

Property BULLETIN

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Welcome to the October edition of our Property Bulletin. Spring is traditionally a busy time in the housing market and this year is no exception.

No doubt you have been reading reports in the press of the Wellington property market going crazy, and it's true that we are seeing record prices achieved at sale time with heaps of competition to purchase.

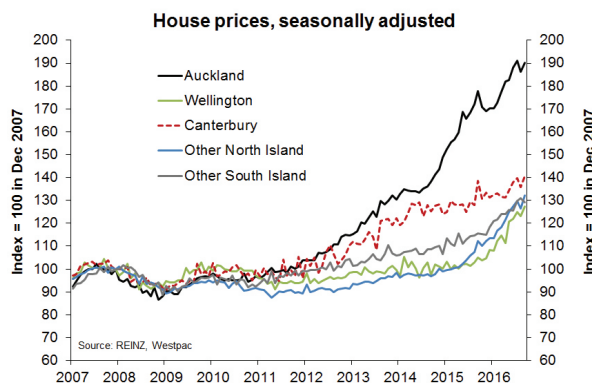
If you are thinking of selling and would like an honest, realistic appraisal of the current market value of your home, give me a ring.

Regards Malc and
the Team Leaders
MREINZ



Regions power on as the Auckland market draws breath

The real estate market appears to be in something of a two-speed mode at present, with Auckland pausing for breath ahead of likely spring growth. We are also seeing evidence that first home buyers in Auckland are now favouring new-builds as a way of getting finance in light of the new LVR restrictions and the 'carve out' for new home construction.



Local and international experience suggests that lending restrictions such as LVR limits tend to have their peak impact over the first six months, so only have a temporary impact on house prices.

Meanwhile, across the rest of the country prices continue to rise, demonstrating strong price and volume growth. The stand-out was Wellington, where the price index was up

almost 22% on this time last year.

The national median price has risen to a new record of \$515,000, with the median outside Auckland now \$400,000. Six regions last month hit new record high median sale prices: Northland (\$390,000), Waikato/Bay of Plenty (\$458,500), Taranaki (\$350,000), Wellington (\$480,000), Nelson/Marlborough (\$450,000) and Otago (\$296,000).

Second Tier lenders are out there – just not as visible as last time

With the new investor regulations kicking in and the need to have a 40% deposit to purchase an investment property (with exceptions for new builds up to 6 months after completion), this has opened up a significant opportunity for second tier lenders who are not subject to the Reserve Bank lending rules.

I hope they don't stoop to previous lows of using prominent New Zealanders to demonstrate credibility as they did in the 2000's. When all these companies hit the wall during the GFC most of them turned out to be pretty flash-in-the-pan – short of long term capital and investing in risky projects most major banks would not touch.

That's why they are called second tier. My understanding of these guys is if you need to go to them because a bank won't fund you shouldn't be doing the deal. In

saying that, the situation is slightly different now given the new investor regulations but the requirement of a 40% deposit to buy an investment property is still fiscally prudent.

These companies may end up with significant loan books because of the new regulations. I'm not sure where they are getting their money from but a shortage of funds may be their biggest constraint after the collapse of most of these businesses in 2008 and the subsequent fallout.

A lot of people were burnt by the collapse of these second tier lenders, which may explain our current insatiable appetite for property. It pays to remember the golden rule - that property like all asset classes can go up but also down, and a lot of success in investing is the result of timing, patience and a good level of equity.

Another OCR cut on its way?

With the latest inflation figures just out for the third quarter of 2016, the market was taken by surprise at the CPI moving 0.2% for the quarter. This was higher than the Reserve Bank had anticipated but in line overall with their prediction that inflation will weaken in the short term and then pick up, with economic growth and a tightening labour market generating domestic inflation through 2017/2018.

Tradable inflation, which has proved to be difficult to control, moved away from negative to sit at 0%. This is despite falling petrol prices and our strong dollar.

Domestic inflation is showing it may be on the rise with construction costs 2% higher for the quarter and 6.3% higher than last year. This may be more a capacity issue around the sector being busy with costs falling when capacity expands. In terms of domestic inflation I was surprised at the strength of the sector especially given our strong dollar.

The US Federal Bank is talking about raising rates which may affect our dollar but you have to look at this with the backdrop of a weak Euro that should keep our currency strong for a while yet.

I still expect the OCR to be cut further in the November announcement. Next year is a little bit far away for me to predict any further cuts now. I think we should be focussing more on the potential for the Government to introduce income to loan ratios before Christmas as they have mentioned.



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 6011, 6012, 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!

Lavery – what on earth were you thinking?

Recently the Wellington City Council agreed to subsidise the Singapore Airlines route from Wellington to Canberra to the tune of approximately \$9 per passenger. This could end up costing the ratepayer up to \$800,000 per year based on projections of 90,000 passengers. The Council has committed to this subsidy for 10 years with a total potential cost of up to \$8 million. I am unsure if the Canberra Airport (owned privately) kicked any money in to get this service going. This money will not be taken out of increased rates but out of the 'Destination Wellington' marketing budget and according to the press no new budget is needed for it. Is this an \$800,000 decision or an \$8 million one? \$8 million is not a small sum of money. What I didn't like about the decision was the level of analysis that the Council conducted. Justin Lester provided a classic comment in relation to the decision (which he supported) that "Lavery doesn't send emails". The Council say Lavery, who is the CEO, did have the authority to make this decision but from what we are told the Council conducted no analysis on the

proposal. They were briefed by Singapore Airlines and received a presentation and discussions from them. Given the Council is also a shareholder in the airport, would it not have been wiser for them to be cautious and put the decision through some rigorous processes before committing to \$8 million of expenditure?

How much is the Wellington airport runway extension really going to cost?

I was speaking to a friend of mine involved in major earthworks and civil construction, and he poured cold water on the estimated cost of \$300 million to extend runway to the south by 367 meters as proposed. When the WIAL first proposed it back in the 1990's after the airport was corporatized the Southern Extension was then costed at \$1 million a metre. How do they think that 25 years later they can do it for less money? I don't know. Looks like we'll have the usual cost overruns and unforeseen circumstances on this project, with muggins the Council (i.e. we the ratepayers) picking up a large percentage of the extra tab.

Leaders moving to Ray White

It has been announced in the press that Leaders Real Estate 1987 Limited is adopting the Ray White franchise model from December 2016 with all the existing branches switching over. **Despite what our competitors are saying we haven't been bought, sold or whatever with the management staying the same as it has been for 30 odd years.**

The transition is to be completed by February 2017 and will bring new technology, great systems and fantastic branding to our already well-established company. The real estate space has quickly changed over the last few years. The internet, social media marketing, technology and compliance aspects are changing the way we are doing

our job. Being aligned with a well resourced company will put us in a fantastic position to benefit from their knowledge, experience and technology. Starting in 1902 in Crows Nest, Sydney, Ray White is still a family business with over 13,000 staff worldwide with representatives in India, Indonesia, India, Malaysia, Papua New Guinea, China, Middle East and Atlanta, USA. In New Zealand there are approximately 146 offices and 1,403 agents and growing. For the record Leaders has consistently maintained the largest market share of all real estate firms in Wellington since it started in 1987. All staff are excited about the move having already had access to training and new systems as part of the changeover.

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