

Housing Confidence

Three months to October

December 2021



Don't Look Down

- The overwhelming majority of kiwis expect interest rates to keep rising.
- But this hasn't shaken kiwis' housing confidence, which actually increased last quarter.
- Conversely, perceptions of whether it's a good time to buy crumbled to 5-year lows.

Summary

Kiwis' housing confidence has remained stratospheric all year. Credit rationing, tax changes, lockdowns...nothing has shaken the public's confidence that house prices are going to keep rising. And so far they've been right. But now that mortgage rates are rising, and fast, are we approaching the housing market's Wile E. Coyote moment? Not according to our survey. In the three months to October, the percentage of respondents expecting house prices to rise over the coming 12 months actually increased, to a net 62%. That's up four percentage points from last quarter's 58%.

And it's not as if respondents are in the dark when it comes to the spectre of higher interest rates. A net 73% of survey respondents expect interest rates to rise over the coming 12 months (75% expecting rates to increase, 2% expecting a decrease). That's about as close to universal agreement as you get, being the second highest result in the 25 years of our survey. The overriding message seems to be: the market can handle it.

Still, it's all making for a particularly bitter cocktail for those looking to buy. And, indeed, buyer sentiment continued to crumble in the three months to October. A net 23% of respondents now believe it's a bad time to buy a house, a further deterioration from last quarter's net 21%, and the lowest in five years.

Are we at risk of overconfidence when it comes to house prices? We'd be remiss not to flag a few big speedbumps we see in the distance. The RBNZ is no longer content to let the good times roll, and we've long pegged 2022 as the year we finally get some movement on the housing supply imbalance. In the least, 2022 looks like a year in which lofty housing confidence will be tested.

ASB Housing Confidence Survey			
Net percent who believe (3 months to October 2021) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-19%	61%	70%
Rest of North Island	-25%	60%	72%
Canterbury	-30%	65%	76%
Rest of South Island	-20%	65%	78%
TOTAL NZ	-23%	62%	73%
<i>Compare 3 months to July 2021</i>	<i>-20%</i>	<i>58%</i>	<i>54%</i>

Source: Camorra

Price Expectations: Irrepressible

You just can't keep kiwis' house price confidence down. Just when it looked like things were starting to waver, house price expectations have bounced back up. In the three months to October, a net 62% of respondents expected house prices to rise over the coming 12 months (68% expect prices to increase, 6% decrease, 18% stay the same). That's up four percentage points from the net 58% in the three months to July and well above the 29% long-run average.

It will be a deflating result for those policymakers trying to tamp down property market hotspots. The changes in investor tax treatment appear to have had only a fleeting impact on the market. And survey respondents also appear dubious that the recent tightening in LVR restrictions for owner occupiers is a game-changer for housing market direction.

We reckon there's a good chance the recent surge in mortgage rates does end up rattling housing confidence a little. But that's probably more a story for next year.

Looking across the regions, Mainlanders remain the most house price confident. No surprises there. Not only did they avoid the worst of recent changes in Alert Levels, but house prices in the South are (mostly) starting from a position of less stretch than those up North. Both Canterbury and the broader South Island reported net housing confidence at 65% in the three months to October, higher than Auckland's 61% and the net 60% for the rest of the North Island.

