Pain and Gain Report

New Zealand | Quarter 1, 2023

Data to March 2023

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Quarter 1, 2023

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Executive Summary

The Pain and Gain Report is an analysis of homes which were resold over the previous quarter (excluding leasehold). It compares the most recent sale price to the home's previous sale price, determining whether the property resold at a gross profit ('gain') or gross loss ('pain'). It provides a proxy for the performance of the housing market and highlights the magnitude of profit or loss the typical seller of a home makes in each area.

Key findings from this report (for resales between 1 January 2023 and 31 March 2023) include:

'Only' 93.9% of property resales in the first quarter of the year were made for a gross profit (sale price above the original purchase price), which was down from 96.0% in Q4 2022, and the lowest figure in seven years, i.e. since Q1 2016.

Similarly, the median profit on each of those resales remains pretty high – at $305,000 – but it too has fallen lately. The peak was $440,000 in Q4 2021. The decline in the performance of resales shouldn't come as much surprise, given the continued falls in property values that we've seen in the first few months of 2023.

The softer trend for resale performance is evident across most areas of the country, as well as when the figures are broken down by owner type (investors or owner occupiers) or by property type (apartments or houses). Indeed, this backs up other evidence that the recent downturn in property values has been broad-based.

As always, however, there are a couple of key points to note. First, hold period plays a key role in the size of any resale profit – even in a soft market right now, owners who have held property for several years will still tend to see large gains at resale time. And second, owner occupiers aren't generally making cash windfalls either. Their gains will typically be put back into the next purchase, unless they downsize or move somewhere cheaper.

Long term context is important too. Through 2000 and 2001, it was common for the profit share to be as low as 70-75%, and then again in the post-GFC period, that figure was often as low as 80%. Clearly, the latest figures are still above those marks.

Looking ahead, with house prices likely to remain lower than previous peaks for a few years yet, we may well see further weakness for the performance of resales themselves too – with a bit more pain and less gain. However, with few signs to date of widespread mortgage repayment problems or 'stressed sales', a return to the 2000-01/post-GFC pain & gain results doesn't seem imminent.

As always, we keep a running monitor on the property market every week via our NZ Property Market Pulse articles, so be sure to check these out on our website www.corelogic.co.nz/research-news. Our podcast is also a great source of data and commentary: www.corelogicnzpropertymarket.buzzsprout.com.

National Overview

Across New Zealand as a whole, the proportion of properties being resold for more than the original purchase price (i.e. a gross profit, or "gain") in Q1 2023 was 93.9% – still a high figure, but down from 96.0% in the final three months of 2022, and in fact the lowest for any quarter since Q1 2016 (93.3%).

Put another way, the large majority of property resellers in the first three months of 2023 still got a price higher than what they originally paid, but the frequency of those gains has declined – or on the flipside, the proportion of resellers seeing 'pain' has risen.

Of course, none of this should be too surprising. After all, we've been noting in our Pain & Gain Reports for some time now that the wider downturn in housing values would flow through to softer results for those reselling their properties – especially if they've only had a short hold period of 12-18 months, meaning that they purchased at or near the peak of the market, and are now selling in very different conditions.

Indeed, the housing market still faces some significant challenges, especially with unemployment set to rise this year, and as new borrowers face up to mortgage rates approaching 7% (with serviceability test rates even higher still), and as existing borrowers reprice from previous low rates onto a much higher repayment schedule

To be fair, context is important – through 2000 and 2001, it was common for the profit share to be as low as 70-75%, and then again in the post-GFC period, that figure was often as low as 80%. Clearly, the latest figures are still well above those marks, and with few signs to date of widespread mortgage repayment problems or 'stressed sales', a return to the 2000-01 and post-GFC results doesn't seem likely in the near term.

Proportion of total resales at a loss

	Median Difference	Total Value
Pain	-$60,000	-$43,236,754
Gain	$305,000	$2,437,840,215

In addition, it should also be noted that the pain & gain figures don't necessarily tell us about where the market is headed – instead, compared to 'standard' measures such as house price indices, they provide a different cut of the weak patch that it's been in.

