Pain and Gain Report

New Zealand | Quarter 3, 2022

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Data to September 2022

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New Zealand
Quarter 3, 2022

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 July 2022 and 30 September 2022) include:

We noted at the time that last quarter's figures marked a turning point for the Pain & Gain data, and the emerging weakness has become even clearer over the past three months, as the wider property downturn affects the ability of vendors to sell above the original purchase price – both in terms of frequency and scale.

Indeed, in Q3 2022, 96.8% of property resales were made above the original purchase price – still fairly high – but appreciably lower than the peak of 99.3% in Q4 last year. In fact, the latest 'gain' figure is the lowest since Q2 2020 (96.3%).

To be fair, context is important – through 2000 and 2001, it was common for the profit share to be as low as 75%, and then again in the post-GFC period, that figure was often as low as 80%. Clearly, the latest figures are still well above those marks.

Indeed, anybody who has held for the typical 7-8 years will still be sitting on large capital gains – although of course, it also needs to be noted that owner occupiers generally won't get a cash windfall from this (unless downsizing or moving to a cheaper location); instead needing to recycle that equity back into the next property.

The median resale profits themselves remained high in Q3, coming in at $331,000. But that was still down from the peak of $440,000 in Q4 2021. On the most recent figures, the median resale loss was around $41,000.

The softer performance of property resales in the third quarter of 2022 is evident across most parts of the country, as well as when the data is broken down by property type (house vs apartment) or owner type (occupiers vs investors).

Looking ahead, the housing market still faces significant challenges, especially as new borrowers face up to the possibility of mortgage rates of 7% or more, and existing borrowers reprice from previous low rates onto a much higher repayment schedule.

As such, the gain percentage is set to continue to decline and the pain share rise. If unemployment stays low, the figures may not move to the same extent as what we saw in the early 2000s and then again post-GFC, but it still wouldn't be a surprise to the share of resales made for a profit drop below 90% in the coming period, or the share made for a loss rise above 10%.

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 Q3 2022 was 96.8%. That's clearly still a high proportion, or in other words, the large majority of resellers in the third quarter of 2022 still got a higher price than what they originally paid – especially if the hold period between buying and selling was long.

However, we've still passed a turning point for the pain and gain performance. In Q1 2022, that proportion was more than 99% and in Q2 it was more than 98%. In fact, the latest profit/gain percentage of 96.8% is the lowest since Q2 2020, when it was 96.3%. Put another way, as listings have risen, mortgage credit has tightened, interest rates have risen, and property values themselves have dropped, the resale performance across the market has now started to weaken more materially.

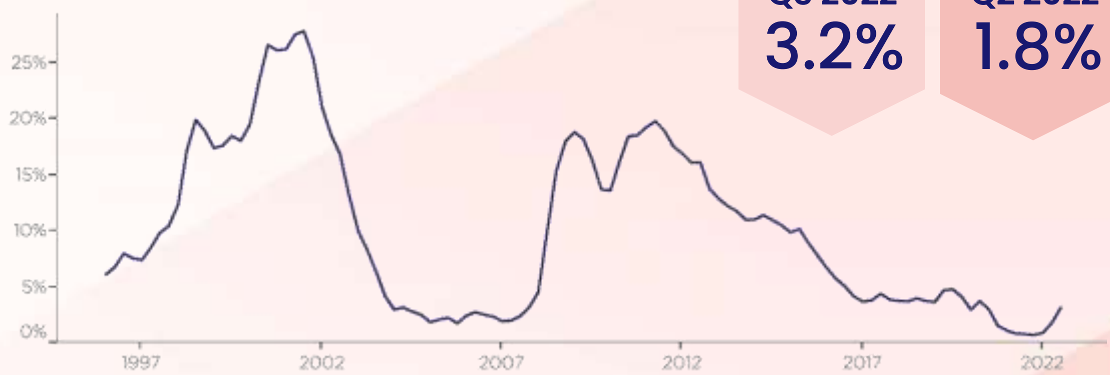
To be fair, context is important – through 2000 and 2001, it was common for the profit share to be as low as 75%, and then again in the post-GFC period, that figure was often as low as 80%. Clearly, the latest figures are still well above those marks. And with unemployment low, it seems unlikely that the pain & gain figures are about to plummet.

