News & Research

# Raft of policy changes unlikely to shift subdued market

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Amidst a raft of policy changes, the renewed weakness in Aotearoa New Zealand's home values continued in June.

CoreLogic's House Price Index fell 0.5% in June, taking the quarterly change to -0.8%. The month on month decline was the largest drop in prices since June 2023, and continues a trend of minor falls seen in recent months.

Over the past 12 months to June, NZ house prices are up 1.8%, equating to a $16,000 boost in home owner wealth. The annual rise reflects the earlier but temporary 3.2% rise in prices between September 2023 and March 2024. That previous momentum stalled as high mortgage interest rates continue to restrict housing credit demand.

Each of the main centres recorded flat to falling prices over the month, with both Christchurch and Dunedin experiencing no change in June, the best performers.

**CoreLogic NZ Head of Research, Nick Goodall said** the last twelve months could be described as a dead cat bounce, with confidence perhaps misjudging the trajectory for mortgage interest rates.

"Inflation has remained sticky, particularly domestically, as the RBNZ has stayed true to their commitment of using monetary policy to bring consumer prices under control. It looks although interest rates could stay higher for longer, restricting borrower numbers and lending amounts."

Mr Goodall noted the latest lending figures from RBNZ showed a further evolution in the mix of lending for different purposes.

"In May, 24% of new residential mortgage lending was from borrowers changing bank loan providers. This is the second largest share on record, below only March 2023, when 26% of new mortgage lending was associated with refinancers switching banks. The two-year average is 20% and in December 2023 the share was as low as 18%.

"This change illustrates the persistent low levels of real estate transactions as a source of new mortgages for banks. With such a competitive lending environment, it's no surprise to see borrowers seeking out the best deal as lenders work hard to retain borrowers and attract new customers away from their competitors," he said.

## CoreLogic House Price Index

### National and Main Centres

### Auckland

In June, Auckland's negative turn was prolonged, down -1.2% over the month, and takes the quarterly fall to -2.6%. This Is the largest quarterly drop in prices since August 2023.

Mr Goodall said Auckland's weakness was somewhat of a surprise but likely a reflection of affordability challenges, considering the share of average income required to service a typical new mortgage in the largest city of the country is 55%, compared to 43% in Dunedin.

The rate of value falls across Auckland's sub-markets was relatively consistent.

Rodney and Franklin, sub-regions further from the CBD, experienced slightly lower rates of fall over the month, while the more populous areas saw values fall by at least 1.1% in June.

“Its clear affordability remains an issue across the Super City, with the average value ranging from the high $800k's in both Papakura and Franklin to over $1.44m in both North Shore and Auckland City" Mr Goodall said.

"Despite strong population growth, due to high net migration, Auckland property values are going through a renewed period of weakness as a long-term improvement in supply, following strong new dwelling growth and an uplift in properties listed for sale suppresses vendor power when matched with cautious and composed buyers."

## Wellington

The Wellington area is defined by mixed results, with a weakness emerging in Wellington City and the Hutt region, in contrast to value growth in both Porirua and the Kāpiti Coast.

The 1.5% decline over June in Upper Hutt appears to be the beginning of a trend, while values in Lower Hutt have been effectively tracking sideways since the start of the year.

Mr Goodall said while nervousness remains around the capital as further details of public sector job cuts emerge, large scale job losses have yet to materialise, so this uncertainty is unlikely to have a major impact on recent property price movement.

"There's also caution among both owners and prospective buyers when it comes to making a significant financial commitment such as buying a first home, upgrading their current house, or purchasing a rental property, and so that will translate to reduced demand," he said.

## Regional House Price Index results

Across the main urban areas there aren't many experiencing any real growth, with the likes of Invercargill (2.1%) and Queenstown (1.2%) bucking the broad trend of flat or declining values.

"The variability of the market is seen with Invercargill as the most affordable urban area with an average value of $483,000, while Queenstown is the priciest at $1,820,000."

"Affordability challenges exist all around the country, while some of the smaller centres may also suffer from net-negative migration swings as young people head offshore for the promise of greater opportunities or simply an overseas experience," added Mr Goodall.

## Property market outlook

Looking ahead, Mr Goodall said there have been a number of changes attracting the attention of homeowners.

"While the 1st of July signals a raft of regulatory changes, they're unlikely to have a significant impact on the market either way. The shortening of the Brightline test to two years could see a further lift in already high listings levels, while the loosening of LVR policies is unlikely to see a flood of now-eligible buyers emerge. Meanwhile the formalised debt-to-income ratio limits are effectively non-binding while overall lending is contained by high interest rates.

"For that reason, a firm focus remains on the Reserve Bank's next meeting in mid-July. Recent adjustments to inflation expectations easing is promising, but the Bank is likely wanting to see firm evidence before truly debating a cut to the OCR.

"On the flipside, there's little to suggest the OCR could be increased, with the economy barely recovering from the recent double-dip recession. The decision should be a quick and easy one from the RBNZ to keep the cash rate on hold.

"Mortgage holders should continue to prepare for similar levels of interest rates for the rest of the year, and homeowners for the market upturn to underwhelm, especially with job security now declining," he concluded.