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TONY ALEXANDER Regional Property Insights

JULY 2022



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Introduction

Welcome to the sixth issue of Regional Property Insights for 2022, prepared by Tony Alexander with the support of First Mortgage Trust.

In each issue of RPI we usually look at data which covers an entire region. But as a one-off, this month we look at things at the local authority level to see which specific parts of a region might have soared the most above average prices for the region as a whole.

Previous issues of Regional Property Insights are available [here](#).

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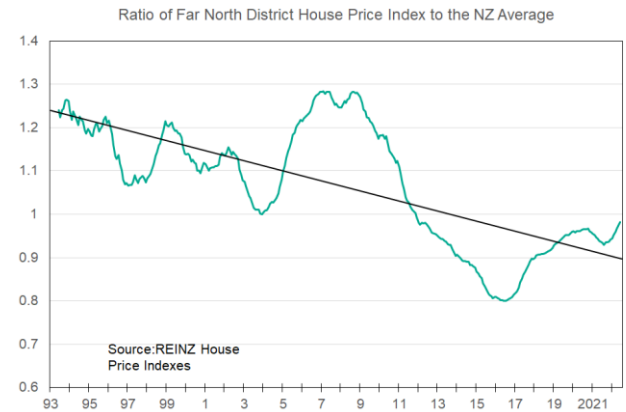
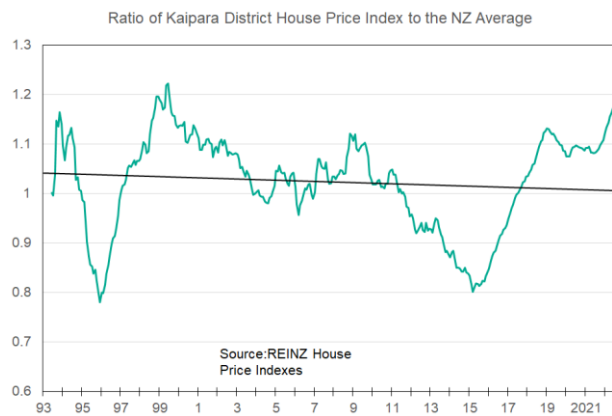
Further extensive discussion of house price movements and factors affecting prices can be found in the weekly Tony's View publication available from www.tonyalexander.nz

Northland

No correction yet underway

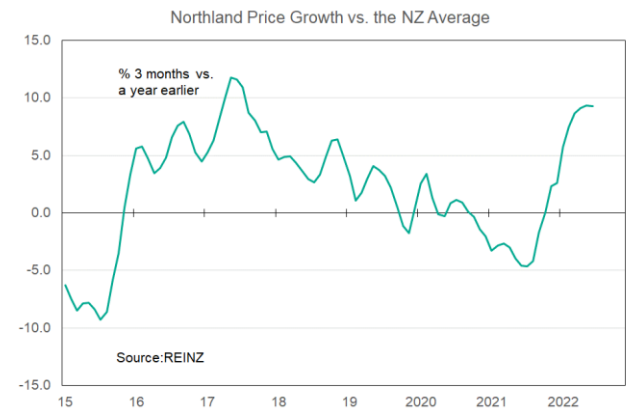
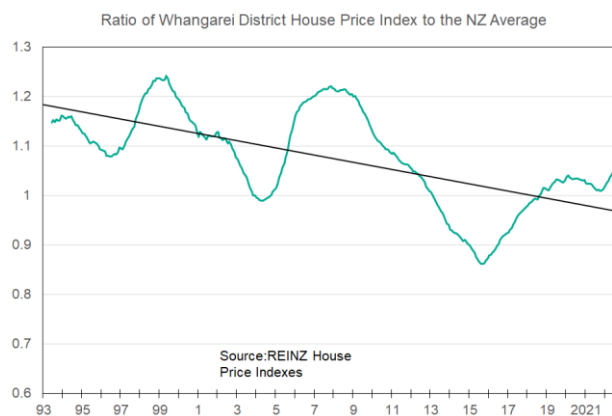
There are three local authorities in the Northland region and all three show prices sitting above their long-term relationship with the country overall. The most notable of these is Kaipara. This locality has the smallest population of all three areas at just 26,000 people.

The Far North District has a population of 73,000 and like Whangarei, prices are only slightly above trend. Again, no definitive reversal in the degree of over-valuation is yet underway and the Northland region in this regard stands out from most other above trend regions where corrections have already started.



In contrast the Whangarei District has 100,000 people, located mainly in Whangarei itself. Prices in Whangarei are only slightly above trend, but the interesting thing is that a correction back towards trend has yet to definitively start.

The region overall is still seeing price movement well above that for the country overall.



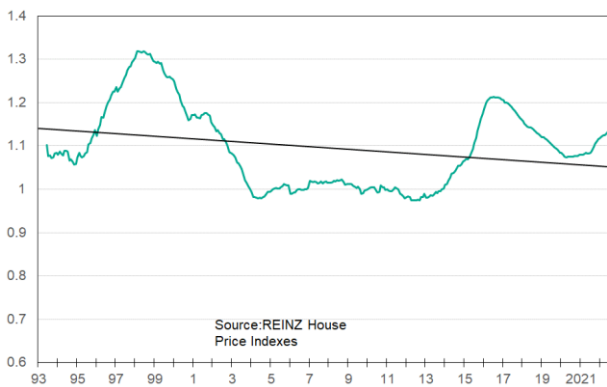
The location continues to attract Aucklanders taking advantage of the improving roading network and still perhaps altering their lifestyles in response to the pandemic.