However, the housing market still faces significant challenges, especially as new borrowers face up to the possibility of mortgage rates of 7% or more, and existing borrowers reprice from previous low rates onto a much higher repayment schedule. Certainly, the banks are reporting a renewed focus on potential repayment problems in the coming months.

Proportion of total resales at a loss

Q3 2022
3.2%

Q2 2022
1.8%



	Median Difference	Total Value
Pain	-$40,800	-$20,971,519
Gain	$331,000	$3,430,194,462

The upshot is that the gain percentage is set to continue to decline and the pain share rise. The figures may not move to the same extent as what we saw in the early 2000s and then again post-GFC, but it still wouldn't be a surprise to the share of resales made for a profit drop below 90% in the coming period, or the share made for a loss rise above 10%.

Alongside the frequency dropping, the size of resale profits also declined in Q3 2022. In fact, after peaking at $440,000 in Q4 2021, the median resale gain has been steadily declining, and sat at $331,000 in Q3 2022 – still high, but obviously a lot lower than late 2021. In Q3 2022, the median resale loss was around $41,000.

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 September 2022 had been owned for a median of 7.7 years, very close to Q2's figure of 7.6 years. In fact, putting aside small quarterly shifts, this figure has pretty much held stable in the range of 7-8 years since 2017. That's very steady in a long run context, given that in mid-2001 the median hold period for profit was only about 6.5 years, and in 2005-06 it was as low as four years.

For loss-making resales in the three months to September 2022, the median hold period was just 1.3 years, also basically unchanged from Q2 2022's figure, and on a par with a long trough seen over 2005-07.

In other words, a key driver for resale profits in the NZ property market is simply having a long hold period. By contrast, where properties make resale losses, they tend to have only been owned for a short period of time – presumably in many cases the owner intended to hold it for longer, but due to changed personal circumstances had to sell (e.g. a death, illness, divorce, or similar).

Of course, a change in an owner's financial situation could also play a role in a short hold period and an increased risk of a resale loss – and at the moment, rising interest rates would be a clear candidate for driving some of these sales. We can't be sure when this is the case, but it's no doubt happening to some degree. Of course, with unemployment still low, 'distressed sales' will still be the exception rather than the norm.

Amongst the main centres, the longest hold periods for resale gains were in the range of 8-9 years in Christchurch, Wellington, Dunedin, and Auckland, with Tauranga (7.0) and Hamilton (6.5) a little shorter. In terms of the hold period for resale losses in Q3, it was in the range of 1-2 years for each of the six main centres.

	Pain	Gain
New Zealand	1.3	7.7
Auckland	1.6	8.3
Hamilton	1.1	6.5
Tauranga	1.0	7.0
Wellington	1.7	8.9
Rest of NI	1.2	7.1
Christchurch	1.0	8.3
Dunedin	1.5	8.9
Rest of SI	1.0	6.9

Property Types

It remains relatively uncommon for houses (as opposed to other property types such as flats or apartments) to make a gross loss at resale, but this property group has nevertheless also turned a corner. From only 0.6% of house resales being made below the original purchase price in Q1 2022, that figure has now risen to 2.5%, the highest since Q3 2020 (but still below the typical levels that prevailed pre-COVID).

Meanwhile, the weakness of the wider housing market is showing up most clearly (in terms of pain & gain figures) for apartments. It's important to note that the raw number of loss-making apartment resales is still pretty low. But loss-makers' share of all apartment resales is now rising steadily, and from a trough of 5-6% in 2021, it's now risen to 17.6%. That's the highest figure since Q1 2015 (18.6%), just surpassing most recent peak of 16.3% in Q2 2019.

In turn, the bulk of those loss-making apartment resales were in Auckland – either the North Shore or the central city/CBD (old City TA area) – which stands to reason, given that Auckland also has the most apartments in terms of existing stock.

