



FIRST HOME AFFORDABILITY

Albany Campus, Massey University, 26 March 2013

Late in 2008 when New Zealand's recession was extended another three quarters by the global financial crisis, some people were predicting that NZ house prices would fall by 30% - 40%. The basis for their forecasts appeared to be that prices were falling sharply overseas and because NZ house prices were high by global and historic standards they would also similarly collapse in New Zealand.

I gave an opinion at the time that house prices would decline by between 10% and 15%.

<http://www.stuff.co.nz/business/773623>

http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=10555198

http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=10553773

This prediction was based upon a number of factors.

- NZ did not enter the 2008 recession with a housing over-supply but with an under-supply caused by not so much the absence of bank lending as occurred overseas, but a lack of people to build the houses. New Zealand's unemployment rate hit 3.5% in 2007 and builders became in short supply.
- That under-supply got rapidly worse from early-2008 and dwelling consent numbers fell below the 23,000 long term annual average in July 2008 and have been below that ever since, hitting a four decade low of 13,269 in mid-2011.
- Because we started with interest rates at very high levels (10.5% floating mortgage rates) the Reserve Bank was able to cut rates a very long way and come late-2009 floating mortgage rates were below 6%. That means borrowers faced a massive decline in debt servicing costs so not many had to sell their houses.
- New Zealand's unemployment rate never breached 7% apart from one errant quarter last year.

During 2011 I delivered the view that at some stage awareness of the shortage would grow and there would be a wave of buyers entering the market. To help identify the timing of that wave I initiated a monthly nationwide survey of licensed real estate agents with the REINZ in April of that year. In December 2011 a net 1% of agents said there were fewer investors in the market than the month before and a net 29% said there were more first home buyers.

But in the first survey for 2012 in February those measures had jumped to a net 15% and 49% respectively. That is when awareness of the shortage kicked in. Both measures have remained very strong with the latest readings being 37% and 39%. Since then average Auckland house prices have risen by 11% and they are 31% up from their late-2008 lows.

The two key fundamentals driving the market now are four years' worth of first-home buyers catching up on purchasing they did not do earlier for reasons of

- concern house prices would fall
- thoughts that banks no longer lent money to buy houses
- fears of unemployment.

In addition investors are buying because

- there was no wave of selling following the removal of the ability to claim depreciation
- there was no wave of selling following the removal of the ability to use LAQCs to offset losses against other income
- there was no collapse in prices
- returns from investing in banks are low.

The situation now is that in spite of the Commerce Select Committee undertaking an investigation into housing affordability in 2008, and the Productivity Commission last year repeating the exercise, five years of action have been wasted and the situation is even worse.

Within the BNZ and in my talks for the past six or so years one of my key points of focus has been the coming crisis of not just housing affordability, but in the case largely of Auckland, housing availability as well. Worsening housing situations will bring deteriorating family environments with the concomitant health and education problems such environments bring.

The question now is whether there is a chance that things will get better in the near future. I believe not for a variety of reasons. In the case of Auckland I presented 19 of these reasons in my Weekly Overview of November 1 last year.

<http://tonyalexander.co.nz/wp-content/uploads/2013/02/WONovember-1.pdf>

The reasons amount to

- An existing shortage.
- The shortage getting worse with annual consents only at 4,722 when 7,000 is the long term average and the Auckland Council estimates 13,000 per annum are needed. I can find no record of consents having ever reached that level.
- Rising construction costs associated with rising building standards.
- Strong demand from investors assisted by low financing costs and loss of a belief that house prices will collapse.
- An aging population.
- Rising net migration inflows now at 1,195 from -4,068 a year ago.
- Lack of builders as a result of low training the past five years, loss of tradespeople to Australia, and demand from other areas including Christchurch, irrigation projects, roading projects etc.

The situation is going to get worse.

One factor attracting special attention recently has been the role being played by foreign buyers – though the only anecdotes regarding such buyers concern Chinese people. In order to get a feel for the size of the offshore buying issue I added some special questions to my monthly BNZ-REINZ Residential Market Survey last month.

<http://tonyalexander.co.nz/wp-content/uploads/2013/03/BNZ-REINZ-Survey-March-2013.pdf>

In Auckland 23% of house sales are to first home buyers (all NZ 24%), 22% to investors (19% nationwide), and 11% to people offshore (9%). I asked where the foreign buyers were coming from. This first table presents the Auckland-only results. It shows that 19% of Auckland offshore sales are to people from China (15% nationwide), 15% to people in Australia (14%), and 18% to people in the UK (18%).

Auckland Only	China	Australia	UK
% of the sales offshore	19	15	18
% who will shift to NZ	42	47	74
% NOT planning to shift to NZ	22	18	6
If assume ½ Don't Knows=Won't Shift			
% sales to offshore investors	0.8	0.6	0.3

Agents indicated that 42% of buyers in China plan shifting to NZ, 47% of those in Australia, and 74% of those in the UK. If we count half the Don't Knows as planning to shift to NZ and apply the resulting proportions to sales offshore we get the final bottom line.

