

Sporadic

Eight Records Driving Auckland House Prices

Sporadic 8

Personally I have just about exhausted the key messages which I wish to get out regarding the Auckland housing situation. But over the weekend it occurred to me that there is another way to try and gain understanding of why Auckland house prices are rising so strongly. There are at least eight “record” or near record things affecting the market – some of which are relevant nationwide – and if you can grasp their presence and significance you will come to understand why there is no “solution” to the Auckland situation and why a lot of politicians and policy-makers are getting increasingly agitated. Try looking at it this way.

Almost all analyses of the factors driving the Auckland housing market miss the mark. Some people place high weighting upon Asian buyers. Others on under-building/shortage. Others on causes of the under-building, others on investor frenzy driven by a variety of factors. Their analysis of specific factors leads them to make specific recommendations to generate a solution. But the strength of factors pushing Auckland prices higher means there is no “solution”. Prices will rise further.

First lets define what we mean by the Auckland situation or crisis. One element of it is that prices are rising rapidly and are well above incomes compared with similar ratios in Auckland’s past, other parts of the New Zealand, and other places around the world. Affordability is low. Another element is that buyers are finding they have to purchase further and further away from where they work and/or wish to live, with negative implications for home life, childcare, transport costs etc. Another is that people on low incomes are finding it hard to get accommodation. Thousands of articles and blogs have been written about these aspects of the Auckland housing situation. Not a single one of them has altered any aspect of the dynamic. In fact just the opposite. It has become a matter of moment to write and speak about Auckland housing – thus encouraging people to buy before prices rise further. Note the slight uptick in buzz surrounding property investment courses.

But back to the first paragraph, why do we think there is no “solution” as such? Because the factors propelling Auckland house prices higher are too massive for any reasonable policy changes to offset them. Here are the eight “records” helping to explain why Auckland house prices have risen so much, why they will rise further, and why the rest of the country will never catch-up. Two apply throughout the country, six are Auckland-biased.

Record Low Interest rates

First, mortgage interest rates are at record lows for essentially all current borrowers, sitting at their lowest levels since the 1960s. There is a chance they go lower this year, and few people now have a period of rising interest rates in their expectations for the next few years. Low financing costs will generate more borrowing to purchase property, and in addition low interest rate returns encourage investors to move funds away from term deposits toward other income yielding assets like property, and toward assets yielding capital gain, like property. Low interest rates boost house prices nationwide.

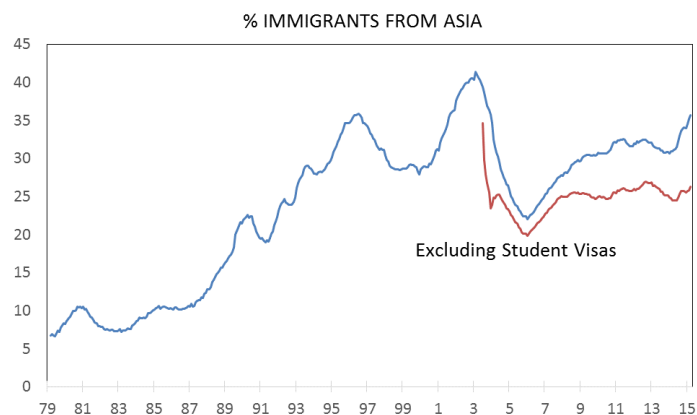
Record Net Migration Inflows

Second, the net migration gain is also at a record level of above 56,000 in the year to March. This factor is more Auckland-specific than the first because most net migrant gains are to Auckland – immigrants go there, and potential emigrants are remaining there. While the net flow is highly likely to peak this year, worries about the Australian economy combined with a trend rise in Asian migration to New Zealand will keep the population boost from this source high for perhaps another couple of years. More people means more demand for housing which means higher prices with an Auckland bias.

Record Migrant Wealth

Third, we do not have data to prove this because no-one collects it, but it is possible that the mix of immigrants to New Zealand is the wealthiest ever. Many Asian economies are growing wealthier and as people from those countries seek offshore assets, places of education, and new home countries, they bring greater wealth and purchasing power to New Zealand than we have seen either for ever, or since sometime perhaps over one and a half centuries ago. The secular rise in Asian country incomes from developing to developed country status is another special factor occurring in this point in time. This also is the second factor bringing a specific boost to Auckland because migrants tend to go where previous migrants from that country have gone. Auckland has traditionally been the place of destination for Asian migrants therefore it will remain so – giving an Auckland-specific boost from surging Asian country incomes.

For your guide, if we take as our measure the proportion of non-Student Visa immigrants derived from Asian countries then we get the red line shown below for which we only have data from July 2003. The blue line covers all visa types and shows the rise in the proportion of all immigrants coming from Asia from 7% in 1979 to 21% in 1989, 28% in 1999, and now 36%. This would be a record currently were it not for the boom/bust period of 2002-2004.