Auckland

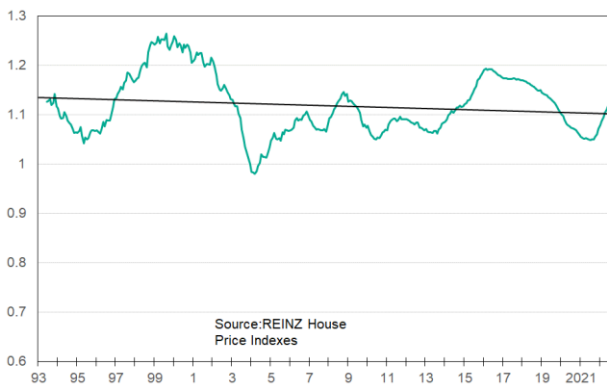
Very mixed price positions

Auckland has just the one local authority area, but seven old cities which we can instead examine to find something potentially insightful. Only two of the seven old locations present as having prices somewhat elevated compared with the trend versus the rest of the country – Papakura and Franklin.

Ratio of Papakura District House Price Index to the NZ Average

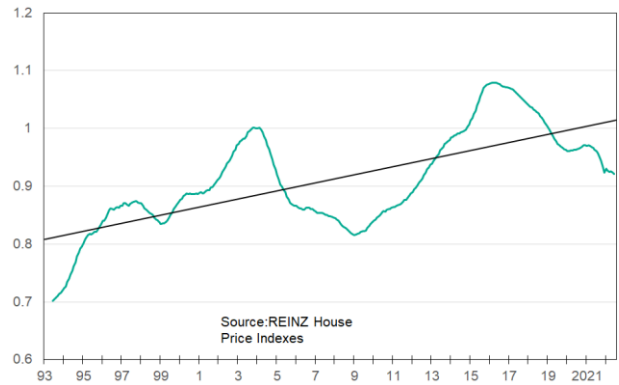


Ratio of Franklin District House Price Index to the NZ Average



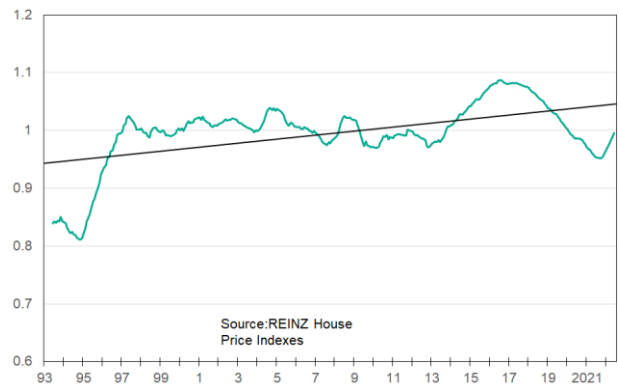
Neither is much above trend but the comparison with the rest of Auckland suggests these locations will experience relatively greater weakness. Auckland City for instance is comfortably below trend.

Ratio of Auckland City House Price Index to the NZ Average



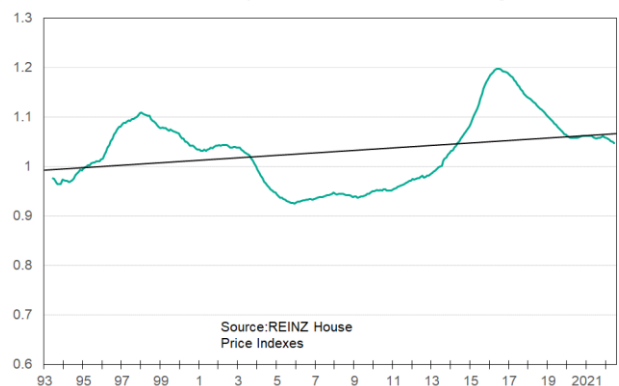
So also is Rodney where relative price gains are already being made.

Ratio of Rodney District House Price Index to the NZ Average



Manukau is about level with average.

Ratio of Manukau City House Price Index to the NZ Average



Waitakere is about on trend, but North Shore is relatively under-priced.

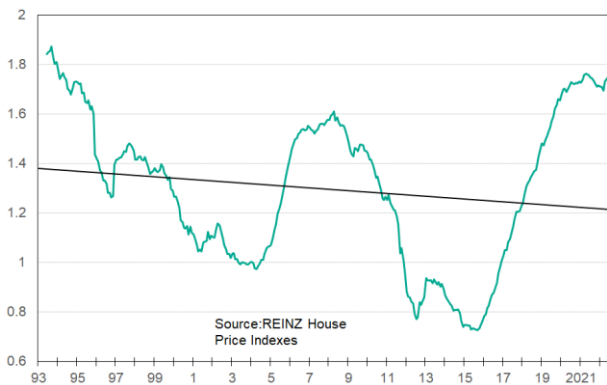
Bay of Plenty

Some locations well above trend

There are six local authorities wholly or mainly in the Bay of Plenty region. All show prices to be above their long-term relationship with the country overall and the most interesting of these is Kawerau.

This is a location with a small population of under 8,000 but for which media attention has been quite disproportionate over the past two years with regard to focussing on price gains.

