

# National Media Release

## July House Price Index illustrates property market resilience post-COVID

According to the July 2020 QV House Price Index (HPI) results out today, property values recorded a marginal increase, up 0.2% over the month. This is somewhat of a turnaround from June, after the national index edged 0.2% lower.

In these variable times, the three month measure of the index is illustrating a more complete picture of value movements across the country, with nationwide values inching up only 0.4% over the slightly longer period, which begins around the time NZ moved out of lockdown level four – when it was very difficult to transact property.

Across the main centres the general pattern of values plateauing since the strict level four lockdown is also evident. Value change since 1 May has ranged from -0.3% in Dunedin to 0.9% in Hamilton, with Tauranga the key outlier at 2.5% growth over that time.

Strong momentum leading into lockdown saw Tauranga's property values continuing to grow while many others faltered, however the latest couple of months have seen that momentum dissipate too, with values in Tauranga steadying (+0.2%) since 1 June.

As New Zealand emerges from the previous lockdown, a new sense of optimism as emerged, but tempered with a note of caution as to what the near-term future holds. The significant support provided by the Government and retail banks, in the form of wage subsidies and mortgage deferrals, don't have too much longer to run and while there have been discussions about support being extended, it seems more likely to happen in the event of a local COVID-19 outbreak.

"Anecdotal evidence is suggesting the share of people unable to resume paying their mortgage repayments is relatively low, and the latest NZ Activity Index (NZAC) has shown economic activity in June essentially returned to the same levels as last year, a remarkable recovery from the level four lockdown in April", Head of research Nick Goodall said.

The Reserve Bank's influence, by way of keeping interest rates low, is unlikely to change, and this will ensure mortgage payments are kept in check for current home owners as well as prospective first home buyers. Goodall added "The Reserve Bank's next Monetary Policy Statement (MPS), to be released next Wednesday (12 August), is the next key date on the calendar, but it is unlikely to spring any surprises, given the plethora of economic and property market measures which have returned to some kind of normality post lockdown."

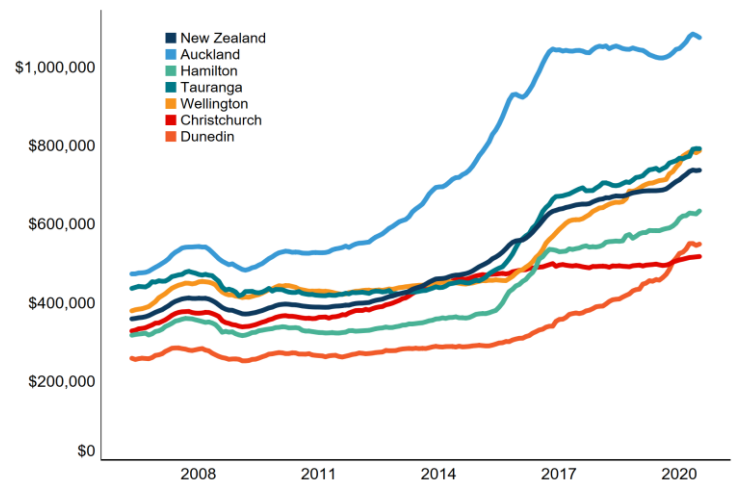
### Index results as at 3 August 2020

	Change in property values		Average Value
	Quarter	Annual	
Auckland	-0.2%	5.1%	\$1,077,237
Hamilton	0.9%	8.6%	\$635,289
Tauranga	2.5%	7.5%	\$794,004
Wellington	0.4%	10.7%	\$788,804
Christchurch	0.5%	4.3%	\$519,233
Dunedin	-0.3%	20.0%	\$550,820

### Highlights over the three months to July 2020

- ▶ Best performing main city: **Tauranga +2.5%**
- ▶ Weakest performing main city: **Dunedin -0.3%**

### Average Property Values, Main Centres



While the loan-to-value ratio restrictions have been temporarily removed by the Reserve Bank, lenders are continuing to effectively adhere to them, as they maintain responsible lending policies. Assessments of job security and debt serviceability tests also remain stringent.

The main factor providing nervousness in the market, is the forecast unemployment rate. Many economists have scaled back their forecast peaks, however the rate is still likely to more than double, from 4% to almost 10%, which is a level not seen since the early 1990s. Small business health, and the transition away from wage subsidies, will be the key factors here.

Looking more granularly into the HPI data and in Auckland it's the more expensive Central (-2.2%), Eastern Suburbs (-1.8%) and Coastal North Shore (-1.4%) areas which have seen the greatest drops since the end of the level four lockdown.

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Note: The CoreLogic QV House Price Index is the most comprehensive long term measure of house prices as it includes agent and non-agent sales. It also includes some recent sales before the unconditional date (contrary to some commentary) so does not have the previously reported 6-week lag.

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Similarly, separate analysis of the Queenstown market (down 4.2% since 1 May) shows the upper tier (above \$1.6m) suffering a total of a 10.5% drop in value since 1 Feb 2019. In contrast, the decrease in the \$780k-\$930k bracket has 'only' been 4.3% since the same date.

