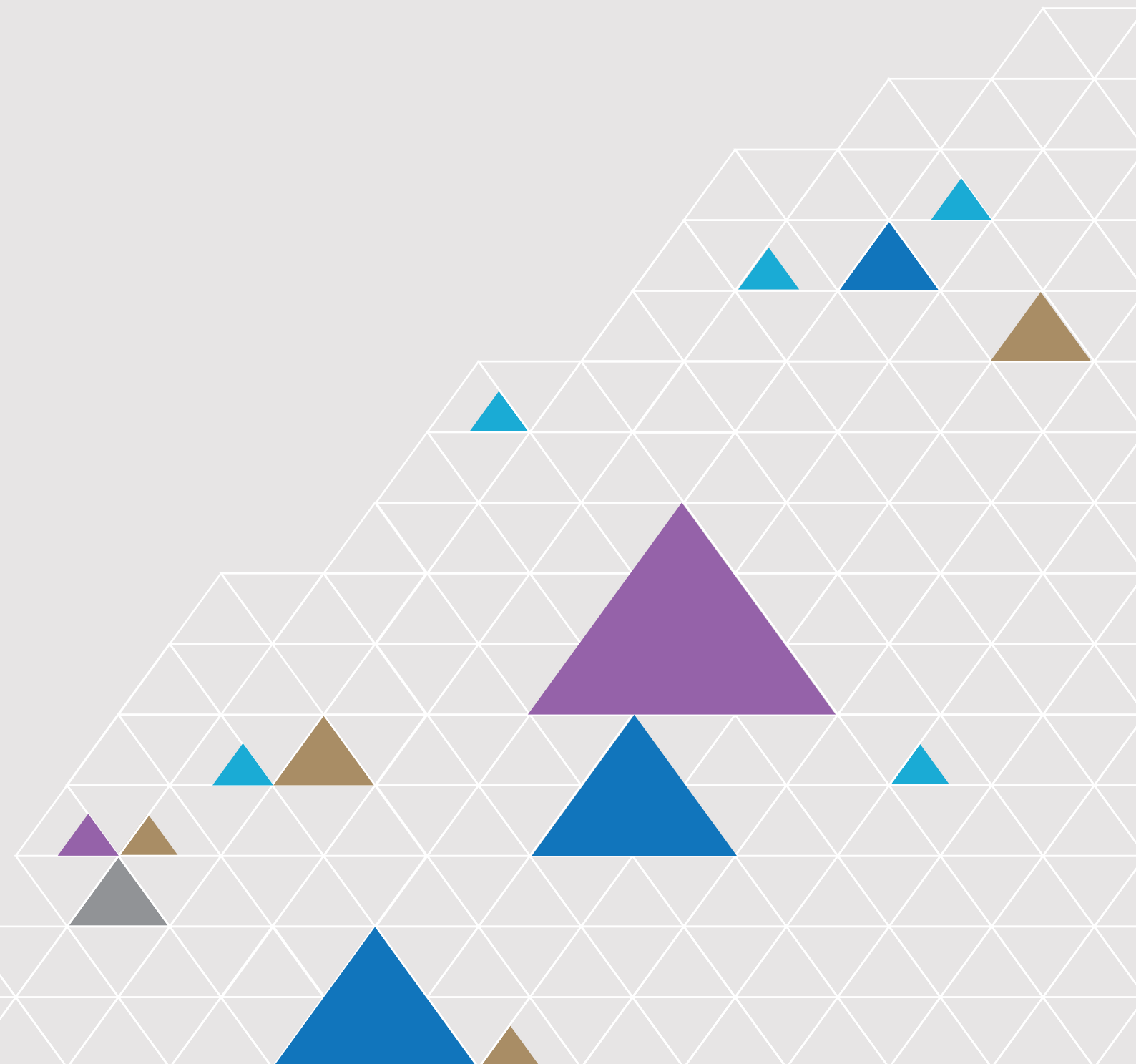


THE
HOUSING MARKET ACTIVITY

QUARTERLY REPORT

Q2 2016



HOUSING MARKET ACTIVITY QUARTERLY REPORT

BY GREG NINNESS
Property editor



Welcome to the interest.co.nz's Housing Market Activity Quarterly Report.

Most commentary about the residential property market focuses on movements in price, which is understandable because most people who either own a home or want to buy one are interested in what they worth or how much they might cost.

