Housing Market Research

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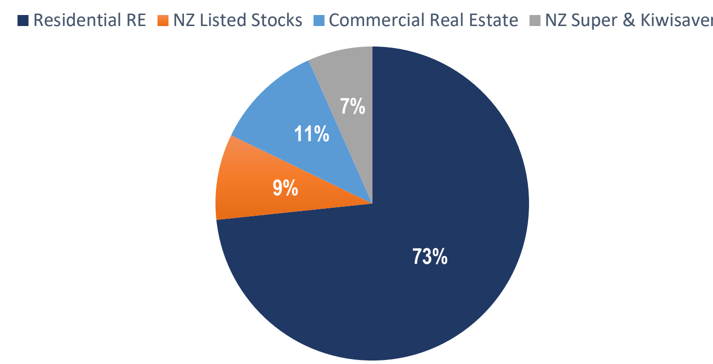
Macro Economic Indicators

Asset Classes – New Zealand

Residential Real Estate contributes to 73% of the total New Zealand Asset Classes

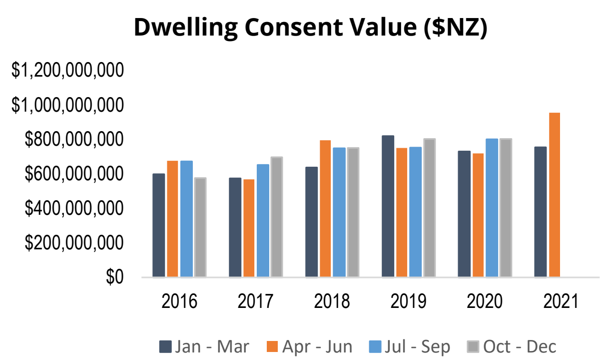
- **Overview:** The total of New Zealand assets equal to $2.1 Trillion. 1.54T is contributed by Residential Real Estate, followed by Commercial Real Estate at $235Bn, NZ Listed Stocks at $185Bn and NZ Super & Kiwisaver at $140Bn.
  - Although mortgages are secured against 21% of the value, the rest 79% is household equity. The household debt is high related to the income and most of the debt is sustainable due to the recent decline in interest rates. Even a slight increase in interest rates will put pressure on household debt as the inflation has hit the upper limit of 3% set by RBNZ.
- **Residential Real Estate:** The national average price hit an all time high at $893,794 while national inventory hit a record low, down 34.8% since last time this year.
  - As per realestate.co.nz, through 2007 to 2013, the national average asking price by $50,000 over the 7 year time period. In the following five years, they rose by about $200,000. Since the end, the prices have gone up by $200,000 again in the last two years.
  - Auckland also hit another all time high. The asking price for a home in Auckland is now at $1,177,528, up by 19.3%.
- **Commercial Real Estate:** Growing demand and surging prices are driving commercial property sector as much as the residential real estate.
  - The Goldman Property Trust reported a second half gain of $415Mn (12.5%) in its portfolio value on top of $140Mn gain in the first half of 2021.
- **S&P/NZX 50 Index:** The index is currently trading at 13,100 levels. During the pandemic, the index saw a huge decline of 23.8%. As the country battled with the pandemic, the employment sector has seen a positive growth and an overall growth in the economy has been witnessed. Therefore, the index witnessed a V shape recovery and hit an all time high of 13,558.19 on January 8, 2021.

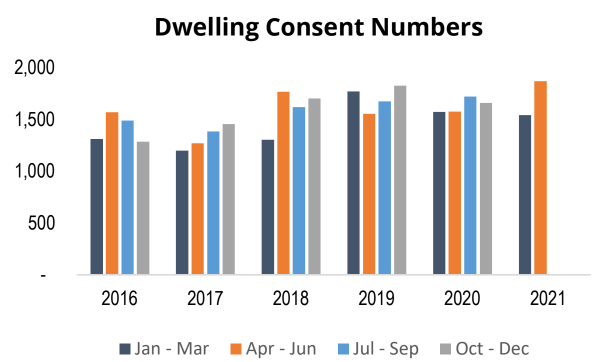
Asset Classes (%)

