February 2013

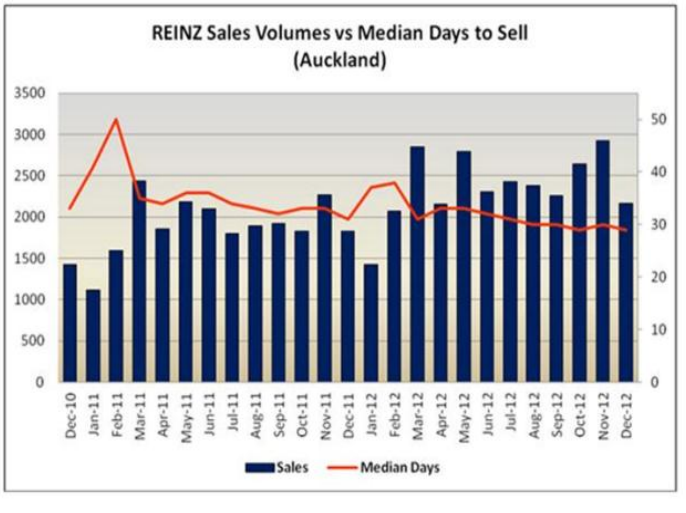
ERSKINE+OWEN

1st Quarter New Zealand Property Market Update

1st Quarter Commentary
New Zealand Property Market

In April 2011 Lisa Phillips, Erskine + Owen Director, was interviewed by TV3 about a looming land shortage in Auckland and highlighted that Auckland City Council would play a pivotal part in the timing of the crisis – Click here for the interview. Just under two years on and we are well and truly in that crisis and now central government is having to wade into the debate.

Where is the evidence?
Perhaps the first question to answer is – is there real heat in the market, or is this a blip?
The evidence is clear, sales volumes have been trending upwards since the beginning of last year. Figures for December showed sales increased by 19% over the prior year. Auckland remains the stronghold for the housing market and continues to have a significantly tighter demand-supply balance to the rest of the country. This can be evidenced through a shorter number of days to sell than the national average. The median days to sell has been trending downwards since the 2nd quarter of 2012.



E+O EVENTS

Join Alan Henderson, Director, for a 2013 Property Market Update

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These key indicators are continuing to improve, reflecting the underlying supply and demand characteristics of the Auckland market. The record low levels of inventory cements the path to strong house price appreciation. Currently, the market is firmly placed to the advantage of the seller. Buyers in turn, are responding with confidence about the market moving upward. A recent report issued by Treasury indicated the market is expected to stay strong as they see little potential for supply to respond to demand pressures. So what's happened? What's driving it, is there a solution round the corner and what will happen to prices?

Demand

A big increase in demand is a key driver, there are more people out there buying, evidenced by the fact that 2012 finished with record high asking prices. For the 4 years 2008 – 2011, demand was not high for residential property in historical terms. It wasn't that people weren't going to buy ever again – just not during the depths of the recession. So demand slowly built up, new home buyers held off, new migrants held off, investors held off. In presentations we often showed a picture of a dam to reinforce the fact there was demand there, but it was being held back.

And then – the dam started burst. Lower interest rates started to crack the wall of fear that had been holding back demand since the recession. The demand has started to flow. Lets take a closer look at some of the demand drivers:

- Interest Rates continue to sit at low levels. The status quo remains following the December announcement of the OCR. Economic growth has slowed in recent months, accompanied by low inflation and rising unemployment. However, growth is forecasted to accelerate due to the rebuild of Christchurch gathering pace and the strengthening housing market in Auckland. This together with the global uncertainty starting to diminish may point to a change in monetary conditions. The majority of economists predict that interest rates will rise before the end of 2013.

- Population – Having been in 'net loss' territory for some time, net migration has been the headwind in the upturn of the housing Market. A net gain of 600 (seasonally adjusted) in November, is the highest since February 2011, taking monthly net migration to a 19 month high. Monthly departures to Australia continue to hinder an improvement in net gains, and show no sign of abating. However, arrivals from all other countries increased over the November 2012 year. Should this continue we can expect to see net migration deliver solid gains in 2013.

- Affordability – In the last decade house prices have increased at a much faster rate than incomes, and despite current low interest rates, this has created a housing affordability concern. According to the Roost Home Loan Affordability Index it now takes 55.3% of the median income to service a loan on the November median house price. Spring pushed prices to a record high, making affordability at its worst since March 2011. Many home buyers have been shut out of the market, catalyzing a growing need for rental property supply. A recent Demographia report has highlighted this affordability concern. That said – it is important to keep the issue in perspective. Is Auckland unaffordable when compared to other international cities?

Supply

On the other side we have supply. Builders ran for cover when the recession hit – more so than in any other recession we have on record. Building consents were their lowest in the recession years since the 1970's, which when you think about it relative to population, is significant. Things are looking up somewhat, trends for both new house and apartment consents have been rising over the last year. New houses consented for in October 2012 was the highest in 4 years. In the light of the increase in consent issuance and housing supply constraints, we would expect a modest improvement in residential building activity over the coming year.

If you've listened to that interview with Lisa you will know that research has pointed to Auckland having a significant housing shortage by 2030 – it would seem we are tracking well towards that prediction. What's interesting is that the research was done for government – so successive governments have known for years that the problem has been looming.

Is there a quick and easy solution? There is talk of opening up more land on the outskirts of Auckland, and surely greater intensification has to be a part of the solution. But in both cases it is not a quick process. We are talking years not months.

Housing confidence remains strong according to the ANZ Roy Morgan Consumer Confidence Survey for the 2012 quarter. (Jan 2013 not yet released.) Over half the respondents expect house prices to continue to rise in the coming year, together with an increase in those who believed 'now was a good time to buy.' This general level of improved confidence was accompanied by a perception that interest rates would begin to rise over the next 12 months.

Recent Property Purchases

Erskine + Owen secures highly sought after property secured off market

The market is particularly "hot“ in many areas and for some types of property – e.g. 1960's weatherboard properties on full sites around the $500k mark. Hot can be defined as multiple offers, 6–11, being presented with accepted offer often being unconditional and at a price that would set a new precedent for the market.

Our clients brief was to find such a property. Here is what happened: A sales agent was approached by an elderly couple who wanted to sell their property. But they wanted a long and flexible settlement to give them time to find identify suitable property to downsize to. Due to personal circumstances they were resistant about going to the open market. Many weeks of negotiation culminated in a round table discussion with the vendor, the sales agent and Lisa Phillips from Erskine + Owen. The sales agent ensured the vendor's interests were protected and at the same time we were able to negotiate creatively for our client.

The result? Our client now owns a highly sought after property that the general public never had access to.

Successful auction bidding on behalf of UK client

We were recently engaged by a Kiwi couple living in London who wanted to secure a property in Northcote, Auckland. They had identified two properties. We attended the first auction on their behalf. While we were bidding in the middle of the day they were sipping hot chocolate before bed. We were the underbidder on the first property.
They then instructed us to bid on the second property. The bidding started low and we bided time before entering the bidding. As the price rose to close to expected sell price we were one of only two bidders, and then the other bidder pulled out. The auctioneer conferred to his vendor and then came to ask us for more money – we gave him a token amount and there was no discussion - we were familiar to the auctioneer and he knew he wouldn't be able to move us. The bidding was reopened and our competing bidder reentered the bidding. We created the "unexpected" by jumping the bidding to an irregular amount.

The result? Our client now owns that property and will soon move in to it to start a family.