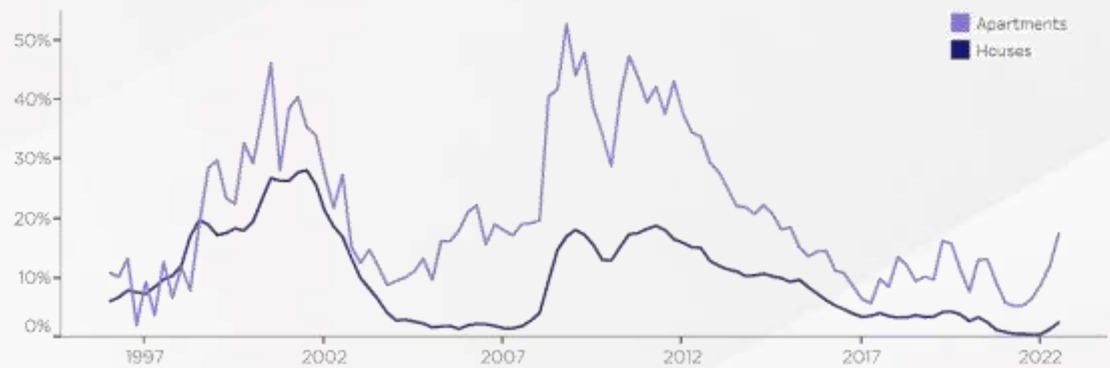
Wellington also had a handful of loss-making apartment resales in Q3 2022.

Again, however, context is important. Even though the share of apartment resales being made below the original purchase price has risen, it's not time to panic. After all, at 17.6%, the figure is still reasonably low by past standards – e.g. there was a peak of 46.3% in Q3 2000 and 52.9% in Q4 2008.

Overall, then, the breakdown of the pain & gain data by property type reaffirms the recent change in market conditions, with gross resale profits less common and losses coming a little more frequently, especially for apartments.

Looking ahead, it seems likely that these weakening trends will continue (i.e. reduced frequency of resale profits and also a smaller median profit itself), as the wider falls in property values roll on, probably into 2023. However, with unemployment still low and wages rising at a faster pace, there isn't a huge amount of forced selling pressure across the market, so vendors seem unlikely to lose all their pricing power completely.

Proportion of total resales at a loss



In Q3, the median resale profit for a house was $330,000, and apartments saw $158,000. In terms of losses, houses saw a median of $40,000 and apartments $43,000.

HOUSES

Q3 2022 **2.5%**

Q2 2022 **1.4%**

APARTMENTS

Q3 2022 **17.6%**

Q2 2022 **12.1%**

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Apartments	-$43,000	-$4,621,464	$158,000	$70,016,089
Houses	-$40,000	-$13,714,555	$330,000	$3,077,053,820

Main Centres

The 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, a bit of extra weakness in Auckland, Wellington, and Dunedin, versus a slightly steadier (but still weakening) picture in Hamilton, Tauranga, and Christchurch.

Indeed, for Q3 2022, Auckland saw 5.8% of property resales made for a gross loss, up from 3.2% in Q2 2022, and the highest figure since 7.1% in Q4 2019. Wellington saw a resale loss proportion of 3.4% in Q3 2022, up from 2.1% in Q2, while Dunedin's figure of 3.1% was also up fairly sharply from Q2 (1.0%).

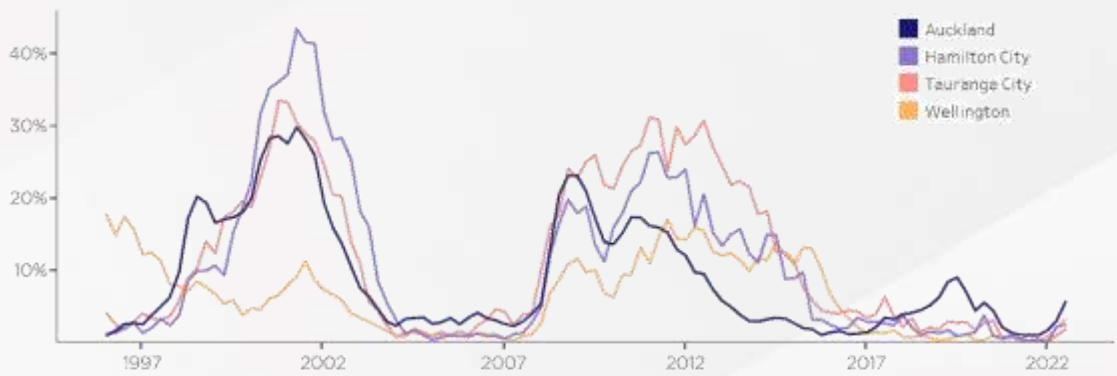
Meanwhile, the share of loss-making resales in Hamilton in Q3 2022 was 2.6%, with Tauranga's figure at 2.0% – both cities had a higher proportion than in Q2. Christchurch's figure for Q3 was the lowest of the main centres (1.6%), but still up from the previous quarter (0.5%).

