as a whole, properties resold for a gross profit in the three months to March 2022 had been owned for a median of 7.5 years, pretty much unchanged from the figure of 7.2 years in Q4 2021. For about the past two years now, this hold period for resale gains has been steady in the range of 7-7.5 years, having previously trended downwards from about 8.5 years in late 2015.

For loss-making resales in the three months to March 2022, the median hold period was 1.8 years, down from 2.5 years in Q4 2021, and in fact the shortest figure since Q3 2008. Given that short hold periods tend to be associated with an unexpected change in circumstances, such as family issues, this highlights how in the recent strong market, it's only been that handful of 'stressed' sales that have had to take a loss.

However, it wouldn't be a surprise to loss-making resales become more common over the coming quarters, and due to broader circumstances than simply an unfortunate personal change of situation. In particular, as mortgage rates rise and potentially some jobs start to be lost, more property owners may be forced into a short-hold, loss-making resale.

Certainly, there are likely to be some investors who have purchased in the last 1-2 years who may now be questioning their decision, as gross rental yields remain low, regulatory and mortgage costs rise, and capital gains evaporate (or even turn into paper losses). Some of these owners may be looking to consolidate/reduce debt levels, and potentially be willing to cut their sale price in order to do that.

Amongst the main centres, the longest hold period for resale gain was 9.0 years in Christchurch, closely followed by 8.8 in Wellington, and 8.7 in Dunedin. Auckland was 7.8 years, and Tauranga and Hamilton below the seven mark. The median hold period for resale losses were generally quite a bit shorter than gains across each of the main centres.

	Pain	Gain
New Zealand	1.8	7.5
Auckland	4.6	7.8
Hamilton		6.3
Tauranga		6.7
Wellington	0.9	8.8
Rest of NI	1.0	6.9
Christchurch	0.6	9.0
Dunedin	1.0	8.7
Rest of SI	10.3	6.9

Property Types

It remains very uncommon for houses (as opposed to other property types such as flats or apartments) to make a gross loss at resale. Having gone below 1% in Q1 2021, the share of house resales made for less than the original purchase price has stayed below that mark ever since, and in Q1 2022 was just 0.6% – or in other words, 99.4% of house resales are still making a gross profit.

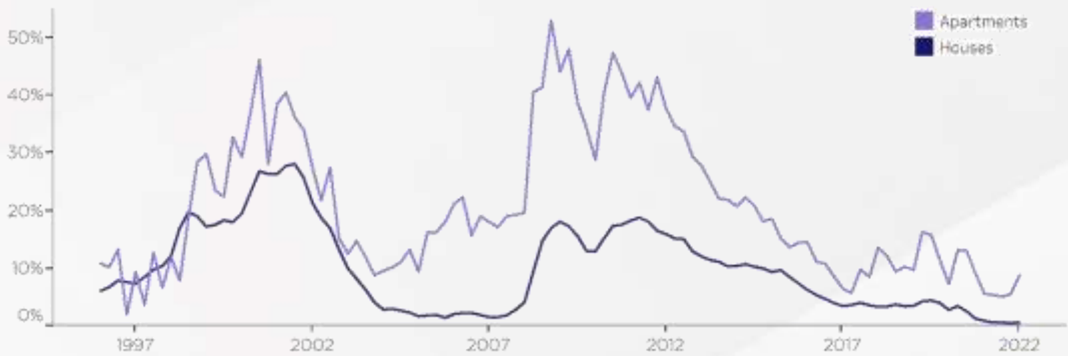
By contrast, the slight upturn in the overall share of resales made for a gross loss in Q1 2022 was driven by apartments. For that property type, 8.9% of resales in Q1 were made below the original purchase price, up from 5.5% in Q4 2021. However, we wouldn't get too carried away by this – after all, at various stages in the past, we've sometimes had about 50% of apartments resold for a gross loss (e.g. 2008), and even as recently as 2019, the share was up in the 15-20% range.

Overall, then, the resale performance of both houses and apartments remained fairly strong in the first three months of 2022, but some cracks were beginning to appear, especially for apartments – perhaps as the owners (who tend to be investors) started to question the scope for continued capital gains and were looking to shore up their debt position by selling a property or two, just at a time when buyers were getting the upper hand on prices.

It's important to note that a 'soft landing' for the property market is still our central expectation, provided that unemployment remains low – which of course could never be guaranteed. However, even a soft landing will still involve some price falls in many areas of the country. It's just that the scale of increases in the past 1-2 years mean that even declines in prices of 5-10% from their recent peak will still leave them well above past levels.

