

1st Quarter 2010

Residential Property Market Slows

🕒 Government Talk on Property Issues Subdues Market

The first quarter of 2010 has witnessed a softening in residential market activity. Strong media coverage highlighting government debate on issues relating to property investment, coupled with slow economic growth has had a negative impact on the wider market.

The issues of depreciation rebates, land tax and capital gains tax generated concerns from owners and investors and made the market more cautious in the process. Land tax and capital gains tax appear to be off the agenda for now, but the treatment of depreciation rebates and ring-fencing of tax losses appear to be key factors targeted in this year's budget. Traditionally, investors seeking out 'bargains' have played a major role in helping revive residential property post-recession, but presently they are sitting on their hands.



The reality is that until the budget is released and new changes presented, the market is likely to remain in a subdued state. Thereafter, the winter season will be in full swing which in itself usually brings a slowdown in market activity. The residential market therefore is potentially facing a period of up to 6 months of quieter activity. Add concerns over job security, and the broader picture is one of uncertainty and caution.

Factors which could help offset market weakness are immigration, dwelling supply and interest rate levels. Net migration to New Zealand has been positive over the past 12 months with some 22,000 new residents needing somewhere to live. Residential housing consents are up on last year's lows, but arguably not yet at levels required to satisfy new demand. Interest rates remain at fairly low levels but are expected to rise over the latter half of this year, although any OCR changes will depend on economic performance.

The current slowdown in activity is best illustrated by the length of time required to sell a property. According to REINZ data, the national median days to sell a property has increased from 33 days in Nov/Dec last year to 46 days in February 2010. In Auckland, the measure rose from 31 days (Nov/Dec) to 41 days in February and volume is down from 6,400 sales (Q3 2009) to 4,400 sales (3 months ending Feb 2010). Similar patterns are evident in Hamilton and Christchurch and to a lesser extent Wellington.

Presently there is a bit of an imbalance between the mind sets of vendors and purchasers. Many owners remain very optimistic about what their properties are worth but the reality is that buyers have lower price expectations and have become more discerning.

Our frontline residential valuers in Auckland report that buyers are very picky at the moment, with the general market demanding high property standards. Houses of classical style (good proportions between house and land size) and above average presentation, have a better chance of selling quickly. But houses that have not been modernised, have restricted outdoor area or questionable features, are being hit hard by the market. Presentation, make-up and land/building proportions are important factors helping purchasers to make an offer. Properties therefore need to tick all the boxes.

Another key factor is buyers currently have more time to complete due diligence before making an offer. Buyers are not as plentiful as 3 to 9 months ago, so there is less pressure to make a hasty offer. Buyers are taking full advantage of the unpressured situation and carrying out structural surveys, LIM and valuations to ensure they are getting value for money.