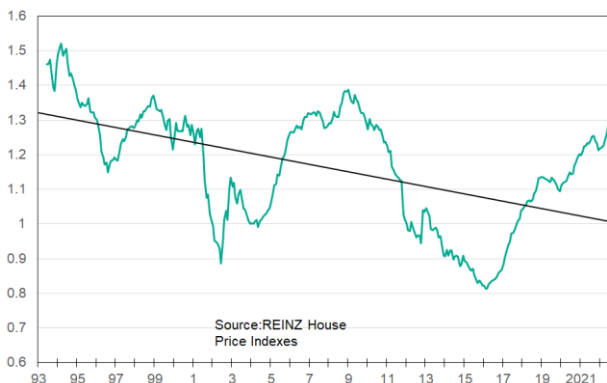
Ratio of Kawerau District House Price Index to the NZ Average



The problem is that because of the small population base periods of strong price gains can easily be followed by relatively large price declines. That could easily be in prospect now as the area is still well above trend. Price falls could easily run for much longer than the country overall.

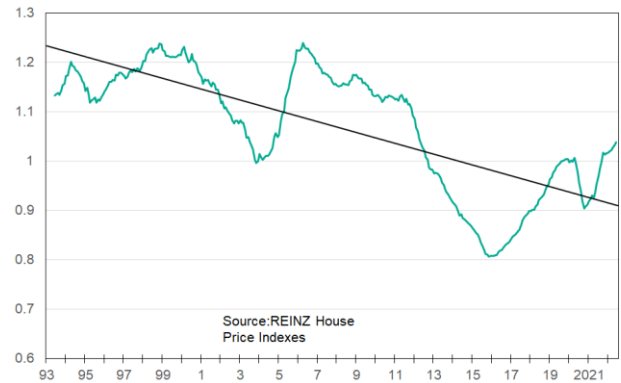
In Opotiki prices are also above trend and due for a correction downward.

Ratio of Opotiki District House Price Index to the NZ Average



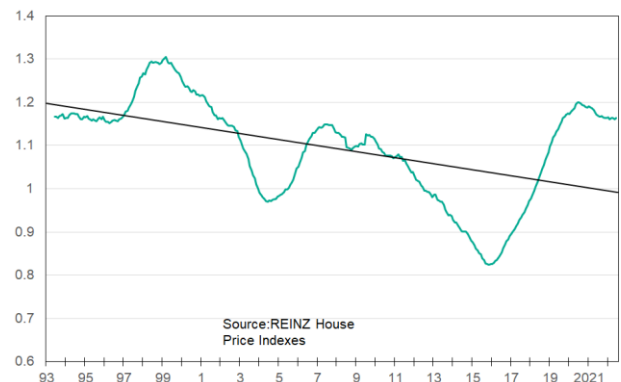
Whakatane does not present as being all that grossly above trend.

Ratio of Whakatane District House Price Index to the NZ Average



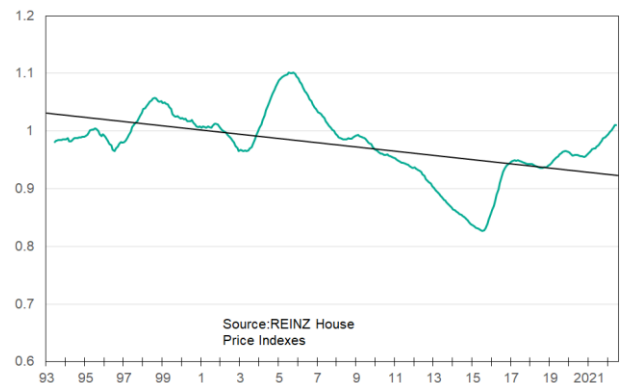
Rotorua however does. Note how different the dynamic is from Queenstown Lakes with regard to loss of foreign visitors for two years.

Ratio of Rotorua District House Price Index to the NZ Average



Tauranga City is only slightly above trend.

Ratio of Tauranga City House Price Index to the NZ Average



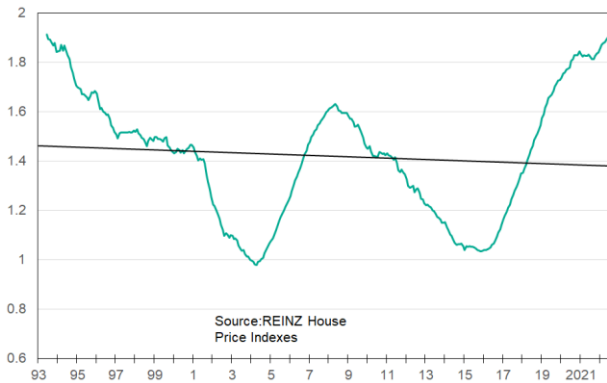
In this region price corrections are set to be largest in the smaller locations.

Waikato

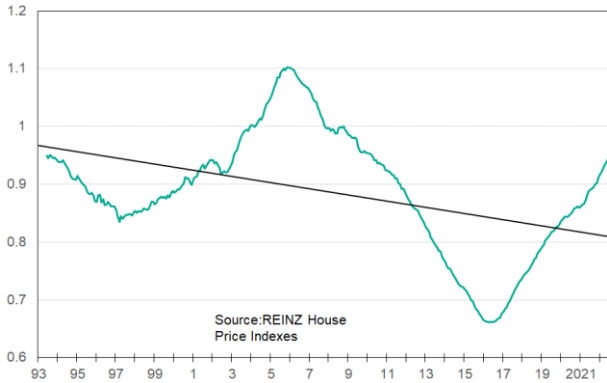
Mixed price corrections in prospect

There are ten local authority areas in the Waikato region and all show average prices to be above their long-term trend with the country overall. The greatest of these appears to be South Waikato followed by Waitomo and then Taupo.

