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Aug 18 2015 at 9:10 AM | Updated Aug 18 2015 at 9:11 AM

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Auckland house prices are up 20pc, or unchanged if you're Chinese



The slump in New Zealand's currency has made properties in the country's largest city a bargain for foreigners. Fairfax

by Tracy Withers

Auckland home prices are up more than 20 per cent in the past year. If you're a buyer from China or the US, they're not.

The slump in New Zealand's currency has made properties in the country's largest city a bargain for foreigners, creating a headache for central bank Governor Graeme Wheeler, who has been trying to put a lid on the country's overheated property market.

"Five years ago I would have estimated two or three per cent of Auckland properties were bought from overseas," said Peter Thompson, managing director of Barfoot & Thompson, which says it sells one-in-three homes in the nation's largest city. "These days it's 10 or 12 per cent."

Mr Wheeler has lowered interest rates to offset faltering economic growth and weaken the currency, but the cuts are stoking Auckland's housing prices, which are already the second highest relative to income among developed economies. Worse still, with foreign buyers tripling their participation in the city of 1.5 million people,

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the price surge is starting to spread to cheaper neighbouring districts.

Local residents are becoming frustrated that the influx of Chinese, American and Australian money is pushing them out of the market in some districts. In the North Shore suburb of Pinehill, where one in five residents is already Chinese, Realtor Kathy Westmoreland is selling a four-bedroom home for \$NZ819,000 (\$730,000), 30 per cent more than the current owners paid in 2010. She's had inquiries from Chinese, Indian and European buyers.

"It's a very desirable area for the Chinese," she said, citing the community and a highly regarded school.

Auckland's median house price gained 21 per cent in July from a year earlier to \$NZ735,000, according to Real Estate Institute data. Yet the Kiwi dollar dropped 22 per cent against the US currency and Chinese yuan over the same period, which means in those currencies prices are cheaper. Even after last week's yuan devaluation, the New Zealand currency is still down 20 per cent against the yuan.

Barfoot & Thompson had its best July ever for sales in Auckland and in the first week of August they were 25 per cent ahead of a year ago, said Mr Thompson, who employs Chinese speakers to handle inquiries.

"We can't say it's slowing," he said. "There's a lot of inquiry out there. We just don't have the stock."

The exchange-rate plunge is also encouraging New Zealand expatriates to invest in housing back home using their foreign-currency earnings.

"Our inquiry levels have increased significantly since about March," said Alan Henderson, a director of Erskine & Owen, an Auckland-based firm that acts as a buyer's agent, mostly for expats. "We get lots of Kiwi expats sitting there umming and aahing about whether they bring their money across now rather than later, but now the dollar has weakened it just eases that consideration."

In the face of surging prices, the central bank this year announced a raft of measures to curb lending for Auckland home buyers. The government followed with its own rule tightening, saying it would enforce a capital gains tax on any property sold within two years of purchase.

"Lower interest rates risk exacerbating the already extensive housing pressures in Auckland by stimulating housing demand," Mr Wheeler said July 29. The RBNZ "continues to be concerned about the financial stability risks and risks to the broader economy that would be associated with a major correction in Auckland house prices."

From October 1, the RBNZ will require a property investor in Auckland to have at least a 30 per cent deposit for any purchase, up from 20 per cent in most cases.

The regulatory changes will encourage a shift in buying away from Auckland as the central bank eases restrictions on those who borrow to buy elsewhere, economists say.

"Money is no longer chasing the Auckland market," said Craig Ebert, senior economist at Bank of New Zealand in Wellington.

The number of Auckland residents buying in Tauranga, a coastal city three hours'

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drive south-east, has surged 80 per cent this year, according to research commissioned by Westpac Banking Corporation. They're buying houses for an average \$NZ533,000 -- or \$NZ237,000 less than they sell for in Auckland, the bank said.

"Tauranga is going crazy," said realtor Ms Westmoreland. "A lot of people are moving down there and for the first time in their life getting a brand new car and have money in the bank."

The RBNZ rule isn't going to overly impact the Auckland market, said Erskine's Henderson. For a lot of his clients "it's a matter of finding the extra 10 per cent from somewhere, which for most is not a big struggle," he said, referring to the requirement for a larger deposit.

Erskine competes with Asian investors when bidding for Auckland properties. Many are buying apartments or homes as bases for their children when they study, he says.

"It's just life," he said. "Kiwis are a bit naive to think we can shut the doors and close it down."

Bloomberg

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