Looking ahead, it's increasingly likely that the frequency and scale of resale profits for both houses and apartments will fade in the coming quarters, as available stock on the market continues to rise and buyers have the power when it comes to pricing.

Proportion of total resales at a loss



In Q1, the median resale profit for a house was $404,000, and apartments saw $193,000. In terms of losses, houses saw a median of $20,000 and apartments $53,200.

HOUSES		APARTMENTS	
Q1 2022	Q4 2021	Q1 2022	Q4 2021
0.6%	0.5%	8.9%	5.5%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Apartments	-$53,200	-$2,607,225	$193,000	$92,375,761
Houses	-$20,000	-$4,231,206	$404,000	$4,162,080,652

Main Centres

The emerging trends that we're now seeing for property values around the main centres can be detected within the latest pain & gain figures too – i.e. if anything, extra weakness in Auckland and Wellington, versus a steadier picture elsewhere.

Indeed, although the Q1 2022 figures aren't showing anything overly dramatic, it's still worth noting that the share of resales in Auckland made for a gross loss rose from 1.1% in Q4 2021 to 1.8%, with Wellington's figures going from 0.6% to 1.3%. In Auckland's case, that's the highest figure since Q4 2020. And for Wellington, the resale loss (or 'pain') percentage hasn't been dramatically different from 1% (or less) since late 2016 – so the hints of an upwards trend now are certainly something to take note of.

Elsewhere, Christchurch's 'pain' percentage was very low, at just 0.5%, while Dunedin saw a figure of 0.3%. In Hamilton and Tauranga, no resales made a gross loss in Q1 – or in other words, all deals made a gross profit for the seller.

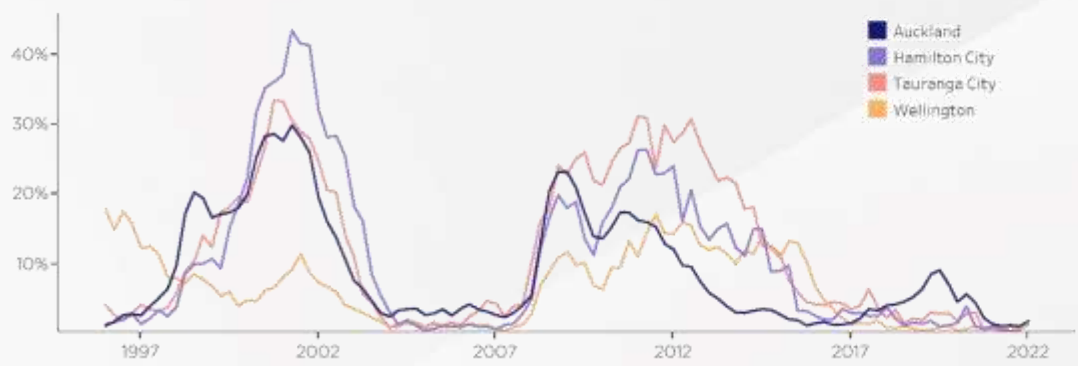
In terms of the size of resale gains and losses, the most notable figures come on the gain side of the equation (given that losses still aren't particularly common). Auckland, Tauranga, and Wellington each had a median resale gain in the three months to March 2022 of between $530,000 and $560,000, while Hamilton recorded a figure of $425,000.

At least partly reflecting the lower levels for property values in Christchurch and Dunedin, their median resale gains were also smaller in dollar terms – at $319,855 and $355,000 respectively. But those are still significant figures in their own right.

In addition, these figures look very good on paper for anybody that owns a property. However, we reiterate again that for owner occupiers these equity gains would often just be put straight back into the next property (which has also gone up in value). And it's often the case that for many owner occupiers who are looking to trade up, the next property has increased by even more than theirs, meaning more debt is also required too.

Looking ahead, all main centres will be affected to some degree by tighter lending regulation for both investors and owner occupiers, as well as sharply higher mortgage rates. But with unemployment low and mortgages already tested not only at current rates but also theoretical peak future rates, these should prove to be a challenge not a crisis.