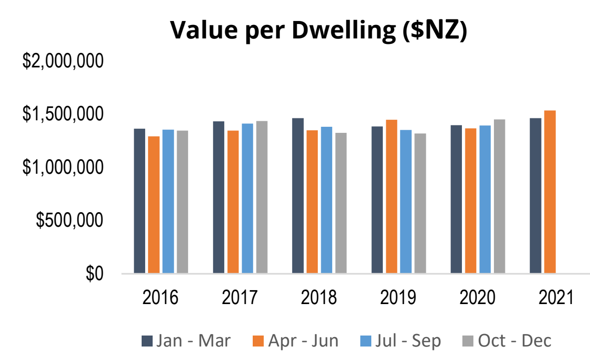


Source: CoreLogic Quarterly Report

Dwelling Consent value, number and value per dwelling for Auckland region (2016-2021) Quarterly data







Inflation v Interest Rates v Dwelling Consents

Inflation moves beyond 3% YoY, this will result in increase of interest rates in near future

- **Introduction:** Inflation and interest rates are directly proportional to each other.
- **Inflation during 2011**: Inflation hit 3.5% in 2011 due to higher petrol, food and cigarette prices, but offset by a drop in international airfares.
- **OCR rates**: As per figure 1, RBNZ started increasing the interest rates as soon as the inflation started rising from 1.5%. This was made in an attempt to maintain the inflation within a target range of 1% - 3%.
- **2011 – 2017Q1**: RBNZ's efforts to decrease inflation rates were successful and the inflation rate remained between 0.5% and 2% throughout this period. RBNZ declined interest rates from 3% to 2.5% as the inflation rates declined and maintained OCR at 2.5% for the above mentioned period.
- **2017 – 2020**: Although the inflation rate was well in the defined range, RBNZ had to decline interest rates further due to Covid-19, avoiding the credit freeze in the markets. The OCR rates currently stand at 0.25%.
- **Beyond 2021:** Most of the experts and analysts are expecting RBNZ to raise the OCR rates as inflation has moved beyond the upper limit of target range of 3%. It is expected that interest rates will raise to 1.5% to 1.75% and will be maintained at 1.75% till 2024.

Inflation v OCR

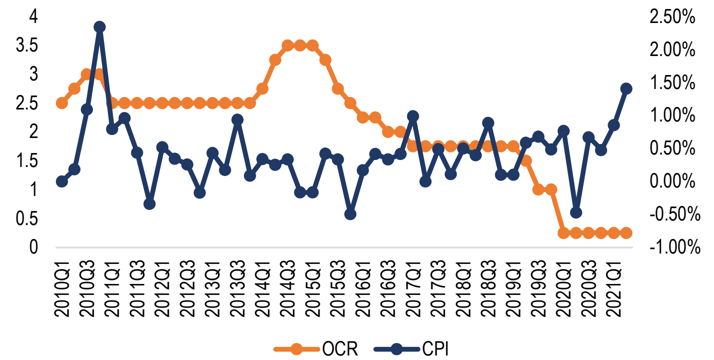


Figure 1: Inflation v OCR *Source: Stats NZ*

Increase in dwelling consents irrespective of inflation

- **Overview:** Over the past 10 years, the country witnessed constant increase in dwelling consents although there has been a decline in inflation rates.
- **Dwelling Consents 2010Q1 – 2011Q1**: When the inflation moved beyond the target range, RBNZ increased the interest rates from 2.5% to 3% in 2010. During this time-period, the Dwelling consents have seen a decline of 26% as cost of borrowing was high.
- **Effect:** As per Figure 2, dwelling consents are affected indirectly by inflation. The result of increase in inflation will cause the interest rates to increase which will in turn increase the borrowing costs for housing loans, thereby decreasing the number of consents. It is witnessed from the figure 2 that to a large extent, dwelling consents are not largely affected with inflation and they continue to trend higher although witnessing a dip in every quarter. This dip is seen by the investors and first home buyers as an opportunity to buy/invest in the property market. Fear of Missing Out (FOMO) also contributes to this scenario as buyers want to buy properties when they believe prices to be reasonable and won't decline further.
- **Beyond 2021:** Inflation today has moved beyond the target range of 1%-3%. Although considering the Covid-19 scenario, RBNZ is currently avoiding the increase in interest rates, but it is expected that RBNZ will increase the interest rates going forward. If this happens, the cost of borrowing will become high, ultimately resulting in decline of dwelling consents.

