

# NZ Housing Confidence



## Housing confidence static, price expectations slide.

### Three months to July 2010

- Housing confidence static but still relatively upbeat.
- Price expectations remain positive but fewer people expect price increases.
- Looming interest rate increases are pulling down optimism.

Housing confidence was broadly unchanged in the three months to July 2010. However, there has been a broad-based decline in the proportion of respondents who expect house prices to rise. Growing awareness of interest rate rises in the year ahead is likely to be weighing on optimism towards housing. Tax changes regarding investment property announced in the May Budget added to the cautiousness towards housing as an investment option.

The survey results are in line with recent data showing continued slowing in housing market activity recently. The median number of days taken to sell a house has continued to edge up and is now above the long-term average. Meanwhile, housing turnover remains at low levels. We expect the outlook for the housing market will remain subdued given waning demand for housing.

Sentiment towards housing waning.

The ASB Housing Confidence survey suggests waning interest in housing:

- A net 19% of respondents expect house prices to increase in the next twelve months;
- A net 29% of respondents believe now is a good time to buy;
- A net 71% of respondents expect interest rates to rise in the next twelve months.

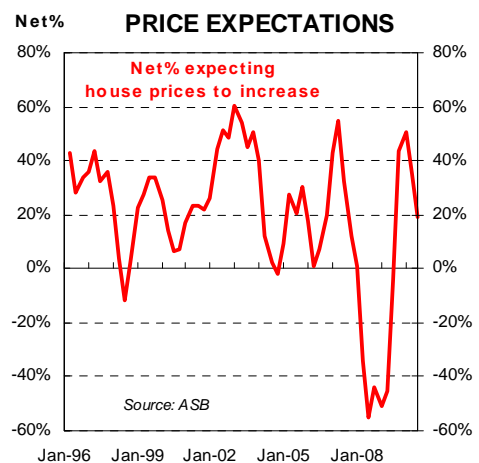
ASB Housing Confidence Survey (Source: ACNielsen)			
Net percent who believe (3 months to July 2010) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	27%	20%	70%
Rest of North Island	31%	16%	71%
South Island	29%	24%	71%
<b>TOTAL NZ</b>	<b>29%</b>	<b>19%</b>	<b>71%</b>
<i>Compare 3 months to Apr 2010</i>	<i>29%</i>	<i>35%</i>	<i>59%</i>

Price expectations soften.

Price expectations fell over the quarter. This decline was broad-based across the regions, with the decline particularly evident in Auckland. The South Island continues to have the highest price expectations of the three regions.

A breakdown of the net quarterly figure is:

- 38% expect higher prices (51% last quarter), with 19% expecting lower prices (16%);
- the difference being the net 19% plotted opposite (35% previously);
- 38% expect the same (30%);
- 5% don't know (4%).



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#### General Advice Warning

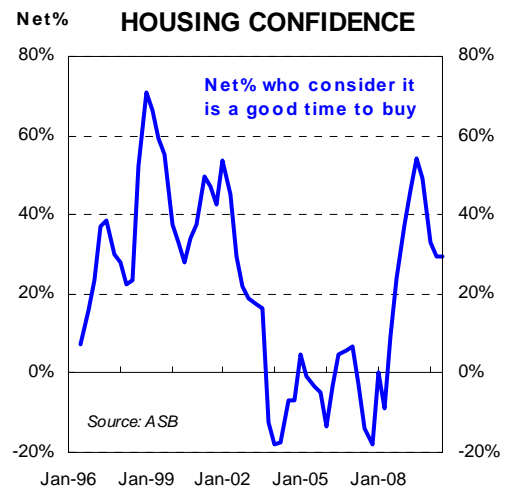
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*Confidence steady.*

On balance, respondents' optimism towards housing is broadly unchanged. However, there have been some changes within regions. The net proportion of respondents who consider now a good time to purchase in Auckland increased, and the proportion in the South Island fell.

The breakdown is:

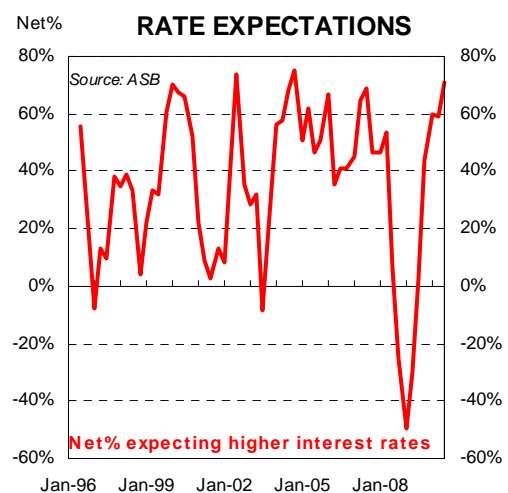
- 39% say it is a good time to buy (40% previously), while 9% say it is a bad time (10%);
- The difference is the net 29% plotted opposite (29%);
- 46% say it is neither good nor bad (46%);
- 7% don't know (4%).



*More expect interest rates to rise.*

There is growing awareness across the regions of interest rate rises ahead, and this is likely to be weighing on respondents' optimism regarding housing. The quarterly breakdown of responses is:

- 74% expect higher interest rates (64% in the previous quarter), while 3% expect lower interest rates (5%);
- The difference is the net 71% expecting higher rates plotted opposite (59% previously);
- 12% believe interest rates will stay the same (21%);
- 10% don't know (11%).



**Housing market activity remains weak.**

*Housing turnover remains at low levels.*

Housing market activity has continued to slow, with housing turnover remaining at very low levels. This reflects waning demand: interest rates are expected to rise and the announced removal of the ability to claim depreciation on buildings will reduce the attractiveness of investment property. Offsetting some of the effects has been the limited supply of housing, with house prices holding up reasonably well despite weaker activity.