It shows that 0.8% of Auckland house sales go to people in China not planning to move to New Zealand. 0.6% go to people in Australia not planning to move, and 0.3% to people in the UK. The following table presents these figures along with those for all other regions and NZ as a whole. Note the final column showing the proportion of each region's sales to people staying offshore.

	% of sales to pure offshore investors									All
	Australia	China	Europe	India	Other Asia	South Africa	UK	USA	Other	
Northland	0.2	0.5	0.3	0.2	0.5	0.3	0.4	0.3	0.3	3.0
Auckland	0.6	0.8	0.5	0.4	0.7	0.3	0.3	0.4	0.5	4.6
Waikato	0.3	0.6	0.3	0.5	0.5	0.4	0.2	0.3	0.4	3.6
Bay of Plenty	0.3	0.5	0.4	0.3	0.4	0.2	0.1	0.3	0.2	2.7
Hawkes Bay/Gisborne	0.4	0.5	0.4	0.4	0.3	0.2	0.2	0.3	0.3	2.9
Taranaki	sample too small									
Manawatu/Wanganui	0.6	0.8	0.4	0.5	0.5	0.6	0.8	0.4	0.4	5.1
Wellington	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.1	0.2	2.1
Nelson/Marl. W. Coast	0.2	0.8	0.6	0.5	0.6	0.4	0.1	0.4	0.4	4.0
Canterbury	0.3	0.4	0.3	0.3	0.6	0.3	0.2	0.4	0.4	3.3
Otago	0.6	1.0	0.8	0.8	0.8	0.9	0.5	0.5	0.5	6.4
Southland	not included by accident									
All	0.5	0.7	0.4	0.4	0.6	0.3	0.3	0.4	0.4	4.0

Some 4% of all house sales in NZ are to people not planning to shift here. In Auckland that proportion is 4.6%. Results for the other regions should be treated with caution given the smaller sample sizes.

Many emailers have questioned the results, but I offer the following four reasons to justify their accuracy.

First, if there was an agent desire to downplay the role of foreign buyers I would have expected the number of responses to have risen from 572 in February – not fallen to 355.

Second, I would also have expected the net percent reporting more interest from investors to have done more than move from a net 35% positive in February to 37% this month.

Third, given that the sensitivity is with regard to Chinese bias I would have expected a big drop in the numbers reporting buying from people in China. But compared with last month's survey where we asked for agent opinion about sales offshore versus actual personal sales, the change across reported buyers from China, Australia, and the UK was basically the same. From page 5 of the report.

	Perceived % of offshore sales to buyers February survey	Actual sales March survey	Perception error
China	24%	15%	9 percentage points
Australia	21	14	7
United Kingdom	27	18	9

Fourth, the url below will take you to a pdf copy of the annual report issued by the National Association of Realtors in the United States called "Profile of International Home Buying Activity 2012" It covers the year to March 2012. The NAR survey found that 8.9% of US house sales by value were to people offshore or only recently migrated to the United States, measured by dollar value. Some 4.4% of sales were to foreigners not planning to shift to the United States. That is very close to the 4% derived from my survey – though the results need to be treated with caution as the US survey may or may not capture expats.

In that regard it could understate purchases and the true figure may be more than 4.4%. Equally however their survey is of values and the average value of a house sold to a foreigner is \$400,000 versus \$212,000 to domestic buyers. It is however unlikely that foreigners buy houses on average worth over \$1m (the average Auckland sales price is near \$550,000) but nevertheless, on the face of it NZ house sales to people not intending to move to NZ may still be very close to the US result allowing for probably high NZ expatriate buying.

<http://www.realtor.org/sites/default/files/2012-profile-international-home-buying-activity-2012-06.pdf>

However, much as the data suggest that the impact of foreign buyers so far is low, that impact is highly likely to grow over time as Asian incomes rise. On that basis a debate about rules relating to offshore purchasing of NZ houses would be useful.

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Publications include the following regulars.

- BNZ Weekly Overview sent each Thursday night to over 27,000 subscribers. <http://tonyalexander.co.nz/topics/regular-publications/bnz-weekly-overview/>
- Monthly Growing With China publication, <http://tonyalexander.co.nz/topics/china/>
- monthly Brain Gain NZ publication <http://www.braingainnz.co.nz>
- Monthly BNZ Confidence Survey, <http://tonyalexander.co.nz/topics/surveys/bnz-confidence-survey/>
- Monthly BNZ-REINZ Residential Market Survey. <http://tonyalexander.co.nz/topics/surveys/bnz-reinz-survey/>
- Monthly column for the NZ Property Investor magazine, <http://www.propertyinvestor.co.nz/>
- Monthly column for the NZ China Trade Association. <http://www.nzcta.co.nz/>

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<http://tonyalexander.co.nz/wp-content/uploads/2013/02/Sources-of-Western-Apprehension.pdf>

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Advice from NZ employers to expats and migrants

<http://66.147.244.100/~braingai/wp-content/uploads/2013/03/Employer-Survey-March-2013.pdf>

19 Reasons Why Auckland House Prices Will Keep Rising. Page 5 of

<http://tonyalexander.co.nz/wp-content/uploads/2013/02/WONovember-1.pdf>

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