REINZ | REAL ESTATE INSTITUTE OF NEW ZEALAND

REINZ & TONY ALEXANDER REAL ESTATE SURVEY

June 2021

ISSN: 2703-2825

REINZ REAL ESTATE INSTITUTE OF NEW ZEALAND

HOLDING PATTERN REMAINS

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.

In our April and May surveys we recorded sharp declines in most measures of market activity following the reimposition of Loan to Value Ratio rules and the March 23 announcements around interest expenses deductibility and the brightline test. This month, our survey undertaken at the end of May received 289 responses and shows most things very little changed from a month earlier – apart from more first home buyers seeming to be taking a step back from the market.

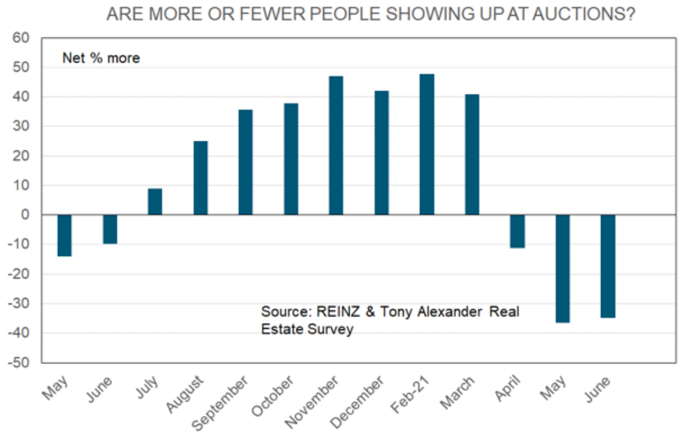
There is still FOMO, and agents still overwhelmingly feel that prices are rising in their location. But interest from offshore continues to decline, investors are still in a wait-and-see mode, and buyers still remain concerned about a shortage of listings. In fact, the proportion of agents feeling that more investors are coming forward to sell their properties has decreased over the month.

On the basis of our many indicators it is difficult to say anything other than that things still seem to be in a holding pattern, perhaps as clarification is awaited on the rules surrounding definition of a new build in particular, as winter is now upon us, and as many people perhaps simply take a breather after the frenzy between August and March.

Each of the questions we ask agents is discussed below.

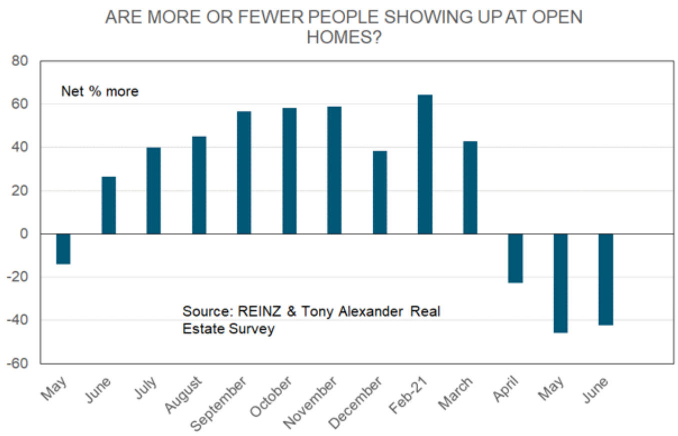
ARE MORE OR FEWER PEOPLE SHOWING UP AT AUCTIONS?

A net 35% of agents have reported that they are seeing fewer people at auctions. This is statistically unchanged from the net 36% of a month ago. This suggests that as the month progressed fewer and fewer people generally have been in attendance. But after a period during which auction rooms were packed it is likely that many agents are still comparing current activity with those frenzied months rather than necessarily just the previous month.



Comments from agents this month and last month indicate that in some locations there has been a slight move away from auctions towards tenders or negotiated prices.

ARE MORE OR FEWER PEOPLE ATTENDING OPEN HOMES?