However the number of properties being sold is at least as important or perhaps more important than price, because it measures the overall buoyancy of the market and is also the main determinant of the amount of revenue the residential real estate industry earns.

A significant movement in the number of homes being sold can also be an indicator that prices might be about to move up or down.

The Housing Market Activity Quarterly Report will focus on trends in sales activity throughout the country and will estimate how much commission the real estate industry is likely to have earned each quarter.

Quarterly sales statistics have been used because monthly figures can be volatile and a rise or fall in sales in a particular month does not necessarily indicate a trend. Quarterly figures should remove some of that volatility and give a better indication of market trends.

We hope our readers find the reports a useful addition to the data that is already available on trends in both the housing market and the real estate industry.



Real estate agencies' golden run sees residential commissions soar to \$468.6 million in second quarter of this year

BUT THE INDUSTRY IS FACING HEADWINDS IN Q3

The residential real estate industry had its best quarter ever in the second quarter of this year, with interest.co.nz estimating it would have earned a record \$468.6 million from residential sales commissions in the three months to June.

That figure is conservative because interest.co.nz estimates industry commissions at 4% of the first \$300,000 of the selling price and 2% of the balance (plus GST) which is at the low end of the commission scale.

Some residential agencies charge 4% on the first \$500,000 of the selling price and 2% on the balance above that, plus an additional fee of \$500 or more, which would boost overall industry commissions even further.

The second quarter's estimated commissions were up 19.1% compared to the second quarter of last year and up a massive 55.1% compared to the second quarter of 2014.

There would be few businesses in the country that could boast a 55% increase in revenue over two years,

which has given the real estate industry a truly golden run.

The strong growth in commissions has come through a combination of rising sales numbers and rapidly rising prices.

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In the second quarter of 2014 the Real Estate Institute of New Zealand recorded 18,006 residential property sales, which rose to 22,649 in the second quarter of last year and 25,507 in the June quarter of this year.

Over the same period, the national median selling price recorded at the end of each quarter rose from \$427,250 to \$500,000.

The white hot Auckland market accounted for just under half of the industry's commission revenue, with interest.co.nz estimating Auckland agencies would have earned \$223.4 million in residential sales commissions in the June quarter, up 49.2% in two years.

However while the Auckland market dominates the industry in terms of how much commission revenue it generates, commissions have been growing at a faster pace in other parts of the country.

In the Waikato/Bay of Plenty district estimated total commission revenue has doubled from \$38.7 million in the second quarter of 2014 to \$77.5 million in the second quarter of this year.

In Central Otago/Lakes, which includes the Queenstown market which has been running as hot as the market in Auckland, estimated industry commission revenue has increased by 109.2% over the last two years, in Otago it is up by 95% and in Wellington it has increased by 55% over the last two years. (Refer to the accompanying graphs which plot sales volumes and estimated industry commissions in



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each region of the country).

Sales commissions can be a contentious point with vendors, and even applying the modest commission scale used by interest.co.nz, the commission on June's national median price of \$500,000 would be \$18,400, and on Auckland's June median of \$821,000 it would be \$25,783.

Ironically it is usually when the housing market is in a downturn and prices are falling that commissions come under most pressure, as vendors try to retain as much of the selling price as possible for themselves.

However a quick look at typical agency commissions in other countries suggests we are probably in the middle of the pack when it comes to how much commission is charged in this country.

As the accompanying chart shows, typical commissions on residential property sales in this country are likely to be lower than those in Australia, the USA and Germany, but higher than those in the UK and Ireland.

Looking forward, a key question for the real estate industry is

whether the extremely buoyant conditions prevalent in the second quarter of this year will continue into the second half.

Although prices in the key Auckland market will continue to be supported by strong migration fuelled population growth, which means demand for housing is continuing to outstrip supply by a growing margin, the market also faces some pressures which could limit sales.

Sales in the second quarter of this year would have been supported by a particularly mild autumn and the late onset of the traditional off-season downturn, which this year did not show itself until June.

But now that winter has finally arrived it may continue to have a dampening effect on the market for the next couple of months.

And many agencies are reporting that they have relatively low numbers of homes listed for sale on their books and no matter how strong demand is, agencies can't sell properties they don't have.

It is also too early to tell what effect the Reserve Bank's recent announcement that it is considering increasing loan-to-valuation ratios to 60% for residential investment properties regardless of where they are located, will have on the market.