Looking ahead, it's conceivable that property values start to find a floor over the next three months or so (reflecting factors such as higher net migration and looser credit rules, e.g. LVRs), but that will still leave them down significantly from the peak in many parts of the country. This implies that the pain & gain measures could get a bit worse before they get better (even after property values have stopped falling), but with a long hold period a key factor, most resellers will continue to make a gross profit.

Median Hold Period

Across New Zealand as a whole, properties resold for a gross profit in the three months to March 2023 had been owned for a median of 8.3 years, unchanged from the previous quarter's figure, and also a continuation of the broad trend over the past 5-10 years that has seen this figure hover in the range of 7-8 years. For context, in mid-2001 the median hold period for profit was only about 6.5 years, and in 2005-06 it was as low as four years. The key point is that a long hold period means capital gains accumulate.

By contrast, for loss-making resales in the three months to March 2023, the median hold period was just 1.8 years, up a touch from 1.6 in Q4 2022, but still a low figure. Even as recently as 2018-21, the median hold period for a resale loss was closer to 3-4 years.

But perhaps the most striking aspect of the latest result (1.8 years) is that it means there was a tendency for recent loss-making property resales to have been originally purchased around the first half of 2021, when the market was very strong, and looked different than it does now. Presumably, many of these resellers had intended to hold for longer, but perhaps due to changed personal circumstances they had to sell (e.g. illness, divorce, or similar).

Of course, a change in an owner's financial situation could also play a role in a short hold period and an increased risk of a resale loss – and at the moment, rising interest rates would be a clear candidate for driving some of these sales. We can't be sure when this is the case, but it's likely to be happening to some degree. Of course, with unemployment still low (at least for now), 'distressed sales' will still be the exception rather than the norm.

Amongst the main centres, the longest hold periods for resale gains were 9-10 years in each of Christchurch, Wellington, Auckland, and Dunedin. Tauranga and Hamilton were both a little less, in the range of 7-8 years. For resale losses in Q1 2023, the hold periods were 1-2 years across each of the main centres.

	Pain	Gain
New Zealand	1.8	8.3
Auckland	2.1	9.1
Hamilton	1.7	7.5
Tauranga	1.2	7.8
Wellington	2.0	9.7
Rest of NI	1.5	7.7
Christchurch	1.9	9.9
Dunedin	1.9	9.0
Rest of SI	1.3	7.5

Property Types

It remains relatively uncommon for houses (as opposed to other property types such as flats or apartments) to make a gross loss at resale, but this property group has nevertheless also turned a corner. From only 0.5% of house resales being made below the original purchase price in Q1 2022, that figure has now risen to 5.1%. That's the highest since mid-2016, or in other words, relatively fewer house resellers are making a gross profit than has been the case for around seven years.

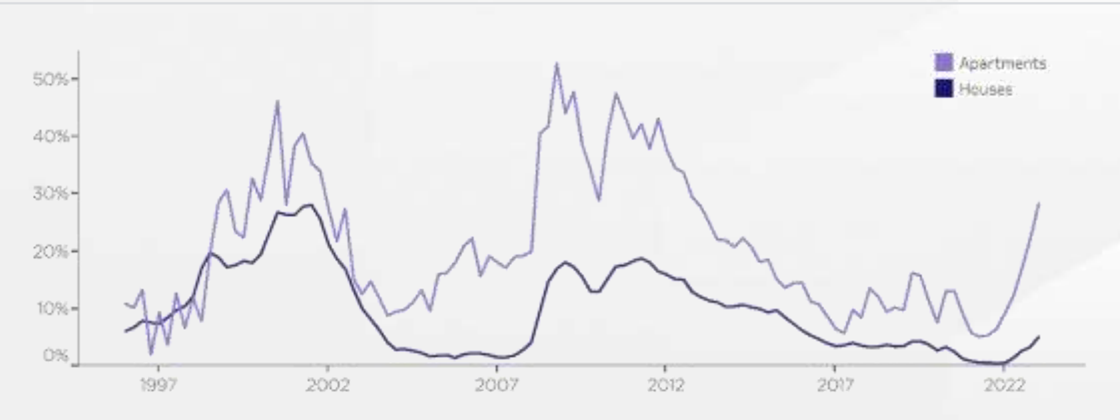
But the turnaround for the pain & gain data is most striking when you look at apartments. In this segment of the market, more than 28% of resales in the first three months of 2023 were made for a price less than originally paid, or a gross loss. In mid-2021, that figure was only about 5%, and in fact the latest result is the highest since 29.5% in Q4 2012.