Proportion of total resales at a loss



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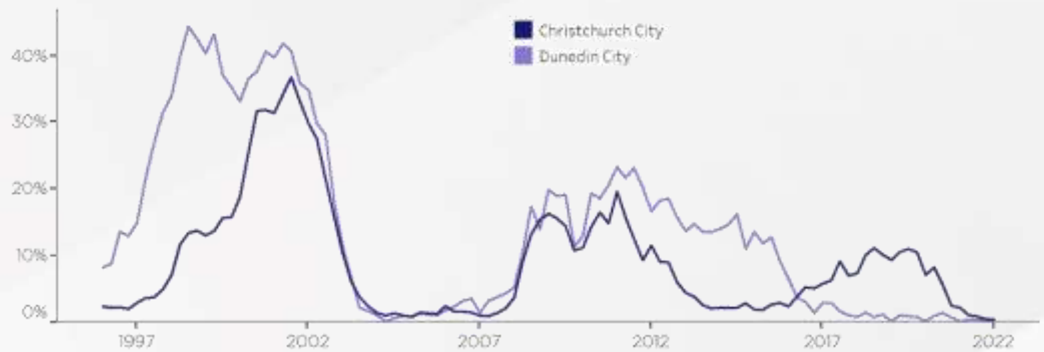
Proportion of total resales at a loss

	Q1 2022	Q4 2021
Auckland	1.8%	1.1%
Hamilton City	-	0.4%
Tauranga City	-	0.6%
Wellington	1.3%	0.6%
Christchurch City	0.5%	0.5%
Dunedin City	0.3%	0.3%

Proportion of total resales at a loss



	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Auckland	-$57,000	-$5,577,931	$558,500	$1,675,287,074
Hamilton City			$425,000	$134,031,439
Tauranga City			$542,500	$142,184,968
Wellington	-$43,000	-$788,000	$533,000	$300,535,674
Christchurch City	-$10,000	-$130,500	$319,855	$369,677,017
Dunedin City	-$10,000	-$10,000	$355,000	$130,952,969

Type of Owner

The share of property resales made for a gross profit remained high for both owner occupiers and investors in Q1 2022, however the situation did just worsen a bit for owner occupiers – which drove the overall (small) decline in the share of profit-making resales in the first quarter of the year.

Indeed, for owner occupiers, the share of resales made above the original purchase price dipped from 99.5% in Q4 2021 to 99.2% in Q1 2022. As noted, still high – but perhaps the first sign of a turning point, which would be consistent with a range of other evidence that the housing market has now turned a corner.

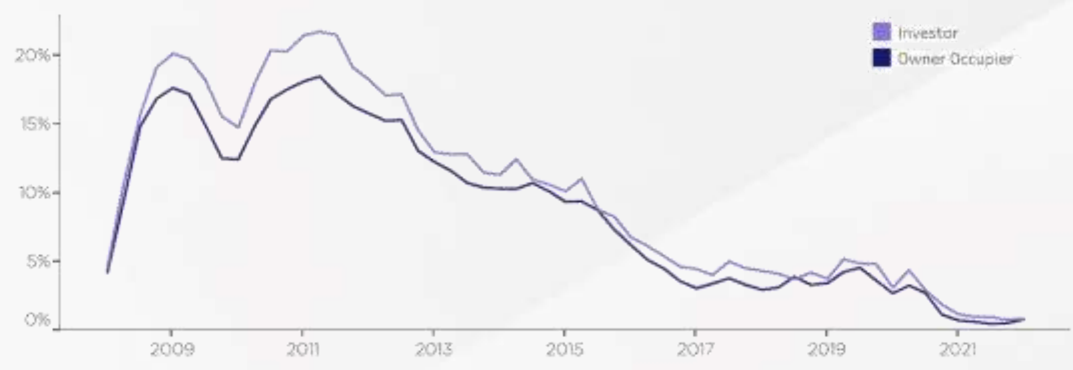
Keep in mind that the 'pain & gain' figures will always be a little slower to move than other property market indicators, because hold periods play a big role in determining the frequency and size of resale gains (or losses) – even a significant shift in the market over a 6-12 month period takes a bit of time to genuinely impact the resale performance of a property that's been held for a long time.

Turning to investors, their proportion of resales in Q1 2022 made above the original purchase price was also 99.2%, unchanged from Q4 2021 (and the same as the owner occupier figure for Q1). This supports other evidence that, although some investors will certainly be reassessing their sums and the merits of hanging on to certain properties, the motivation to genuinely bring large numbers of listings to the market remains low.

In terms of the scale of resale profits and losses, the median loss in Q1 2022 for investors was $75,500 (albeit across a small number of deals) and for owner occupiers it was $20,000. Meanwhile, the resale gains were a little larger for investors than owner-occupiers in Q1 2022, at $420,000 and $395,000 respectively. And of course, most owner-occupiers need to recycle that equity gain straight back into their next property anyway.

Around the main centres, again it was Auckland and Wellington where perhaps the emerging weakness was clearest. The 'pain' share for owner occupiers in both those markets went above 1%, and for investors it was in the range of 2-3%.

