ECONOMICS

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NZ Housing Confidence

Optimism softening a touch

Three months to January 2010

- **Housing confidence remained upbeat over the three months to January.**
- **Price expectations remain positive, although non-Aucklanders are less confident on further increases.**
- **Uncertainty around tax policy changes will weigh on the house market until the May Budget.**

Housing confidence started to soften a touch in the three months to January 2010. Nevertheless, the level of positive sentiment remains very high by past standards. The results imply that the resurgence of housing last year will abate slightly in 2010. The survey responses show a greater awareness that interest rates will go up this year, and the RBNZ's "middle of 2010" implied timing for Official Cash Rate increases is getting closer. The strong likelihood of changes to the tax treatment of investment property may also increasingly influence the market, with concrete details waiting until the May Budget.

Despite some reduction in the favourable tailwinds for property, house price expectations remained firm over the quarter. The pattern over the three-month period was for Aucklanders to become increasingly more optimistic about the house price outlook while respondents in the rest of the North Island and in the South Island started to become more cautious about the outlook as the quarter progressed.

Sentiment high, but softening

The ASB Housing Confidence survey suggests high, but softening, interest in housing:

- A net 48% of respondents expect house prices to increase in the next twelve months;
- A net 37% of respondents believe now is a good time to buy;
- A net 51% of respondents expect interest rates to rise in the next twelve months.

Sentiment towards housing remained upbeat over the quarter, though respondents' views became more circumspect as the quarter wore on.

ASB Housing Confidence Survey (Source: ACNielsen)

Net percent who believe (3 months to January 2010) …	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland*	36%	56%	55%
Rest of North Island*	39%	45%	49%
South Island*	33%	45%	52%
TOTAL NZ **	**37%**	**48%**	**51%**
*Compare 3 months to October 2009 ***	*48%*	*40%*	*35%*

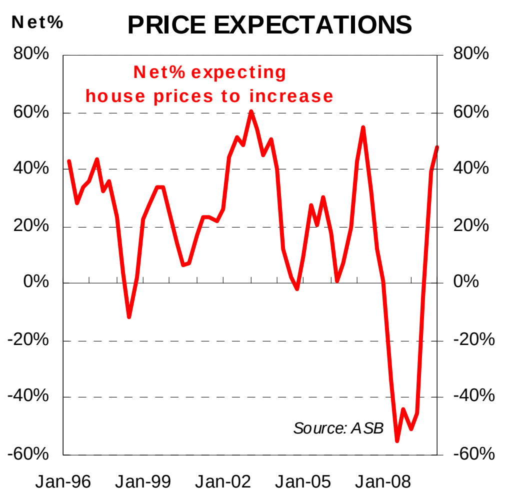
* sample size 200, 95% margin of error ±6.9%   ** sample size 600, 95% margin of error ±4.0%

Price expectations lift, but mainly in Auckland.

Price expectations lifted slightly further over the quarter. However, regional differences have become a little more evident. Auckland price expectations lifted fairly steadily over the quarter and regionally are the highest. Expectations in the rest of the North Island and in the South Island started to show a bit of fade in January.

A breakdown of the net quarterly figure is:

- 57% expect higher prices (53% last quarter), with 10% expecting lower prices (13%);
- the difference being the net 48% plotted opposite (40% previously);
- 27% expect the same (30%);
- 6% don't know (3%).



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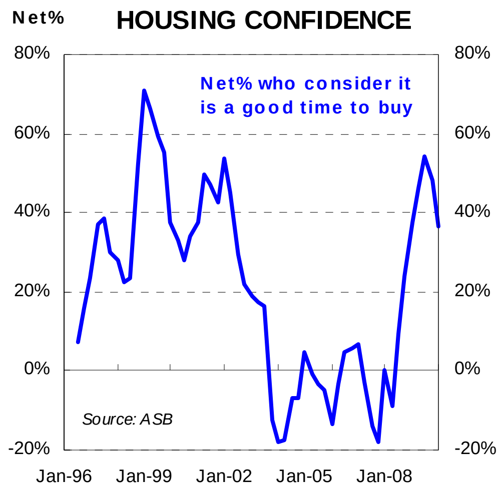
Majority continue to see now as a good time to buy.

