

House price expectations remain high

- House price expectations remain high over the three months to July.
- Housing confidence declines again as fewer respondents see now as a good time to buy.
- Interest rate expectations edge higher, with OCR increases likely from March 2014.

House price expectations remain high in the latest ASB Housing Confidence Survey. While house price expectations edged slightly lower, this appears to be influenced by a change in survey methodology. Fundamentals, such as income and population growth and relatively low interest rates, will continue to support housing demand over the coming year.

Increased demand but a sluggish response from supply has seen the housing market tighten. As competition heats up between potential buyers, fewer see now as a good time to buy.

Interest rate expectations have lifted, with net 39% of respondents expecting higher interest rates in the next 12 months. We continue to expect the RBNZ will lift the OCR from March 2014.

The ASB Housing Confidence survey shows that house price expectations remain firm:

- A net 56% of respondents expect house prices to increase in the next twelve months;
- A net 0% of respondents believe now is a good time to buy;
- A net 39% of respondents expect interest rates to rise in the next twelve months.

ASB Housing Confidence Survey (Source: Camorra, ACNielsen)

| Net percent who believe (3 months to July 2013) ... | Good time to buy a house | House prices will increase | Interest rates will increase |
|--|-----------------------------|-------------------------------|---------------------------------|
| Auckland | -15% | 57% | 34% |
| Rest of North Island | 13% | 54% | 41% |
| Christchurch | -16% | 67% | 43% |
| Rest of South Island | 10% | 45% | 41% |
| TOTAL NZ | 0% | 56% | 39% |
| <i>Compare 3 months to April 2013</i> | <i>8%</i> | <i>63%</i> | <i>30%</i> |

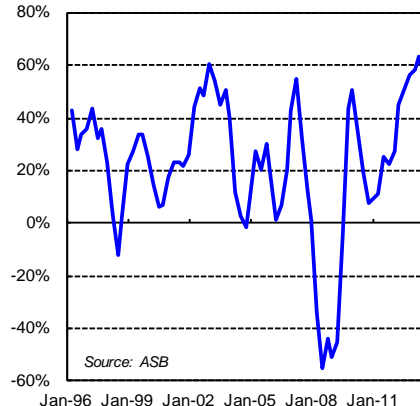
Price expectations remain high, led by Auckland and Canterbury.

Price expectations edged slightly lower over the three months to July, but remain at very elevated levels. However, we have changed survey provider and there are slight methodology differences. This appears to have contributed to a lower net percent expecting prices to increase relative to the old survey in the same period. The monthly survey results between April and July from the new provider shows net price expectations steadily increased in each month. This suggests that price expectations are still rising. Net price expectations remain highest in Canterbury and Auckland, where the housing market remains tightest and house prices are rising rapidly.

A breakdown of the net quarterly figure is:

- 62% expect higher prices, while only 6% expect prices to fall.
- the difference being the net 56% plotted opposite;
- 17% expect the same;
- 16% don't know.

NET PRICE EXPECTATIONS



Fewer see now as a good time to buy as competition between buyers heats up.

Net 0% of respondents view now as a good time to buy, with 21% of respondents replying it is a good time to buy offset by 21% how view it as a bad time to buy. The net respondents of those seeing it as a good time to buy has fallen sharply over the past three quarters. This has coincided with a tightening in the housing market. While demand has increased, new supply has remained at historically low levels. With more potential buyers chasing the few properties listed, competition has bid up prices and reduced negotiating power.

However, the bulk of respondents, at 42%, indicate an indifference to now being a good or bad time to buy. This reflects that the decision to make a major household investment depends more on individual circumstances than waiting for the perfect market conditions.

The breakdown is:

- 21% say it is a good time to buy, while 21% say it is a bad time;
- The difference is the net 0% plotted opposite;
- 42% say it is neither good nor bad;
- 16% don't know.

Interest rate expectations lift, although high number of respondents uncertain.

Interest rate expectations lifted in the 3 months to July. The biggest bloc of respondents (44%) expect interest rates will rise over the next twelve months, while 27% expect rates to remain unchanged. Only 5% expect interest rates to decline. At 24%, the number of respondents who don't know is relatively high, indicating the high degree of uncertainty around the economic outlook.

