Sporadic

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Undervalued Regional Housing Markets

Sporadic 17

Back in 2008 my warning was that NZ house prices would not collapse even as they fell over 30% in some other countries, because we entered the GFC with a shortage and interest rates were plummeting. Prices on average fell just 11%. Then from mid-2009 whenever anyone asked me whether they should buy a house in Auckland or wait for prices to fall my reply has been that I personally would buy – and I remain of that view. But I definitely did not pick that prices would rise 85% from 2009 levels. In October 2012 when Auckland house prices had risen over 40% people were again strongly worried about price declines. I pointed out that price rises had to date occurred in spite of weak migration flows (-1,300 during 2012), and that once the migration cycle with Australia turned prices would receive a whole new boost.

That turning of the cycle with Australia has been hugely greater than I anticipated. I thought maybe the overall net migration inflow across all countries would push toward 35,000. But it is over 58,000 and still slightly rising. Since late-2012 Auckland house prices have risen another 39%.

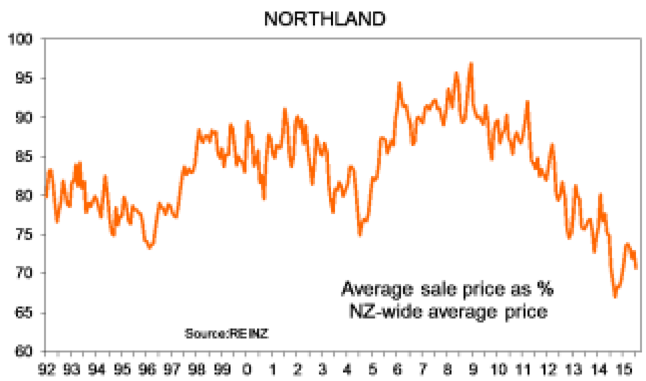
The other substantial comment I have been making is that as with previous housing cycles, eventually buyers would view Auckland as not so much over-priced, but simply too expensive. Wariness of the debt one would have to take on to buy a property would lead investors, first home buyers, and people looking to free up cash to look outside of Auckland.

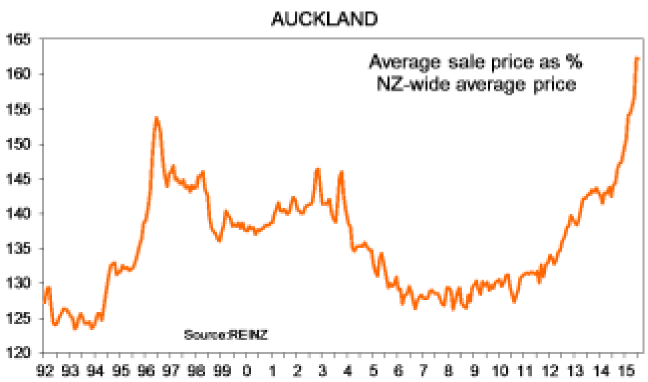
We can only guess how much "catch-up" will occur.

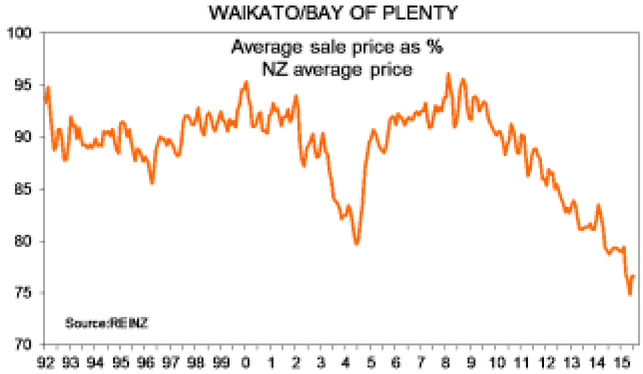
This regional investment phase is now well underway. My BNZ Business Confidence Survey results released two weeks ago contained plenty of anecdotes regarding Aucklanders showing up in regional locations such as Hamilton and Tauranga most obviously, but also Nelson, Napier, and Dunedin. Not Christchurch, where prices are more likely to fall than rise in the near future, and not yet Invercargill.

