

NZ Housing Confidence

Onwards and upwards



Three months to July 2009

- Confidence in the housing market continues to pick up.
- House price expectations have moved back to neutral after foreshadowing price falls since early 2008.
- Interest rates no longer expected to fall, following the steady lift in long-term mortgage rates.

Housing confidence continues a lift that started a year ago, with a clear majority of respondents seeing now as a good time to buy a house. However, the most significant shift in the survey results is a noticeable uptick in house price expectations. After over a year of expecting prices to fall in the year ahead, respondents have a more neutral outlook. In fact, a month-to-month breakdown of results shows expectations are back into net positive territory. Another change in the survey results is that on balance respondents expect interest rates to rise, no doubt reflecting the upward trend of long-term mortgage rates since early 2009.

The survey results have for some time been foreshadowing improved sentiment towards the housing market, but it wasn't until early 2009 that the market showed evidence of perking up. The latest survey reinforces that confidence is building, along with a sense that price falls are coming to an end. However, we continue to expect the next house price cycle to be very weak compared to the extraordinary boom of 2002 – 2007.

Confidence continues to lift The ASB Housing Confidence survey suggests growing interest in housing:

- A net 4% of respondents expect house prices to decrease in the next twelve months;
- A net 54% of respondents believe now is a good time to buy;
- A net 3% of respondents now expect interest rates to rise in the next twelve months.

Positive sentiment towards home purchasing has steadily strengthened over the past year, and prices are now expected to be stable over the next year rather than falling further.

ASB Housing Confidence Survey (Source: ACNielsen)

Net percent who believe (3 months to July 2009) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland*	47%	-5%	1%
Rest of North Island*	56%	1%	7%
South Island*	57%	-13%	-4%
TOTAL NZ **	54%	-4%	3%
Compare 3 months to Apr 2009 **	46%	-45%	-30%

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

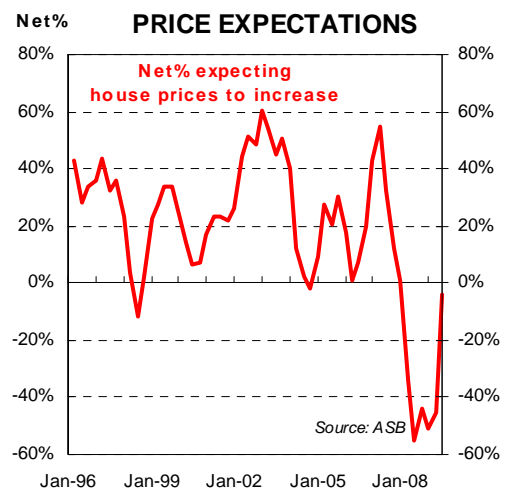
** sample size 600, 95% margin of error ±4.0%

Price expectations swinging sharply, now roughly flat

Expectations of house prices changed sharply over the 3 months to July. There is now a near even split between those expecting price increases and those expecting declines. On a month-to-month view the balance of price expectations lifted into positive territory in July, the first such reading for 18 months.

A breakdown of the net quarterly figure is:

- 27% expect higher prices (11% last quarter), with 31% expecting lower prices (57%);
- the difference being the net -4% plotted opposite (-45% previously);
- 37% expect the same (27%);
- 5% don't know (5%).



Nick Tuffley – ASB Chief Economist – 649 374 8604 – nick.tuffley@asb.co.nz

General Advice Warning

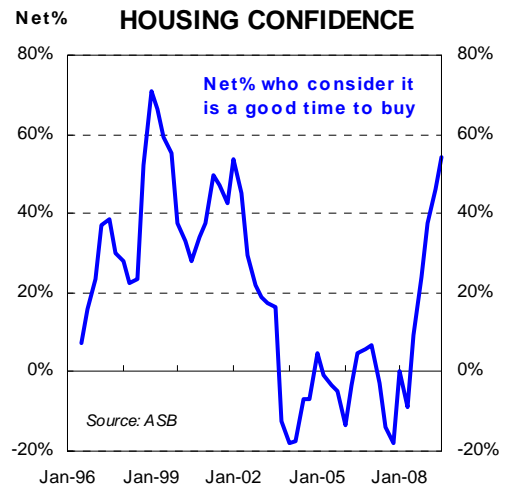
As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

Further lift in number seeing now as a good time to buy

The net balance of respondents who see now as a good time to buy a house continues to steadily increase. The level of optimism is now similar to that seen when the last housing boom was just getting started.

