

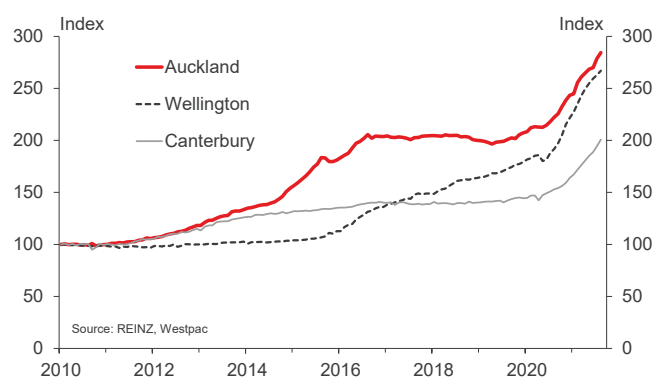
# Home Truths.

15 September 2021



The last two months have seen the New Zealand housing market continue to run hot, and if anything house price growth has regained some momentum. The REINZ house price index rose by 1.9% in August, on top of a 2.1% rise in July. The previous few months had seen a slightly slower – though still strong – rate of increase, following the reintroduction of loan-to-value restrictions from March.

## House price index by region



The pace of house price growth remains high across the country, although in recent months we've seen the strongest momentum in the Canterbury region. We had previously identified Christchurch as being 'cheap' relative to other major centres, with prices fairly flat up until 2019 as the earthquake recovery provided a steady stream of homebuilding. But prices have since started to play catch-up – a stark reminder that even an ample supply of new houses is not enough to counter the appeal of low mortgage rates.

## Monthly house sales, seasonally adjusted

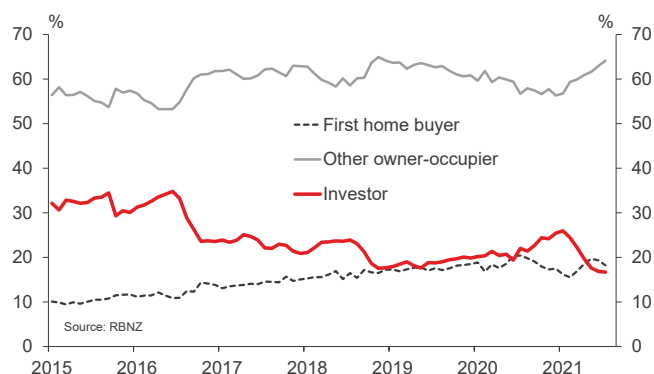


Housing turnover was inevitably hit hard by the return to Covid-19 lockdown conditions from 18 August – we estimate that sales fell about 17% for the month in seasonally adjusted terms. There was a smaller drop in Auckland and Wellington than in other parts of the country, which may reflect that agents in the major centres were better placed this time to shift to online viewings and auctions. But even with the slowing in recent months and the hit from the latest lockdown, sales for the month were still close to pre-Covid levels.

The housing market's momentum will no doubt be an ongoing source of headaches for policymakers. Bringing back loan-to-value limits has had only a small impact on house price inflation, as indeed the Reserve Bank expected would be the case. Surprisingly, we can attribute little if any impact from the changes to the tax treatment of investment properties that were announced back in March.

These measures, largely aimed at the investor side of the market, have had some impact on the shape of the housing market – investors' share of purchases, and of new lending, have fallen substantially from their peak early this year. But it appears that owner-occupiers have been all too willing to step into the gap and pay the elevated prices we've been seeing. There was an initial bounce in the number of first-time buyers, but the strength in the market has increasingly been driven by existing property owners who have already built up the required equity.

## Share of mortgage lending by buyer type



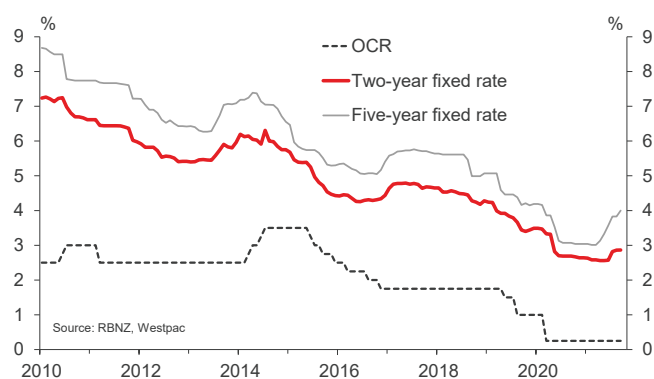
This is why the RBNZ's next move on LVR restrictions – currently out for consultation – has focused on owner-occupiers. The 'speed limit' on the share of new lending



to owner-occupiers that can be above an 80% LVR will be reduced from 20% to 10%. That's likely to bite harder for aspiring first-home buyers, who already account for much of the borrowing above an 80% LVR.

Our view remains that a meaningful cooling in house price growth will require higher interest rates. Mortgage rates have already moved off their lows to some degree, though more so in the longer, less popular fixed terms. Two-year mortgage rates have risen a little in anticipation of the Official Cash Rate hikes over the coming months, but they are still below their pre-Covid levels.

### Mortgage rates




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