Inflation v Dwelling Consents

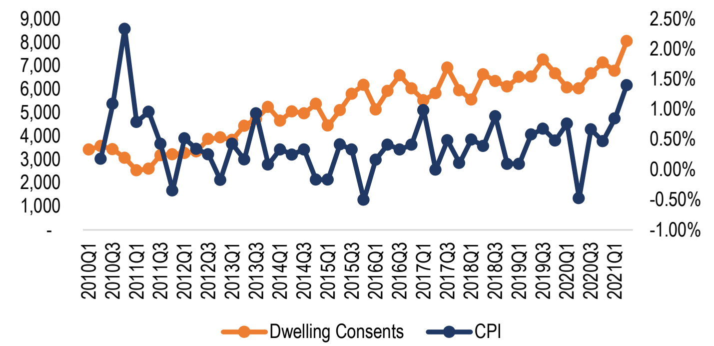


Figure 2: Inflation v Dwelling Consents *Source: Stats NZ*

Dwelling Consents v OCR, Migrants & Resident Population

Dwelling Consents v OCR

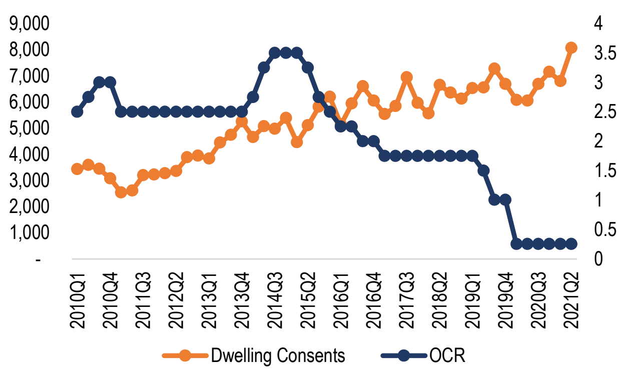


Figure 3: Dwelling Consents v OCR *Source: Stats NZ*

Dwelling Consents v Migrants

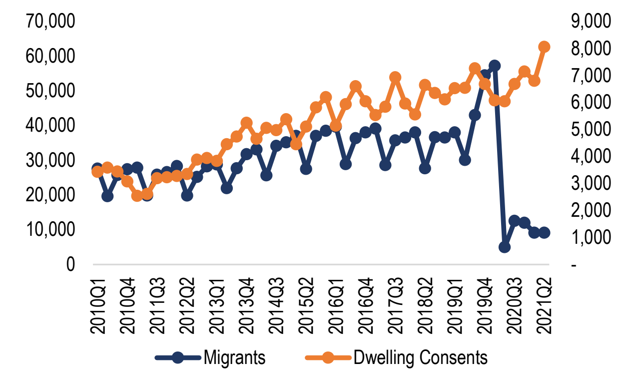


Figure 4: Dwelling Consents v Migrants *Source: Stats NZ*

Dwelling Consents v Resident Population

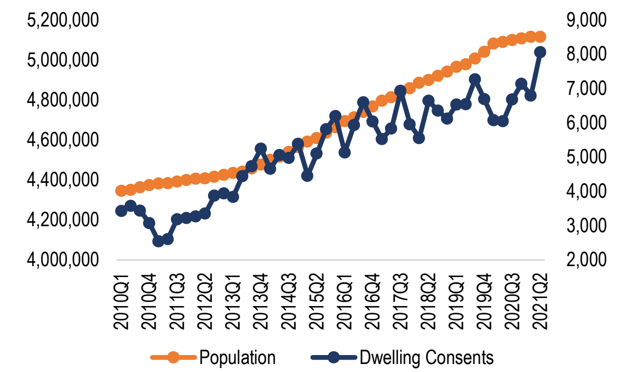


Figure 5: Dwelling Consents v Res. Population *Source: Stats NZ*

Dwelling consents increase despite significant drop in migration

- **Dwelling Consents v OCR:** Interest rates initially had direct impact on dwelling consents.
  - As per Figure 3, RBNZ has increased interest rates from 2.5% in 2010Q1 to 3.0% in 2010Q4. During this period, number of dwelling consents have fallen from 27,655 to 27,411, a decline of ~1%. The most interesting factor is the reaction of dwelling consents to that of OCR. OCR remained at 2.5% from 2010Q4 to 2013Q4, during the same period, the country witnessed a staggering 70% increase in consents from 3,079 to 5,247.
  - This explains the buyers were actively participating in the housing market. Although the interest rates remain constant, there is every chance that dwelling consents would increase as witnessed from the previous statement. During the Covid-19 pandemic, the interest rates declined to 0.25% and still remain the same and this has further influenced buyers to actively buy properties. Going forward, we can witness a minor dip in dwelling consents in the event of increase in interest rates, however, if interest rates remain constant after an increase to certain level, further active participation of buyers can be witnessed.
- **Dwelling Consents v Migrants**:
  - As per Figure 4, migrants and dwelling consents moved hand-in-hand and this relationship continued till 2020Q1. Until this period, it can be assumed that migrants have been playing a major role in house price inflation. However, during the time of Covid-19 pandemic, New Zealand closed borders during March 2020. Since then there was not much of an inflow witnessed in migrants entering the country.
  - During 2020Q1, the country witnessed an inflow of 57,223 migrants from all over the world. Post lockdown, this number has drastically declined to 4,992 in 2020Q2, an overall decline of 109%. During the same period, the country witnessed dwelling consents decline marginally by 0.5%. This further enhances the fact that rise in housing prices is definitely not just because of migrant inflow.
- **Dwelling Consents v Resident Population:**
  - As per Figure 5, resident population has been growing constantly for the past 10 years. However, it can be witnessed that the dwelling consents are more or less catching up with the growth trend of population but lack of significant effect of steady growth in population on dwelling consents proves the fact that this housing market is majorly driven by speculators rather than strong economics.

