

Residential **views**

By Cameron Bagrie
ANZ chief economist

Piecing together the residential property market



André Coppell & Cheryl Crane

M 021 300 794 - André

M 021 444 149 - Cheryl

E andre.coppell@bayleys.co.nz

E cheryl.crane@bayleys.co.nz

Bayleys Real Estate Ltd, Mt Eden,
Licensed under the REA Act 2008

In some respects, recent property trends show a buoyant market - with the volume of national house sales having accelerated to around eight-year highs, and with annual house price inflation the highest in more than a decade.

Nationwide annual house price inflation continues to firm, with pockets of buoyancy spreading from Auckland.

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 impetus.

There is a limit to how much

There is a limit to how much further prices can rise given stretched affordability. A softer economy and pending RBNZ and Government policy changes to cool investor demand are expected to help level out price movements.

The Reserve Bank cut the Official Cash Rate further to 2.75 percent in September and maintained an easing bias.

Despite the economy slowing and affordability stretched, the property market continues to dance to its own tune, with sales volumes and the days to sell at their strongest in eight years.

Annual house price inflation has hit an eleven-year high, with the top of the North Island leading the charge. Net immigration inflows remain very strong.

After a period of disappointingly flat issuance, residential consent issuance surged in July, to the highest level since April 2008. With the gain again led by Auckland, this is exactly the supply response officials are hoping to see.

Credit growth has firmed, but the easing off in mortgage approvals signals a pending housing market lull.

Record net immigration inflows and recent cuts in mortgage interest rates have undoubtedly provided support, in which housing inventory levels remain historically low.

There was a net inflow of 5,470 permanent long-term migrants in August, fractionally down on the record 5,750 net gain in July, but still above the 5,172 person average over the last six months.

Another new all-time high of 60,300 persons was recorded on an annual basis. High numbers of international student arrivals and fewer New Zealand citizens leaving for Australia have contributed to the strong net immigration flows.

While this trend is expected to moderate shortly, there are few signs of this occurring to date.

Given the close to 40 percent rise in nationwide house prices over the last five years – with Auckland prices up 75 percent over that period – prices are becoming increasingly stretched relative to various metrics, and are approaching 2007 extremes.

The value of mortgage lending to households rose 0.7% in July - up six percent year-on-year. Mortgage approval values and numbers are 31 percent and 8 percent higher than this time last year, but the gap is closing - with a noticeable slowing evident in recent weeks.

However, mortgage approvals have tailed off over the last month or so and suggest the housing market will start to lose some of its fizz.

The Real Estate Institute of New Zealand has commented that the volume of sales activity “continues to be very strong” despite the wintry conditions, no doubt helped by the increase in property listings.

Sales volumes rose a further 4.1% in August on top of the “exceptionally strong” July numbers.

Why a 'snore room' is on the wish list for many high-end house hunters



It's the secret that no one wants to talk about - but many couples who live together prefer to sleep apart.

High-end real estate agents in the UK are reporting a growing demand from house hunters for a second master bedroom - otherwise known as the snoring room or drunk bunk - where they can escape the sound of snoring and get a good night's sleep.

"As wealth increases, demand for comfort increases, and it's now pretty commonplace, with most developers incorporating a second master into their plans," said Peter Brookes, the associate director of Savills in Hampstead, London.

Research revealed one in six British couples sought sanctuary away from their partner's annoying sleep habits by escaping to their own bedroom.

Is the snoring room a must-have feature for house-hunters closer to home wanting to preserve their sanity and marriages too? Many experts and those who suffer sleep deprivation due to a snoring partner think so.

In Australia, the dual master bedroom is becoming a popular option for those wanting their own sleeping space with some builders now offering a second master bedroom.

Melanie Davies (not her real name) from Brisbane slept in a separate room for 10 years of a 12-year relationship. She says she was driven out of the marital bedroom by her partner's chronic snoring.

"Quite often I'd move out during the night. It was always me who would move out," she said.

Melanie says one of her friends has also slept separately to her husband for many years and is currently designing an extension to their house including a separate bedroom for her. "It will officially be the guest room, but there will also be another guest room elsewhere in the house. Her husband is also a bad snorer."

Dr David Cunnington, a sleep physician and director of the Melbourne Sleep Disorders Centre, says snoring is one of the most common factors disturbing sleep in people he sees with sleep problems and it can have a major impact on the sleep of bed partners.

Dr Cunnington says if snoring is causing problems, one of the approaches to take is to sleep in another room and "there's nothing wrong with couples sleeping in separate rooms or beds."

Australian author Jennifer Adams has researched the subject of sleeping apart for the last 10 years. She has also written a book on the subject called *Sleeping Apart Not Falling Apart*.

Source: Fairfax.

Mortgage borrowing strategy

From ANZ chief economist Cameron Bagrie

Variable and carded rates have fallen further in September - with one and two-year special rates offered by some lenders close to multi-decade lows.

These rates look attractive as they offer a low rate, whilst striking the balance between providing flexibility and certainty.

Borrowers may choose to spread fixed terms across the one and two-year tenors, but we have a mild preference for the former given our view of the global risk profile.

With the OCR expected to remain lower for longer, longer-term rates, while historically low, don't offer the same value, although they do provide certainty.

Mortgage interest rates have continued to ease following the last Official Cash Rate cut and dovish September *Monetary Policy Statement* assessment.

Standard and 'special' variable and fixed rates have fallen compared to a month ago.

Since the Official Cash Rate was cut in June, variable and special one and two-year rates have fallen by 0.7-0.8 percent on average - reflecting cuts in wholesale interest rates and intense competition.

The lowest rates currently on offer are clustered around the one to two-year terms for both standard and special rates, with sub-five percent rates on offer for the latter.

These rates are considerably below current variable rates and appear attractive, as they are very low in a historical sense and offer a balance between providing flexibility and certainty.

With the OCR having been cut, the question is how much of this is currently factored into the current rates on offer, and what would it take for fixed rates to move lower still?

We don't expect recent developments to warrant a further near-term cut in the cash rate, but an adverse global event could see the OCR go below 2.5% - which would bring about even lower one and two-year mortgage rates.