On balance respondents are firmly optimistic on now being a good time to buy. However, that optimism has moderated from the past two quarter's exuberance, mainly in the South Island (which was the roaring bull).

The breakdown is:

- 50% say it is a good time to buy (59% previously), while 13% say it is a bad time (11%);
- the difference is the net 37% plotted opposite (48%);
- 32% say it is neither good nor bad (26%);
- 5% don't know (4%).

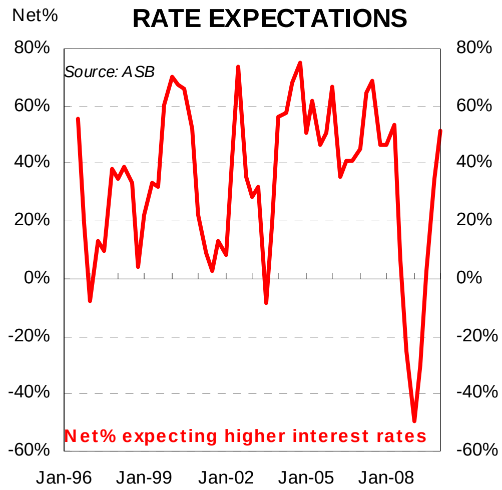


Interest rate expectations rise as RBNZ prepares to lift the OCR in the middle of 2010.

Greater consciousness of higher interest rates in the future may be partly behind the moderation in optimism towards housing. Fixed mortgage rates have generally been trending up as the day of reckoning gets closer. The RBNZ also reaffirmed in January that expects to lift the Official Cash Rate "around the middle of 2010".

The quarterly breakdown of responses is:

- 57% expect higher interest rates (45% in the previous quarter), while 6% expect lower interest rates (10%);
- the difference is the net 51% expecting higher rates plotted opposite (35% previously);
- 25% believe interest rates will stay the same (33%);
- 13% don't know (12%).



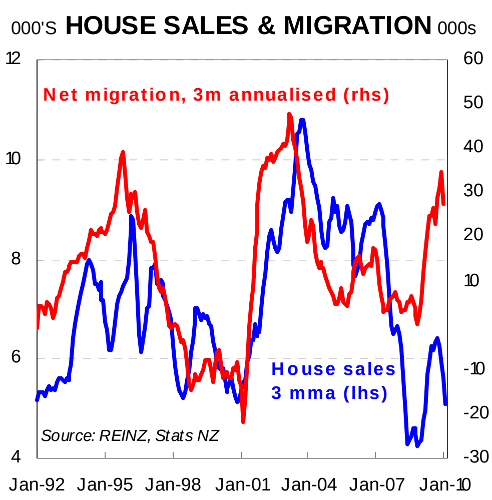
Market has rebounded

Housing market rebounded over 2009.

The housing market has warmed considerably over the past year. Demand has perked up modestly, with many viewing it being as a favourable time to buy. The combination of low mortgage rates and falling house prices during the first half of 2009 saw affordability finally start to improve.

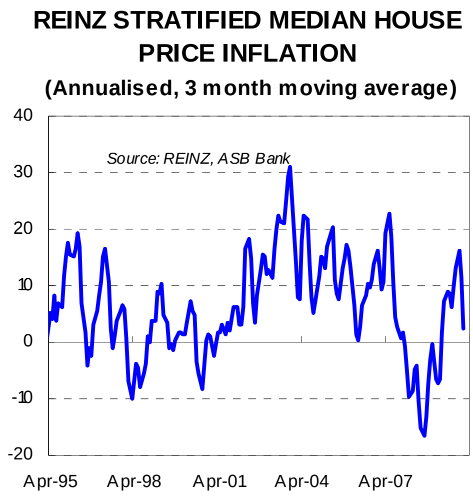
Demand improves, but supply has been slow to respond.