However, it's important not to get carried away by that. First, the proportion of apartment loss-making resales has been much higher in the past, e.g. 45-50% in the early 2000s and around 2008-10. Second, the raw number of loss-makers is still relatively low, at 'only' 78 deals in Q1 2023. (The figure of 29.5% in late 2012 equated to almost 150 deals).

The bulk (68) of those loss-making apartment resales were in Auckland Central, but again, this doesn't appear to be a case of the owners 'abandoning ship' or pushing through quick sales at ultra-low prices. Indeed, the median hold period for these Auckland Central apartment resales was about six years, with only nine of the 68 properties having been held for less than three years. Some of these deals, admittedly, may be related to financial stress, but others could just be about the return of foreign students and Airbnb demand, causing some owners to take an opportunity to make a sale and refocus their portfolio elsewhere.

In terms of the scale of profits and losses, the median gain for a house resale nationally was $302,000 in Q1 2023, while the median loss was $50,000. For apartments, the same figures were $147,500 and $67,500.

Proportion of total resales at a loss



Overall, then, the breakdown of the pain & gain data by property type reaffirms the recent change in market conditions, with gross resale profits less common and the size of those profits down too – for both houses and apartments.

HOUSES		APARTMENTS	
Q1 2023	Q4 2022	Q1 2023	Q4 2022
5.1%	**3.4%**	**28.4%**	**22.3%**

	Pain		Gain	
	Median gross profit/loss	**Gross profit/loss on resale**	**Median gross profit/loss**	**Gross profit/loss on resale**
Apartments	-$67,500	-$7,941,099	$147,500	$42,651,747
Houses	-$50,000	-$31,392,090	$302,000	$2,189,547,098

Main Centres

The trends that we're now seeing for property values around the main centres can be readily seen within the pain & gain figures too. Indeed, the percentage of resales made below the original purchase price rose in Q1 2023 across all of the main centres, although it remains the lowest in Christchurch, where property values have been the most resilient.

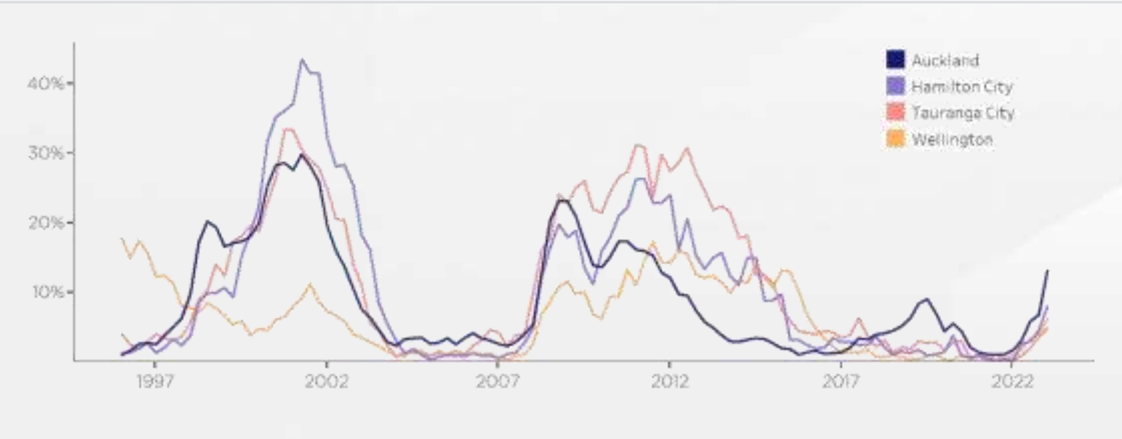
The most 'pain' is currently being felt in Auckland (reflecting the subdued trends for apartments), where 13.2% of resales in the first three months of 2023 were made below the original purchase price, or in other words a gross loss. That was up from 6.9% in Q4, and represented the largest change of any of the main centres.