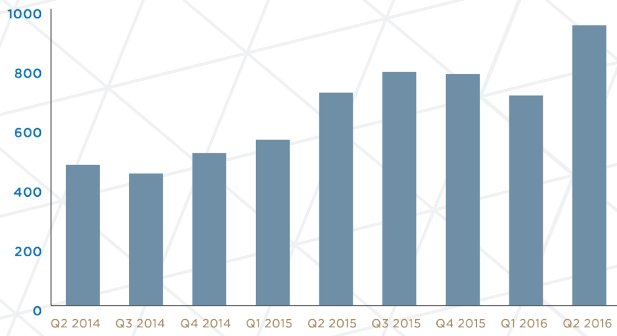
So although the underlying fundamentals of demand exceeding supply remain strong, the industry faces some headwinds as it tries to maintain the sales momentum that built up in the second quarter of the year.

Typical Residential Real Estate Commissions Around the World

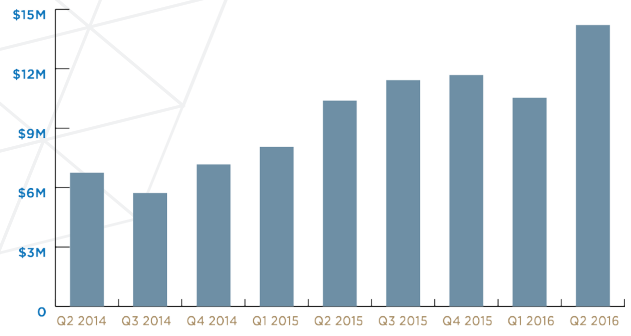
Country	Typical Commission
New Zealand	From 2.95% on first \$390,000 and 1.95% on the balance plus \$490 fee plus GST, to 4.95% on first \$500,000 plus \$550 fee plus GST
Australia	3.95% on the first \$300,000 and 3.25% on the balance, plus a \$500 fee plus GST (10%)
Canada	7% on first \$100,000 and 2.5% on the balance plus GST (5%)
USA	Flat 4.75% to 6% (combines seller's and buyer's fees)
England	Flat 1.3% of selling price plus VAT (20%)
Ireland	Flat 1.5% plus VAT (23%)
Germany	Flat 4% plus VAT (19%)



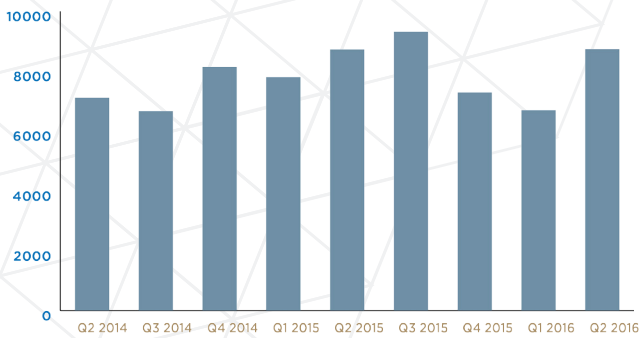
Number of sales each quarter
Northland



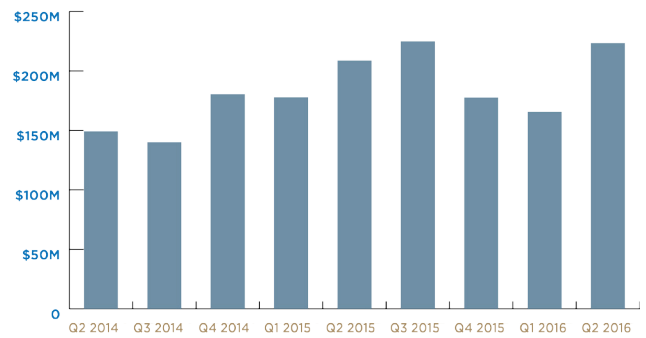
Estimated total industry commissions
Northland