In terms of the size of resale gains and losses, it's worth noting that most resellers are still getting a price well above what they originally paid – ranging from a gross profit of more than $400,000 in Tauranga, Auckland, and Wellington, down to about $368,000 in Hamilton, and $300,000 or less in Dunedin and Christchurch.

However, go back to Q4 2021, and Auckland's median resale profit was $618,000 (not far off $200,000 more than Q3 2022's figure), while Wellington's figure has also dropped by about $200,000 from the late 2021 peak. Again, these are still significant profits – but just quite a bit lower than they were even as recently as late 2021.

Overall, we reiterate again that the downturn in wider property values is now clearly impacting the pain & gain performance, nationally and in each of the main centres. The changes are still 'orderly', but further weakness lies ahead.

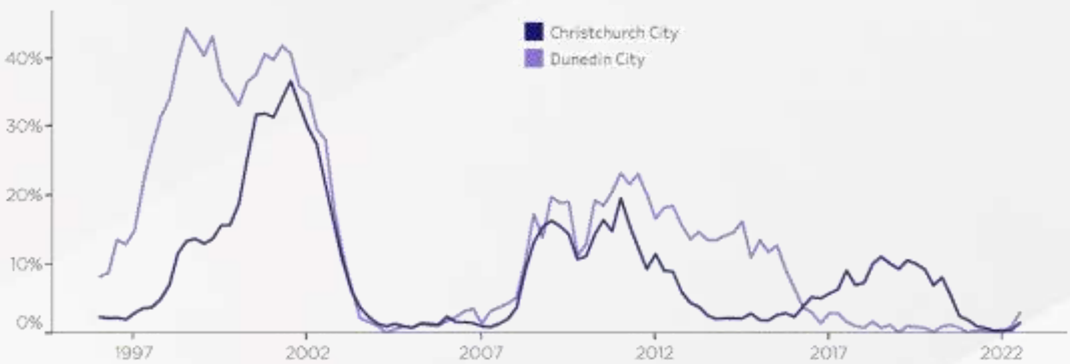
Proportion of total resales at a loss



Proportion of total resales at a loss

	Q3 2022	Q2 2022
Auckland	5.8%	3.2%
Hamilton City	2.6%	2.3%
Tauranga City	2.0%	1.1%
Wellington	3.4%	2.1%
Christchurch City	1.6%	0.5%
Dunedin City	3.1%	1.0%

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	-$52,000	-$10,751,465	$438,401	$1,074,525,965
Hamilton City	-$30,000	-$260,500	$367,843	$100,324,517
Tauranga City	-$68,650	-$362,300	$445,500	$147,525,081
Wellington	-$65,000	-$2,504,426	$410,000	$303,131,569
Christchurch City	-$40,000	-$638,130	$270,000	$294,797,985
Dunedin City	-$40,000	-$505,800	$300,500	$90,284,133

Type of Owner

The share of property resales made for a gross profit dropped in Q3 2022 (or in other words the share made for a loss increased) for both owner occupiers and investors, and the gap between the two owner types remains small.

For owner occupiers, 97.0% of resales saw a gross profit in Q3, down from 98.6% in Q2. This was also the lowest figure since Q2 2020 (96.8%). Meanwhile, for investors, the share of resales made above the original purchase price in Q3 2022 was 97.1%, down from 97.6% in Q2 2022, and also the lowest figure since mid-2020.

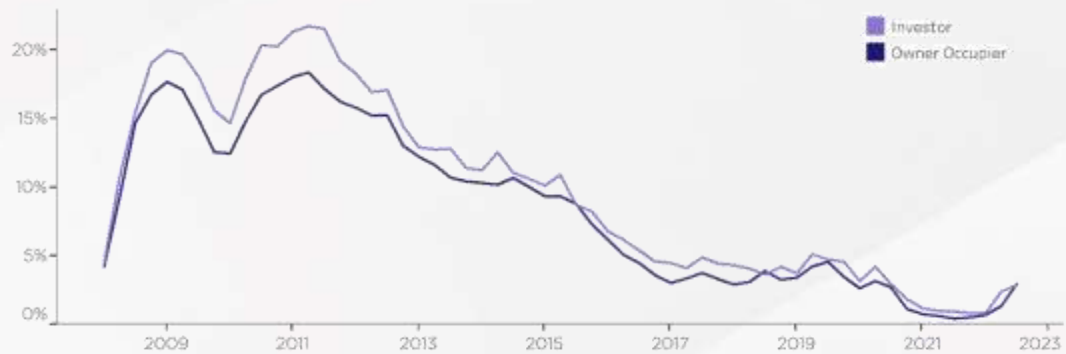
So once again, the key points are that most resellers still tend to make a gross profit (or sell above the original purchase price; especially if the hold period is long), but the frequency of these resale gains is now dropping – both for owner occupiers and investors. That's consistent with higher mortgage rates and the downturn in wider property values.