Hamilton had the next highest pain percentage, with 8.1% of resales in Q1 made for a gross loss, followed by Wellington (6.3%), and Dunedin and Tauranga both in the 5-6% range. In Christchurch, the share of property resales in Q1 2023 made for a gross loss remained at less than 3%, albeit that was still up from less than 2% in Q4 2022.

Overall, then, we're now seeing the frequency of 'pain' for resellers rise more steadily across the main centres, or in other words the 'gains' are becoming less common. In addition, the size of the gains is shrinking a bit too, although it must be acknowledged that they're still high (reflecting the fact that most owners have long hold periods).

In Auckland, for example, property resellers in Q1 2023 made a median gross profit of $400,000, with figures of $380,000 seen in both Tauranga and Wellington. Yet compared to the peaks, those profit figures have dropped by at least $175,000 in each area. And it also needs to be noted that most owner-occupiers aren't necessarily seeing a cash windfall – with equity gains over time needing to be simply put back into their next purchase (unless they're downsizing or moved to a cheaper area).

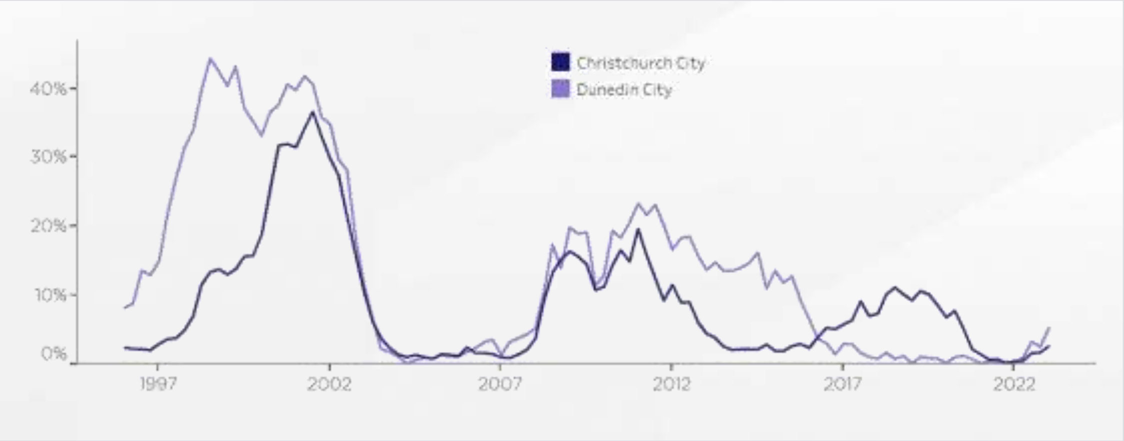
Proportion of total resales at a loss



Proportion of total resales at a loss

	Q1 2023	Q4 2022
Auckland	13.2%	6.9%
Hamilton City	8.1%	4.7%
Tauranga City	5.0%	3.7%
Wellington	6.3%	4.1%
Christchurch City	2.7%	1.7%
Dunedin City	5.3%	2.5%

Proportion of total resales at a loss



	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Auckland	-$72,500	-$25,094,393	$400,000	$660,700,052
Hamilton City	-$83,950	-$1,548,900	$309,250	$70,646,447
Tauranga City	-$99,000	-$1,241,500	$380,000	$106,812,146
Wellington	-$60,000	-$3,499,017	$380,000	$233,369,238
Christchurch City	-$14,500	-$760,000	$253,400	$154,809,005
Dunedin City	-$25,000	-$619,500	$285,000	$84,903,996

Type of Owner

The share of property resales made for a gross loss increased in Q1 2023 (or in other words the share made for a profit fell) for both owner occupiers and investors, with the change occurring to a similar extent regardless of owner type.