Dwelling Consents v CCI & Unemployment

Dwelling Consents increase despite decline in Consumer Confidence Levels

- After a flat Consumer Confidence Index (CCI) in March as the country shifted between the COVID alert levels, the Government announced policy changes that reduced the profitability of owning an investment property. However, consumer confidence has resumed its upwards trend in the past few months.
- The CCI declined 0.4% in Sep-19 as compared to Jun-19, dwelling consents increased by 11% during the same period. A similar pattern can be observed during Sep-20 where the CCI declined by 2.2%, however, dwelling consents witnessed an increase of 10.6% during the same period. The dwelling consents drastically increased by 18.6% in Jun-21 as compared to Mar-21 and CCI just increased by 1.8% during the same period. On an average, if CCI increases by 0.02%, dwelling consents have increased by 2.0% over the past three years. This suggests that even a slight change in CCI will have a major impact in dwelling consents.
- There's a good chance that consumer confidence will stay relatively strong in the coming months, as the labour market continues to rebound and house prices rise.
- However, COVID uncertainty has always been a risk and the medium term prospect of rising mortgage rates (as the inflation has already hit the upper limit range) will start to dent households' sentiment too.

Dwelling Consents v Consumer Confidence Index

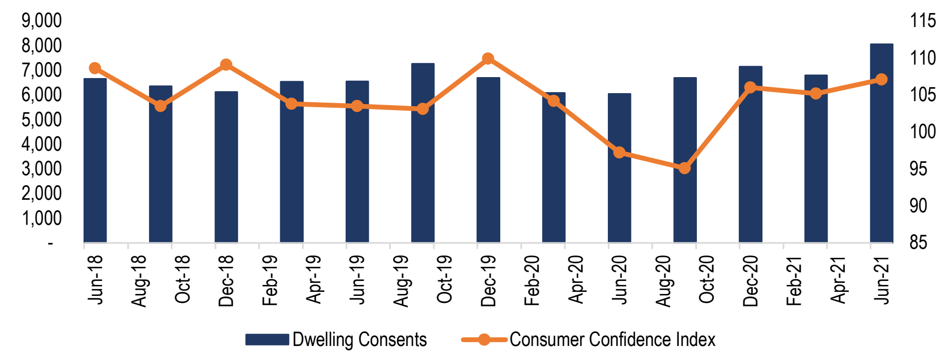


Figure 6: Dwelling Consents v CCI *Source: Stats NZ*

Dwelling Consents increase despite decline in Unemployment rate

- Overall, the employment level in 2021Q1 was 0.4% higher than a year earlier. The labour force participation rate actually increased in Q12021. However, the unemployment rate fell from 4.9% to 4.7%.
- As per Figure 7, during Sep-19, dwelling consents increased by 11% as compared to Jun-19. Number of people employed increased by 3.2% during the same time period.
- During Sep-20, number of people who were unemployed increased by 29.4% as compared to Jun-20, where as dwelling consents increased by 10.6% during the same period.
- On an average, data for the past 3 years suggests that dwelling consents and number of people who are unemployed are not positively correlated to a large extent. An increase of 0.1% in the number of people who are unemployed resulted in an increase of 2.0% in dwelling consents.
- Going forward, the potential mild activities of global businesses as the vaccination programs move forward will boost for New Zealand export oriented economy, and thereby help to support the labour market.
- In turn, the impact on housing market, both in terms of sales activity and property values may not be as high as they have proven to be in the past few quarters due to the negative correlation between the two parameters.