These figures also undermine the idea that investors are 'heading for the exits'. After all, if existing landlords had truly lost confidence in the property market, you'd expect their loss-making proportion would be higher than owner occupiers and rising, as they looked to sell as quickly as possible. But that's not the case.

In terms of the scale of resale profits and losses, the median loss in Q3 2022 for investors was $56,000 and for owner occupiers it was $42,000. However, the median resale gain was also larger for investors too, coming in at $337,750, versus the figure of $324,000 for owner occupiers. And of course, most owner-occupiers need to recycle that equity gain straight back into their next property anyway.

Around the main centres, there wasn't any clear pattern for investors or owner occupiers to have fared markedly worse than each other in terms of property resale performance in Q3 2022. As examples, investors made no resale losses in either Christchurch or Tauranga in Q3. But investors fared a little worse than owner occupiers in Wellington.

Proportion of total resales at a loss



Proportion of total resales at a loss

	Owner Occupier		Investor	
	Pain	Gain	Pain	Gain
Auckland	5.4%	94.6%	5.8%	94.2%
Hamilton	3.1%	96.9%	1.5%	98.5%
Tauranga	2.5%	97.5%	-	100.0%
Wellington	1.8%	98.2%	4.3%	95.7%
Rest of NI	2.7%	97.3%	1.9%	98.1%
Christchurch	1.9%	98.1%	-	100.0%
Dunedin	2.4%	97.6%	1.6%	98.4%
Rest of SI	1.6%	98.4%	2.0%	98.0%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Investor	-$56,000	-$4,392,512	$337,750	$794,550,764
Owner Occupier	-$42,000	-$8,682,440	$324,000	$1,370,322,472

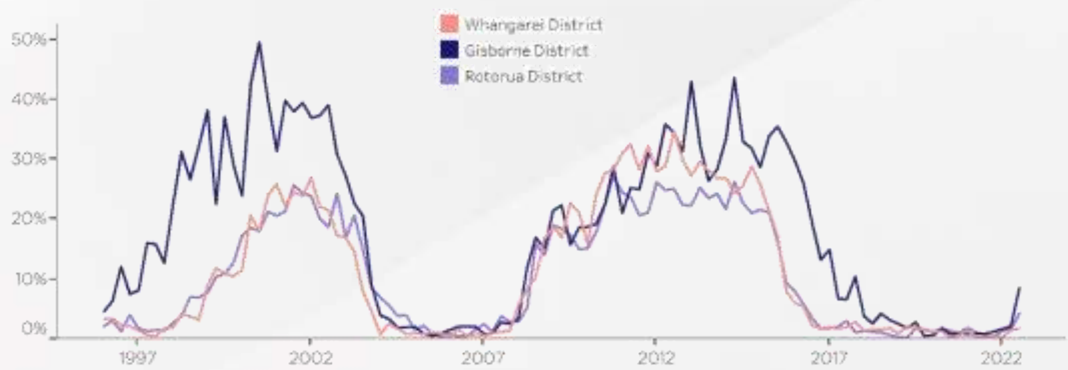
Main urban areas

Upper North Island

The downturn in property values has now spread to most parts of the country and the weaker market conditions have also started to show through in the 'provincial' pain & gain performance this quarter. To be fair, Whangarei hasn't weakened too much, with more than 98% of resales in Q3 still being made above the original purchase price. But Rotorua's figure dipped from >98% in Q2 to <96% in Q3, with Gisborne seeing an even sharper decline from 98% to less than 92%.

Even so, given that hold period plays such a key role in the size of resale profits (and losses), it's no surprise that the gains are still fairly high, even despite some falls in property values themselves lately. Indeed, in each of these three areas, the median resale profit in Q3 was still at least $322,000 (Whangarei) and topped $350,000 in Rotorua.