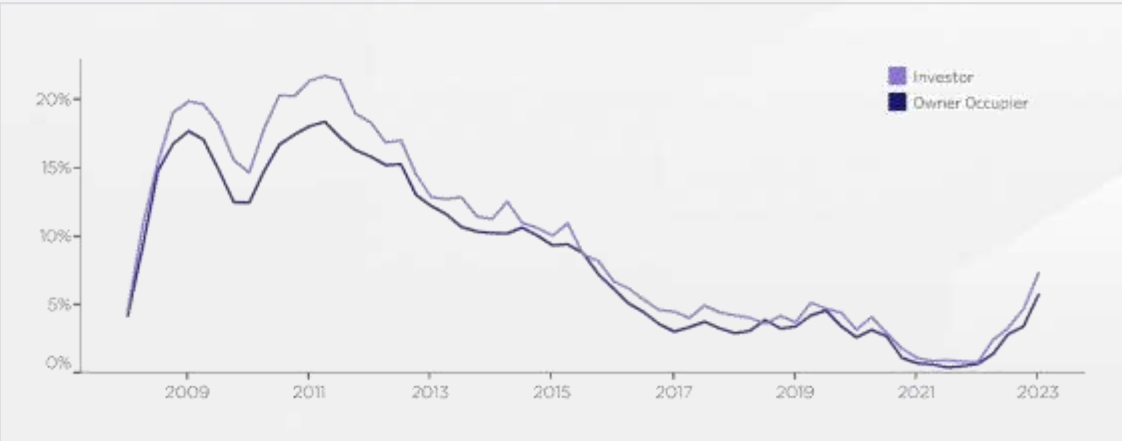
Indeed, from a national figure of 3.4% of owner occupier resales made for a gross loss in Q4 2022, the latest result was up by 2.4%, to hit 5.8%. That is still relatively low, but it was nevertheless the highest 'pain' figure since Q1 2016 – i.e. seven years ago. Similarly, for investors, the share of resales made for a loss rose from 4.7% in Q4 2022 to 7.4% in Q1 2023, an increase of 2.7%. The latest investor 'pain' figure was the highest since late 2015.

To be fair, there aren't any major signs of owner occupiers or investors hitting the panic buttons. Certainly, most longer term landlords, for example, will have smaller mortgages and have seen rents increase over time too. This gives their existing portfolio a degree of insulation (hence they're not selling en masse), although it's also worth noting that their buying activity has been curtailed lately too. For owner occupiers, continued high levels of employment are a buffer, meaning they're not being forced to sell either.

At the national level, the median resale gain for investors in Q1 2023 was $314,000, a bit above the owner occupier figure of $291,000. And for losses, the median for investors was $62,500, again a little above the owner occupier result of $50,000.

Around the main centres, 'pain' was seen a little more frequently for investors than owner occupiers in both Auckland and Christchurch in Q1 2023 – in Auckland's case, the share of investor resales made for a gross loss was 16.7%, versus 13.4% for owner occupiers. But the figures were basically equal in Hamilton and Tauranga, with investor resales actually being made for a loss less often than owner occupiers in Wellington and Dunedin.

Proportion of total resales at a loss



Proportion of total resales at a loss

	Owner Occupier		Investor	
	Pain	Gain	Pain	Gain
Auckland	13.4%	86.6%	16.7%	83.3%
Hamilton	8.4%	91.6%	8.3%	91.7%
Tauranga	6.7%	93.3%	6.4%	93.6%
Wellington	8.5%	91.5%	6.3%	93.7%
Rest of NI	3.9%	96.1%	4.5%	95.5%
Christchurch	1.0%	99.0%	4.4%	95.6%
Dunedin	5.7%	94.3%	3.1%	96.9%
Rest of SI	2.7%	97.3%	3.5%	96.5%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Investor	-$62,500	-$11,084,771	$314,000	$548,367,994
Owner Occupier	-$50,000	-$13,643,434	$291,000	$855,136,663