Consistent with fewer people attending auctions, agents also report fewer people showing up at Open Homes. A net 42% reported this at the end of May, little changed from the net 46% doing so a month earlier. The reduction is coming from some very high levels of reported attendance increases however of just three months ago, and the switching away from that earlier hyper level of activity is probably imparting a negative bias to this particular reading.

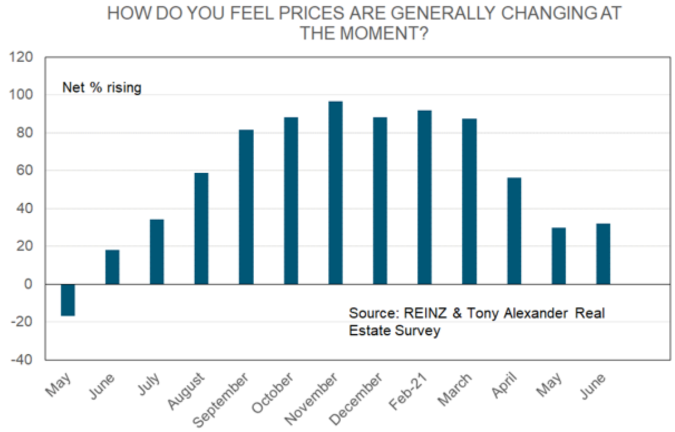
REINZ REAL ESTATE INSTITUTE OF NEW ZEALAND

Winter traditionally brings a reduction in Open Home attendance and that is likely to be a factor also accounting for the low reading of this activity measure.

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

Although agents report that there are fewer people attending Open Homes and auctions, a net 32% still feel that prices are rising in their location. That is, a gross 39% feel that prices are rising, just 7% feel they are falling, and the remaining 53% feel that they are static or don't have a view.

The 32% reading is actually an improvement from 30% last month, but the change is not large enough to allow any firm comment regarding price perceptions improving. Just three months ago a net 88% of agents felt that prices were rising, and in late-October a net 97% reported local house prices as going up.



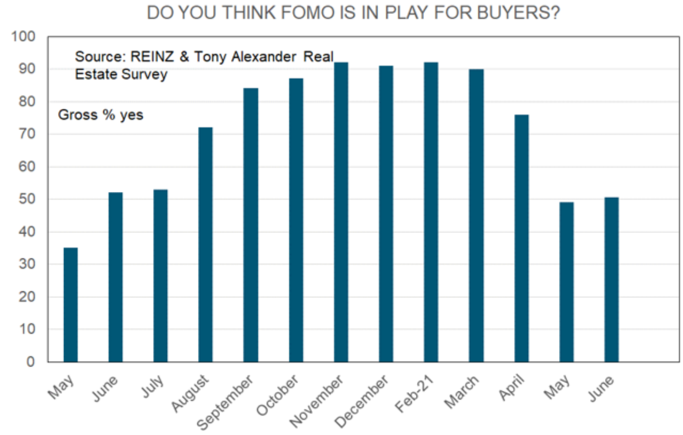
So, we are well removed from the earlier days of extremely rapid price gains. But overall, agents do not feel that prices are falling, and the outcomes are not consistent with an expectation of near flat prices over the coming year either.

Note that on average between 2011 and 2014 when this same question was asked in a previous similar survey, a net 31% of agents responded that prices are rising. The nationwide pace of price increase back over that 2011–14 period of time averaged just over 5% per annum.

DO YOU THINK FOMO IS IN PLAY FOR BUYERS?

FOMO = Fear of missing out

Just above we reported a small yet statistically insignificant rise in the net proportion of agents feeling that prices are rising. The same has happened for FOMO. Late in May a gross 51% of agents reported that they are seeing fear of missing out on the part of buyers. This is up from a gross 49% in late-April.