Ratio of South Waikato District House Price Index to the NZ Average

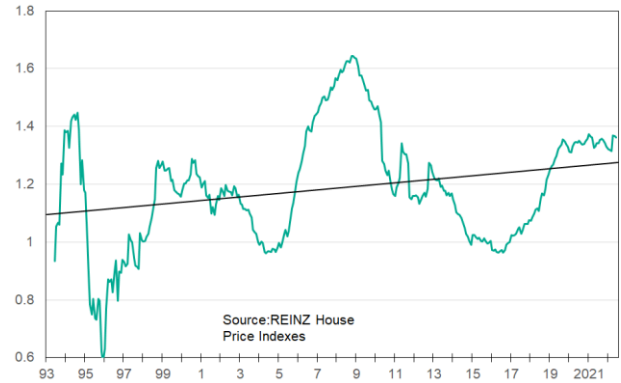


Ratio of Taupo District House Price Index to the NZ Average



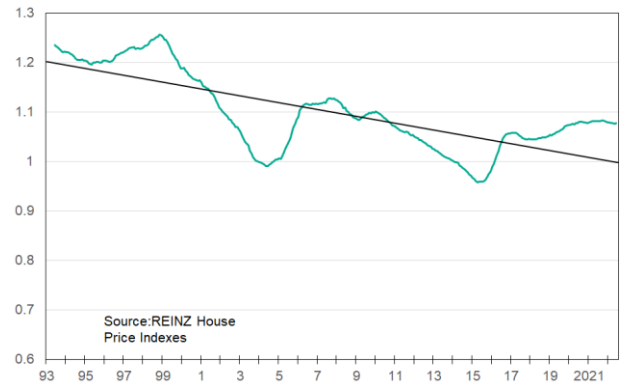
Otorohanga is only slightly above trend, and this is an interesting contrast to the previous cycle when the location attracted a lot of investors who were finding other locations to be too expensive.

Ratio of Otorohanga District House Price Index to the NZ Average



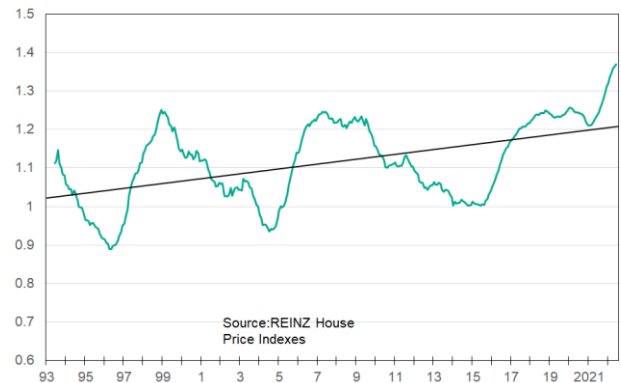
Hamilton City is above trend but not aggressively so and did not get to that position as a result of any particularly unusual surge in prices relative to the rest of the country. The transition is somewhat smooth and that is the sort of thing which suggests the trend line may be shifting upward over the next few years.

Ratio of Hamilton City House Price Index to the NZ Average



The Waikato District abuts Auckland and there we can see some rapid relative price appreciation in recent times. Development of the transport network suggests the pullback from this surge may be limited.

Ratio of Waikato District House Price Index to the NZ Average

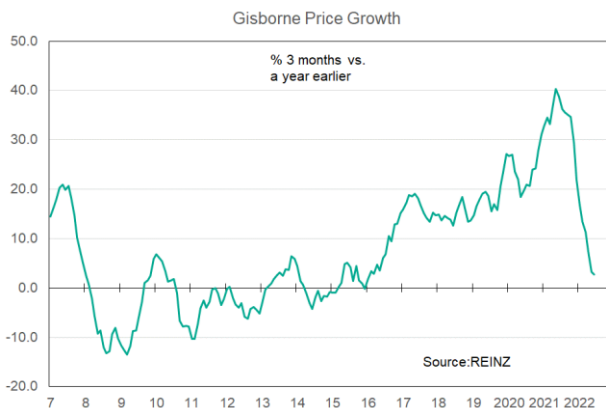


Gisborne

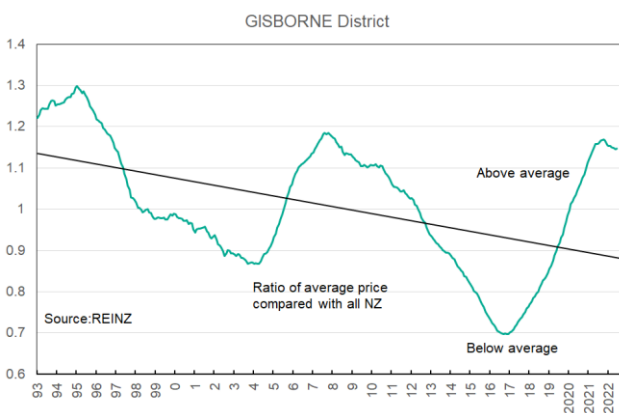
Correction from the boom likely

Gisborne Region/District has a population of about 52,000 yet often attracts a lot of attention when discussions of the property market arise. It is well off the beaten track for tourism, so has suffered less than many other locations in the country during the period of border closure. It also has a reputation for attracting Kiwi expats.

But the pool of houses on the market for sale has been very low in recent times and that has contributed to a strong surge in prices over the past six years.

