Property market momentum remains but pace of growth slowed in May

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According to the CoreLogic House Price Index (HPI), which is the most complete and robust measure of property value change in the market, nationwide values increased by a further 2.2% over May. This is a slight reduction on the 3.1% growth rate witnessed over April, and provides some evidence of a slowdown, as buyers adjust to recent policy announcements and tightening lending criteria.

The annual rate of growth increased to 20.5%, up from 18.4% last month, however the annual measure is impacted by base effects, where a year ago economic activity, including the housing market, had stalled as the nation moved through the COVID related lockdowns.

CoreLogic head of research, Nick Goodall, says “In the last few weeks both the Government and RBNZ have released house price forecasts with expectations of a significant reduction in growth over the coming months. The CoreLogic HPI (which analyses a rolling three months of sales data) provides some evidence of this, while analysis of CoreLogic preliminary sales data goes a step further, illustrating the most recent sales are not performing at the same level as those earlier in the year.

“This reflects the impact of both the tightened loan-to-value ratio (LVR) restrictions, imposed by the RBNZ, as well as the March 23 housing policy announcement from the Government, phasing out the ability for property investors to deduct their interest expenses from their end-of-year tax returns.

“While these changes have caused some investors to sit back and take stock of their portfolio, it appears this pull-back in demand has been mostly made up for by other investors, likely with less debt, and owner occupiers who had previously missed out while competing in a very heated market,” says Goodall.

Goodall says if the pipeline of potential buyers remains relatively full, the official forecasts of such a sharp reduction in value growth may prove slightly dramatic, however it is worth noting historic precedence in CoreLogic data to compare it to.

”When investor LVR restrictions were adjusted in October 2016 (requiring a 40% deposit for investors) the rate of quarterly value growth reduced almost immediately, from 5.1% at the end of September 2016 to 1.2% at the end of March 2017 and 0.3% by September 2017.

“This time around there are additional factors at play, including changes to interest deductibility for investors buying an established property and a reduction in demand as affordability constraints become more challenging. The aggregate effect of these changes is likely to result in a further slowdown in the pace of house price appreciation.

“Further adding to the complexity, we are also now navigating a changing environment when it comes to the interest rate outlook. As the RBNZ forecast in their latest Monetary Policy Statement, the next move for the Official Cash Rate (OCR) is expected to be up, albeit in at least a years’ time, but this is likely to weigh on buyer attitudes with regards to taking on large sums of debt. Bank serviceability tests (at higher interest rates) do provide a form of cover for this however.

“Given the volume and pace of recent change as well as an ever-evolving outlook, we now expect policy makers to await more information and data before intervening further. From the RBNZ’s perspective, debt-to-income (DTI) limits are the most likely tool to be considered next. For now, the RBNZ are unable to regulate the market using this tool, but they have provided analysis to the Finance Minister on their potential implementation. As we await the Minister’s response and public release of the RBNZ analysis, we already know that any introduction of DTI limits would have to wait until November at the earliest, to allow for consultation,” says Mr Goodall.

Highlights from the CoreLogic HPI data for May:

	Change in property values			Average Value
	Month	Quarter	Annual	
New Zealand	**2.2%**	**7.7%**	**20.5%**	**$890,848**
Auckland	1.4%	5.5%	16.5%	$1,265,071
Hamilton	3.7%	10.4%	25.1%	$786,903
Tauranga	5.1%	10.6%	22.2%	$968,342
Wellington	3.1%	10.8%	27.2%	$1,001,732
Christchurch	3.1%	8.5%	18.5%	$612,988
Dunedin	1.7%	5.7%	17.0%	$646,313

National and Main Centres
Tauranga property values increased by a significant 5.1% over May, however it's worth noting the recent volatility in the monthly data. The index recorded a -1.5% drop in February after 6.8% growth in December. This leads us to pay more attention to the quarterly change, which in this case is a still-very-strong 10.6% - similar to both **Hamilton** (10.4%) and **Wellington area** (10.8%).

The average property value in Wellington has now ticked over the $1m barrier, while Tauranga in't far off, at $968,342.

In the **Super City** of Auckland, the average property value now exceeds $1.25m after 16.5% growth in the last year. Honing in the City of **Auckland** itself (within the isthmus) the average value is approaching $1.5m ($1.48m). The average value in the **North Shore** is not far behind at $1.44m.

	Change in property values			
TA	**Month**	**Quarter**	**Annual**	**Average Value**
Queenstown	3.9%	8.1%	10.4%	$1,344,802
Nelson	0.9%	5.2%	15.3%	$758,808
Invercargill	0.4%	6.5%	22.1%	$427,392
Whangarei	1.2%	10.0%	22.3%	$717,234
New Plymouth	2.8%	8.4%	24.9%	$633,510
Rotorua	3.9%	9.7%	28.1%	$663,269
Hastings	2.3%	10.4%	28.9%	$764,908
Napier	0.4%	12.6%	30.1%	$796,206
Palmerston North	3.8%	11.4%	34.3%	$684,797
Kapiti Coast	2.2%	12.5%	34.7%	$901,401
Whanganui	3.2%	10.8%	35.2%	$500,313
Gisborne	2.0%	8.6%	36.0%	$590,915

Provincial Centres (ordered by annual growth rate)
Property values in tourism hotspots **Queenstown** and **Rotorua** increased by 3.9% in May, a continuation of recent strength as the economic confidence for these centres improves, helped out by the opening of the trans-Tasman bubble as well as the $200m tourism package announced by Tourism Minister Stuart Nash. The package,

announced on May 6 is designed to help the embattled industry cope with the economic loss of international visitors and prepare for a reshaped future.

Meanwhile property values in our easternmost city of **Gisborne** have seen a continuation of its recent strong momentum, with the annual rate of growth hitting 36% - the strongest rate in over 15 years.

Similar consistency of growth has also been notable in **Whanganui**, **Kapiti Coast** and **Palmerston North**, which all recorded annual growth rates above 34%. These are all record rates of value increases respectively for at least the last 15 years.

The factors influencing these rapid rates of growth are generally well documented, with readily available credit at record low interest rates and a search for either investment yield or secure tenure key motivators.