Proportion of total resales at a loss



Proportion of total resales at a loss

	Owner Occupier		Investor	
	Pain	Gain	Pain	Gain
Auckland	1.2%	98.8%	2.7%	97.3%
Hamilton		100.0%		100.0%
Tauranga		100.0%		100.0%
Wellington	1.2%	98.8%	2.4%	97.6%
Rest of NI	0.9%	99.1%		100.0%
Christchurch	0.9%	99.1%		100.0%
Dunedin		100.0%		100.0%
Rest of SI	0.2%	99.8%		100.0%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Investor	-$75,500	-$2,159,700	$420,000	$1,127,278,504
Owner Occupier	-$20,000	-$1,488,157	$395,000	$1,671,610,384

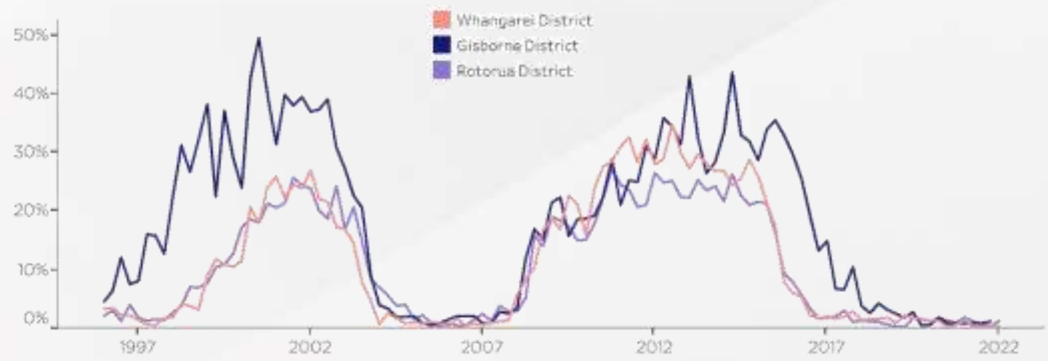
Main urban areas

Upper North Island

Although there are also signs around some of the provincial areas that property values themselves have started to fall, it's not universal, and of course may take some time to show up in the 'pain & gain' figures anyway (given that long hold periods have a key influence). For example, across Whangarei, Gisborne, and Rotorua, the share of resales made for a gross profit in Q1 2022 remained at or above 98.7%.

Alongside the high frequency of resale profits, the gains in dollar terms have also stayed high (and the losses low). Indeed, each of these three areas had a median resale profit in Q1 2022 of more than $400,000.

Proportion of total resales at a loss



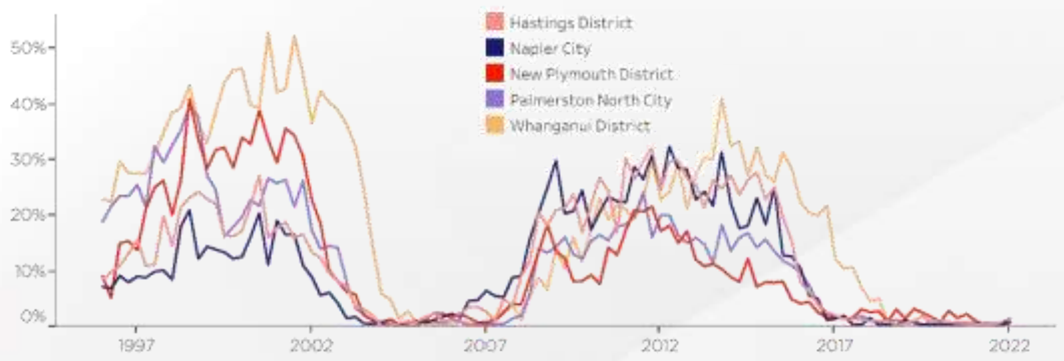
	Q1 2022	Q4 2021
Whangarei District	0.5%	0.6%
Gisborne District	-	1.2%
Rotorua District	1.3%	0.4%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Whangarei District	$0	$0	$410,000	$102,137,333
Gisborne District	-	-	$405,000	$26,216,500
Rotorua District	-$243,450	-$486,900	$410,000	$69,105,405

Lower North Island

Generally speaking, some of the strongest increases in average property values across the country in the past 1-2 years have been in areas around the central and lower North Island – which may make them more vulnerable during a downturn phase. For now, however, the 'pain & gain' performance for resales is still strong – only Palmerston North had a share of resales made for a gross profit of less than 99% in Q1 2022, and that was still 98.5%.