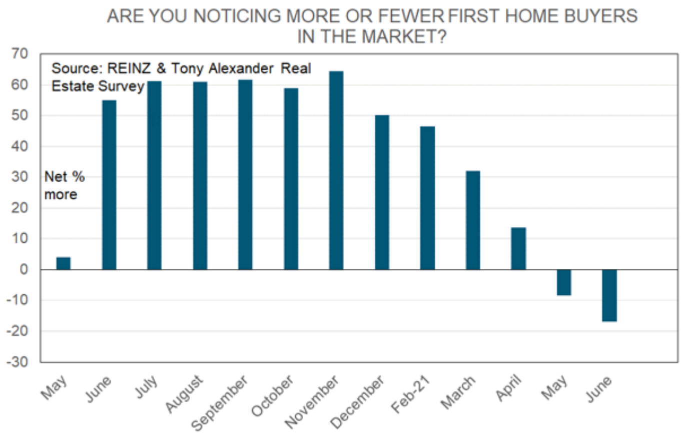


The result is down from a peak period between late-August and the end of February when well over 80% of agents reported FOMO. It is also below the average for the past year of a gross 71% reporting FOMO.

The result tells us that although the frenzy has gone, buyers are not of the opinion that prices are falling or that they are incentivised to hold back from the market for a better-priced purchase.

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

Agent observations of the presence of more first home buyers in the market have been easing since the end of November and the results since the March 23 announcements are entirely consistent with the downward trend which was already in place. This does not at all mean that the March policy changes have had no impact – just that they struck at a time when their impact would be magnified because of the easing in buyer interest which was already apparent.

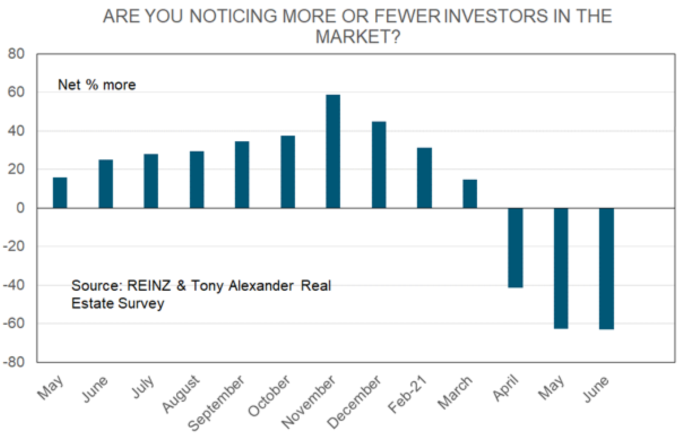


In this month's survey a net 17% of agents have reported seeing fewer first home buyers in the market for a property. This is almost the only one of our many indicators which has deteriorated to a meaningful degree this month (see below for investors), and this suggests that while policy changes may be slowing the market, they are not necessarily bringing more young buyers into play to take up the space created by a withdrawal of investors.

Young people tend to take guidance (whether explicit or subliminally) from those older than them, and seeing the generally older investors stepping back it is highly likely that the often nervous first home buyer has also stepped back. In other words, they might not step forward to embrace conditions moving more in their favour until the investors end their wait and see period.

ARE YOU NOTICING MORE OR FEWER INVESTORS IN THE MARKET?

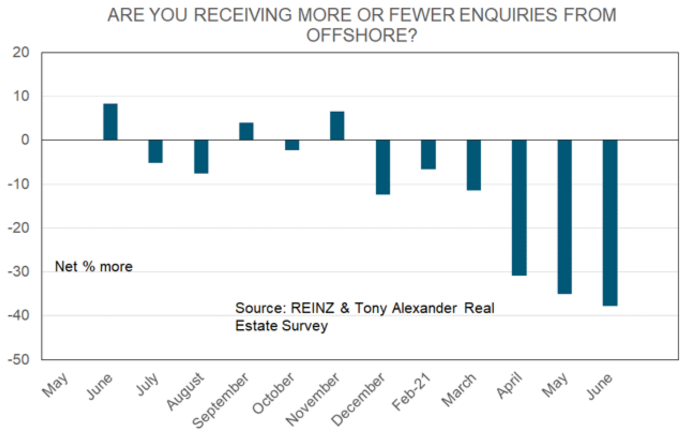
A net 63% of agents have reported seeing fewer investors in the housing market. This is exactly the same result as a month ago. The firmly negative outcome tells us that investors have reacted strongly to the combined impact of an LVR requiring a minimum 40% deposit, and planned removal of interest expense deductibility.