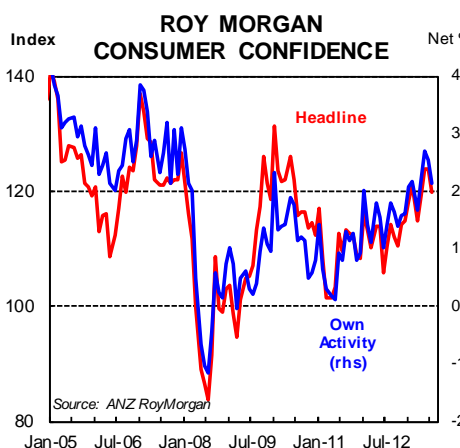
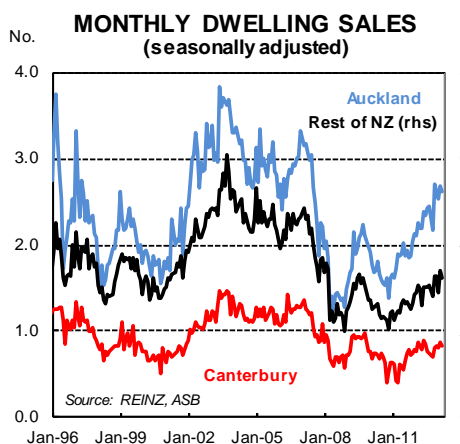
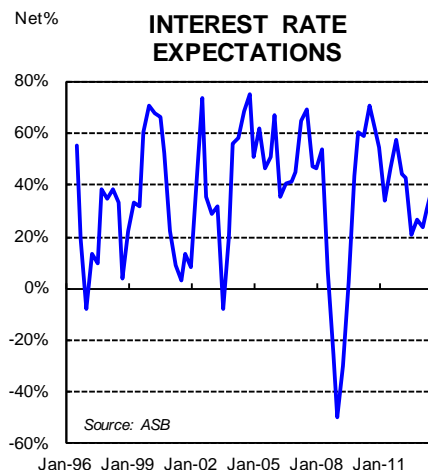
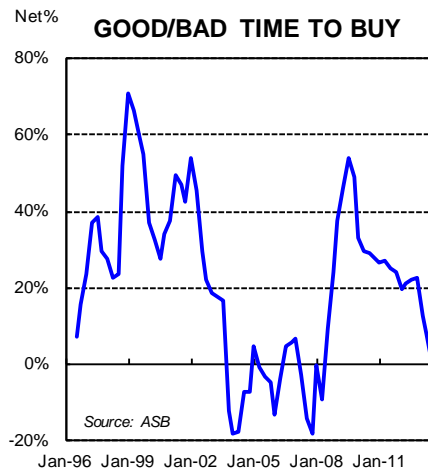
The breakdown is:

- 44% expect higher interest rates, while 5% expect lower interest rates;
- The difference is the net 39% expecting higher rates, plotted opposite;
- 27% believe interest rates will stay the same;
- 24% don't know.

Housing demand has picked up over the past couple of years.

Housing demand continues to lift

NZ housing demand has steadily increased over the past couple of years. Gradual improvements in incomes and consumer confidence are key factors underpinning this increase in demand. In addition, investor confidence in residential property has been strong, although has eased slightly in recent months. This shift may have been influenced by increased talk of the market being 'over valued', suggesting further capital gains may be limited. In addition, expectations the RBNZ will make unconventional moves to slow housing market momentum may also discourage potential investors. However, even if investor demand eases, we expect owner-occupier demand to remain firm, particularly given the recent lift in the number of New Zealanders returning from Australia.



Housing supply has remained low and slow to respond to higher demand.

While demand has continued to grow, supply has been sluggish to respond. The number of new homes listed for sale on realestate.co.nz remains at very low levels. Construction of new housing is picking up, but from low levels. It will take some time for construction to ramp up and deliver a meaningful supply response, particularly in areas where shortages have become acute such as Canterbury, and to a lesser extent Auckland. Continued strong increases in Canterbury rents highlight the intensity of the housing shortage. The commencement of major repairs has increased the demand for temporary accommodation. Meanwhile, migration inflows into the city, attracted by job opportunities created by the rebuild, are also adding to housing pressures.

House prices picking up in sellers' market.

With supply and demand out of balance, prices continue to lift on a nationwide basis. Price gains remain the strongest in Auckland and Canterbury where supply constraints are most acute. However, prices are also picking up in other areas of the country reflecting the increase in demand for housing as the broader economy recovers. This lift in house prices, and indications that demand is likely to remain firm, has likely contributed to the high level of net house price expectations.

Strong competition between buyers makes for a tougher market to enter.

Reflecting the imbalance between supply and demand, the median number of days to sell continues to decline. As competition ramps up between potential buyers, houses are sold more quickly. Increased competition also reduces buyers' bargaining power and as a result fewer believe now is a good time to enter the housing market.