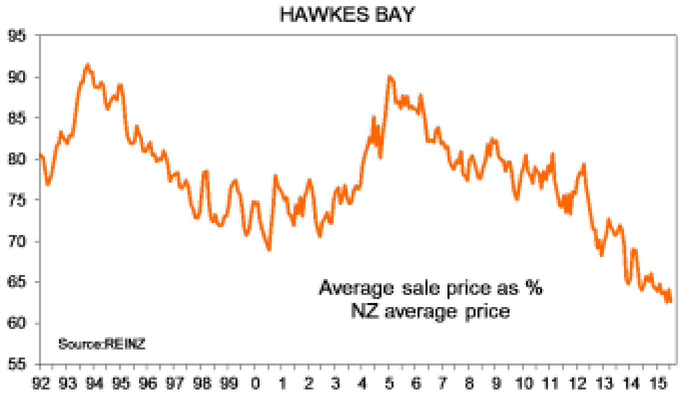
Many years ago I produced a set of graphs comparing regional house price levels with the NZ average. They gave insight into the extent to which regions were being under or over-priced depending upon whether or not you felt there was a tendency for prices to revert to a long run average ratio with the country as a whole.

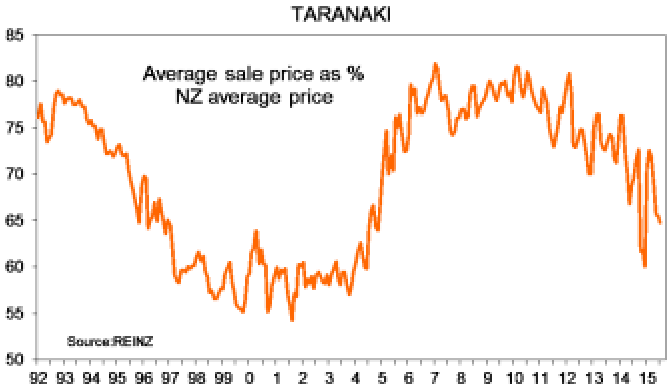
In this Sporadic I repeat the graphs. Using them may give you some insight into which parts of the country are most due for a period of catch-up price gains. Auckland is due for a plateauing and I expect that a couple of years from now.