Dwelling Consents v Unemployment

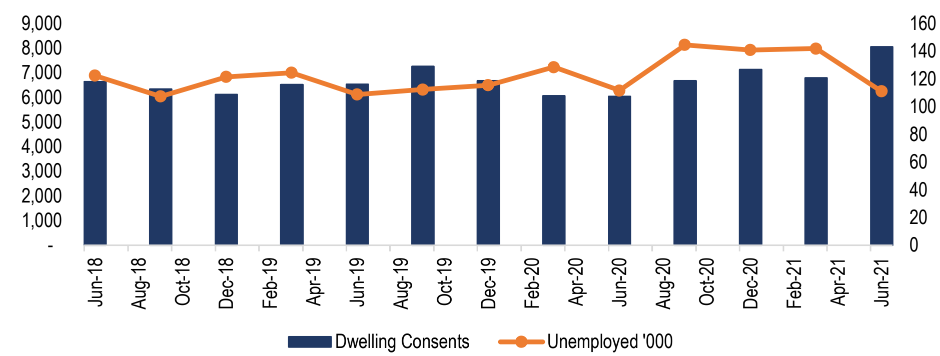
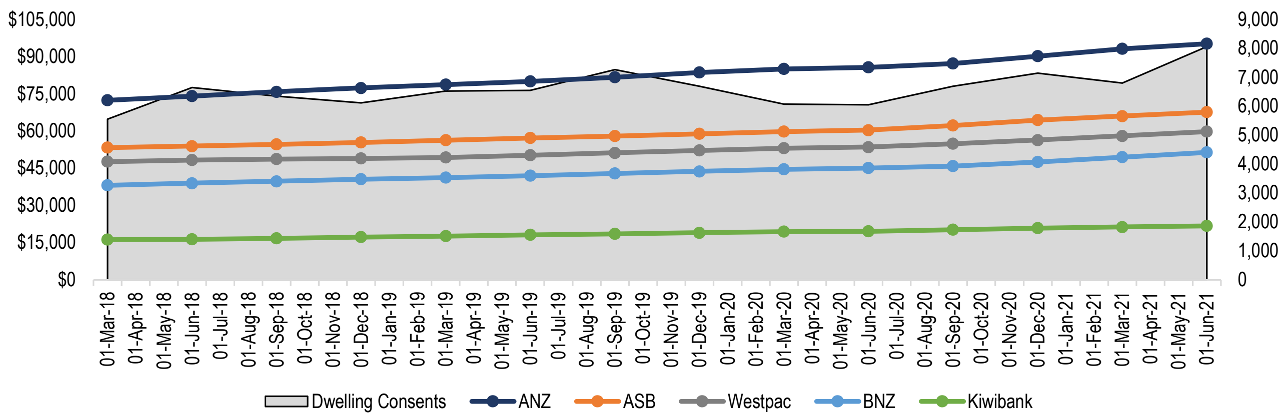


Figure 7: Dwelling Consents v Unemployment *Source: Stats NZ*

Financial Institutions & Housing Sector

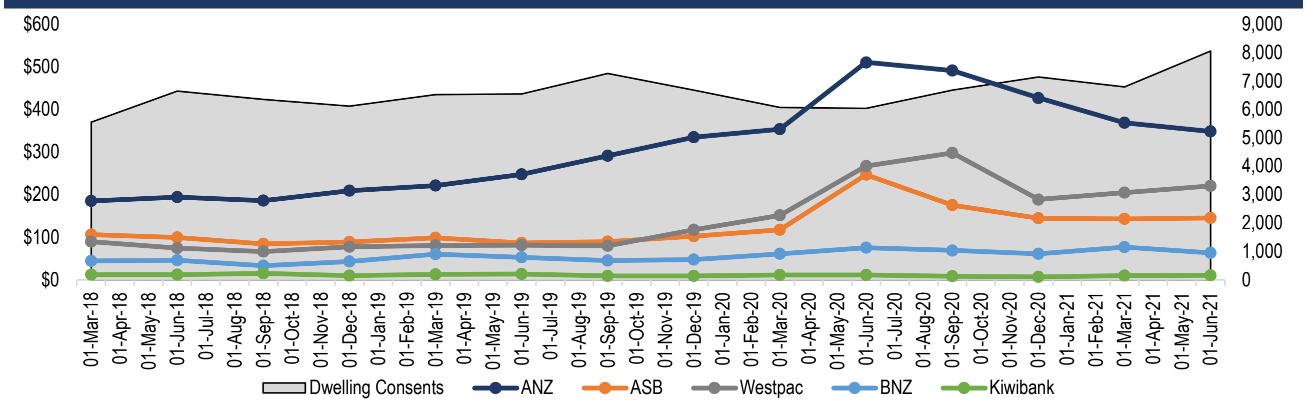
Financial Institutions – Exposure to Housing Sector