Interest rate expectations lift as OCR hikes likely from March 2014.

Interest rate expectations have continued to lift and this is consistent with our view the RBNZ will start to lift the Official Cash Rate (OCR) from March 2014. Some fixed-term mortgage rates have started to increase to reflect the likelihood of a higher floating rate in the future. In assessing when to lift the OCR, the RBNZ has to weigh the gradual pace of economic recovery and the impact of the elevated NZD against growing inflation pressures, particularly against the back drop of the Canterbury rebuild. The recent decline in the NZD means the RBNZ can now focus on the rise in domestically-generated inflation pressures. At the July OCR review, the RBNZ linked future OCR increases to the inflationary impacts of rising house prices and construction costs. For the time being, inflation pressures are reasonably contained and headline inflation is sitting below the RBNZ's target band of 1-3%. However, we expect inflation to increase sharply over the next few quarters. We continue to expect the RBNZ will first lift the OCR in March 2014.

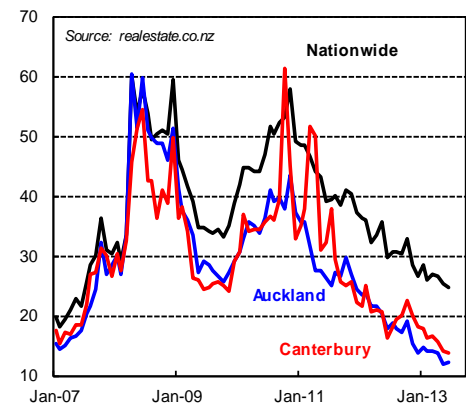
RBNZ to get creative in dealing with financial stability risks from house price increases.

The RBNZ has also become increasingly concerned about the financial stability implications of strong house price increases. It is likely the RBNZ will implement restrictions around high loan-to-value lending growth, once technically feasible. However, we expect this to have a limited impact on housing market demand or house prices. For more discussion please see the feature article in our most recent [Quarterly Economic Update](#).

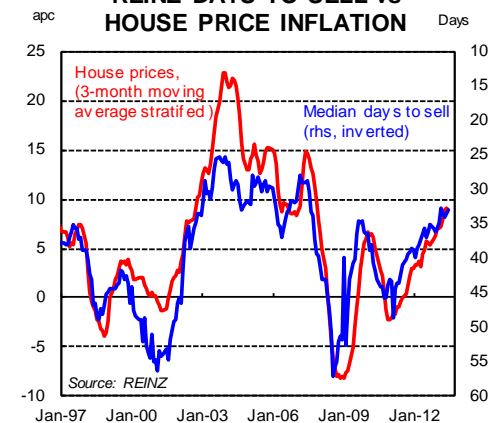
PLT MIGRATION: NZ CITIZENS ARRIVING FROM AUSTRALIA
(3m ma, seasonally adjusted)



NUMBER OF WEEKS INVENTORY



REINZ DAYS TO SELL vs HOUSE PRICE INFLATION



In summary,

- House price expectations remain elevated. Although price expectations declined over the three months to July, this appears to be due to a change in survey methodology. The fundamentals supporting housing demand and price increases remain in place.
- The housing supply has been slow to respond to the increase in demand. As a result increased competition from potential buyers has reduced bargaining power and made it a less attractive time to enter the market.
- Expectations of higher interest rates have continued to increase. Some fixed-term mortgage rates have lifted on the increasing probability of OCR increases in coming years. We continue to expect the RBNZ will increase the OCR from March 2014.

ASB commentary on housing and home loan rates.

For more ...

Commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Housing Confidence \(this report\)](#)
- [Home Loan Rates](#)
- [Weekly Economic Reports.](#)

For general reference, the reports are included within the online Information Centre (<https://reports.asb.co.nz/index.html>).

For specific reference to housing, reports that include housing commentary can be accessed via a Search page (<https://reports.asb.co.nz/search/keyword.html>) by selecting the keyword "Housing".

| ASB Economics & Research | | Phone | Fax |
|--------------------------|-----------------|--|----------------|
| Chief Economist | Nick Tuffley | nick.tuffley@asb.co.nz | (649) 301 5659 |
| Senior Economist | Jane Turner | jane.turner@asb.co.nz | (649) 301 5660 |
| Economist | Christina Leung | christina.leung@asb.co.nz | (649) 301 5661 |
| Economist | Daniel Smith | daniel.smith@asb.co.nz | (649) 301 5853 |

<https://reports.asb.co.nz/index.html>

ASB Economics

Level 9, 135 Albert Street, Auckland

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.