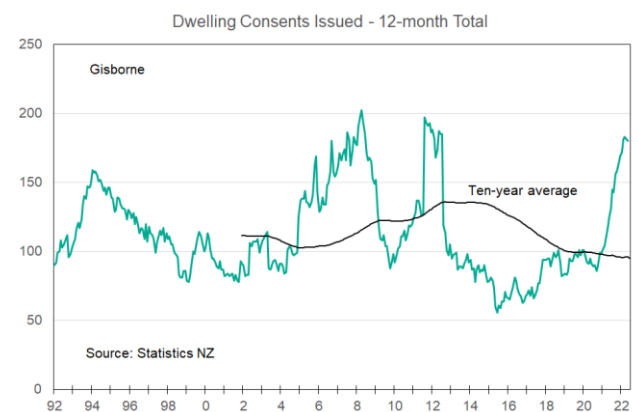


That surge has now ended, and the region presents as being quite vulnerable to price declines should the economy experience a deep shock from global events.



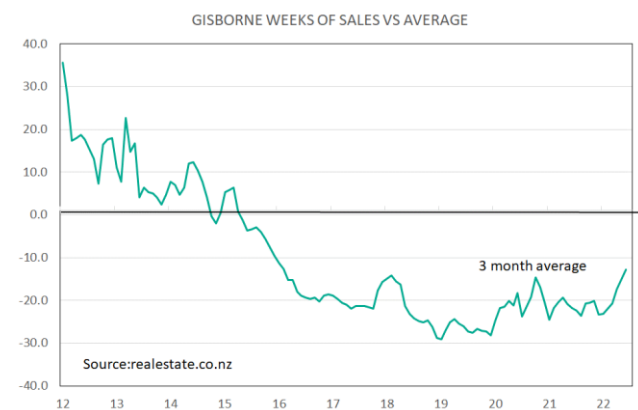
Because this region consists of just the one local authority, we cannot do the more specific breakdown as for other regions covered in this publication. The small population size also means we virtually never get sufficient responses in surveys to present results.

But we do have data from Statistics NZ showing a very strong lift in the number of consents issued for new dwellings to be built.



History suggests however that this burst of activity will not last long.

But note that when we look at measures such as the number of week's worth of sales on the market, the stock of property listings is still below average.



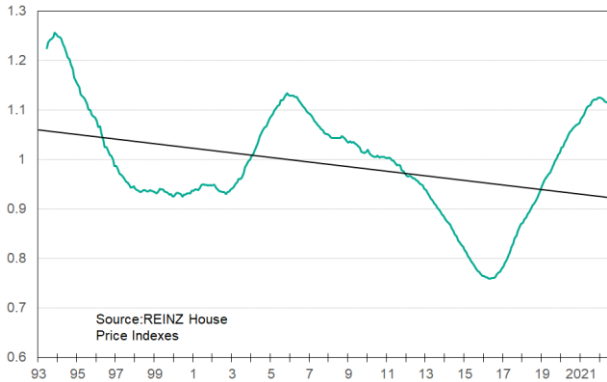
Hawke's Bay

Highly vulnerable

There are four territorial authorities in the Hawke's Bay region, the smallest of which is Wairoa with only 9,000 people versus Hastings with 90,000 and Napier with 67,000.

In Hastings average house prices have moved to levels well above their long-term trend with the country as a whole.

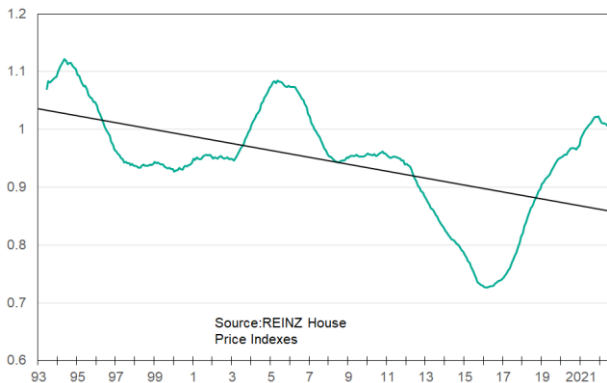
Ratio of Hastings District House Price Index to the NZ Average



Vulnerability downward is very high.

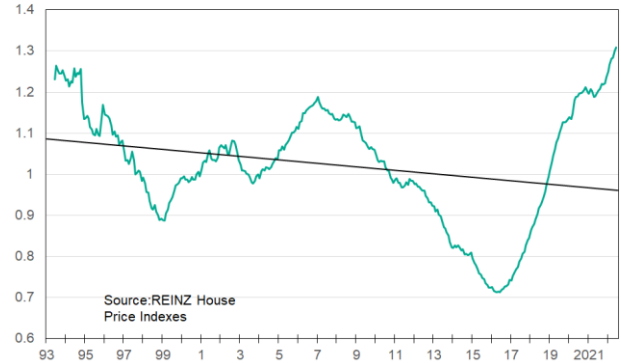
The situation is only slightly less obvious in Napier where the correction looks to be slightly ahead of that for Hastings.

Ratio of Napier District House Price Index to the NZ Average



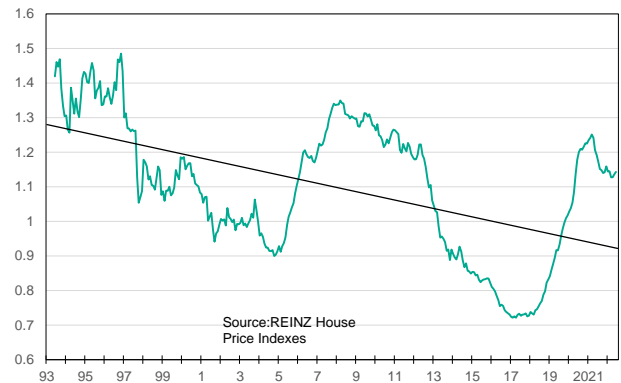
Central Hawke's Bay however is where things have gone quite ballistic in recent years and vulnerability to an economic downturn could be considered extreme.

