

ARE WE TURNING A CORNER HERE?

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Infometrics forecasts 12% rise in house prices over next three years because of low interest rates and housing shortages; Auckland prices to rise 16%, it says ...



A TURN FOR BETTER?

Economic research group Infometrics has forecast New Zealand house prices will rise 12% over the next three years because of low interest rates and a shortage of housing supply.

Infometrics' annual report for QBE Lenders' Mortgage Insurance (QBE LMI) also forecast a 16% rise in Auckland house prices by June 2014 and a rise in national prices over the next year of 6% despite current uncertainty on global markets.

"Auckland has been at the forefront of the improvement in the housing market since October last year," CEO of QBE LMI Ian Graham said.

"A better than expected economic performance, low mortgage rates and lower building activity continue to underpin prices in this market," Graham said of Auckland's housing market.

OPTIMISM IS RISING

About 500 licensed real estate agents around the country were recently surveyed and gave a strengthening perception that nationwide prices were rising rather than falling.

However that perception was being led by the Auckland market where there appeared to be strong buyer interest and rising prices, while in Wellington sellers continued to dominate leading to falling prices.

These remain early days in what is believed is the start of the upward leg in the housing cycle, as growing numbers of first home buyers enter the market while increasing numbers of investors appear to be leaving it and it is likely that the turbulence in offshore financial markets will inject some caution.

Assuming things settle down overseas expect that the simple fundamental of a growing under-supply of dwellings in New Zealand made worse by construction at a four decade low, and now renewed chances of interest rates holding low for longer, will see the market gain strength.

The worsening demand-supply imbalance is putting upward pressure on house prices, which will be dampened only modestly by slower net migration inflows and expectations of higher interest rates next year and beyond.

The fact that households continue to shy away from taking on additional debt and that house prices remain high relative to incomes will limit the upside. Indeed, house prices remain elevated, despite the fact that the economy recently battled a recession that latest for five straight quarters.

SOME OF THE PROS AND CONS

It is encouraging to see housing demand recovering in Canterbury over July following the disruptions in June 2011. Auckland is already becoming a sellers' market as stock levels fall

and buyer competition warms up. While the recovery in housing demand has been more subdued elsewhere, the expectations are that things may pick up over the coming year.

Recent data point to an improvement in household sector conditions. However, with household debt still remaining at high levels expect that households will remain cautious.

At the moment, the global outlook is dominating market attention. With global risks intensifying in recent days we now expect the RBNZ will hold off taking back the 50bp insurance cut until December this year.

Meantime

Strong Interest At Open Homes

A net 20% of agents report more people going through Open Homes. This is similar to the net 23% in July 2011 and continues a string of such positive results. More buyers are out and about kicking the tyres.

Buyers Seeing Contracts Through

More and more written contracts are going unconditional with a net 23% of agents reporting this measure as improving compared with 20% earlier in July.

Auction Activity Rising

More agents are noting auction clearance rates as improving, this month a net 13% compared with a net 15% last month. This result backs up the first two above regarding buyers not just kicking the tyres but signing up and settling.

Vendors Seek Information

Here we find a slight piece of evidence that a few vendors may be reacting to the increasing evidence of more buyers appearing by bringing their properties to the market. A net 4% of agents report that more potential vendors are seeking appraisals of their properties. This is the first positive result reported for this particular measure since April this year.

Investors Not Appearing

This month a net 9% of agents have reported that they are seeing fewer investors in the market. That is, fewer people are showing interest in buying property as an investment. This is the weakest result for this measure in the five months during which the new survey has been running and the trend in this measure is decidedly downward. One interpretation of this result is that tax changes are scaring fresh investors away, and an important implication is that the rental stock is likely to tighten up even further.

First Time Buyers Dominant

This measure remains strongly positive with a net 27% of responding agents reporting that they are seeing more first home buyers in the market. That is, the improving residential real estate market which is being seen in a range of numbers is being driven not by investors, who are increasingly absent, but by first home buyers.

Price Pressures Are Upward

A net 14% of agents report that they 'feel' prices in the marketplace are rising. This is the second month in a row of such a positive result and undoubtedly it reflects the fact that the side of the housing trade moving here is more the buyers coming forward than the vendors.

Pure Balance Still Reigns

The result for this question is essentially the same as the previous month with only a net 2% of licensed agents reporting that they feel buyers are more motivated to act than sellers. Last month's result was pure balance. We interpret this to mean that although there are more and more buyers in the marketplace they are not snapping up properties.

WHAT QUOTABLE VALUE SAYS

Government-owned property valuation service Quotable Value (QV) has reported house values were stable nationwide in July 2011.

But QV also reports that there were signs of strengthening values in central Auckland and Christchurch, while values were falling in Wellington and flat in Hamilton and Dunedin.

QV's figures are issued monthly and measure movements in values compared on a 'like-for-like' basis in the three months to July. They look at prices for certain properties in certain suburbs and compare them with similar sales a year earlier. The QV figures differ from the Real Estate Institute of New Zealand's (REINZ) figures in that QV's figures look at 'like for like' values rather than raw prices in any one month.

FACTORS HOLDING BACK BUYERS

The problem with a shortage of listings has grown in the past month with 36% of the reasons given for buyers holding back being inadequate listings – either quantity or quality. Fewer and fewer buyers are holding back because they feel prices will decline, worries about selling one's own property have eased, and perceptions of the difficulties involved in getting finance are about average. In Christchurch, however, one can say that their finance is a large issue, tied up as it is with the need to get insurance which is extremely difficult while insurance companies try to quantify the earthquake risk suburb by suburb.

REASON PEOPLE ARE BUYING

These measures are showing a tendency to not change much over time. However continued monitoring may give some valuable insight further down the track as this upturn in the housing cycle becomes more developed.

For the record, people are largely looking to buy a house because they are trading up or down, shifting town, or their relationship has broken up. There is a small upward trend in the number citing rising prices but the change is fairly small.

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