Further adding to demand, net migration picked up substantially throughout the recession. While the inflows remained steady, permanent departures of New Zealanders to Australia fell dramatically, and helped boost population growth. The surge lifted New Zealand's housing requirements, and helped absorb the surplus of housing that opened up during the early stages of recession. While demand picked up, housing turnover did not recover sharply as supply has been slow to respond. The decline in the number of New Zealanders permanently relocating to Australia also meant fewer houses were being made available for new arrivals.



Tight market sees vigorous rebound in house prices.

This dynamic was exacerbated by weak prices discouraging potential sellers. With a low number of houses available for sale and housing construction declining, pressure on the housing market begun to intensify. The number of days to sell, a reliable barometer of the balance between supply and demand, began to fall swiftly through 2009. Competition for the limited number of houses on the market began to heat up, and house prices bounced back with surprising vigour.

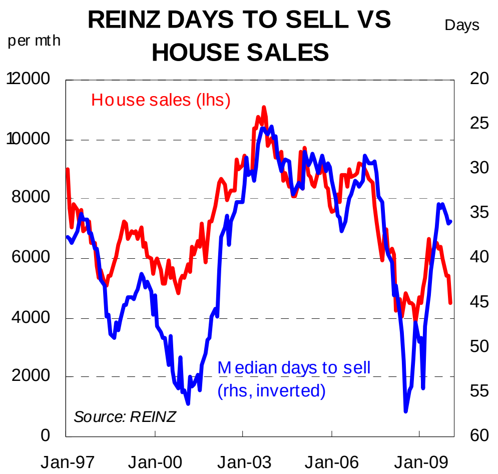


But momentum waning

But momentum in the housing market has begun to slow.

The housing market's momentum started to slow somewhat since November. Recent data suggest a sharp sales drop in January, although we are always slightly wary of sales figures around Christmas as the housing market is heavily affected by the holiday period over December and January. However, one development that caught our attention has been the turnaround in the number of days to sell, now starting to pick up again after falling sharply. Although days to sell still remain below average and still slightly in sellers' market territory, the change in direction suggests some of the intensity in the housing market is beginning to ease.

A lift in days to sell suggests less intensity in housing market.



The recent increase in mortgage rates, along with the expectation of further rate increases in the near future, are likely to be contributing to cooler demand. Mortgage rates, particularly fixed rates at longer terms, have lifted fairly substantially over recent months. While some of this is in anticipation of future OCR increases, a rise in banks' funding costs is also playing a significant part.

Potential changes to tax policy introduce uncertainty into housing market.

Outlook: Tax policy introduces uncertainty

Real estate agents have also recently noted increased uncertainty within the market following the Tax Working Group's (TWG) recommendation to Government to change the tax treatment around housing investment. The Government has indicated that it is ruling out recommended measures such as capital gains tax or land tax. However, we do expect the Government will make some changes to the tax treatment of property. Two potential options are remaining: the ability to claim deprecation (recommended by the TWG) or ring-fencing tax losses from property so they cannot be used to offset other sources of income. The lack of complete clarity over what the Government will do means the market will continue to be weighed down by uncertainty until the end of May, and could see reduced house sales and price pressures over the next few months. Once tax change is implemented, its likely result will be some decline in house prices (or smaller increases). But, as observed throughout the recession, nominal house prices tend to be fairly 'sticky' on the downside. Many homeowners are often unwilling to sell at lower prices and might still prefer to hold onto a property if possible. This dynamic could reduce the downward adjustment, with house prices more likely to remain around current levels for an extended period.

In summary,

- Housing confidence remains at high levels, according to the ASB Housing Confidence Survey.
- House prices have recovered sharply over 2009, as low levels of supply put pressure on the market.
- Expectations are for further gains in house prices, although this response is highest in Auckland. The remainder of NZ is becoming less confident of further prices

increases.

- Momentum in the housing market is starting to slow. Growing consciousness of future interest rate increases and uncertainty around tax policy changes will see demand cool over the next few months.
- Uncertainty around tax policy changes will weigh on housing market confidence until the Budget announcement in May. House prices would probably decline as a result of a change in policy, increasing affordability. However, declines may be limited by behavioural aspects in the market.

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".

https://reports.asb.co.nz/index.html http://www.research.comsec.com.au

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