Proportion of total resales at a loss



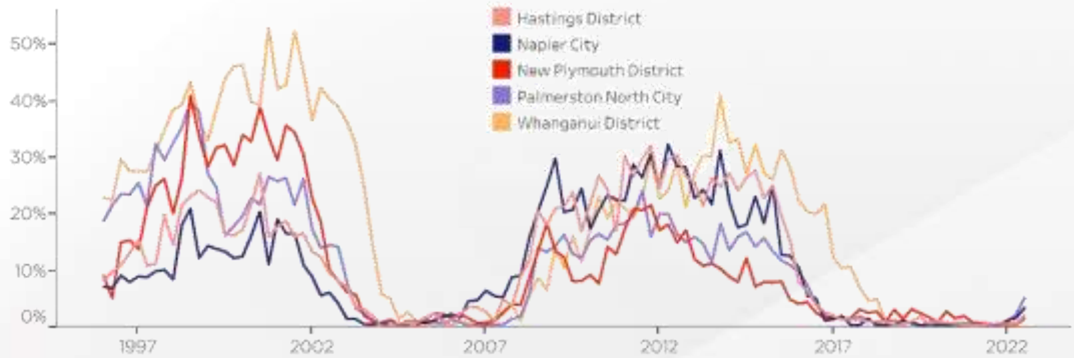
	Q3 2022	Q2 2022
Whangarei District	1.8%	1.4%
Gisborne District	8.5%	2.2%
Rotorua District	4.3%	1.7%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Whangarei District	-$19,500	-$64,500	$322,000	$57,477,801
Gisborne District	-$70,000	-$1,007,000	$325,000	$27,240,150
Rotorua District	-$10,000	-$104,000	$354,000	$42,247,450

Lower North Island

The turnaround for general market conditions and property values in recent months is also showing up in the pain & gain figures around the lower North Island. New Plymouth has perhaps held up a bit better than elsewhere, but the share of resales being at a price less than that originally paid has gone above 3% in Napier and has topped 5% in Palmerston North (from only about 2% last quarter).

Proportion of total resales at a loss



	Q3 2022	Q2 2022
Hastings District	2.1%	0.6%
Napier City	3.5%	1.7%
New Plymouth District	1.6%	0.4%
Palmerston North City	5.3%	2.2%
Whanganui District	2.1%	0.9%

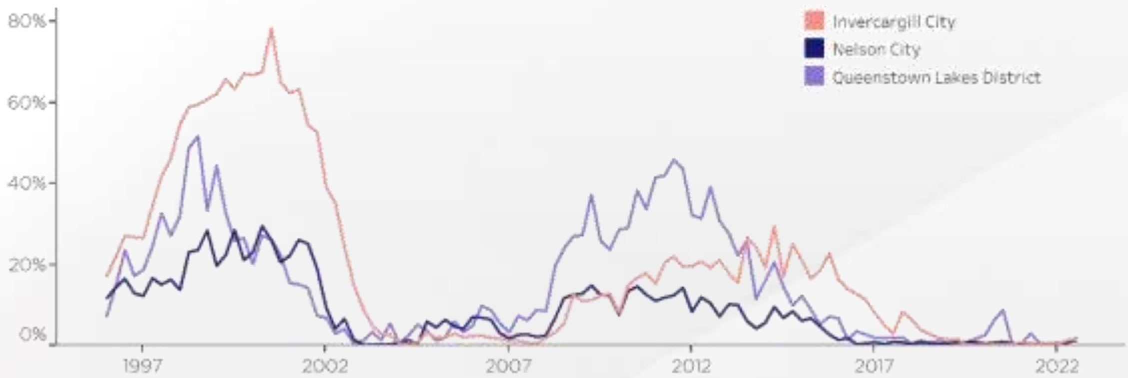
Meanwhile, although the size of the median gross resale profits has started to fall around the country, the figures are still solid – at least $300,000 in each of these markets, and still more than $360,000 in Napier, and coming in at $400,000 in Hastings.

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Hastings District	-$57,500	-$188,500	$400,000	$59,640,694
Napier City	-$68,500	-$444,398	$362,000	$62,132,192
New Plymouth District	-$60,000	-$292,000	$307,000	$64,874,418
Palmerston North City	-$30,000	-$574,700	$327,700	$67,324,093
Whanganui District	-$27,500	-$55,000	$304,000	$29,288,090

South Island

Across the key South Island centres, property resellers generally remained in a strong position in the third quarter of the year, although conditions have softened. After no resale losses in Q2, the share was 1.1% for Queenstown in Q3, with Invercargill rising from 1.3% to 1.9%, and Nelson from 0.6% to 2.0%. In other words, the frequency of resale gains has fallen across each of these areas.

