

NZ Housing Confidence

Optimism waning.



Three months to April 2010

- Housing confidence has waned over the three months to April.
- Price expectations remain positive, although the proportion expecting price increases have fallen.
- Uncertainty around tax policy changes will weigh on the house market in the near term.

Housing confidence has continued to soften in the three months to April 2010. In particular, there has been a decline in the proportion of respondents expecting house prices to increase in the future. These survey results are in line with recent data showing a slowing in housing market activity. It appears growing awareness that interest rates will increase over the coming year, combined with uncertainty over potential tax changes to investment property to be announced in the Budget in May, has made housing a less attractive investment option.

As such, the balance is now tipped slightly in favour of buyers, given the supply of inventory is ample relative to the modest turnover over 2010. This is reflected in the median days to sell, which has begun to edge back up since spring and is now at the long-term average. We expect house prices will fall 3-4% in 2010 as a result of this evident slowing of buyer appetite.

Sentiment towards housing waning. The ASB Housing Confidence survey suggests waning interest in housing:

- A net 35% 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 59% of respondents expect interest rates to rise in the next twelve months.

Sentiment towards housing dipped over all three months of the quarter, largely due to a decline in house price expectations.

ASB Housing Confidence Survey (Source: ACNielsen)

Net percent who believe (3 months to April 2010) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	23%	38%	57%
Rest of North Island	30%	30%	58%
South Island	35%	41%	62%
TOTAL NZ	29%	35%	59%
<i>Compare 3 months to Jan 2010</i>	33%	51%	60%

Survey changes.

Survey information: Since July 2009 the ASB Housing Confidence Survey has been conducted via both an online survey, and telephone survey. The results published in previous reports have been based on the phone responses only. For this survey we have switched to using the online survey responses, and comparisons to previous quarters relate to the relevant online samples previously recorded. Therefore some slight variation exists between the results published in the January 2010 ASB Housing Confidence Survey and the January results published in this report.

The full sample size for the latest survey is 2,452, the 95% margin for error is $\pm 2\%$

Christina Leung – ASB Economist – 649 369 4421 – christina.leung@asb.co.nz

Chris Tennent-Brown – CBA NZ Economist – 649 374 8819 – chris.tennent-brown@asb.co.nz

General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

Price expectations fall across the regions.

Price expectations declined over the quarter. This decline was broad-based across the regions, with the decline particularly evident in the rest of the North Island (North Island region excluding Auckland). The South Island now have the highest price expectations of the three regions.

A breakdown of the net quarterly figure is:

- 51% expect higher prices (61% last quarter), with 16% expecting lower prices (10%);
- the difference being the net 35% plotted opposite (51% previously);
- 30% expect the same (24%);
- 4% don't know (4%).

Majority continue to see now as a good time to buy, although this proportion falling.

On balance respondents are less optimistic on now being a good time to buy. As with price expectations, the decline is more evident in the rest of the North Island.

The breakdown is:

- 40% say it is a good time to buy (43% previously), while 10% say it is a bad time (10%);
- the difference is the net 29% plotted opposite (33%);
- 46% say it is neither good nor bad (42%);
- 4% don't know (5%).

Expectations of higher interest rates continue as RBNZ prepares to lift the OCR.

It appears higher interest rates are playing a part in the waning optimism towards housing. The RBNZ expects to lift the Official Cash Rate in the coming months, and the majority of respondents continue to expect higher interest rates