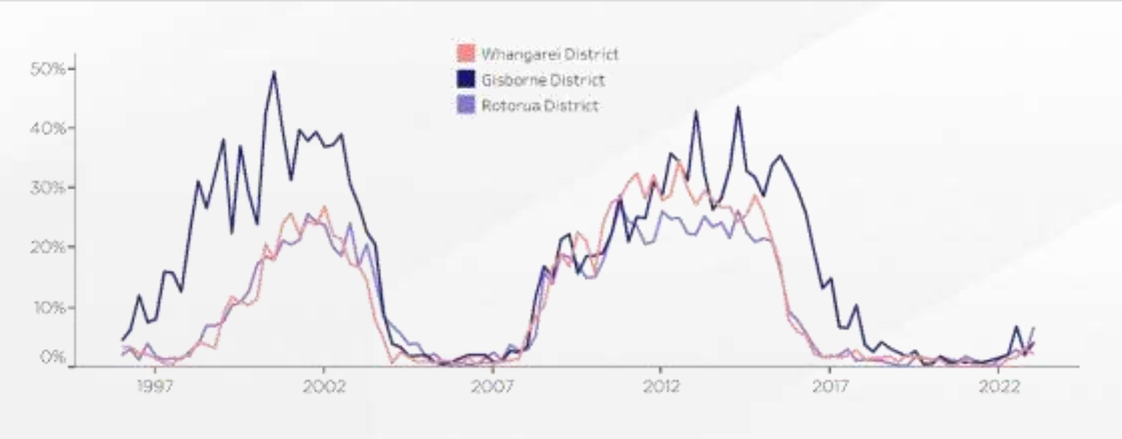
Main urban areas

Upper North Island

The continued falls in property values that we've seen in recent months mean that it's no surprise to see a bit more resale 'pain' across parts of the upper North Island, although it's still relatively low, and not being felt everywhere. Indeed, although the share of resales made for a loss rose from 2.0% in Rotorua in Q4 2022 to 6.7% in Q1 2023, Gisborne's result was lower (4.2%), and Whangarei actually saw a small decline in its 'pain' percentage – from 3.2% of resales at a loss in Q4 2022, to just 2.3% in Q1 2023.

Turning to the size of resale profits (and losses), and given that hold period still plays such a key role, markets across the Upper North Island have still been seeing strong gains for property resellers. The median gain for Whangarei in Q1 2023 was $340,000, with $312,500 for Gisborne, and $304,250 for Rotorua.

Proportion of total resales at a loss



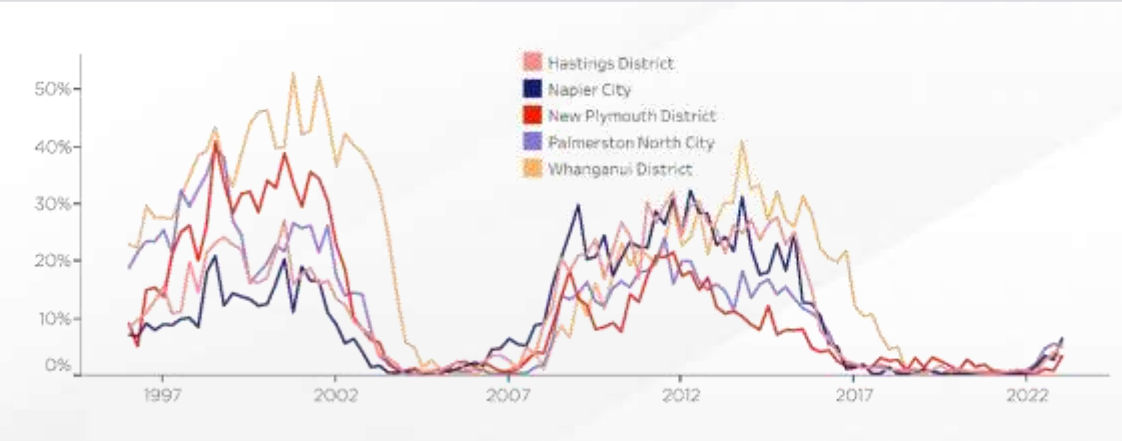
	Q1 2023	Q4 2022
Whangarei District	2.3%	3.2%
Gisborne District	4.2%	2.3%
Rotorua District	6.7%	2.0%

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Whangarei District	-$35,000	-$116,000	$340,000	$48,609,900
Gisborne District	-$113,000	-$226,000	$312,500	$16,182,250
Rotorua District	-$42,500	-$727,459	$304,250	$29,956,977

Lower North Island

Around the lower North Island, Napier had the highest share of property resales made for a loss in Q1 2023, at 6.6% (up from 2.8% three months earlier). However, Hastings also saw an increase, from 3.8% to 5.7%, as did New Plymouth (0.9% to 3.5%). By contrast, however, Palmerston North's 'pain' figure actually declined a little, from 5.6% in Q4 to 5.2% in Q1, alongside Whanganui (4.2% down to 3.2%).

