

### Auckland's Supply Shortage – not new news to us!

While the media were focusing on the international economic crises back in 2011, Erskine + Owen were already discussing their prediction of a housing supply shortage. At that stage there was evidence of a growing demand for property, with a declining number of building consents being issued.

In 2013 the economy is in recovery mode, and consumer confidence has seen demand continue to increase and outstrip supply, although recent changes to bank lending criteria have seen demand slow slightly. Auckland needs 400,000 new homes over the next 30 years to meet demand. There is hope that the new Auckland Unitary Plan will help by opening up areas within the city for development, and by releasing some new greenfield space in the outer reaches of greater Auckland. Our prediction – it still won't be enough.

In 2011 Erskine + Owen Director Lisa Phillips was asked to discuss the property shortage in Auckland with TV3. See the interview here: [www.erskineowen.co.nz/2013/11/aucklands-supply-shortage/](http://www.erskineowen.co.nz/2013/11/aucklands-supply-shortage/).

In our latest market comment Lisa looks at the major factors influencing supply and demand, particularly in the Auckland region.

### 4th Quarter Property Market Comment By Lisa Phillips, Director

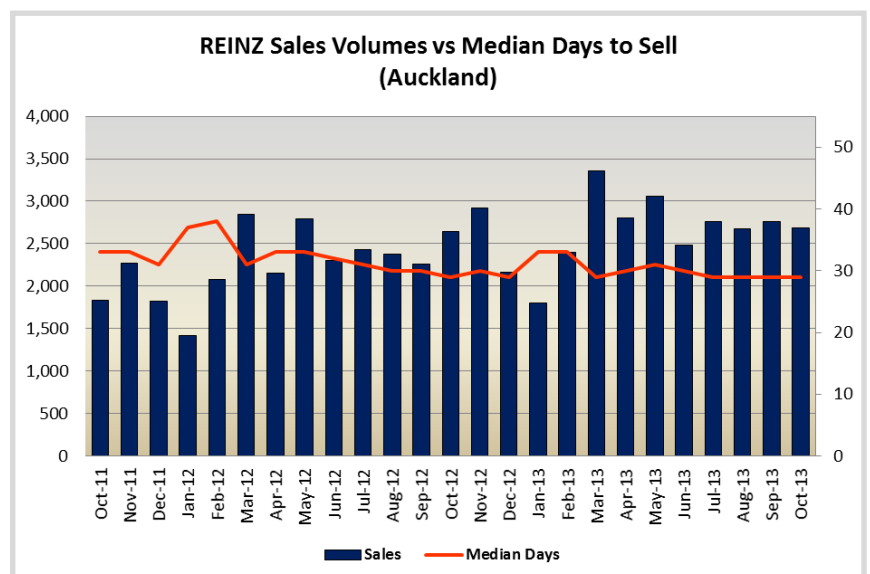


Auckland's residential property market continues to be buoyant and remains the strongest housing market in the country. The recent LVR restrictions are having an uneven impact across the region, with some areas still performing strongly while others are showing declines since its introduction at the beginning of October. The BNZ-REINZ residential market survey of real estate sales agents confirms a significant drop in first-home buyers, but activity remains steady in other sections of the market. Despite patchy activity across the region, Auckland's median house price is still climbing.

Key housing indicators continue to improve. Sales volumes for October 2013 were up 1.6% compared to October last year.

The trend of median days to sell a property in this current market remains stable at 29.

Over the last 10 years the number of days to sell in October has averaged 32, so the time it takes to sell a property is still tracking well ahead of average.



The trends in sales volumes are showing a 'slow down' in volume growth over the last few months, but are holding steady. The trend in median days to sell has been improving throughout the year, and is also now sitting fairly even.

### Other factors influencing the housing market include:

- The Reserve Bank made little change to its interest rate forecasts in its October monetary policy statement and expects the OCR to remain unchanged at 2.5% at least for the remainder of this year. The latest Financial Stability Report by the RBNZ sends the message that higher interest rates are on their way. Rising mortgage rates are likely to quickly affect the ability of households to service their debt because most mortgages remain on floating rates or relatively short fixed terms. Most economists are still forecasting rates will rise approx 1.5% to 3% through 2014 and 2015.
- Auckland home loan affordability is at its worst since March 2010. House price inflation is high and growing at a much faster rate than incomes. Affordability has progressively worsened throughout the year with Auckland's climbing house prices. According to the Roost Home loan affordability index it currently takes at least 89.2% of a single median after tax income to afford a 1<sup>st</sup> quartile priced house in Auckland.
- A net migration inflow of 2,740 persons in September was the strongest monthly net inflow in a decade. On its current trajectory the net permanent and long-term migration inflow remains on track to move well above 20,000 in the 2013 calendar year. This would be the highest net inflow since 2009. The relative strength of the NZ economy appears to be the major draw-card behind the turnaround. Australia has been at the top of the list for departing kiwis seeking better wages, however this is now slowing due to a more favourable economic outlook for New Zealand, particularly as the pending construction boom looks set to boost activity.
- The volume of residential building activity for New Zealand, surprisingly fell in the 2<sup>nd</sup> quarter to June. This fall follows a strong 11% increase in the March quarter. Building work put in place lags substantially behind building consents lodged. However, on the upside, consents themselves have increased, which indicates that there is a large volume of building work in the pipeline for the next few years.
- Consumer Confidence turned a different corner in the October survey. The new LVR lending restrictions have definitely dented consumer confidence with a marked increase of respondents now believing it is a bad time to buy. Across the country the overall picture has darkened, with there now being more that believe it is a bad time to buy than those who believe it is a good time. This is the first time sentiment has swung this way since April 2008. Having said that, more than half the respondents still expect house prices to rise over the next 12 months, a very similar result from the previous quarter. We can conclude that the new RBNZ lending restrictions will have a modest impact on demand. However, we may not expect a meaningful reduction in housing market pressures until interest rates and new housing construction increase."

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