

Tony Alexander: Fewer investors bidding, so why are first home buyers in retreat?

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Tony Alexander



House prices have been risen, not fallen, in the two months since the Government's housing market shake-up. Photo / Fiona Goodall

Last week [I wrote the following](#) regarding the possibility of new housing policies in the Finance Minister's 2021 Budget. "Logic would suggest that the Government is incentivised to wait and assess the impact of their announcements so far before making further moves."

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Logic seems to have prevailed because there were no new housing announcements. In fact, the Finance Minister noted that the March 23 announcement of a \$3.8 billion fund which councils can draw on for infrastructure spending to assist new housing was going to be in the Budget, but they thought "what the heck" and announced it back then.

Now, over two months along from the late-March announcements, how are things tracking? In a nutshell, for investors there remains a strong element of discontent and an attitude of "wait and see", while for first home buyers it's just the latter sentiment in play.

First home buyers are uncertain of where things are headed, and if they really thought the market was moving in their favour we would not be seeing the following results in the various surveys I run. The survey of mortgage advisors with mortgages.co.nz, for instance, shows that this month a net 67% of advisors were seeing fewer investors looking for advice. That result was a net negative 5% in February then -46% just after March 23, then -78% last month.



Tony Alexander: "Interest rates for the fixed rate terms most people prefer." Photo / Supplied

Fewer investors are in the market, but the pace of their withdrawal has eased a bit. That is interesting, but not as interesting as the net 15% of advisors saying that there are fewer first home buyers about. That is actually a worsening from a net 13% last month, and 19% positive in February.

Why would first home buyers back off right when the Government is trying to tilt the playing field in their favour? Two weeks ago I discussed this in the context of young people taking their clues from older, more experienced people, alongside some concern that prices might fall. But two months have passed and there is no evidence that prices are falling, and despite the threats from investors, there is no evidence of any large wave of selling or a strike by buyers – just slight changes for both.

When will first home buyers step into the breach? The labour market is strong and getting stronger, so there is no impediment there. Interest rates for the fixed rate terms most people prefer, one and two years, have yet to go up. No impediment lies there either.

The answer is probably this. First home buyers will step forward when investors get exact clarification of the new rules for new builds and then re-engage with the market - as has happened every time in the past when rules have been changed against them. That is the irony of the situation.

But there is one thing which is unique this time around. House construction is booming. The annual number of consents issued for new dwellings of all types to be built is running at about 44,000. That is the equivalent of 0.9% of our 5.1 million population.

Ten years ago that ratio was below 0.4% and the average since 1986 has been 0.6%. The current 0.9% is the highest ratio since about 1975 and at the current pace of house building we will be able to build all the extra houses needed to house an extra 1.3 million projected population come 2048 within about 13 years.

For the moment, not all consents are going to be able to be actioned because of shortages of materials, current shortages of tradespeople, and a worsening shortage of

people as many shift to Australia to enjoy the house building boom there. But as supply rises, at some stage we can't really predict at the moment, supply will be such that buyers decide there is no hurry. That is when first home buyers should perhaps step back, take their time, and play hard ball – not now when for what might be just a matter of a few months of fewer investors are in the auction rooms.