Dwelling Consents v Financial Institutions



Source: Stats NZ & RBNZ Website

Dwelling Consents v Non-performing Housing Loans



Source: Stats NZ & RBNZ Website

ANZ leads the Market Share in Housing Loans sector

- **Market Share:** ANZ leads the housing loan market share with 30% ($95,311.2Mn) followed by ASB (21.8%), Westpac (19.2%), BNZ (16.5%) and Kiwibank (7.0%) as on June 01, 2021.
  - It doesn't come as a surprise as to why just ANZ increased its interest rates before the RBNZ's OCR announcement in Aug 2021.
- Highest increase in dwelling consent was witnessed during 30-Sep-19 where the percentage increase in consents was 11.03% as compared to previous month. During the same period, ANZ, BNZ and Westpac witnessed increase in loan value by 0.55%, 0.42% and 0.23%, respectively. ASB and Kiwibank witnessed a negative growth rate in their loan value as they declined 0.33% and 0.81% respectively. This suggests that ANZ, BNZ and Westpac provided customers with better LVR and other services.
- **Credit Ratings**: S&P, Moody's and Fitch have all maintained highest credit ratings for all the banks except for Fitch which downgraded Westpac from AA- to A+. S&P and Moody's have maintained AA- and A+ respectively for the above-mentioned banks since 2018.

Dwelling consents increase despite increase in NPL

- **Overview:** Dwelling consents have been on an increasing trend despite increase in the Non-Performing Loans (NPL). Non performing loans comprises of both impaired loans and loans 90 days past due but not impaired.
- **Analysis**: Although there has been an increase in NPL, the dwelling consents have increased all over New Zealand.
  - During the lockdown (Mar 31,2020 – Jun 30, 2020), the NPL for ANZ, ASB and Westpac have increased by 44%, 110% and 76% while dwelling consents have just declined by 0.5%. This shows that banks have been accepting the risk of lockdown while providing with housing loans for buyers. Either the buyers should possess high creditworthiness or New Zealand is moving towards a housing bubble
  - The NPL increased by 88%, 37% and 145% as on Jun 30, 2021 as compared to March 31, 2018 for ANZ, ASB and Westpac, respectively. However, Dwelling consents increased by 45% during the same period. The credit rating agencies are still maintaining high credit ratings which is a cause for concern.

Government Initiatives & Housing Sector

The Crown Agency – Kainga Ora

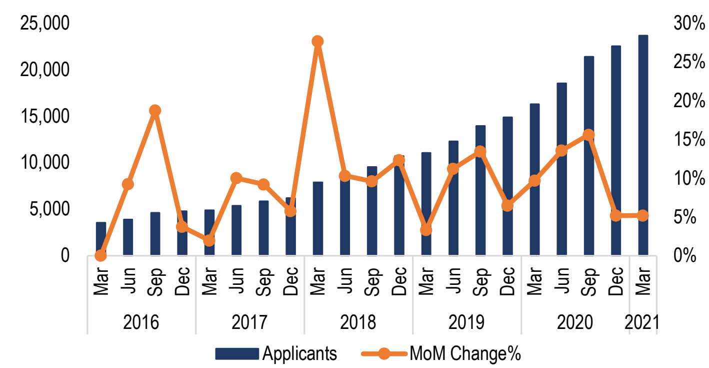
Kainga Ora is the Crown agency that provides rental housing for New Zealanders in need

- **Overview:** Kainga Ora is the sum of the three previous organizations, the KiwiBuild Unit, Housing New Zealand and its development subsidiary, HLC. Government assisted agency with a debt of $2Bn for its projects.
- As at 30 June 2021, there are 74,337 public housing places, consisting of 63,955 Kainga Ora and 10,382 registered Community Housing Provider properties.
- Kainga Ora's housing pipeline is continuing its upward trajectory, with 3,100 houses under construction or contracted to be built by 30 June 2020. The progress report on this is not available yet. Kainga Ora is responsible for facilitating housing development at Hobsonville Point, with at least 20 percent of the housing constructed over the next 10 years to be sold as affordable housing.
- **Auckland Development Program**:
  - *Hobsonville Point*: The development is over 60% complete with 2,556 homes delivered – a mix of 580 affordable and 1,976 market homes. Around 4,500 homes for 11,000 residents on completion will be available. Projected completion year is in 2025/2026.
  - *Northcote Development*: To provide 1500 homes over next four years. 202 homes have been delivered to date (100 state, 72 affordable and 30 market homes).
  - *Roskill Development*: To provide around 11,000 new homes within 15+ years.
  - *Owairaka Neighborhood*: To build around 1,200 new homes and demolish around 225 existing state homes.
  - *Oranga Development*: To build around 1,100 new homes by demolishing 400 state houses. Construction of new homes had begun and will continue through 2024.
  - *Mangere Development*: Over the next 15 years, the company plans to demolish 2,700 existing state homes to build 10,000 new homes. Out of which around 3000 will be new state homes and 7,000 will be more affordable and market homes.
  - *Tamaki Regeneration Programme*: The agency plans to deliver 3,000 new state houses and 7,000 more affordable and private houses.
  - *Porirua Development*: In the next 25 years, the agency plans to replace 2,000 state houses with around 4,000 homes.