The breakdown is:

- 64% say it is a good time to buy (59% previously), while 10% say it is a bad time (13%);
- the difference is the net 54% plotted opposite (46%);
- 19% say it is neither good nor bad (22%);
- 6% don't know (7%).

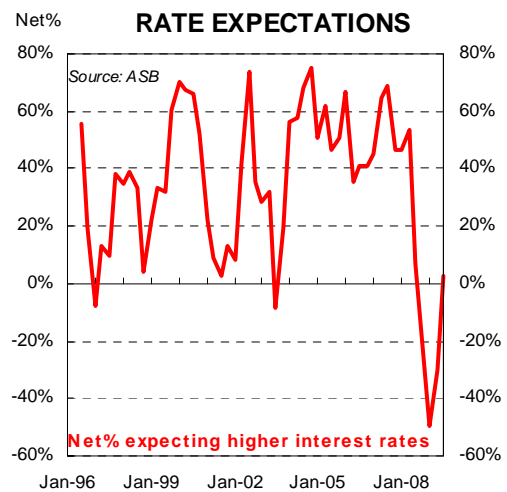


Interest rates no longer expected to fall

Interest rate expectations have changed considerably, back to an even split between numbers expecting lower rates and those expecting higher rates. Since late March long-term fixed mortgage rates have risen substantially, and the RBNZ has halted its OCR cuts.

The quarterly breakdown of responses is:

- 27% expect higher interest rates (20%), while 24% expect lower interest rates (50%)
- the difference is the net 3% expecting higher rates plotted opposite (a net 30% expected lower rates in the previous quarter);
- 38% believe interest rates will stay the same (19%);
- 11% don't know (11%).

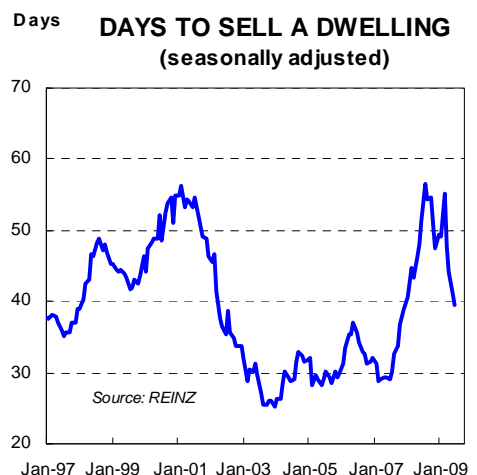


Market conditions returning to a more normal balance

Housing market conditions now back to more normal state

The past few years have seen the housing market swing from being an extreme sellers' market to an extreme buyers' market. The recent lift in the market has seen the market move back towards a more normal balance on several measures.

The median of days taken to sell, one barometer of the balance, has fallen back very close to an average level. Outstanding listings of homes for sales have dropped quickly back to a more average level from very high levels. Some real estate agents are now finding they have a scarcity of good listings to market.



Supply of homes for sale has dropped swiftly: fewer migrant departures one influence, sales pick-up another

One contributing factor to the reduced supply of homes for sale is no doubt the shift in migration flows, with substantially fewer people leaving the country. The most immediate effect of the shift is fewer homes than otherwise will have been put on the market for sale, with the same applying for the supply of rental property.

Sales turnover, in seasonally-adjusted terms, began lifting strongly from February, including a surge in April. Those gains have largely been held onto in more recent months. Much of the lift is due to people's preparedness or willingness to dive back into the market.

Low mortgage rates and ebbing 'fear factor' the likely stimulus

Low mortgage rates have undoubtedly had a huge impact in driving sales turnover. Furthermore, fear and caution have abated since the first half of March: globally investors' risk appetites have been recovering.

Ironically, the lift in long-term fixed mortgage rates spurred some fence-sitters into acting before interest rates rose too much further.

For about the past year the Housing survey has shown increasing numbers of people seeing 'now' as a good time to buy. However, it wasn't until earlier this year that the stars began aligning in buyers' eyes.