Housing turnover is now well below levels of a year ago. At the time, super-low interest rates were providing a boost to the housing market. This is in contrast to current expectations of rising interest rates. Given interest rate increases make housing less affordable, such expectations have weighed on housing demand.

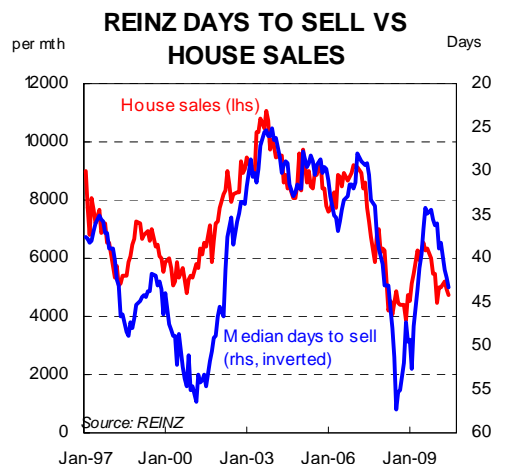
*Waning housing demand.*

Waning housing demand is reflected in the continued increase in the number of days taken to sell a house. The median of days to sell has now risen to above its long-term average of 38 days.

Despite the softer housing market activity, house prices have remained resilient, and are around 4% higher than year-ago levels.

*Partly offset by low housing supply.*

House prices have held up because of the low level of housing supply in the market at the moment. The number of house listings has remained low in recent months, thus offsetting the effects of subdued housing demand.



There has been little sign of a rush of listings following the announced tax changes regarding property investment in the May Budget. This is despite the removal of the ability for investors to claim depreciation, making investment property a less attractive investment option. It appears potential sellers are holding off putting their houses on the market in the hope that demand will pick up.

**Outlook remains subdued**

We expect a modest decline in house prices over late 2010/early 2011 of around 3-4%. Beyond that, we expect house price increases to track broadly in line with inflation i.e. 2-3% per annum.

A number of influences are expected to constrain the housing market over the next couple of years. As previously mentioned, the announcement in the May Budget of the removal of the ability to claim depreciation on buildings will reduce rental investment demand.

In addition, mortgage rates are expected to gradually rise over the year. Already, there are signs that growing awareness that interest rates will increase is weighing on housing demand. Meanwhile, the relatively stronger Australian labour market has encouraged NZ workers to move across the Tasman. This increase in departures to Australia has meant slowing net migration, which will weigh on housing demand over the coming year.

To the extent that house prices are already high relative to incomes and rents, we expect some correction in these ratios, but mainly via growth in incomes and rents. There are clear signs that households are collectively 'deleveraging', with household debt falling relative to incomes. This reflects the fact that households are now seeking to spend within their means.

Partly offsetting these effects are some factors which are supportive for house prices. We expect a recovery in employment and wage growth, which will give more households the means to buy their first home or to trade up. Meanwhile, supply of housing is expected to remain low. This reflects both the current low number of new listings on the market and the fact that there will only be a modest level of housing construction over the coming years.

The balance of these factors points to the housing market remaining soft over the next couple of years, both in terms of the pace of sales turnover and house price growth. However, there are few signs that there will be an oversupply of new housing over the next couple of years.

In summary,

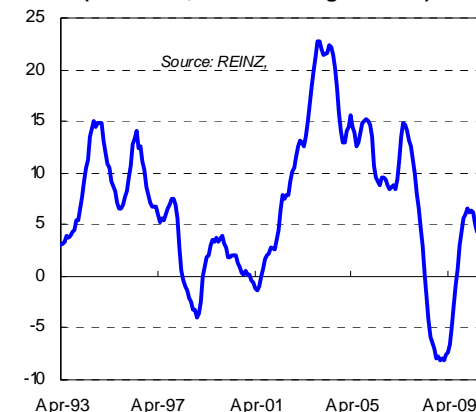
- Housing confidence was broadly unchanged over the three months to July.
- Expectations for further gains in house prices have fallen across the regions, with the decline particularly evident in Auckland.
- Recent data show signs of continued slowing in housing market momentum, as expectations of rising interest rates weigh on housing demand. Nonetheless, house prices remain resilient as potential sellers hold off putting their houses on the market.
- Beyond 2010, we expect weak house price growth, although population growth will provide some support. Net migration will be a key influence on housing demand over the coming years.

*Expect modest declines in house prices in near term.*

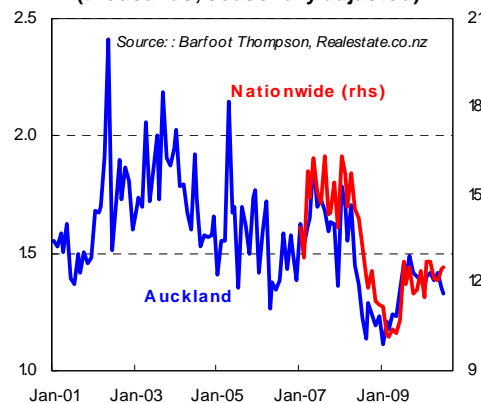
*Rising interest rates will weigh on demand.*

*Correction in house price to income ratio will occur largely through growth in incomes.*

**NZ MEDIAN HOUSE PRICE**  
(stratified, annual change 3m m a)



**NEW HOUSING LISTINGS**  
(thousands, seasonally adjusted)



**For more ...**

*ASB commentary on housing and home loan rates.* Commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Housing Confidence \(this report\)](#)
- [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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