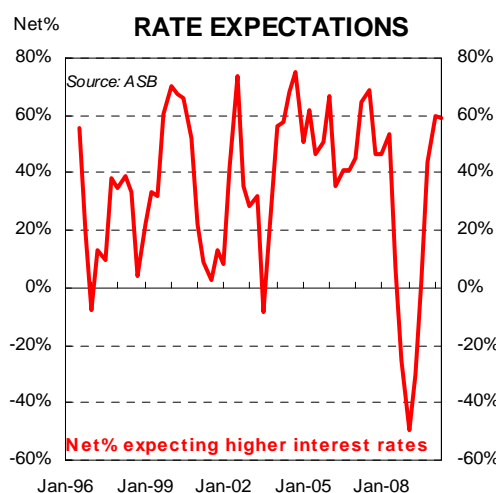
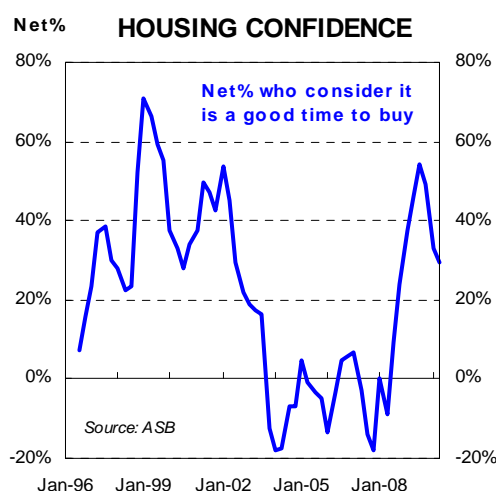
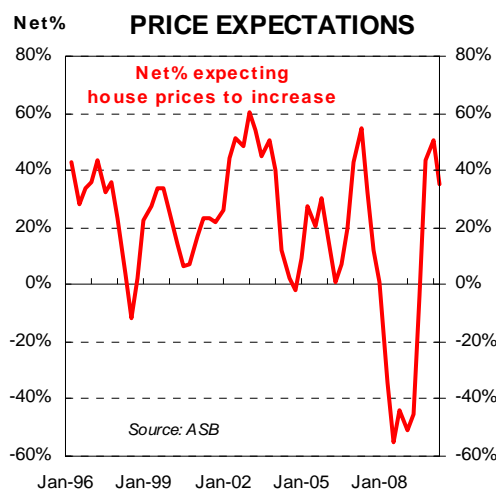
The quarterly breakdown of response is:

- 64% expect higher interest rates (65% in the previous quarter), while 5% expect lower interest rates (5%);
- The difference is the net 59% expecting higher rates plotted opposite (60% previously);
- 21% believe interest rates will stay the same (21%);
- 11% don't know (9%).

Further signs of slowing momentum in housing market.

Budget uncertainty driving slowing in housing market activity.

There has been a sharp fall in housing market activity over the past few months. This slowing in activity has been largely driven by continued uncertainty over the potential for tax advantages for property investment to be removed at the upcoming Budget. The two main 'live' options are removing the ability to claim depreciation on investment property, and ring-fencing tax losses from property so that they cannot be used to offset other sources of income. This uncertainty has seen many potential buyers choosing to wait on the sidelines until the Budget announcement on May 20. Any tax changes are likely to continue to influence the housing market for some time.



House sales and mortgage approvals decline.

This slowing in housing market activity is particularly evident in the decline in house sales, with sales now well down on year-ago levels when super-low interest rates were providing a boost to the housing market. This lower level of activity is also reflected in subdued mortgage approvals, are now around 15% lower relative to the December quarter last year.

Reflecting this easing in housing demand, median days to sell has started edging up since spring, such that it is now around the long-term average.

Supply response to potential tax changes has been muted.

The possibility that the tax advantages for property investment will be reduced may have prompted some sellers, but overall there is little sign at this stage of a rush to sell off investment properties.

As a result, the number of fresh house listings remains at a relatively low level. Even so, the reduced sales activity has lifted the total number of houses listed for sale.

Overall, it looks as though the supply of inventory is ample relative to the modest turnover over 2010. Taking these demand and supply dynamics into account, it appears the balance is now tipped slightly in favour of buyers.

House prices remain reasonably resilient.

Despite these recent developments, house prices remain resilient for now. The REINZ stratified measure of house prices – which takes into account the composition of houses sold – shows a 6.8% price increase relative to a year ago.

Fixed mortgage rates rising.

Shorter-term fixed mortgage rates have been rising off their 2009 lows as markets prepare for an OCR increase from the RBNZ in the coming months. Meanwhile, the increase in longer-term fixed mortgage rates over the past year reflects both a return to a more normal OCR level and the higher cost of long-term funding banks have been paying following the financial crisis.