Ratio of Central Hawke's Bay District House Price Index to the NZ Average



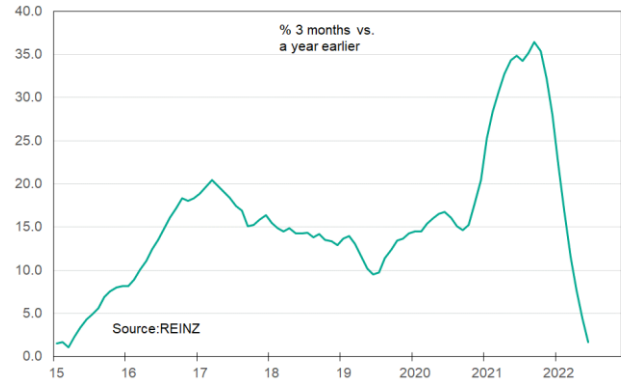
In Wairoa, things are above trend but not as much as elsewhere in the Hawke's Bay region.

Ratio of Wairoa District House Price Index to the NZ Average



This final graph shows the annual rate of change in average house prices for the region. Soon prices will be lower than a year earlier.

Hawkes Bay Price Growth



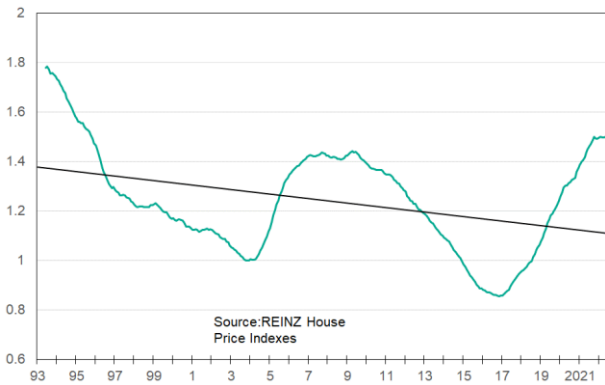
Manawatu-Wanganui

Correction due

There are seven territorial authorities in the Manawatu-Wanganui region. In all of them prices over the past few years have moved well above their long-term trend level with the country overall. Vulnerability to a greater than average price correction as the pandemic's effects on regional population growth wane would appear to be relatively high.

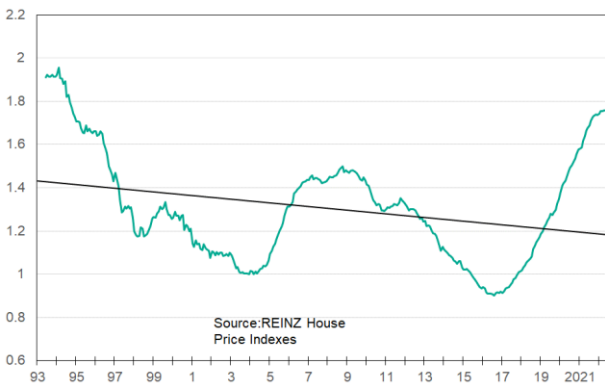
Wanganui prices are a long way above trend.

Ratio of Wanganui District House Price Index to the NZ Average



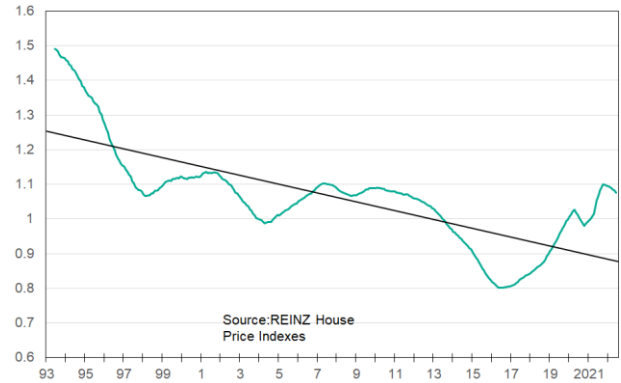
As are prices in Rangitiki, Tararua, and Horowhenua.

Ratio of Rangitikei District House Price Index to the NZ Average



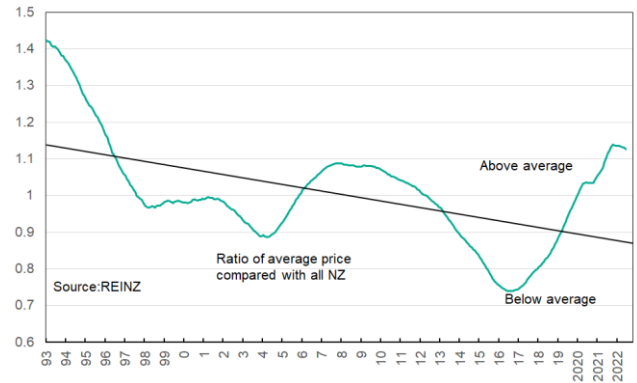
In Palmerston North City prices are also above trend, but to a lesser degree.

Ratio of Palmerston North City House Price Index to the NZ Average



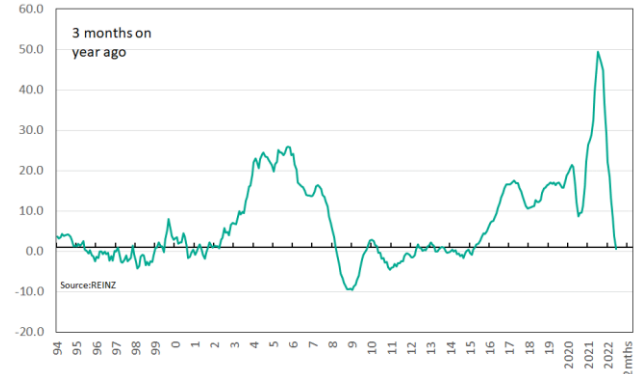
The Manawatu-Wanganui region overall is due for a period of price weakness.