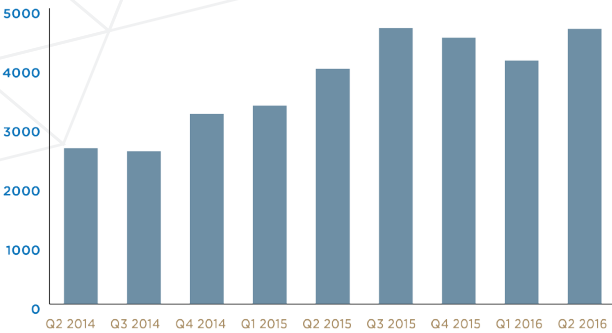
Number of sales each quarter
Auckland



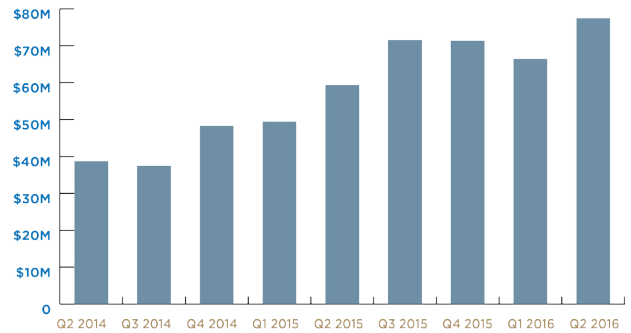
Estimated total industry commissions
Auckland



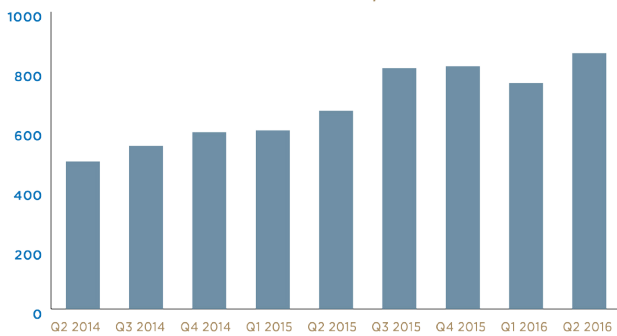
Number of sales each quarter
Waikato/Bay of Plenty/Gisborne



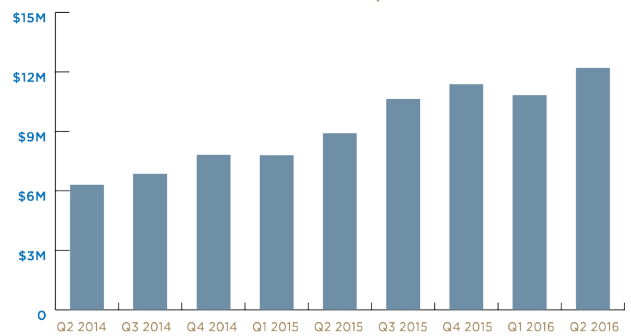
Estimated total industry commissions
Waikato/Bay of Plenty/Gisborne



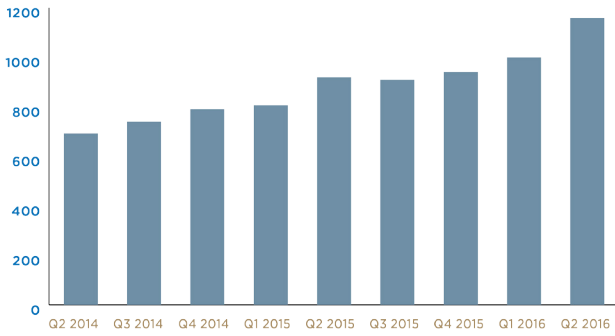
Number of sales each quarter
Hawkes Bay



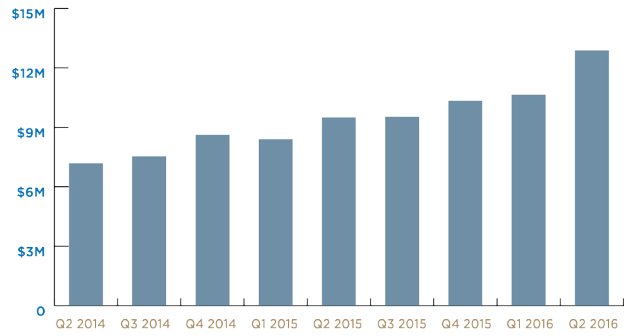
Estimated total industry commissions
Hawkes Bay



