[Property](#)

Twenty reasons not to abandon the housing market

Independent economist Tony Alexander says there are plenty of reasons for investors not to leave the housing market.

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He says keeping an eye on the rapidly rising stock of listings and improving purchase prices is a good idea, but bargains will not be prolific this cycle. Other reasons. Include:

Rising construction costs

It is getting more and more expensive to build a house in New Zealand – a 21% increase over the past year, for example. As construction costs go up more people will switch towards looking for a and existing property rather a new build. This process will be enhanced by stories about construction projects going under.

Social housing demand

Government agency Homes & Communities is looking to expand the number of social houses in New Zealand, and it is likely that as developers increasingly face financial stress they will pick up some extra stock. The OECD's average proportion of social housing out of the entire housing stock is about 8%. New Zealand's social housing stocks is about 4%. If house prices fall 20%, the proportion will still be 4%, and if prices fell back to where they were before the pandemic, the proportion of social housing stock will still be 4%. Falling house prices will not lead to better outcomes for social housing and the pressure on the Government to buy and arrange construction of extra social housing will run for decades.

Falling construction

The country has had a building boom boosted by record low interest rates, a mistaken belief property shortages exist throughout the country, booming construction encouragement by every man and his dog and a surge in net migration inflows leading to incorrect predictions of future population growth. Many inexperienced, under-capitalised and over-optimistic developers have been drawn into the sector.

They have paid too much for land and have no experience in how to professionally handle working with consenting authorities let alone the biggest shortage of materials and labour ever seen. There is a well-established relationship between changes in dwelling sales and

consents being issued for new construction. A story about to begin is a large falling away of new building consents being issued. Initially the negative factors driving this big decline in consent numbers will dominate sentiment, but eventually a realisation will dawn that the boom in new housing supply will be nowhere near the magnitude implied by the more than 50,000 consents issued in the past year.

The country has yet to get through the phase when there are questions about an over-supply of property. After that there will be an eventual focus again on a deficiency of construction.

Migrants numbers rising

With the borders reopening migrants are able to make their way into New Zealand. The risk is people will over-estimate the number who will arrive given the strong demand for labour in higher paying countries. But the rising flow will nonetheless slowly introduce a new source of house demand over time.

Special residency visas

The government has granted migrants on temporary work visas the ability to apply for a residency permit. It was envisaged that 165,000 might do so but it looks like the number will exceed 200,000. Not all of these people will immediately buy a property now that they are legally able to. But at some point, when the cycle stops falling, the residency visas will be cited as a reason why prices will move back up again.

Property as an inflation hedge

Inflation is running at 6.9%, forecasters offshore are revising upwards their inflation predictions, oil prices continue to move higher, and there is open talk of stagflation. While New Zealand's necessary forces are in play to suppress inflation back below 3%, nobody knows how long this will take. No-one has a working model for predicting such things. With this much uncertainty and risk, it will not be surprising if a large number of people who might otherwise be cautious about investment property prices falling and have decided to sell will instead decide to hold them as an eventual hedge against inflation yet to come. In fact, the more the generalised rises in consumer goods prices, the greater the simple nominal support for house prices.

Homes going back to Airbnb use

Many properties are being placed back in the pool of short- term rentals for foreign visitors. As the pool of rentals dries up rents will rise and additional encouragement will be provided to people to try and buy a property rather than keep renting.

National will restore old tax rules

The National Party has stated if it is re-elected in 2023 or 2026 it will take the bright-line test down from 10 years to the original two years, and fully restore the ability of investors to deduct interest expenses against rental income when calculating tax obligations. The closer it is to the election and the more the public look for change, the greater the incentive will be for investors to hold onto their properties and to buy more.

Rents are rising

Renting is sometimes promoted as being a better option than buying. This strategy has failed for virtually all those who have followed it – often on the advice of analysts who do not understand the factors causing prices to rise compared with incomes. I tend to steer well clear of comparisons of renting versus buying because they are two different things – one short-term and the other a multi-year or decade commitment. There is some evidence a few investors are placing empty properties on the market for rent because they cannot sell them easily for a profit. It pays to keep in mind that only some 4% of properties sold over the past year have been bought less than two years earlier, so the numbers involved are likely to be small. Instead, growth in new housing supply is about to falter as developers fail to act on building consents granted, houses go back into the holiday rental pool, and costs for landlords rise rapidly. Rents are rising rapidly, and it will take the mother of all net migration outflows to substantially dent the march of rental costs upward.