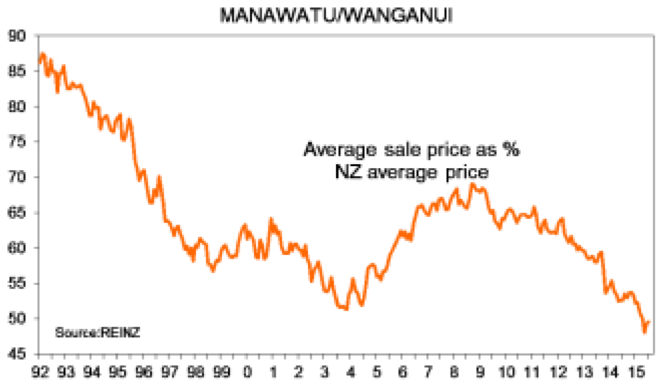


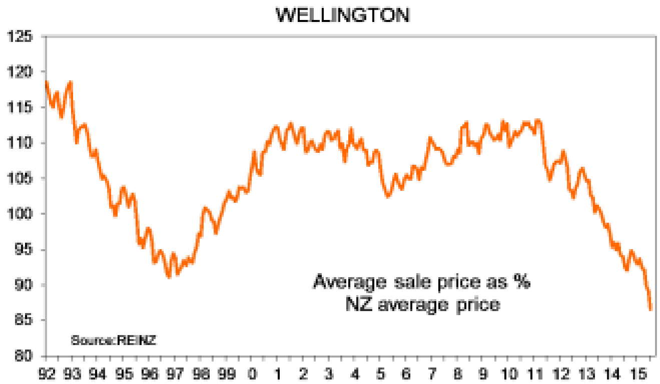


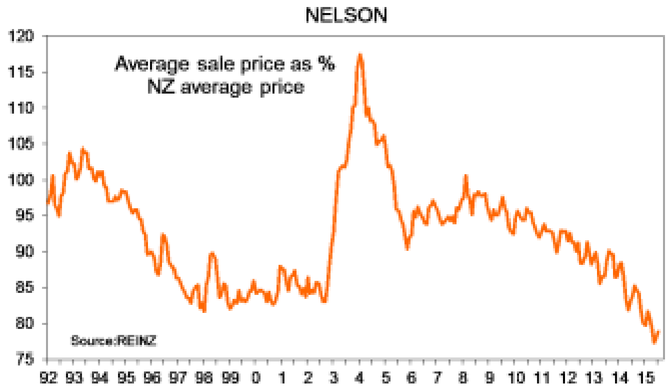

WAIKATO/BAY OF PLENTY
Average sale price as %
NZ average price
Source:REINZ

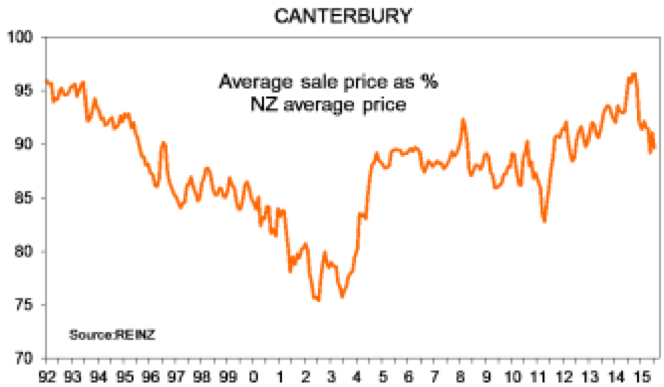

HAWKES BAY
Average sale price as %
NZ average price
Source:REINZ

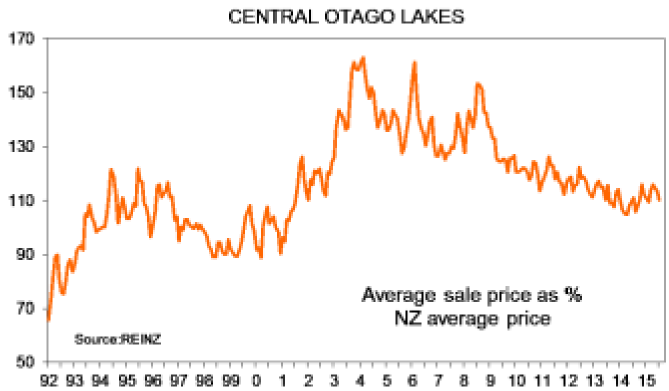

TARANAKI
Average sale price as %
NZ average price
Source:REINZ

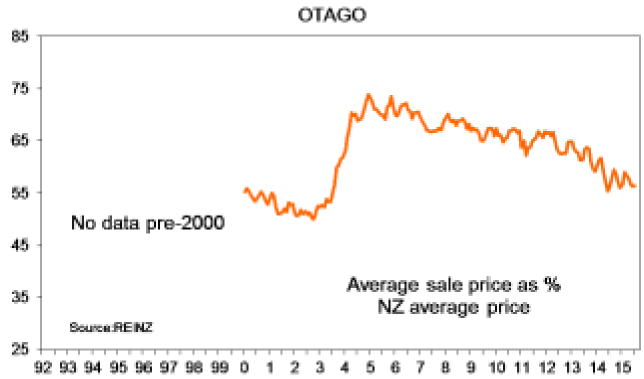

MANAWATU/WANGANUI
Average sale price as %
NZ average price
Source:REINZ

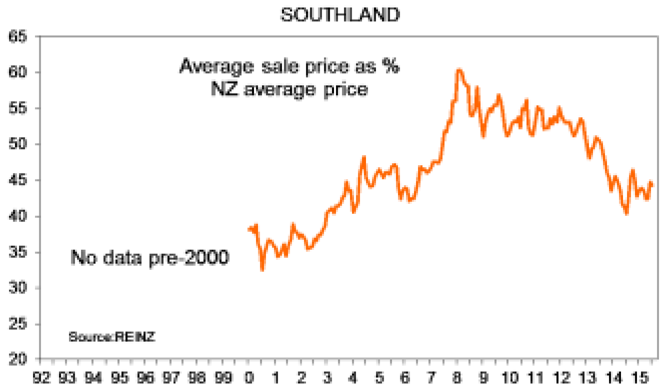

WELLINGTON
Average sale price as %
NZ average price
Source:REINZ


NELSON
Average sale price as %
NZ average price
Source:REINZ

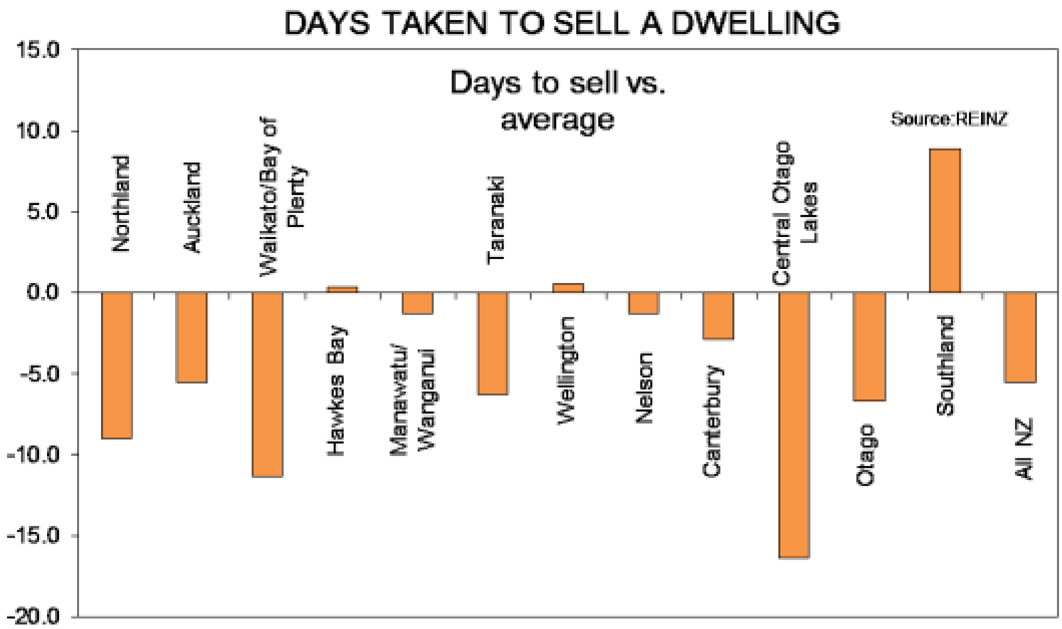








We can also use the REINZ data to get a feel for which parts of the country may be most gaining at the moment from people focussing their attention out of Auckland. The graph below looks at the days to sell data for each region in the form of average days to sell in the past three months versus the average for that period of time in the past ten years. Thus in Northland on average in the three months to this July it took 61.4 days to sell a dwelling which was nine days faster than average.



Noteworthy points are Southland lagging (maybe too far away for most investors, only minor Asian population base to which newer Asian migrants and investors would feel affiliated and be attracted, Tiwai smelter uncertainty, dairy downturn, fingers burnt waiting for the Great South Basin oil boom – which will now never come given the structural decline in oil prices - and the little graph above suggesting prices not as out of line with their long-term average versus the country as many other regions.)