Budget 2021 – Housing Sector

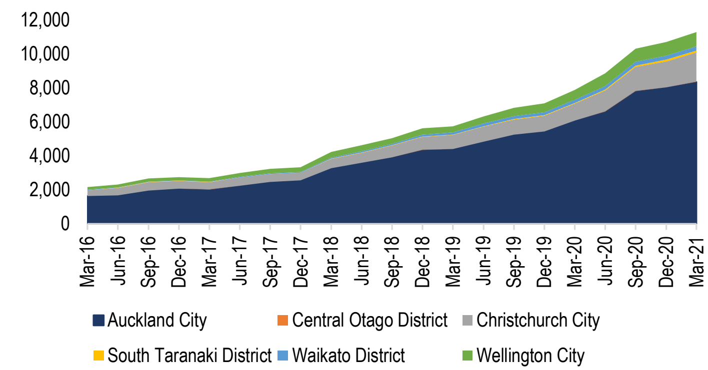
- 2021 budget decisions have allocated a net $3.7Bn with the most significant initiative relating to the housing acceleration fund.
- The budget highlights the forecasting for Housing Infrastructure Fund is as follows: $0.2Bn in FY22, $0.4Bn in FY23, and $0.1Bn in FY24.
- The budget forecasts for housing and community development is as follows: $715Mn in FY22, $970Mn in FY23, $812Mn in FY24 and $789Mn in FY25.
- As per the Budget 2021: "The overall impact of the Housing Package on the housing market is uncertain and depends on various factors, including the final design of the policy and the extent to which other participants (including first home buyers) step in to fill the gap in demand left by leveraged investors. The forecasts assume that other buyer types will enter the market, moderating the downward pressure on prices, but that their willingness to pay will be lower than the leveraged investors who exit the market."

Applicants for Public Housing – March 2021



Source: Ministry of Housing and Urban Development

Region wise applicants – March 2021



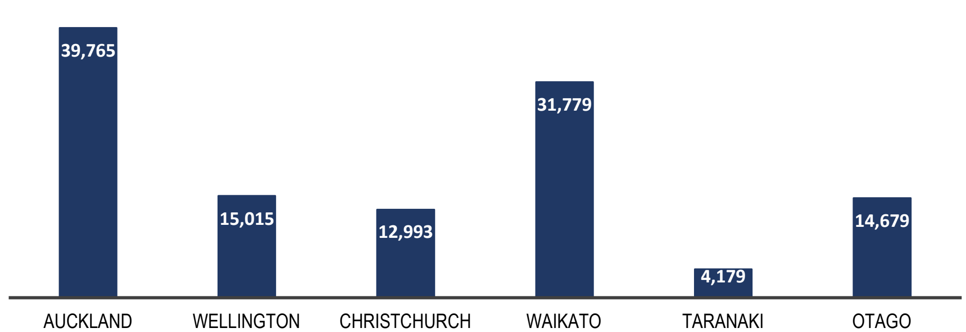
Source: Ministry of Housing and Urban Development

Government Initiatives – Challenges and Possible Solutions

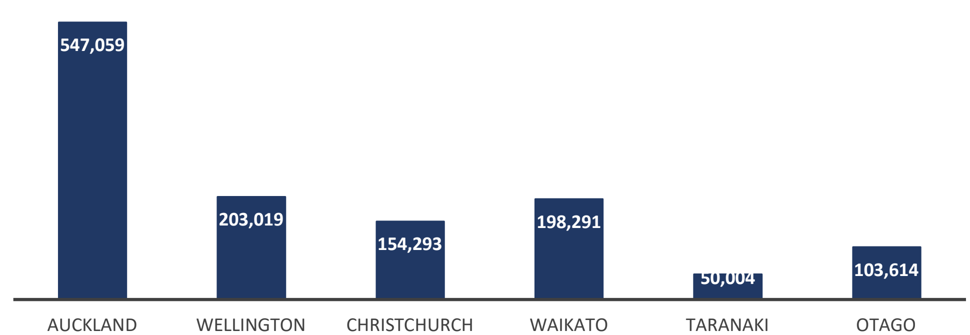
Will Government's initiatives dent the inflation of housing prices?