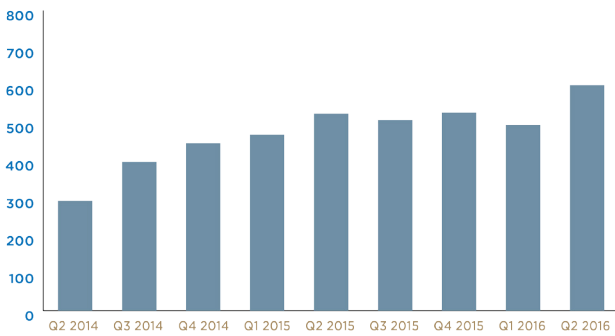
Number of sales each quarter
Manawatu/Whanganui



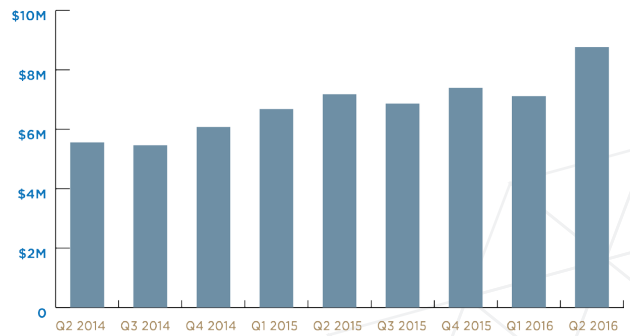
Estimated total industry commissions
Manawatu/Whanganui



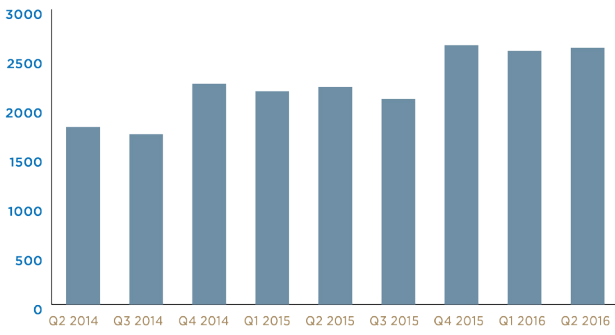
Number of sales each quarter
Taranaki



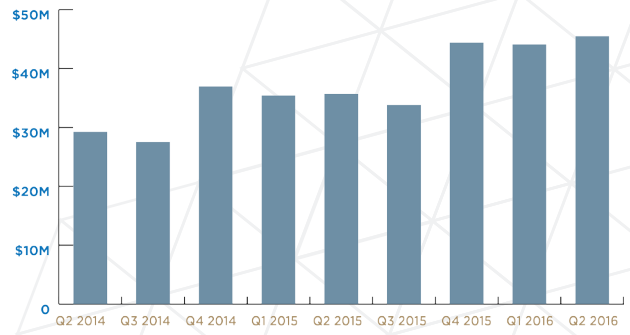
Estimated total industry commissions
Taranaki



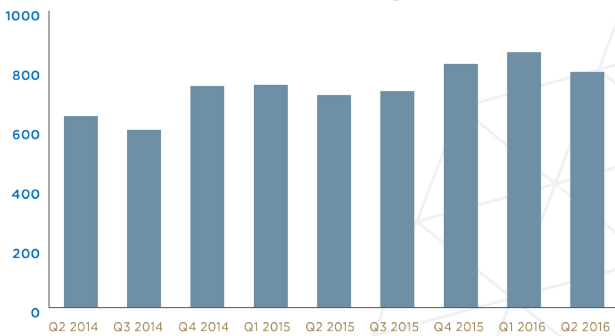
Number of sales each quarter
Wellington



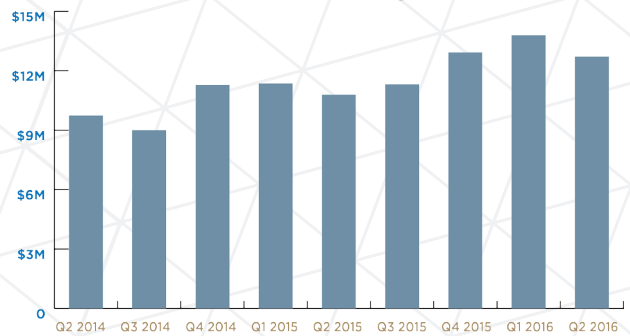
Estimated total industry commissions
Wellington