Proportion of total resales at a loss



	Q3 2022	Q2 2022
Invercargill City	1.9%	1.3%
Nelson City	2.0%	0.6%
Queenstown Lakes District	1.1%	-

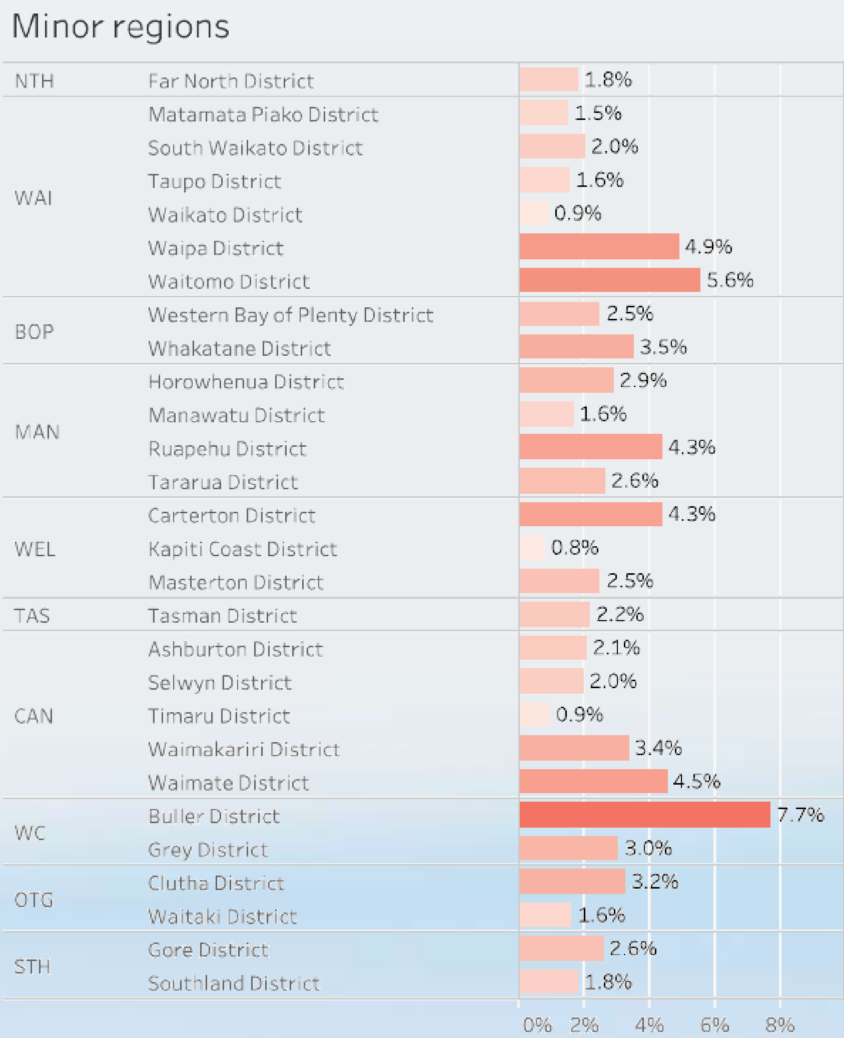
In terms of the profits and losses themselves, generally the figures are still tilted very much in favour of the vendors. Queenstown, for example, had a median gain of $572,500 in Q3, with Nelson still topping $350,000, and Invercargill sitting at $220,000.

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Invercargill City	-$9,000	-$29,000	$220,000	$39,162,258
Nelson City	-$105,000	-$210,000	$353,000	$35,952,650
Queenstown Lakes District	-$5,000	-$5,000	$572,500	$68,264,118

Outside the main urban areas

Generally speaking, property markets around regional NZ have been part of the property downturn too (albeit with some exceptions), and this is starting to show through in weaker pain & gain results as well. For example, a number of smaller areas in Q3 had 4-5% of property resales going at a price below that originally paid – including Waipa, Waitomo, Ruapehu, Carterton, Waimate, and Buller. However, the number of deals involved was still pretty small (three or less) – even in Waipa (with six).

Proportion of total resales at a loss



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