Proportion of total resales at a loss



	Q1 2023	Q4 2022
Hastings District	5.7%	3.8%
Napier City	6.6%	2.8%
New Plymouth District	3.5%	0.9%
Palmerston North City	5.2%	5.6%
Whanganui District	3.2%	4.2%

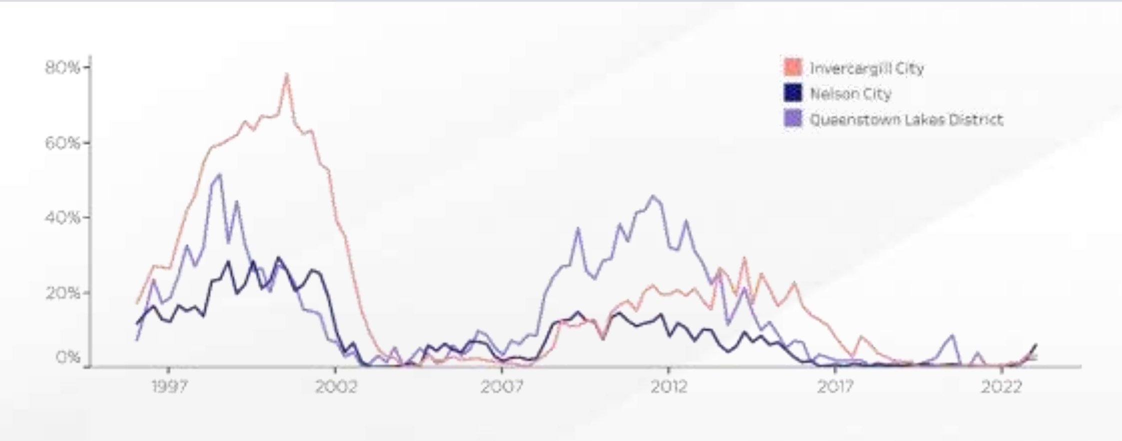
Meanwhile, although the size of the median gross resale profits has started to fall around the country, the figures are still quite high – at around $380,000 in Hastings, and close to $330,000 in Napier. The median resale profits for New Plymouth, Palmerston North, and Whanganui were all in the range of $290,000 to $300,000.

	Pain		Gain	
	Median gross profit/loss	Gross profit/loss on resale	Median gross profit/loss	Gross profit/loss on resale
Hastings District	-$30,000	-$540,235	$377,500	$49,235,262
Napier City	-$94,000	-$761,000	$334,250	$41,467,805
New Plymouth District	-$50,250	-$326,500	$292,750	$51,379,461
Palmerston North City	-$36,000	-$662,000	$298,000	$46,422,523
Whanganui District	-$30,000	-$189,500	$295,000	$25,344,643

South Island

Across the key South Island centres, property resellers generally remained in a relatively strong position in the first quarter of the year, although Nelson did illustrate a softer trend. Indeed, its share of property resales made for a loss increased from 2.8% in Q4 2022 to 6.2% in Q1 2023. By contrast, Invercargill was flat at 3.4%, and Queenstown stable at 2.4%.