Record Aging Bulge

Fourth, there is a record aging bulge moving through the population – the baby boomers. This large cohort of people means a greater number of investors than “normal” seeking income earning assets to help fund their retirement. This places extra upward pressure on house prices nationwide than in past times for the same pace of population growth. Actually this factor is probably slightly Auckland-negative as net internal migration flows for NZ include movement out of Auckland elsewhere, largely by older people.

Record Leap Ahead of Auckland As A Global City and Agglomeration

Fifth, Auckland is on the cusp of becoming a proper global city and recognition of this means extra investment in infrastructure, extra desire of people to live there, extra need for businesses to get a presence there. This boosts Auckland prices irrespective of what is happening in the rest of the country.

Record Physical Land Pressure

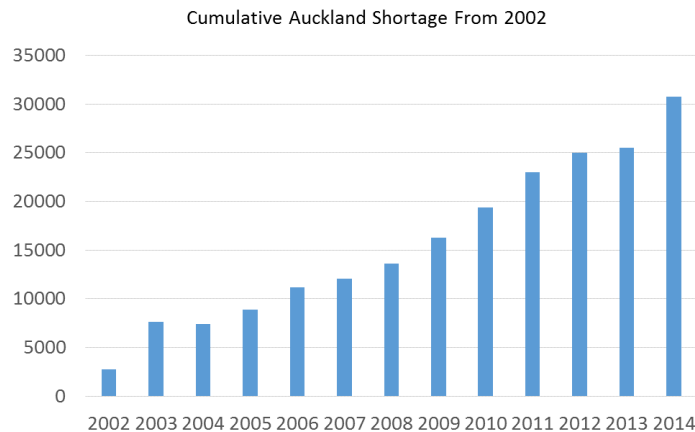
Sixth, Auckland, sitting on an isthmus, has reached capacity limits for traditional housing designs and transport infrastructure. Yet at the same time as there are possibly the strongest official efforts ever to get more houses built, there may also be record push-back against both intensification and sprawl from existing residents.

Record Delayed Purchasing Catch-up

Seventh, in recent years young people have been delaying home purchases as they focus on repaying student loans and feel less need to embrace the past pattern of forming a family as early as possible. At some point those who delayed eventually enter the family and housing market. Subject to research actually proving we are now into that family/housing market re-entry time for the earliest of these people, we could be getting an extra housing boost from this social change. More than that, young people who put off buying during the GFC and the immediate years after have recently been looking to catch-up on their delayed spending. Thus two “catch-up” buying factors may be in play nationwide. Auckland has the lowest median age (youngest population) of all NZ regions.

Record Under-Building

Eighth, this may or may not be true because we do not have the data going back far enough, but as illustrated in Sporadic 7, the extent to which house building in Auckland has failed to keep up with population growth may be at record levels. We are not aware of any analysis showing a similar rising shortage elsewhere in the country so consider this factor Auckland-specific.



These are the fundamental economic factors at work. Now onto them we add the investor frenzy – the courses on buying, doing up and selling, the scrambling to buy anything at auctions or miss out forever, the desperation of young people and the parents who fund them into their first home.

Is there a housing bubble? No and yes. No in that the bulk of Auckland’s house price rises are driven by at least the eight factors at record levels just mentioned. Yes in that the momentum is so strong the investor frenzy is getting underway with more to come. Where will it end? Policy changes won’t stop it. The Reserve Bank can’t. The most probable candidate is a global economic downturn hitting us at the same time as we enter a period of weak growth or our own recession as the unsustainable factors driving our economic growth recently and currently fade away and the traditional round of failures ensues of over-extended businesses and households. Best guess? Again as outlined in Sporadic 7, maybe 2018. Just remember that when the fall comes, its extent will be aggravated by the magnitude of the frenzy state the market is now entered, and mitigated by the massive strength of the factors mentioned above – expect for the migration one which will eventually go into reverse. It always does. Good luck.

Sporadic Library

7. Auckland Housing Shortage Again. <http://tonyalexander.co.nz/wp-content/uploads/2015/05/Sporadic-7-May-5-2015.pdf>
6. Auckland Housing Shortage is how big? <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-6-April-29-2015.pdf>
5. NZ Business Culture. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-5-April-23-2015.pdf>
4. A Capital Gains Tax on Housing? <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-4-April-16-2015.pdf>
3. China is Important to us. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-3-April-13-2015.pdf>
2. Kiwi/AUD parity – mainly a function of AUD weakness. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-8-2015.pdf>
1. Implications of interest rates staying low for a long time. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-7-2015.pdf>

Sporadic

Sporadic is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. It is a supplement to the monthly NZ Observer. Please sign up at www.tonyalexander.co.nz
To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.