History tells us that the period of investor shock from a large policy change often fades in 3–4 months, apart from the 40% deposit requirement from late–2016 which signalled the end of Auckland's period of doubling prices. Therefore, within 1–3 months we are likely to see truly where investor attitudes lie, assuming that within that timeframe we get final details on the tax policy changes.

ARE YOU RECEIVING MORE OR FEWER ENQUIRIES FROM OFFSHORE?

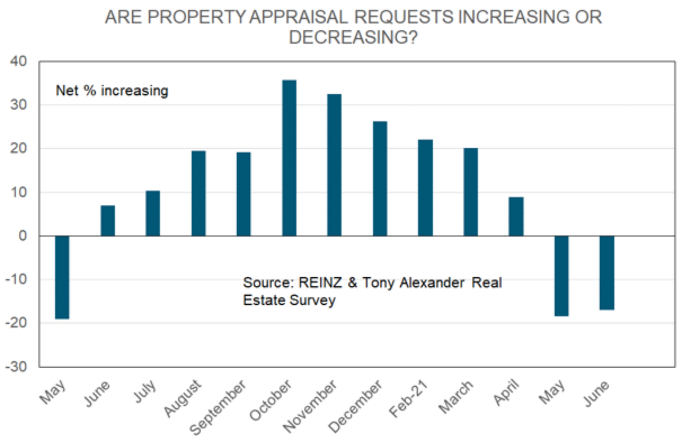
There is no basis from the results in our survey since June last year for believing that the New Zealand housing market has been propelled higher by offshore buying. Between our first survey asking whether agents are seeing more offshore enquiries and the end of October, there was no consistent strength in this measure. Since late-November more agents have been reporting reduced offshore enquiry than increases, and in our latest survey this stands at a net 38% negative.



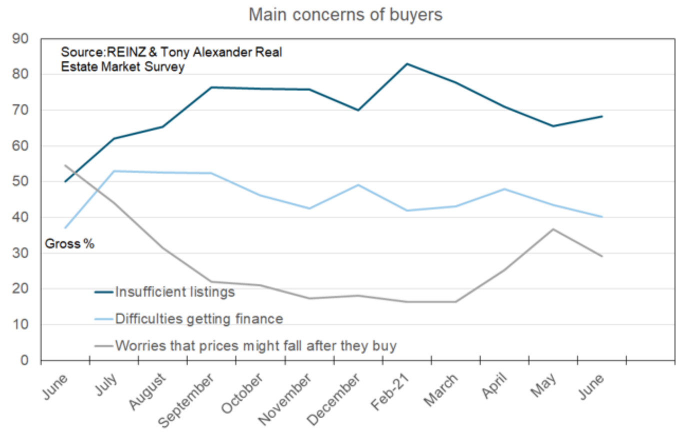
A worsening trend remains in place for this measure and while the March 23 tax announcements have clearly had an impact, a deteriorating trend was already in place. It will be interesting to see what happens over the next few months as the attractiveness of working in Australia for higher wages in a strongly growing economy, alongside full opening up of vaccinated populations in the United Kingdom and United States, has on the desire of Kiwis offshore to contemplate settling down back here.

ARE PROPERTY APPRAISAL REQUESTS INCREASING OR DECREASING?