Buying Sentiment: Nope

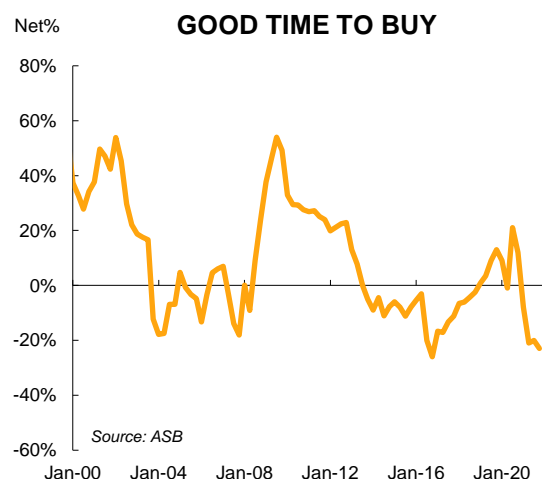
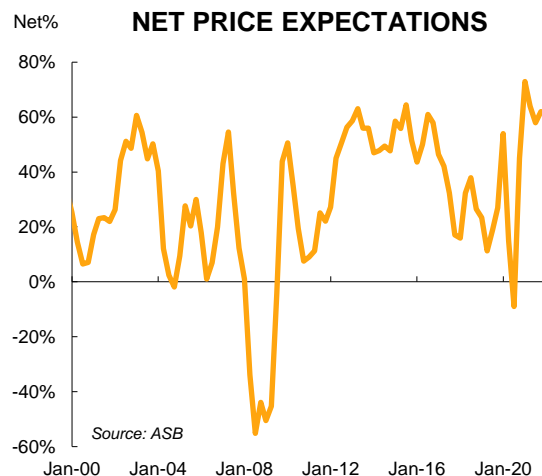
Wildly-stretched house prices paired with steep rises in mortgage rates are not a palatable combination for home buyers. Buyer sentiment continued to crumble in the three months to October. A net 23% of respondents now believe it's a bad time to buy a house, a further deterioration from last quarter's net 21%, and the lowest in five years. Breaking down this result:

- Just 9% of people think it's a good time to buy, while 32% of people think it's a bad time. 50% think it's neither and 10% don't know.
- Buyer sentiment is particularly negative in Canterbury, with a net 30% believing it's a bad time to buy there. This compares to a net 20% in the rest of the South Island, a net 25% in the North Island outside of Auckland, and a net 19% believing it's a bad time to buy in Auckland.

Perceptions of whether it's a good time to buy are now within a whisker of the all-time low struck in October 2016. We wouldn't be surprised to see fresh lows before this cycle is done. We suspect the house price upswing has got another six months or so left to run, and the upward pressure on mortgage rates looks likely to remain.

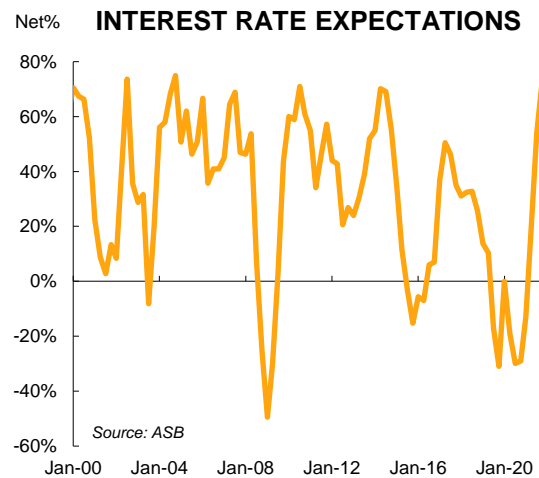
Rate Expectations: And so it begins

There's been plenty of chatter about whether homeowners are prepared for higher mortgage rates. Our survey suggests Joe Public definitely got the memo.



A net 73% of survey respondents expect interest rates to rise over the coming 12 months (75% expecting rates to increase, 2% expecting a decrease). That's about as close to universal agreement as you get. Indeed, this quarter's result has only been bested once in the 25-year history of the survey. Back in October 2004, a net 75% of folk expected interest rates to rise. Incidentally, they were bang on; the two-year fixed mortgage rate rose to a peak of 9.63% over the subsequent 3½ years (RBNZ data).

We don't expect a peak anywhere near that high this time around. But we reckon the *speed* of recent lifts in mortgage rates, and the prospect of more to come, will finally put the kibosh on the feverish housing demand we've seen ever since Lockdown 1.0. In fact, there's a growing risk that three big macro negatives show up at the same time next year (discussed in our recent [note](#)). Lofty housing confidence looks set to be tested.



Additional housing commentary

For more commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Home Economics](#)
- [Home Loan Rates](#)
- [Weekly Economic Reports](#)

For general reference, the reports are included within the online Information Centre (<https://reports.asb.co.nz/index.html>).

For specific reference to housing, reports that include housing commentary can be accessed via a Search page (<https://reports.asb.co.nz/search/keyword.html>) by selecting the keyword "Housing".

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