While these recent drops in value won't be entirely attributable to the closing of our borders, it is worthwhile to note the vulnerability of both of these localities to the loss of the international tourism dollar. Of all tourism spend in each of these centres 65% is international in Queenstown, while the respective figure is 55% in Auckland. Domestic spend has and will be able to make up some of the loss, but this is unlikely to be sustainable long term, meaning plenty of focus will be on the future of border closures.

Other areas of vulnerability, due to a larger reliance on internal tourists include the Mackenzie District (69%), Westland District (63%), Southland District (57%) and Kaikoura District (53%). Rotorua, perhaps surprisingly, has only a 40% reliance on international tourism, compared to domestic (60%).

In the other main urban areas the markets' resilience is also evident. After last month witnessing a 50/50 split between those growing and those diminishing in value, the latest 3 month reading has all but Queenstown back on the up.

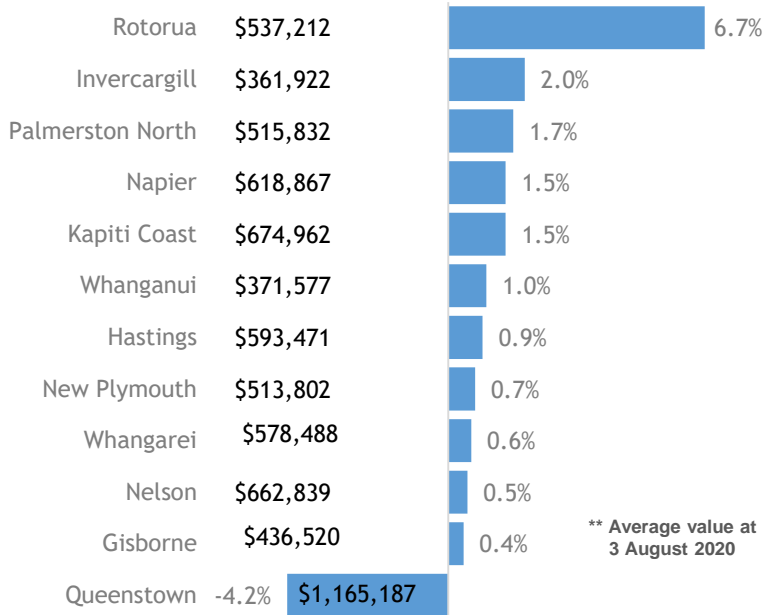
In fact, Rotorua continues to see strong growth (6.7% since 1 May 2020) despite its typical grouping with the likes of Queenstown as a tourist town. A broader based economy (including forestry, healthcare and agriculture) than is often realised providing a decent base for recovery.

Invercargill, with 2% growth in the last three months paints a relatively rosy picture for the southern city, however the recent closure announcement of the Tiwai Point Aluminium Smelter, which is a large employer across the Southland Region, points to a more vulnerable outlook than would have otherwise been the case.

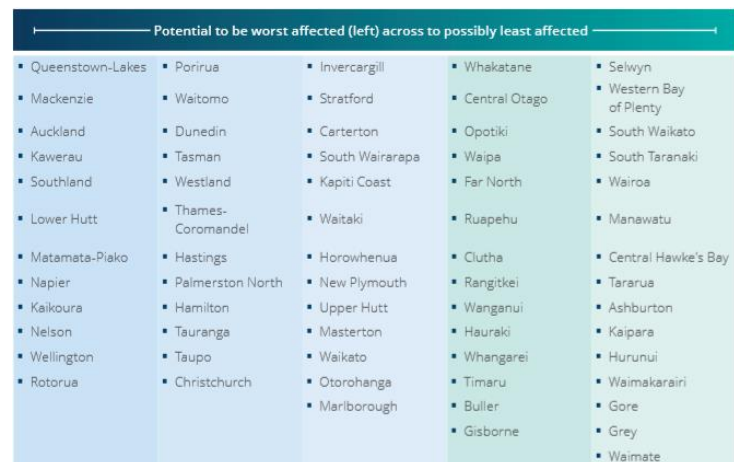
From a broader perspective, the regions may benefit from the current lack of brain drain, as one key trend in the past has seen large numbers of Kiwis leave the country from the regions (rather than main cities).

With travel off the cards for the foreseeable future, those would-be travellers may stay at home and underpin demand for property in some form in these areas. Add in returning Kiwis and our net migration position nationwide is likely to stay above zero for at least the rest of the year.

## Three monthly change in dwelling values\*\*, Provincial Centres



## CoreLogic Property Market Vulnerability Ranking



Goodall summarised the situation, saying "Overall, demand for property is holding relatively firm at a time when supply is constrained. We remain wary of what September will bring, as much of the financial support runs out, however given the authorities' commitment to financial stability we maintain a position of no-to-low negative value growth moving through the end of 2020."

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