Proportion of total resales at a loss



	Q1 2022	Q4 2021
Hastings District	-	0.7%
Napier City	0.7%	0.4%
New Plymouth District	1.0%	
Palmerston North City	1.5%	0.6%
Whanganui District	-	-

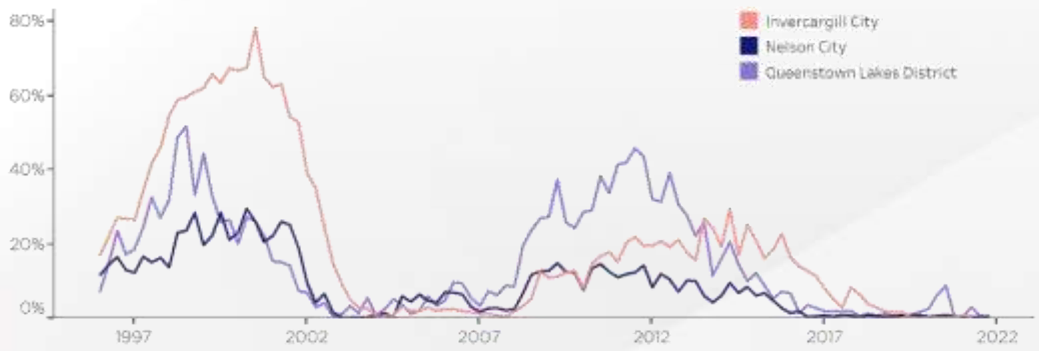
The high frequency of resale profits in these areas in Q1 was matched by the size of the gains. Napier topped $500,000, with Hastings not far behind at $485,000. Palmerston North's figure was $390,000, while New Plymouth and Whanganui were in the vicinity of $340,000 to $360,000.

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Hastings District			$485,000	$82,428,404
Napier City	-$6,000	-$6,000	$505,000	$71,776,497
New Plymouth District	-$10,000	-$20,000	$342,000	$75,494,745
Palmerston North City	-$8,000	-$93,000	$390,000	$76,122,674
Whanganui District			$355,500	$41,506,910

South Island

Across the key South Island centres, property resellers generally remained in a very strong position in the first quarter of the year. In fact, across Nelson, Queenstown, and Invercargill, there were no resale losses at all. Of course, as the market tips in favour of buyers, this may not remain the case for much longer.

Proportion of total resales at a loss



	Q1 2022	Q4 2021
Invercargill City	-	-
Nelson City	-	0.5%
Queenstown Lakes District	-	0.5%

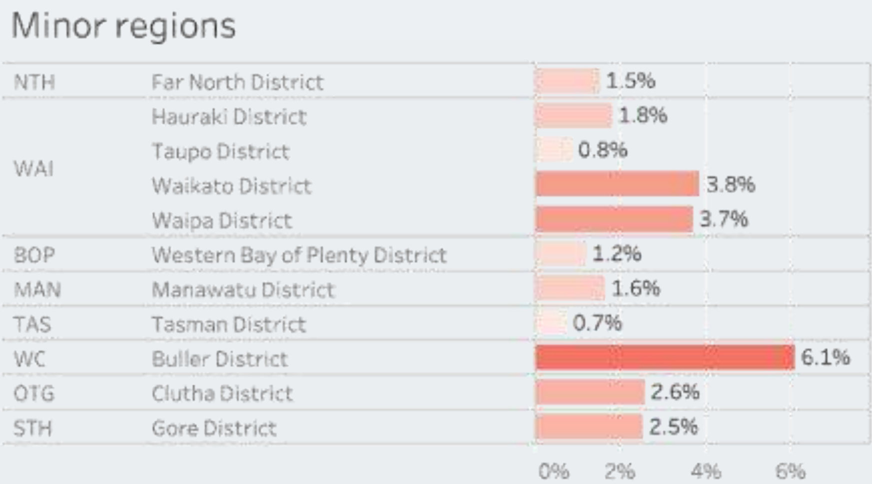
Consistent with those continued strong resale figures in Q1, the scale of gains was also high. Indeed, Queenstown's median resale profit was $649,000 in the three months to March 2022, with Nelson at $403,000, and Invercargill $235,500.

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Invercargill City	-	-	$235,500	$48,992,955
Nelson City	-	-	$403,000	$53,590,721
Queenstown Lakes District	-	-	$649,000	$67,483,704

Outside the main urban areas

Generally speaking, property markets around regional NZ also fared well in the first quarter of the year, with profit-making resales common. However, there were just a few hints that the turning point for property values themselves and the balance of power shifting towards buyers had started to affect resale performance just a little. For example, the 'pain' percentage topped 5% in Buller, and was approaching 4% in Waikato District and Waipa (albeit the number of sales involved remained small).

Proportion of total resales at a loss



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