In Central Otago Lakes turnover is running much, much faster than average. Lower NZD attracting offshore buyers, booming tourism, aging boomers seeking mountain views, yet prices not really out of long-term whack.

Hawkes Bay, ManawatuWanganui and Wellington are not really registering as diverging from average yet. But look at how out of line the prices are with long-term averages versus all NZ. And could it be simply that the average days to sell measure is being kept high by a rise in sales clearing out the old most heavily discounted stock?

Maybe this is the case in Hawkes Bay, but not Wellington and Nelson.

So if you gave me $10mn and said go forth and buy a bunch of houses you reckon will produce the best capital gains in the next five years where would I look? Not ManawatuWanganui because when times get tough ability to liquidate assets becomes very constrained. I'd sink it into Wellington, Hamilton, Tauranga and a tad in Nelson. I expect to see a lot of talk soon about the good city life which Wellington offers, the ability to buy a reasonably priced house to raise a family, the fact few head offices are planning to shoot north now, the coming long-term benefits of the Transmission Gully Motorway, IT sector, culture, runway lengthening, film sector and so on.

I would be happy maintaining and even growing my holding in Auckland. But the easy gains from the repricing of Auckland's housing stock have probably already been made, official efforts to stem the market are likely to be increased, and the country's net migration gain will likely start to turn downward before the end of the year.

If I Were A Borrower What Would I Do?

As mentioned in the last Sporadic of July 30 the BNZ 4.69% two year rate is good enough for me.

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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. Please sign up at www.tonyalexander.co.nz
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