MANAWATU-WANGANUI



This follows a period of exceptionally strong price growth driven not just by the pandemic encouraging people to shift to the regions, but investors looking for yield also in recent years.

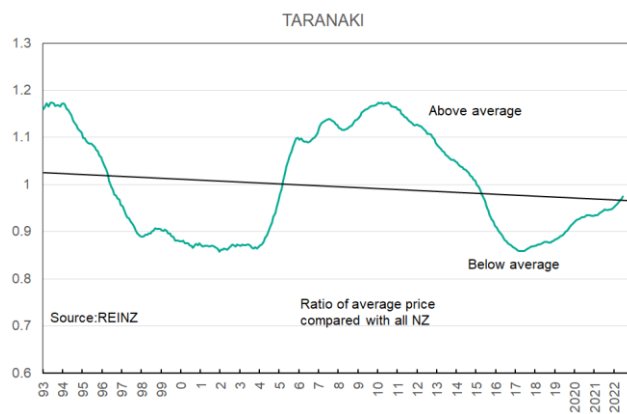
MANAWATU-WANGANUI HOUSE PRICE INFLATION



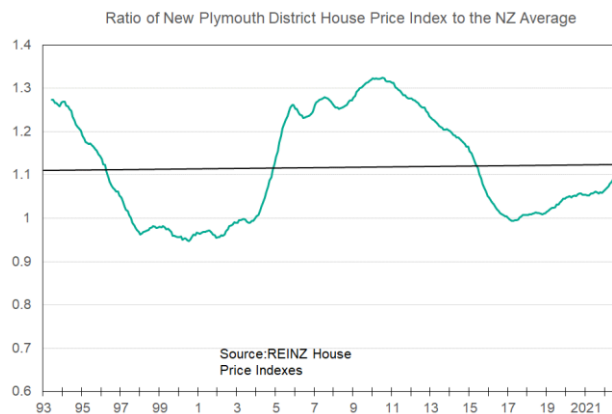
Taranaki

Almost left out of the boom

Taranaki is the only North Island region apart from Auckland not to experience a very large boost in prices associated with the pandemic. Prices overall are neither above nor below low.

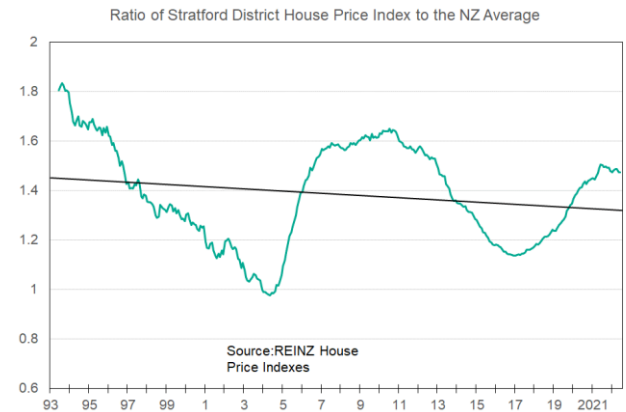


But this mainly reflects relative weakness in New Plymouth.

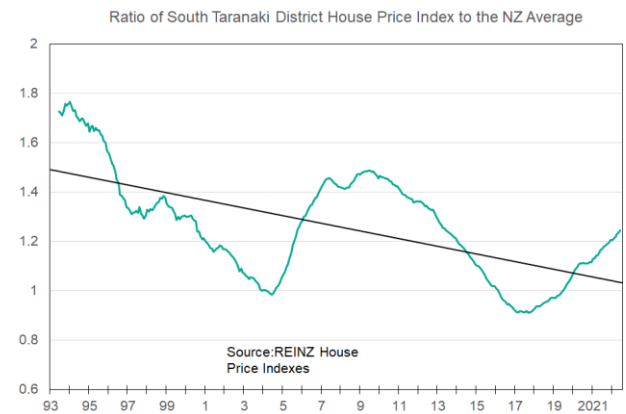


The situation is different in the regions' two other districts.

In Stratford average prices moved above trend in 2020, but not by all that much. They remain above trend with no clear correction as yet underway.



In South Taranaki the situation is one where greater potential exists for a period of price weakness.

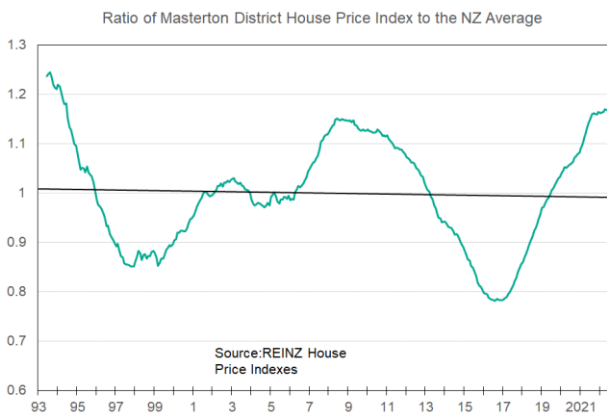


However, with dairy incomes running at high levels the potential for price correction is perhaps more limited than the graphs would suggest on a standalone basis. It also pays to note that most other North Island districts have seen prices move quite beyond the pale over the past two years and for investors willing to pursue cyclical opportunities across regions, there might be some demand.