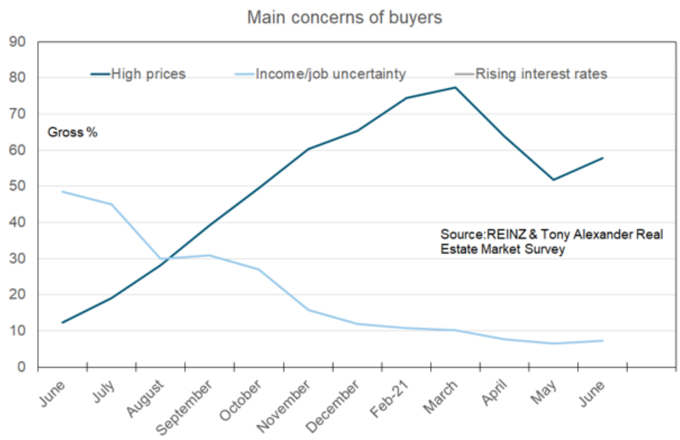
A net 17% of agents have reported that they are receiving fewer requests for property appraisals. This is essentially unchanged from the net 18% of last month's survey and tells us that there is no rush of investors looking to put their properties on the market in response to policy changes.



WHAT ARE THE MAIN CONCERNS OF BUYERS?



We produce two graphs showing for each month the gross proportion of agents citing each of six factors which concern buyers the most. The first graph tells us that a shortage of listings remains of high concern. Again, we have no evidence that investors are placing properties on the market in large numbers. There is no trend change in financing issues, and although worries about prices falling spiked late in March and April, late last month these worries eased slightly.



Our second graph shows worries about high prices fell following the policy announcements. Now they have started to go up again.

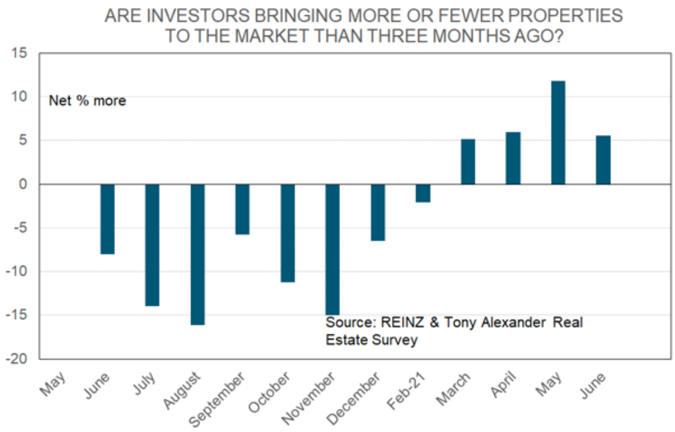
Consistent with the strong labour market, worries about employment remain very low. Not shown on the graph because the option was only just added this survey, is the gross percent of agents saying that the main concern of buyers is rising interest rates. This survey's result is just 13%. That makes it the second lowest area of concern after employment and income. Next month a line will start to appear for this measure.

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

Responses to this question allow us to say three things.

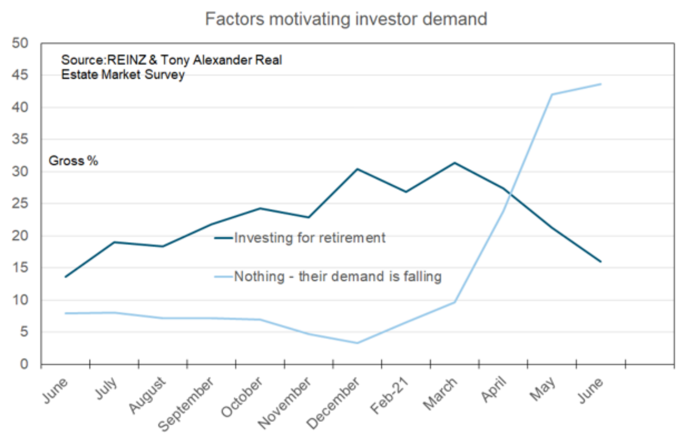
1. Perhaps emboldened by extremely strong buyer demand, more investors have been looking to offload some of their stock since late-November last year
2. The March 23 policy announcement produced no immediate rise in selling intentions, but perhaps in a delayed reaction, a few weeks later at the end of April a net 12% of agents said investors are looking to sell
3. But in this month's survey there has been a decrease in the proportion of agents saying investors are coming forward to sell – to 6% from last month's 12%.