- **First Home buyers (FHB):** During March 2021, the Government has taken initiative to benefit the FHB. The salary cap has been increased for potential buyers: single people can now earn up to $95,000 (up from $85,000) and qualify for the schemes, while couples can earn up to $150,000 (up from $130,000).
    - Possible Hindrance: This move in particular will contribute to further rise in housing price inflation as the FHB now have additional limit to speculate during auctions for high prices for properties of interest.
- **Brightline Test Extension:** The bright-line test – an effective capital gains tax on investment property – will be extended from five to 10 years, meaning profits from the sale of property within 10 years of buying it could be hit with a tax of up to 39 per cent.
    - Possible Hindrance: This might motivate the investors to rent properties instead of leaving them as ghost homes but the rents would be on higher note as most of investor properties are at prime locations, further fueling the prices.
- **Interest Deductibility Factor**: Interest on a mortgage on a residential investment property (acquired before 27 March 2021) will be gradually phased out between 1 October 2021 and 31 March 2025. Other interest would immediately cease to be deductible from 1 October 2021.
    - Possible Hindrance: This move attempts to make the property investment less attractive. What if large percentage of investors decide to sell their existing properties. This will cause more supply of houses in the market and demand will reduce, in turn declining the housing prices – a possible dent to property developers and construction companies.
- **Large Scale Asset Purchase Program (LSAP):** The introduction of LSAP program drives RBNZ to buy bonds from the market and this has in turn decreased the interest rates, causing inflation in housing prices. This program has been halted for now.
    - Possible Hindrance: If RBNZ decides to sell the bonds purchased into the market, the interest rates will increase and this move will negatively affect the property investors and construction companies.
- **Building new houses v Unoccupied Houses:** Labour Government plans to lift that number of new builds to 18,000 by 2024, including a May Budget commitment to allow Kainga Ora to lift its borrowing cap by $5 billion to $7.1b so it can build 15,400 new homes in the four years to 2024. All this looks good in hindsight but what about those properties termed as Ghost houses or Unoccupied dwelling houses. Its time to consider what if these houses become available on the market for sale? How deep the correction in housing prices will be? Below are the charts for total houses and unoccupied houses as per the Census 2018 data:

Unoccupied Dwelling – Census 2018



Total Dwelling – Census 2018



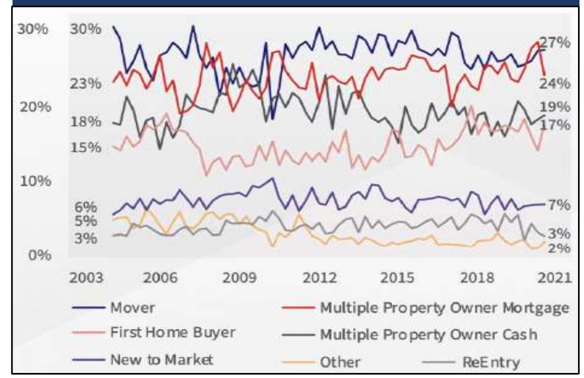
CoreLogic - Charts & Graphs

CoreLogic Findings on Housing Market

Buyer Classification – New Zealand

Buyer Classification – Auckland

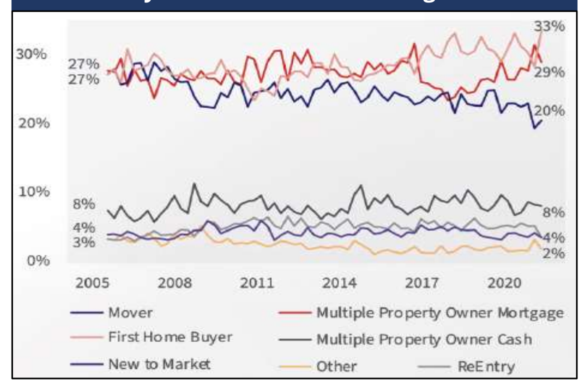
Buyer Classification – Otago



Buyer Classification – Christchurch

Buyer Classification – Waikato

Buyer Classification – Wellington



Thank you!