BAYLEYS

Residential **views**

Construction pipeline hoped to restore balance to market

From ANZ chief economist Cameron Bagrie

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Nationwide annual house price inflation has hit an eight year high.

House prices remain stretched relative to both incomes and rents, but historically low fixed mortgage interest rates, tight dwelling supply and high net immigration are providing upward momentum.

Persistently low inflation and looming commodity price headwinds have prompted a lower OCR.

This is a deceleration in growth, but not yet a full blown downturn.

Support remains from the current financial conditions, the construction sector pipeline and booming net migration.

OCR cuts over the past couple of months and the prospect of more to follow, have seen pronounced falls in floating mortgage rates and modest falls in some fixed-term mortgage rates.

The lowest carded rate on offer for higher-deposit borrowers remains the two year fixed rate, but with the OCR set to fall to 2.5 percent, the one year rate also provides a low rate while also leaving the option of taking advantage of any further falls in mortgage interest rates.

A series of shorter-term fixed rates remain the most attractive for low-deposit borrowers.

Rising housing supply shortages have prompted a surge in Auckland house prices, increasing the risks to economic and financial stability.

Our view is that measures to slow investor demand for Auckland properties will have a noticeable impact on overall demand. Marked shifts in demand and supply will be required to bring greater balance to the market.

Sales volumes rose 4.7 percent in June, following a 1.3 percent fall in May. The median days to sell eased to 33, its lowest level since September 2013. This indicates the market still has reasonable momentum.

Annual house price inflation firmed to 14.8 percent, an eight year high. House prices rose 24 percent in Auckland compared to a year ago, but are 3.1 percent lower than a year ago in Canterbury. Prices are up around six percent compared to a year ago in other major regional areas, including Wellington, the rest of the North Island and South Island.

The number of residential dwelling consents was unchanged in May. On a floor area basis, issuance rose by two percent, but it remains over five percent below the level seen in December last year.

There was a net inflow of 4,800 migrants in June. On a three-month annualised basis, the increase sits just shy of 60,000 people, and a new all time high of 58,259 people was recorded on an annual basis.

June marked the third consecutive month where a net gain of migrants from Australia was recorded.

More homes destined for Auckland than forecast: report

New research suggests 80,000 new homes will be built in Auckland over the next six years, well up on last year's forecast.

The *National Construction Pipeline* report estimated last year that 52,500 would be built in Auckland between 2015 and 2019, but in its latest update, now suggests that figure will be closer to 67,700, hitting 80,000 by 2020.

Building and Housing Minister Nick Smith said building work was increasing at a rate that had not been seen in 40 years, and the report was "significantly more optimistic about the future rate of homes being built in Auckland".

Residential and non-residential construction generally was speeding up, hitting $200 billion in value within the next six years and peaking next year.

The report estimates that next year, the value of all building work will be $37 billion, 21 per cent higher than the previous year and a third higher than the previous peak in 2007.

However, many of the new homes built will be smaller in floorplan, townhouses or apartments, and based in Auckland, said Smith.

A shift to more apartments and attached homes would make up a third of new dwellings over the next five years, compared to 16 per cent over the past five years.

"The third trend is a shift to smaller new homes," Smith said.

"The average home size has been in decline since 2010 and is expected to fall by 28sqm, or 14 per cent, this decade."

- *Source: Stuff.co.nz*

Mortgage borrowing strategy

From ANZ chief economist Cameron Bagrie

A Official Cash Rate cut in July and the prospect of more cuts have seen continued falls in floating short term fixed mortgage rates.

The lowest special rate on offer for standard mortgages is the two year rate, followed closely by the one year rate.

Floating rates have fallen since May, but special fixed rates are up to 1.2 percent lower than current variable rates. Standard rates are up to 0.9 percent lower.

Borrowers can pay a premium to be on floating, fix for shorter periods, fix for longer terms at a historically low rate, or a combination of all of the above.

With the OCR set to be cut further, borrowers may want to consider fixing a portion of their lending at shorter maturities.

For special carded rates, you would only pick the six month rate, if you thought the six month rate had scope to move from 5.49 percent to 4.68 percent over the next six months. We only expect the OCR to fall by another 50 basis points, so this could be a stretch.

Choosing between one and two years is trickier, as the one year rate only needs to fall from 5.09 percent to 4.75 percent over the next year, which is a distinct possibility.

Rates for three years and beyond are only attractive if you expect rates to rise sharply from here, which we think is unlikely.

The one and two year terms look to offer the best value from a pure cost/benefit perspective. However, long term rates have come down a long way this year and some borrowers may find longer terms attractive from a certainty perspective.