Bank deposit rates won't rise much

Banks are flush with deposits courtesy largely of the Reserve Bank's excessive money printing operations over the past two years. The RBNZ over-reacted to the pandemic and banks have little need to offer high deposit rates in order to attract the funds needed to back domestic lending. A lack of attractive interest rates acts as a disincentive for investors to sell their properties and place the gained funds in a bank. They might sell and invest in a diversified portfolio of equities, but global sharemarkets are wobbly.

The long-term price trend is up

Many people like to believe there will be a return to the old days when average house prices were three times incomes. They won't. On average New Zealand house prices have risen 7% a year since 1992. From now on the average is likely to be closer to 5% due to loosened building regulations. The surge in prices associated with the pandemic is an aberration which is unwinding. Once this process is complete, the new/old trend will re-establish itself and the difficulties buyers have had raising a deposit and finding a property will return – probably in about 2024-2025.

Wages growth is accelerating

Wages may not be keeping up with inflation, but their rate of rise is lifting. The long-term average rate of increase is about 2% above the inflation rate and that dynamic is likely to return within two years' time. The current pressures on budgets from soaring inflation exceeding inflation will pass and when that happens many people will return to the housing market.

Job security is high

The unemployment rate is 3.2% and likely to fall further. The difficulties which businesses are experiencing in finding skilled and unskilled labour are at record or near record levels.

High test mortgage rates used

It is true that many people who borrowed money last year will see the interest portion of their weekly repayments more than double as their mortgage rate rises from below 2.5% to more than 5%, but banks tested almost everyone on their ability to pay a mortgage rate above 6%.

Listings becoming plentiful

The biggest concern buyers have long expressed is there are not enough listings. Now stocks are running 80% ahead of a year earlier and this concern has faded away to virtually nothing. The range of choice facing buyers now means for many this is exactly the time they should be advancing their home hunting plans rather than shelving them until they think prices hit their lows.

Real estate buying agents failing

Real estate agents are paid by the seller, not the buyer, and with so many properties to pick and choose from few buyers will be hiring agents to scout out a property for them. That particular part of the real estate market will be dying more quickly than overall agent revenues. Buyers are the most valuable item in the real estate market now. They won't have to make too many positive facial expressions or body language moves indicating a desire to buy to have an agent actively working on the vendor to get them to discount their price, accept a short or long settlement date, provide a lot of free property assessment information and documents, and accept conditions if an offer is made.

Peak credit crunch passed

From July 7 the CCCFA rules will officially loosen and banks can undertake lending without the fear of being fined $200,000 each at senior management and director level should it be determined they had engaged in irresponsible lending. The changes to the CCCFA from December 1 made bankers so fearful of making a mistake according to someone else's vague subjective definition they sharply reined in their lending criteria. Credit will not flow loosely from July 7, but things will improve for borrowers who do step forward with $5 million in assets asking for their credit limit to be raised a few grand. For many borrowers the problem is not the CCCFA, but reduced availability of low deposit lending. The next change in LVRs is likely to be an easing, possibly before the end of the year.

Housing markets move in cycles

Nobody can pick the timing of the tops and bottoms and can only guess usually inaccurately as to how far prices will rise and how much they will fall or rise at a slower pace. Observations can be made when behaviour changes and the changes underway now indicate the cycle is functioning "normally". That means an upturn lies down the track and just as those who sold before the peak did well, those who buy before the market turns and the herd chases its own tail again will do well.

Not all buyers are retreating

In the monthly survey of real estate agents I run with REINZ, I ask agents what things appear to be motivating investors. Keeping in mind 50% just reported nothing is motivating them

and their demand is falling, 40% say they are motivated by hopes of finding a bargain. This is up from 17% in October.

Frustrated buyers re-engaging

Many people needing to shift home in the past couple of years have not been able to do so because of the market frenzy and the shortage of listings. They still need to move and as listings rise further they will step forward to finally make their transaction, selling then buying or buying then selling in the same market.