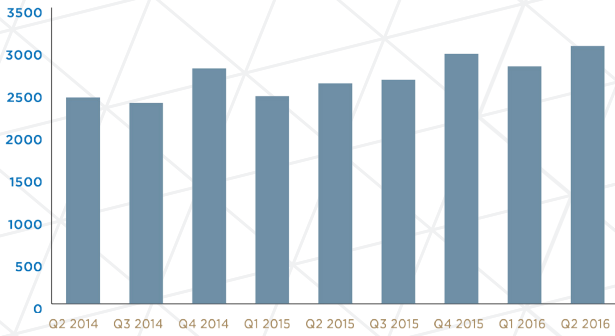
Number of sales each quarter
Nelson/Marlborough



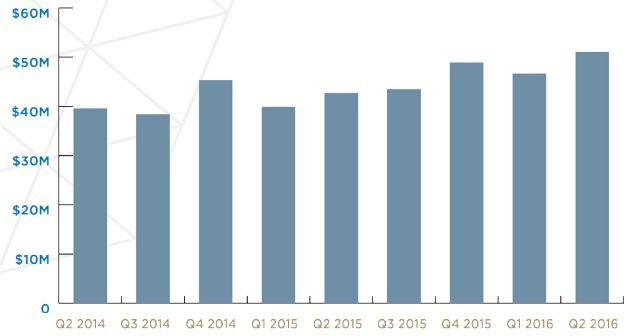
Estimated total industry commissions
Nelson/Marlborough



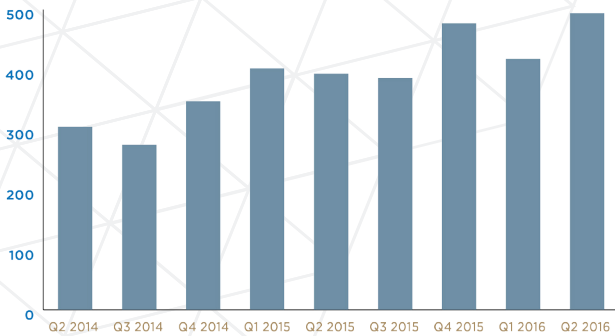
Number of sales each quarter
Canterbury/Westland



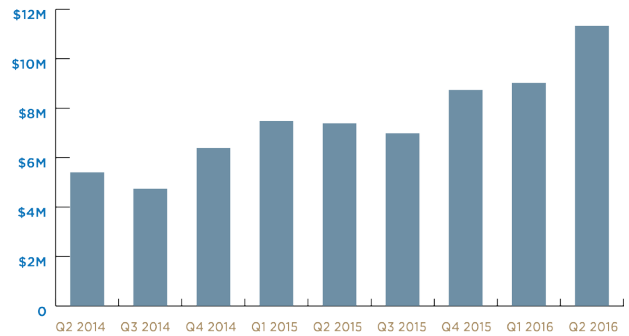
Estimated total industry commissions
Canterbury/Westland



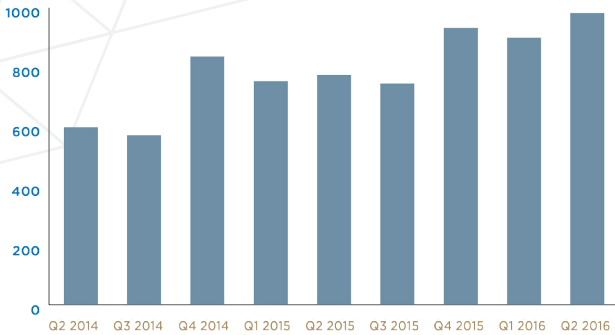
Number of sales each quarter
Central Otago/Lakes



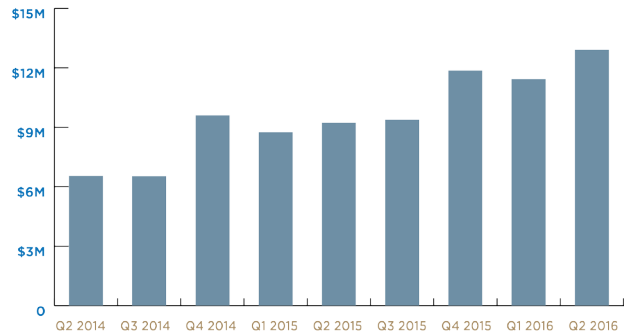
Estimated total industry commissions
Central Otago/Lakes