There is no solid evidence of a wave of investors disposing of their properties even though there is anecdotal evidence of some choosing to do so.



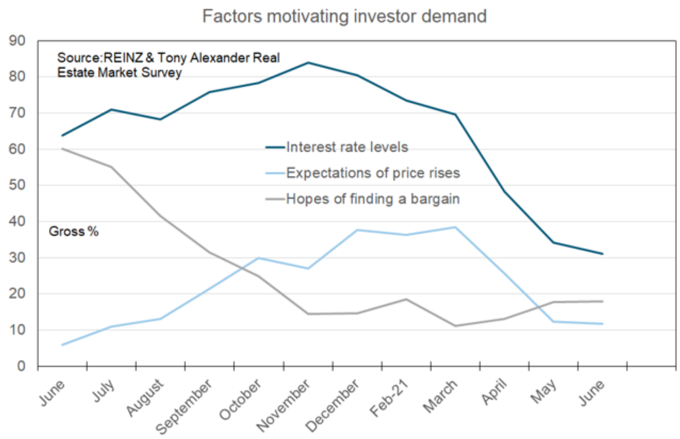
WHAT FACTORS APPEAR TO BE MOTIVATING INVESTOR DEMAND?

The two following graphs allow us to see changes in the factors which agents perceive as most motivating the actions of investors.



REINZ REAL ESTATE INSTITUTE OF NEW ZEALAND

The first graph tells us that since the March 23 policy announcement there has been a substantial decrease in the desire of investors to buy a property – shown as the light blue line. At the same time fewer investors are looking to buy to help finance their retirement.



Our second graph shows that since late-October fewer investors have been buying because of low interest rates and this trend continued in our latest survey. Fewer have been looking to buy because of expectations of capital gains.

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. Even for regions with responses between 7 and 20, caution needs to be applied as results may prove quite volatile from one month to the next. Nelson and Tasman results have been joined together.

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 Auction	D Open H.	E Prices	F FOMO	G FHBs	H Invest.	I O/seas	J Inv. selling
Northland	13	-54	-23	-38	46	62	-46	-69	-38	-8
Auckland	94	-19	-41	-28	30	49	2	-60	-35	12
Waikato	27	-11	-48	-44	33	56	-26	-63	-52	-26
Bay of Plenty	24	0	-63	-46	4	50	13	-63	-33	0
Gisborne	1	0	0	0	0	0	0	0	0	0
Hawke's Bay	11	45	-27	-36	45	64	-18	-64	-18	55
Taranaki	9	-11	-11	-78	44	33	-44	-56	-44	22
Manawatu-Wanganui	13	23	8	-62	38	38	-8	-85	-46	8
Wellington	27	-22	-37	-89	33	56	-52	-81	-30	15
Nelson/Tasman	10	-30	-20	-60	20	50	-70	-90	-30	20
Marlborough	2	0	0	0	0	0	0	0	0	0
West Coast	0	0	0	0	0	0	0	0	0	0
Canterbury	31	-45	-26	-39	39	48	-16	-65	-52	3
Queenstown Lakes	9	33	-11	44	56	78	-22	0	0	0
Otago exc. Q'town	16	-56	-31	-50	38	38	-25	-44	-56	-25
Southland	2	0	0	0	0	0	0	0	0	0
New Zealand	289	-17	-35	-42	32	51	-17	-63	-38	6

REINZ | REAL ESTATE INSTITUTE OF NEW ZEALAND

ISSN: 2703-2825

This publication is written by Tony Alexander, independent economist.
Subscribe here **https://forms.gle/qW9avCbaSiKcTnBQA**
To enquire about having me in as a speaker or for a webinar contact me at **tony@tonyalexander.nz**
Back issues at **www.tonyalexander.nz**

Tony's Aim
To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Feel free to pass on to friends and clients wanting independent economic commentary.