Proportion of total resales at a loss



	Q1 2023	Q4 2022
Invercargill City	3.4%	3.4%
Nelson City	6.2%	2.8%
Queenstown Lakes District	2.4%	2.3%

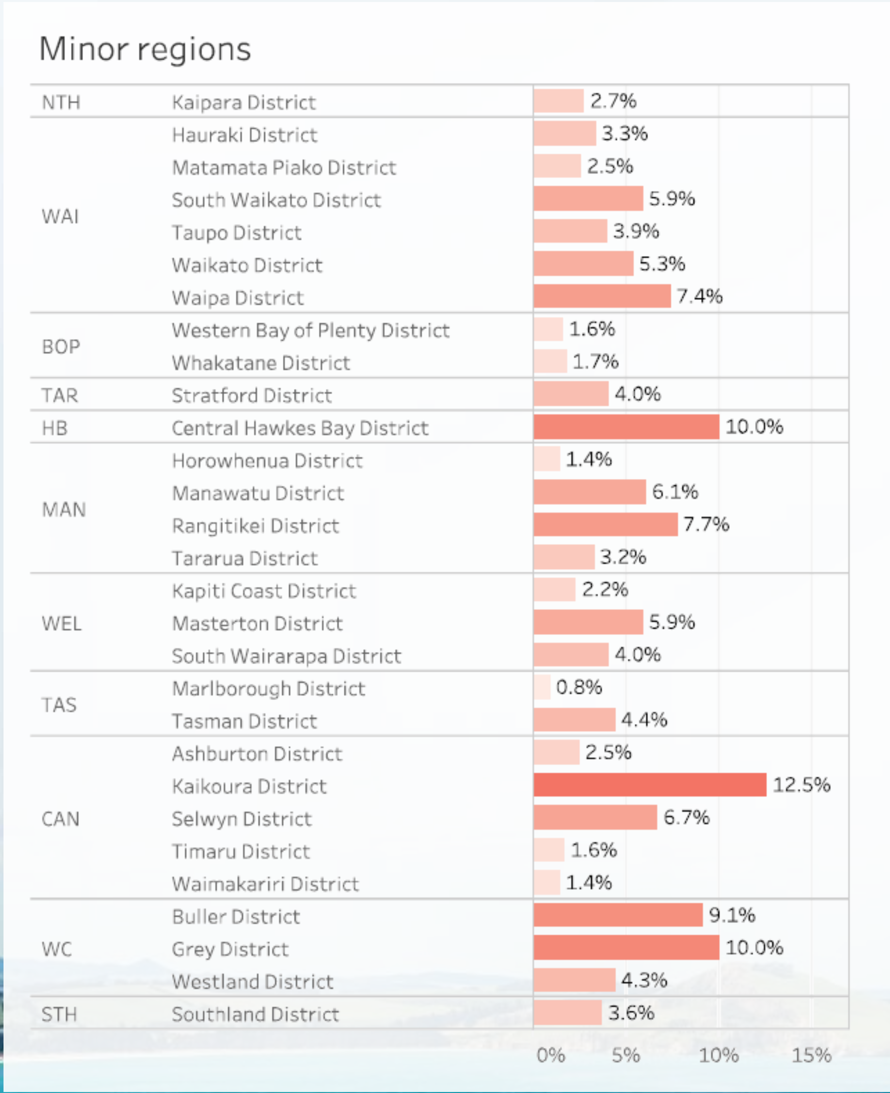
In terms of the profits and losses themselves, the trend is downwards, but for now the gains are still quite large. The median resale profit in Invercargill in Q1 2023 was $210,500, Nelson saw $325,000, and Queenstown sat at $455,000.

	Pain		Gain	
	Median gross profit/loss	**Gross profit/loss on resale**	**Median gross profit/loss**	**Gross profit/loss on resale**
Invercargill City	-$45,500	-$328,000	$210,500	$32,242,773
Nelson City	-$35,000	-$337,500	$325,000	$41,467,061
Queenstown Lakes District	-$111,500	-$223,000	$455,000	$71,662,694

Outside the main urban areas

Generally speaking, property markets around regional NZ have been part of the property downturn too (albeit with some exceptions), and this is starting to show through in weaker pain & gain results as well. For example, Kaikoura, Grey District, and Central Hawke's Bay all had 'pain' figures in double digits in Q1 2023 – although it also needs to be noted that the number of deals is low (only in the range of 1-3 loss-making sales in those areas). By contrast, plenty of areas have had less than 3% of resales at a loss, including Kaipara, Whakatane, Kapiti Coast, Ashburton, and Timaru.

Proportion of total resales at a loss



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