

Auckland property: Where to from here?

by Paul Foster

Opinions are pretty divided on whether the Auckland property market is now at or nearing its peak. Some industry experts and economists that say there is some way to go, are pointing towards the three fundamentals still being very much in play.

Those three fundamentals are:

- *Housing supply shortage (and slow consents)*
- *High immigration*
- *Low interest rates*



They seem to suggest that nothing significant has changed that would prompt any sustained drop off in house prices. The recent market slow down is being suggested as a temporary reaction from the LVR changes, now requiring a 40% deposit from investor buyers, and lenders just getting themselves re-adjusted before marching on. If the last two rounds of the property cycle are anything to go by, a short adjustment period of 2-3 months will be all it takes before there is upward movement again.

There is however more at play than those three fundamentals. Lending criteria outside of the LVR rules are tougher. Bridging finance is no longer an option for people where it once was. Westpac, the last bank to offer 6-month pre-approvals, has now come in line with other lenders only offering 3 month pre-approvals, and has also pulled all pre-approvals already granted that were longer than a 3-month period.

Rental yields are potentially at a tipping point where they are so negatively geared that it no longer makes sense to a lot of investors to purchase in Auckland. Affordability from first home buyers is getting stretched, and using family equity is getting harder.

Global volatility is also causing caution and hesitancy and the immigration points system recently introduced will make it harder for some to come to Auckland, impacting the flow of demand.

Also keep in mind that the previous peaks in property prices have occurred in approximately 1987, 1997, and 2007, so with 2017 just around the corner this also suggests we are topping out in the current cycle.

The difference I see with this LVR change compared to the last two, is that previously buyers made the conscious decision to hold off and wait, but this time round that decision is being made for them in many cases. We are seeing a lot of buyers that would desperately like to buy, but are now no longer in a position to be able to and are getting turned down on finance, for reasons other than the LVR changes.

The other difference is the stock levels coming on to the market currently. As of today, Trade Me was showing 965 properties for sale on the North Shore. This has jumped quite dramatically in the last couple of weeks and is above the same time last year. When making a booking with one of our local home stagers today, we were told that they are fully booked for over a month and are turning more and more people/agents away because so many homes are being listed in the coming weeks. They also have the issue of the staging they have in use being needed at the property for longer in the current market. Interesting!

On the balance of all of this, I believe that if buyers are going to return to the market that have exited recently, it will be with caution and not in the numbers as previously. If it is a sustained slow down, it will be a soft landing as the fundamentals will prevent a crash or correction of any significance, so double digit year-on-year growth could well be finished for this cycle. Most would hope so.

Advice to buyers is then to make the most of this window of potentially less competition to purchase – but make sure that your pre-approval is current. Advice to those selling property is to make sure you use a selling strategy that can extract the highest price without necessarily having multiple buyers.

We are not currently in an environment where you can throw any property at an auction and have buyers fight it out pushing the price sky high, which is evident in the current auction clearance rates reportedly hovering around the 30% mark in some auction rooms around Auckland.

Whether you are buying or selling, we suggest [get in touch with us](#) for expert and honest advice.