House values drop by $250,000 in Wellington and Auckland

Home values have made the biggest first-quarter fall in more than 15 years, the latest QV data show.

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Since the beginning of last year average house values have dropped by more than $250,000 in Auckland and Wellington .

In many areas across the North Island value declines are in six figures, signalling more are to come.

QV national spokesperson Simon Petersen says it looks as though prices are destined to fall further still, particularly following the Reserve Bank's latest increase to the Official Cash Rate.

"This should maintain downward pressure on the housing market well into the cooler months of the year, when activity is traditionally even quieter."

The latest QV House Price Index for March shows property values have dropped by an average of 3.9% since the start of the year – weakening further from the 2.7% three-monthly decline in February, and the 1.7% three-monthly decrease in January.

The average home value is now $907,737, which is 13.3% less than the same time last year.

It is a significantly bigger first quarter decline than at the same time last year, when residential property values dropped by an average of 0.6% throughout the first three months of 2022.

The closest comparable start to a calendar year was in 2008, amidst the Global Financial Crisis, when home values dropped by an average of 1.1% from January to March.

The latest QV figures show the rolling three-monthly rate of reduction increased last month in all bar two of the country's 16 largest urban areas, with the most significant quarterly home value reductions occurring on average in Whangarei, down -6.6% and Rotorua, down -5.7%.

Of the largest cities, Auckland -5.2%, Hamilton -5.2%, and Wellington -4.8% led the decline.

Christchurch -1.2% and Hastings -2% were the two exceptions – the former experiencing the smallest drop of the main centres.

Petersen says traditionally there aren't too many house price drops at this time of year. It is mainly a busy buying and selling period.

"It's obviously a tough time for prospective buyers, who are having to deal with significant credit constraints amidst an ongoing cost of living crisis.

"It's tough for sellers as well, with plenty of stock still available and fewer active buyers than normal. Sellers are having to keep shifting their expectations downward to meet the evolving market," Petersen says.

He says interestingly, real estate agents are reporting significant falls in new listings across the country, which is an indication that most vendors are trying to tough it out until the market improves.

"In less than a year the average home values have fallen from $1 million nationally to just a tick over $900,000 today.

However, Petersen wasn't quite as pessimistic about the market's long-term prognosis.

"The good news is house prices are trending in the right direction for first-home buyers.

"Some economists are predicting interest rates could be close to peaking. With increasing migration into the country only expected to increase demand for residential property, we might see the downturn bottom out later in the year, but there's still so much uncertainty."

Jawboning by RBNZ should keep interest rates down

Meanwhile CoreLogic chief property economist Kelvin Davidson says the OCR rise last week there has been a lot of commentary about a bad outlook for the economy, recession, householders about to be stressed with higher interest rates, and things basically looking bad for a long period of time.

Economist Tony Alexander says this is exactly the sort of discussion the Reserve Bank wants to see.

"The more pessimistic people feel about the economy and their personal finances the greater will the restraint be on weekly and monthly spending. That will mean a greater reduction in the ability of businesses to increase their selling prices and that will mean lower inflation."

He says there will certainly be a negative impact on the economy from about $170 billion worth of fixed rate mortgages coming up for renewal over the next 12 months, with people on average seeing their rate rising from perhaps 3.5% to about 6.5% or thereabouts.

There is also a substantial decline in residential construction just starting to get underway and likely to run for the next two to three years. "House building is an industry which affects many businesses and people all around the country, so the decline is going to affect the economy's rate of growth and general sentiment."

That said, in terms of mortgage rates, Davidson says there may not be much upwards impact.

“Indeed, in the statement that accompanied the OCR decision, the RBNZ explicitly noted that part of the reason for raising by 0.5 percentage points was to try and reverse some of the recent modest falls in mortgage rates,” says Davidson.

“That might sound harsh, but this is monetary policy in action – keep rates “higher for longer”, curb demand/spending in the economy, and help bring down inflation.”

So has the OCR finally peaked? Perhaps not, says Davidson, and it wouldn’t be a surprise to see the RBNZ put up the cash rate again on 24 May.

It would be the 12th consecutive rise if it does happen, and a 0.25 percentage increase would take the cash rate to 5.5% - the Reserve Bank’s long-indicated target rate.

Before that, however, the next Consumers Price Index data is released on 20 May covering the first quarter of this year. Davidson says if the annual rate of inflation at 7.2%, drops, the Reserve Bank will probably start to more seriously question the need for any more OCR increases – especially given the lagged effects of the OCR rises already seen.