

2nd Quarter 2010

Residential Market Stalls

➔ Buyer Indecision Prevails

The softer market activity experienced during the first few months of 2010 has continued through into winter, with buyer indecision having an impact. General market 'optimism' and 'pent up' demand – which was evident last year – has not re-materialised as market players take in budget changes and weigh up the overall state of the economy. In many respects the market has stalled, and there is an air of uncertainty as to how and when the market will move forward from here.

Allowing for the traditional winter malaise, there are a number of factors pulling the market in different directions and creating indecision. We touch on some of these factors below:



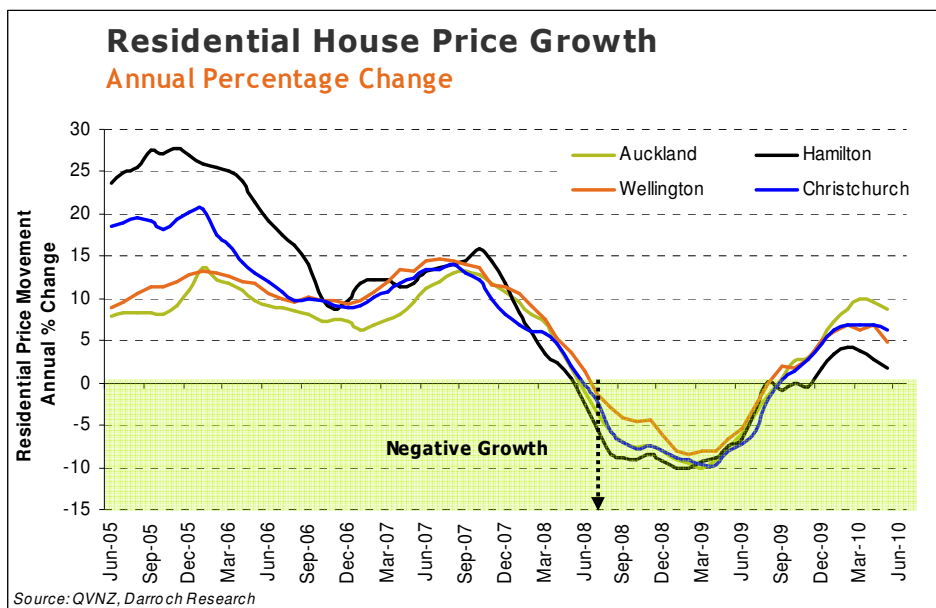
- **Interest rates** The OCR has been raised for the first time in over 12 months. Although not unexpected, rising interest rates have a particular impact on the morale of first home buyers and those investors where the income/debt ratio is very tight.
- **Demand** Residential demand was strong this time last year, given many buyers had deferred purchasing for 18 months. On the back of rising business confidence and improving economic news, sales activity rebounded. That 'pent up' demand has largely been satisfied.
- **Confidence** Businesses confidence has softened lately with NZIER noting a net 28% of respondents now expecting the economy to improve (down from 36% in March). There is now a realism that economic growth will be slow and fragile. However, there is still relief that NZ has fared better than many other countries in this recession.
- **Statistics** Unemployment has held at levels lower than originally forecast (currently around 6%) helping to keep mortgagee sales levels down. Immigration is slowing, although about 17,000 migrants entered NZ in the year-ending June 2010, and need somewhere to live. Residential building consents have been increasing since March 2009 but remain at relatively low levels and arguably short of what is required to satisfy new demand.
- **Budget Changes** Perhaps not as severe as expected, the signalled changes to depreciation rebates will take effect next year. Stretched investors will feel the impact of this. Although publicly stolid, some are offloading properties under the radar on Trade Me. Time will tell if further changes are on the cards in next year's budget.

Other factors such as households paying off debt faster, increased savings and perceived affordability all play a part in defining the mood of the market. There is far less urgency amongst buyers than one year ago and interested parties are biding their time to the point that it must seem painstaking to many real estate agents.

Buyers are diligently checking out a house before making an offer and are taking full advantage of the unpressured situation to carrying out structural surveys, LIM checks, commission a valuation etc, to ensure they are getting value for money.

Our frontline valuers in Auckland report that the market remains segmented depending on quality and location. In central and fringe city suburbs, there is still a lot of interest in open homes but this is not necessarily transcending into increased sales activity. While there is still relatively good interest in aspiring middle class areas, few people are actually putting their hands in their pocket and buying. Some look like they are ninety percent there, but apprehension and hesitation appears to get the better of them. Real estate agents are hanging in there but it is hard work.

There is however still a shortage of good quality stock such as villas and older bungalows in desirable areas. These tend to have a scarcity factor and sell readily, often to young people still enjoying job security and significant income. In contrast, an oversupply of stock is now more common in traditional investment areas around South and West Auckland. Many of these lower priced properties are not selling as fewer investors are buying. Those investors not forced to sell are opting to hold on to what they have but are not expanding their portfolio as yet.



QV data shows that residential house prices have slowed from 12 months ago. In Auckland, prices are 8.8% higher than one year ago as opposed to 9.5% last month. In Hamilton, prices are up just 1.7% on last year (previously 4.3% in February). In Wellington, prices are up 6.0% (7.1% in April) but Christchurch's house prices remain fairly level at 6.2% growth on 12 months prior. The overall rate of house price growth is flat/slowing and this trend is likely to continue over the coming months.

The spring season will be the next test for the real estate market. Interest rates, confidence, job security and supply of housing stock will all play a part in defining the market's momentum. In past years, spring has often breathed new life into inactive residential markets but if this does not materialise, punters may have to wait until the 'feel good' factor of the rugby world cup draws nearer.