

Property BULLETIN

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Auckland rocketing ahead & dragging the regions with it! 7234 DWELLINGS SOLD NATIONALLY

27.6% rise in total house sales in April 2015 over April 2014

17.8% fall in total house sales against March 2015

5.3% National median price rise in the 12 months to April 2015

18% rise in Auckland's median price in the 12 months to April 2015

Auckland's median price is now \$720,000 which buys a lot of house in most other areas. 12 months ago the median price was \$611,500.

Sources: REINZ stats



Stop Press 13/05/2015!

Reserve Bank announces new loan restrictions proposed to come into force on October 1.

Today the Reserve Bank has delivered on its "action to reduce housing imbalances" by announcing plans to introduce a new set of Loan to Value Ratios (LVR) targeted particularly at Auckland.

Summarised they are:

- Require residential property investors in the Auckland council area using bank loans to have a deposit of at least 30 percent.
- Increase the existing speed limit for high LVR borrowing outside of Auckland from 10 to 15 percent, to reflect the more subdued housing market conditions outside of Auckland.
- Retain the existing 10 percent speed limit for loans to owner-occupiers in Auckland at LVRs of greater than 80 percent.

The announcement is a little short on detail with the Reserve Bank issuing a consultation paper shortly as they work through the details towards 1 October.

The Reserve Bank estimates that these actions could reduce Auckland house price growth by 2-4% which would push through in to national figures affecting them by 1-2%.

Whether this works remains to be seen – but it may be too slow, too late and too soft. The investors buying houses in Auckland are well financed with figures indicating that only 2% of the high LVR loans are made to these individuals. In other words it is a well-financed boom with not many using their

credit cards to front for the deposit. Many new immigrant buyers are very well off in comparison with the average New Zealander. A lot of these homes are not even being rented and are left empty. With nett yields of 2% on offer it's not worth the bother and anyway it's not a rental game when house prices rose 18% in Auckland from April 2014 to April 2015.

Some questions to ask yourself!!!!!!

With 50% of homes in the first buyers' category in Auckland being snapped up by investors, will they back off?

Will the banks be able to enforce this category classification and differentiate between owner-occupiers and investors?

Outside Auckland

Loosening the LVR ratios in other parts of the country may have little effect as banks currently are not operating at their capacity of 10% LVR loans. They have money to spare even at current levels. They seem cautious to lend at the margin given the potential for the market to drop thus wiping out high LVR homeowners' equity. On the flipside banks seem to be aggressively hunting for good new business and building market share to the extent, some people have told me, that a new customer may be able to negotiate better terms than an existing customer.

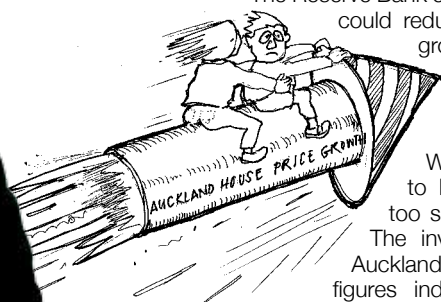
OCR Implications

It seems the Reserve Bank wants to get these actions in place before contemplating a possible OCR cut (if any). Prior to this latest announcement, economists were anticipating a 40% probability of an OCR cut occurring between mid to later this year (May – September), but now there are expectations of a cut (if any) occurring further out, sometime between September and December 2015.

Hi, welcome to our May 2015 edition of "The Property Bulletin". Property is certainly in the news! The Reserve Bank is clearly troubled over their inability to date to slow the property market, particularly in Auckland. We also now see the regional areas responding with a higher number of houses sold and prices creeping up. With the introduction of some form of capital gains tax a political hot potato, the Reserve Bank has just announced targeted Loan to Value Ratios to take some of the heat out of the Auckland market. All the best.

**Thanks Malc and the Team
Leaders MREINZ**

Keeping you informed in 2015



Wellington

Regional Roundup

The median price for the Wellington region fell by \$3,750 (-0.9%) compared to April 2014 with prices rising in Pukerua Bay/Tawa, Southern Wellington and Upper Hutt, but falling across the rest of the region. Prices remain relatively static although it appears the composition of the sales may be changing with strong demand in the first home buyers' market. These figures come after three exceptionally strong months since Christmas. Compared to March the median price fell \$9,750 (-2.3%) with Upper Hutt and Southern Wellington seeing price increases.

Wellington Sales Volumes

Compared to April 2014 sales volumes rose 22% across the region with sales up 89% in the Hutt Valley, 60% in Southern Wellington and 56% in Western Wellington. Compared to March 2015 sales volumes fell by 16% overall, but with rises of 17% in Southern Wellington

| Wellington Region Trends | | | Price ↓ | Volumes → | Days to Sell ↓ | Overall ↓ |
|--------------------------|------------------|------------------|------------------|--------------|-------------------|--------------|
| | | | Median Price | | Volume Sold | |
| | Apr-15 | Mar-15 | Apr-14 | Apr-15 | Mar-15 | Apr-14 |
| Upper Hutt | \$349,000 | \$334,000 | \$340,000 | 56 | 77 | 55 |
| Hutt Valley | \$365,000 | \$370,000 | \$390,000 | 183 | 201 | 97 |
| Northern Wellington | \$472,500 | \$527,000 | \$520,000 | 72 | 95 | 87 |
| Central Wellington | \$397,500 | \$534,000 | \$535,500 | 54 | 83 | 38 |
| Eastern Wellington | \$545,600 | \$595,000 | \$568,500 | 34 | 47 | 30 |
| Western Wellington | \$571,000 | \$621,500 | \$605,500 | 56 | 53 | 36 |
| Southern Wellington | \$538,550 | \$521,278 | \$507,500 | 56 | 48 | 35 |
| Pukerua Bay / Tawa | \$423,375 | \$439,000 | \$388,000 | 82 | 104 | 73 |
| Wellington | \$411,250 | \$421,000 | \$415,000 | 750 | 897 | 613 |

