BAYLEYS

Residential **views**

By Cameron Bagrie
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The brakes go on economic momentum

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Nationwide annual house price inflation has reached another eight year high.

House prices remain stretched relative to both income and rents.

But historically low fixed mortgage interest rates, tight dwelling supply and high net immigration are providing upward impetus.

Economic momentum has slowed and this is expected to continue over the coming 12 months.

It is a deceleration, as opposed to a downturn, but this is assuming the offshore scene, in particular China and other global equities, stabilises.

The Reserve Bank of New Zealand and government policy changes to cool investor demand and a softer economy, are expected to level out price movements.

Pockets of strength exist and supportive financial conditions will underpin a recovery late next year.

We expect further Official Cash Rate cuts by next March.

Carded mortgage rates continue to come down with one and two year special rates now well below five percent and close to historical lows.

Wholesale interest rate markets are now anticipating another Official Cash Rate cut, and one and two year specials offer good value.

Carded floating rates remain high and given the lower Official Cash Rate is likely to remain, longer terms are not recommended.

Analysis suggests price rises in Auckland tend to filter through to regional areas, however regional determinants also play a significant part in prices across the rest of the country.

Sales volumes rose eight percent in July, rising above 8,000 for the first time since May 2007. The Real Estate Institute of New Zealand commented that the volume of sales has been exceptionally strong for the middle of winter.

The top half of the North Island and Central Otago Lakes showed stronger year-on-year sales growth with the median days to sell falling to 31, its lowest level since July 2007.

Annual house price inflation remained around 25 percent in Auckland and is picking up in other areas.

The number of residential dwelling consents fell 4.1 percent in June and housing consent issuance fell 0.4 percent following a 2.5 percent rise in May.

Annual residential issuance slowed to 25,140 in June, ending a sequence of rising annual issuance. Regional breakdowns show annual issuance in Auckland is at a 10 year high of 8,300, while Canterbury has flat-lined at around 7,000 consents.

There was a record net inflow of 5,750 migrants in July and permanent and long term arrivals rose 7.6 percent. Yet another record high of 59,639 was reached on an annual basis.

10 more trees on street could make you feel seven years younger

Leafy, tree-lined streets are good for property values, and they may also be good for your health, according to a new report.

After analysing two sets of data from the city of Toronto, researchers report that adding just 10 trees to a single city block could improve how healthy a person feels as much as if they made an additional $10,000 a year, or if they were seven years younger.

The study in the journal *Scientific Reports* also found that residents of neighbourhoods with higher tree density are less likely to have cardio-metabolic conditions such as hypertension, obesity and diabetes.

And it's not just that the well-to-do who live on tree-lined streets can afford a healthier lifestyle. The researchers analysed demographic and socioeconomic factors and found that living near trees still had an effect on people's perception of health and overall wellbeing.

Although the study found a strong correlation between living on a tree-lined street and health, the researchers still don't know why.

Trees remove pollutants from the air, so it could be the cleaner air, or that adding more trees on the street encourages people to go outside and exercise more, the author says. Or it could be that the environment is more aesthetically appealing and that contributes to health.

It is also possible that healthier people choose to live in neighbourhoods with more trees.

The data is correlational and so does not necessarily mean that trees are causing better health, but that they are associated with better health.

Source: *Stuff.co.nz*

Mortgage borrowing strategy

From ANZ chief economist Cameron Bagrie

Mortgage interest rates have fallen sharply since June, taking one and two year fixed rates back towards all time lows.

Lower wholesale rates are one driver, but there is aggressive competition too. Rates below five percent are available for terms ranging from six months to as long as three years.

One and two year special rates well below both the carded floating rate and rates applicable for much longer terms certainly look attractive at face value.

The question is whether the Official Cash Rate is likely to be cut further and whether this will make these rates cheaper still.

As the Reserve Bank has warned, the economy would need to fall into recession in order to see an aggressive easing cycle.

This cannot be ruled out with the lower New Zealand Dollar bringing relief to the wider export sector and lower interest rates supporting interest rate sensitive pockets of the economy.

There is validity in fixing for one or two years, given the expectation that the Official Cash Rate is likely to settle at 2.5 percent next year.

It is hard to envisage the Official Cash Rate going up for some time yet so there is also validity in spreading fixed terms across the one and two year.

Breakeven analysis for special carded rates shows the value evident in the one and two year terms, as they imply that six month and one year rates need to fall in the future for waiting to be more attractive.