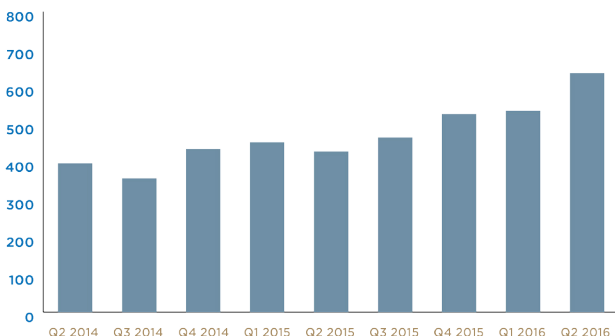
Number of sales each quarter
Otago



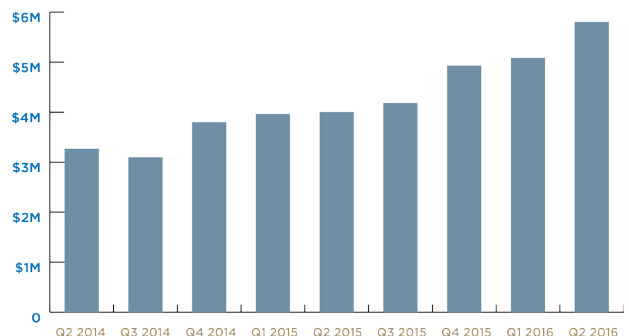
Estimated total industry commissions
Otago



Number of sales each quarter
Southland

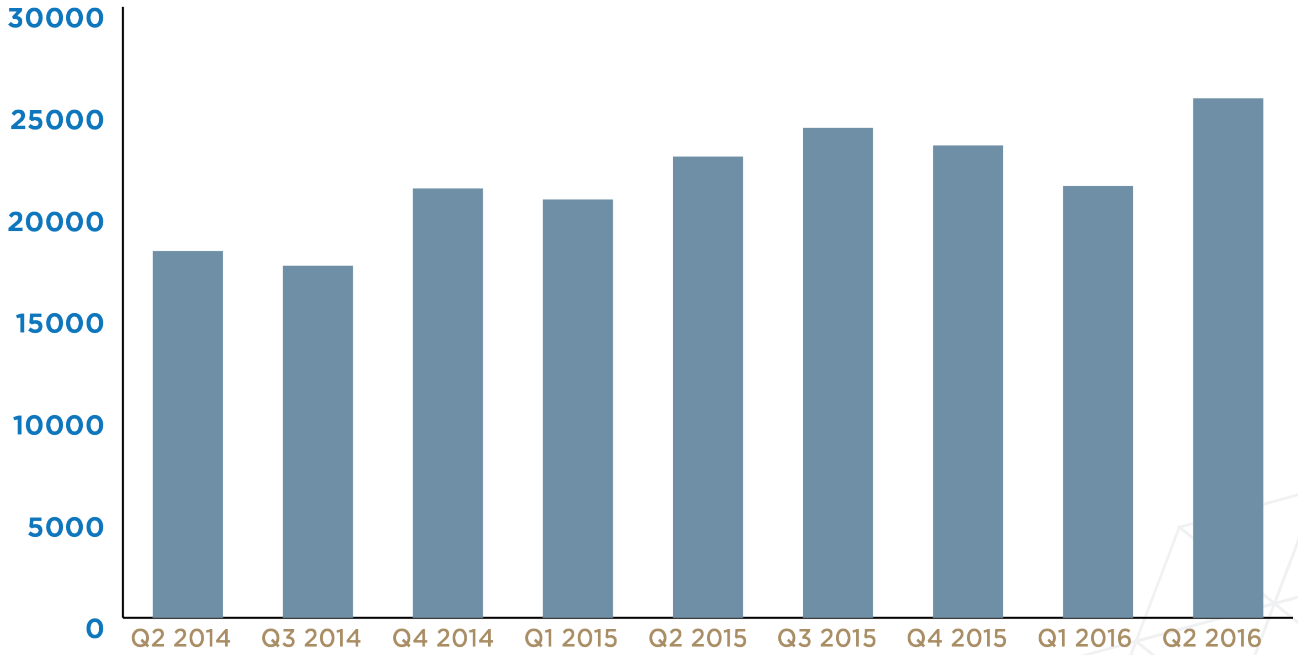


Estimated total industry commissions
Southland



Number of sales each quarter

Total NZ



Estimated total industry commissions

Total NZ