Sources: REINZ stats

and 6% in Western Wellington. Sales in Central Wellington fell by 35% and in Eastern Wellington by 28% and by 27% in Upper Hutt.

Overall mixed results appear to be the feature of April 2015 but volumes are well above 2014 levels. As advised in my April 2015 newsletter, I feel 2015 represents a stabilising year for the Wellington area with good demand and healthy volumes expected for the balance of

the year. Most purchasers are realistic in their expectations for property price growth and see the drivers in Auckland as more of a regional phenomenon particular to that area. We have recently started recording the number of houses on the market to watch the stock levels for the balance of 2015 to see if our expected supply contraction occurs.

The Reserve Bank Act: What is it?

Passed in 1989, the Act clearly establishes the relationship between the NZ government and monetary policy.

At the time it was world-first legislation with many countries (ourselves included) before this operating various different relationships between the government and the central bank. In the mid 2000's Zimbabwe was a standout example, being in the middle of a civil war with 2600% inflation and printing money flat out.

Interesting times occurred in NZ when Rob Muldoon was our PM and the relationship he had with the Reserve Bank. During his leadership we had a price freeze, car-less days, Think Big projects and a succession of



I did it my wayyyy

fiscal/monetary actions which were unique. Rob's actions during this time and the damage they caused to NZ now make excellent historical reading.

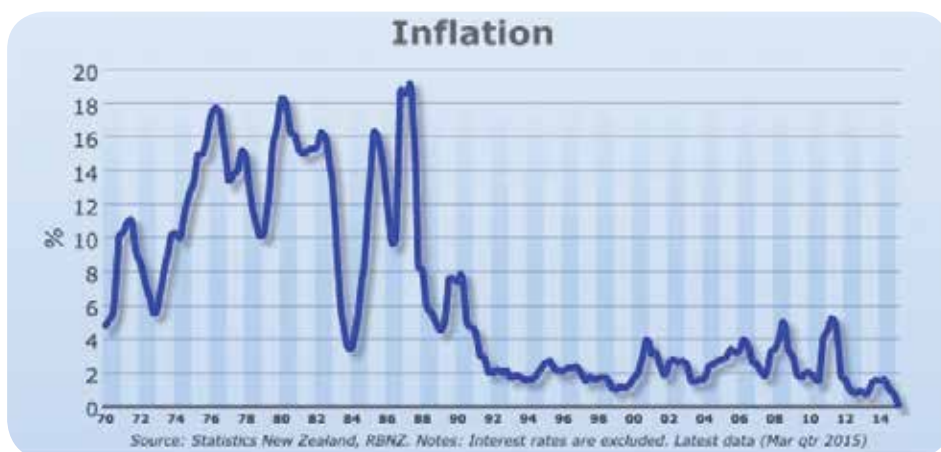
The Reserve Bank Act specified that price stability was the only objective of monetary policy, thus leading to the introduction of an internal inflation target which was initially set at 2%.

A low inflation target is seen to be important in the context of smoothing out the business cycle and avoiding the transfers in income and wealth that occur within the population when inflation is high. In times of inflation real wealth moves between people owning different types of assets (property, businesses and/or cash) and those who have no assets at all.

With NZ being a strong trading nation, balancing this objective has been difficult

alongside trying to achieve other government objectives. Events such as the Christchurch earthquake added to the mix making the balance even harder to achieve.

An important part of this process was the adoption of a transparent approach by the Reserve Bank and an explanatory directive as to the way they operate. As a result, the profile of the Reserve Bank is much higher than its previous back room existence. These initiatives often involve the use of rhetoric and press releases when commenting on economic events or circumstances. A good example of



this is the current Auckland property market – prior to February 2015 it was mostly being referred to as “overheated” but is now being labelled as a “bubble”.

What has been the outcome of the Reserve Bank's attempts to achieve 2% internal inflation? By looking at the graph above I'd say pretty good.

Since September 2002, the inflation target has been to keep inflation within a range of 1-3 per cent on average over the medium-term. Since 1990 CPI inflation has averaged around 2.5%. This compares with averages of around 12% in the 1970s and 11% in the 1980s. Sources: Statistics NZ

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Are you interested in receiving our newsletter or house sales information on a monthly basis of your local area? We produce sales stats of Postcode 6021, 6022 and 6023 on a monthly basis and is available to clients by email. Email Kirsty@malcolmmorris.co.nz or phone (04)3900132 to receive just good content. Your privacy will be respected and I confirm your email address and details will not be passed to any third party or people trying to sell you things!

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