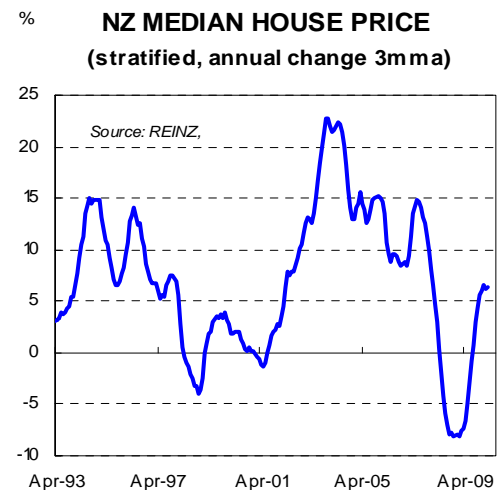
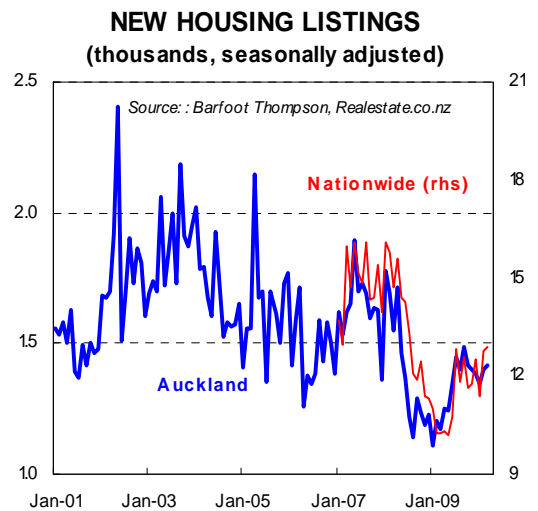
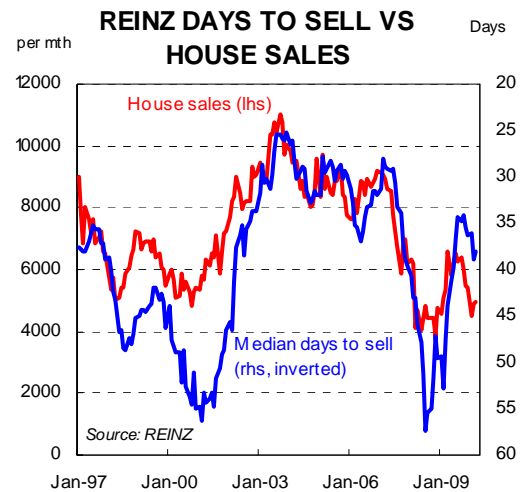
These increases in mortgage rates have also contributed to slower housing market activity.

Outlook: Tax policy uncertainty will weigh on housing in the near term.

Potential changes to tax policy will continue to weigh on housing market in the near term.

We expect uncertainty surrounding the potential removal of tax advantages for property investment will continue to weigh on housing market activity until details are announced in the Budget on May 20. Even then, any changes will likely mean reduced demand for investment property and thus lower housing market activity. We expect house prices will fall 3-4% in 2010, reflecting the evident slowing of buyer appetite.

Beyond the ups and downs of 2010, we expect weak house price growth. A positive for house prices is continued population growth at a time when new construction has not kept pace. However, prices do remain quite high compared to incomes and rents – with the tax changes likely to require even higher gross rental yields in the future to make the sums add up.



In summary,

- Housing confidence has dipped, according to the ASB Housing Confidence Survey.
- Expectations for further gains in house prices have fallen across the regions, with the decline particularly evident in the rest of the North Island.
- Recent data shows signs of continued slowing in housing market momentum, largely driven by uncertainty over the potential reduction of tax advantages for property investment. However, house prices remain reasonably resilient.
- Beyond 2010, we expect weak house price growth, although continued population growth will provide some support.

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".

ASB ECONOMICS
Level 9, 135 Albert Street, Auckland

ASB ECONOMICS			PHONE	FAX
Economics				
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 374 8604	(649) 302 0992
Economist	Jane Turner	jane.turner@asb.co.nz	(649) 374 8185	
Economist	Christina Leung	christina.leung@asb.co.nz	(649) 369 4421	
CBA NZ Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 374 8819	

DISCLAIMER

Views expressed in this report are those of the authors as at the date of this report and are based on information and sources believed but not warranted to be correct. Any views or information, while given in good faith, do not necessarily reflect the views of ASB and are subject to change without notice. Neither ASB Bank Limited nor any person involved in preparing this report accepts any liability for any loss or damage whatsoever that may directly or indirectly result from any views, information or omission contained in this report.