Outlook: recovering, but don't expect fireworks

Outlook: modest recovery

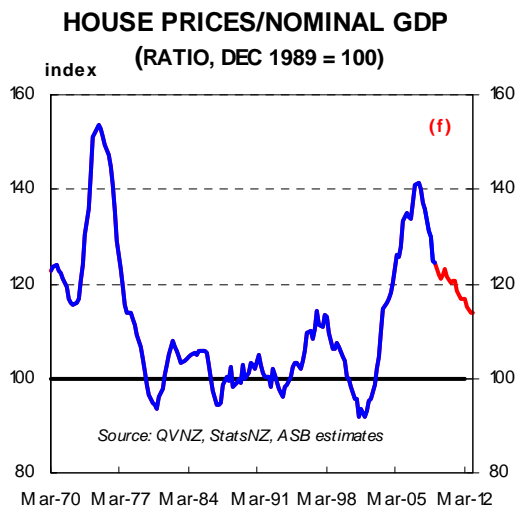
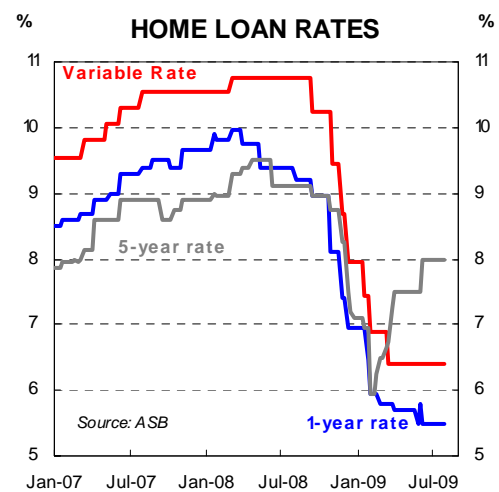
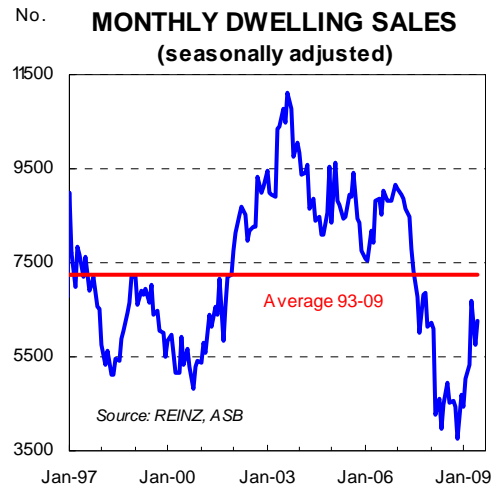
Over the rest of 2009 we expect housing turnover to broadly hold onto gains made in the first half of the year and possibly grind up further. House prices themselves appear to be bottoming out and could even lift slightly later this year. After a period of weak building and a fairly swift reduction of available stock on the market, the current migration-led lift in population will put some pressure on the market.

However, we expect the main release valve from growing population to be a recovery in construction activity over 2010, rather than prices. Notwithstanding the past year's fall, house prices remain high compared to fundamental factors such as incomes (ability to pay) and rents (cashflow on any investments). And, unemployment will continue to rise.

Valuable lessons from recent slowdown

The last 2 years have been a sharp reminder of several home truths some property investors either overlooked or were prepared to ignore. House prices can fall, and cashflow – not expected capital gain – is what pays the mortgage.

There some important factors to bear in mind if investing in property. Don't rely on capital gains and remember that cash(flow) is king. It is also very important to fully understand the risks you are taking. And investment pioneer Benjamin Graham's 'margin of safety' concept is just as applicable to property as it is to the sharemarket.



Favourable conditions for first home buyers...

For first home buyers now is a far better time to buy a house than 2 years ago. Prices have fallen, enabling cheaper entry, and the risk of further price falls has reduced. Pivotaly, low interest rates have dramatically changed debt-servicing costs.

..though a number of issues for investors to consider

From an investment perspective the clichéd phrase is past performance is not a reliable indicator of future performance. Housing had such a tremendous run over the last economic cycle that another strong price performance will be hard to achieve over the next few years – the price correction hasn't been that large. There are also macroeconomic policy factors to consider that could influence future house price performance, such as: a greater focus on NZ's external financial liabilities; the desire to stimulate more productive savings/investment activity. The world has changed dramatically over the past year, NZ's economic vulnerabilities have become increasingly front-of-mind, and what will account for 'normal' in the future is liable to be different from what we become used to over the past 15 or so years.

In summary,

- House price expectations in the ASB Confidence survey have perked up considerably over the past few months, having since early 2008 implied price falls;
- There has been continued lift in the majority of respondents seeing now as a good time to buy, with nearly 2 in every 3 respondents viewing now as a good time to buy;
- Housing market indicators suggest the market is reaching a floor after considerable downturn, including what will eventually be the biggest drop in real house prices since the 1970s;
- However, the impending recovery is highly likely to be only a shadow of the 2002-2007 boom, with house prices still elevated relative to key long-term drivers;
- When purchasing, be it for living in or for investment purposes, it is important to do your homework, including allowing a margin of safety for factors such as higher interest rates in the future.

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>

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
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.