Wellington

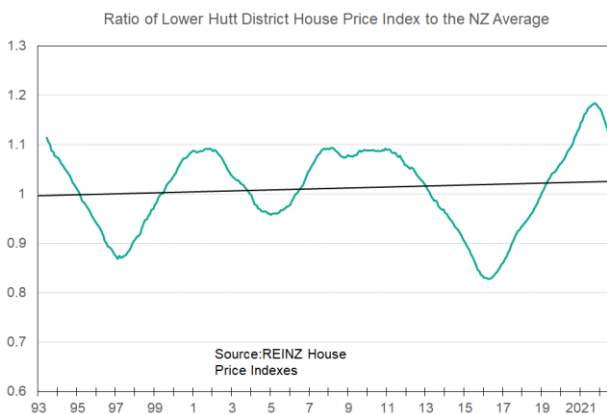
A period of correction is underway

There are eight local authorities in the Wellington region. The three displaying average prices most above trend are all in the Wairarapa with graphs which look like this one for Masterton. The pandemic has combined with the effects of an aging Wellington population on the southern side of the Rimutakas to produce a population influx which rapidly soaked up the stock of available houses. Prices soared.

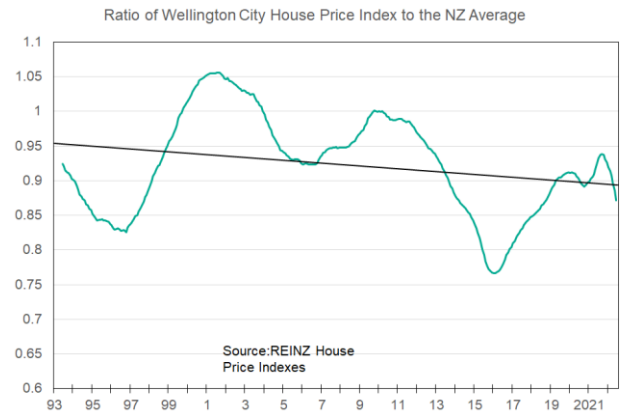


Average house prices are now well above their long-term relationship with the country as a whole and an extended period of under-performance now looks highly likely.

A correction back toward trend has in fact already started in many of the Wellington region's other districts. The graphs for Lower and Upper Hutt, Porirua and Kapiti Coast all look like this one for Lower Hutt.

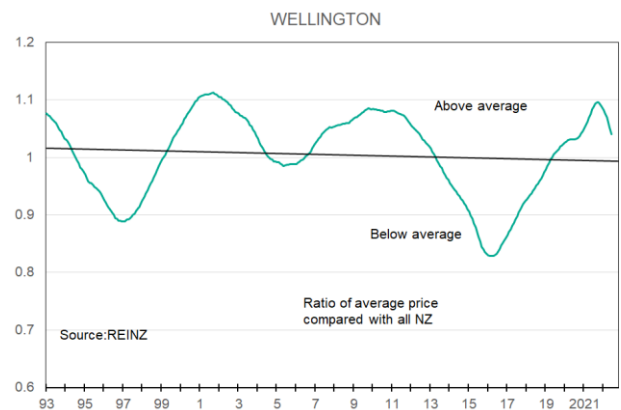


The outlier is Wellington City itself.



In Wellington City prices rose strongly from 2016 through to early-2021. But they have been weakening off firmly over the past year and now sit 18% lower than in June 2021. This is the biggest annual decline for all NZ territorial authorities.

The regional overall shows prices above trend with further downside likely.



Nelson, Tasman, Marlborough

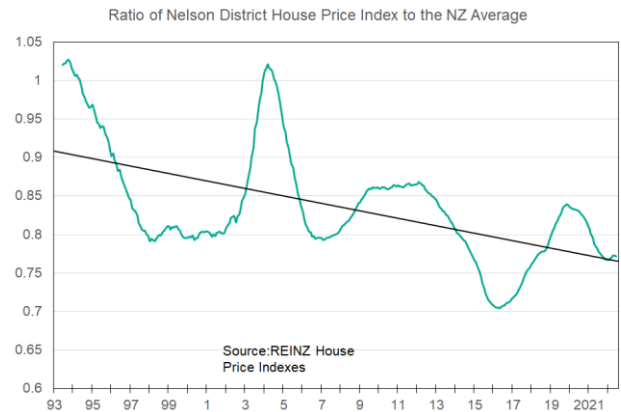
No big correction risk evident

There are differences between the three regions/districts which are sometimes grouped into the informal category “Top of the South Island”. Land for development is scarce in Nelson and that has a big impact on real estate activity and population growth. Marlborough has long been a favoured retirement destination for many Cantabrians, while Tasman has been attracting people from all over the country for some time.

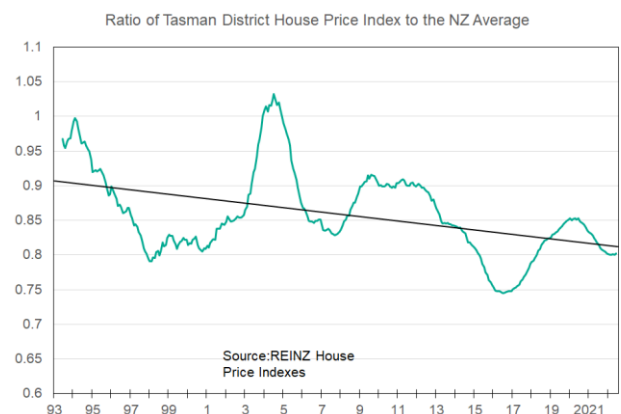
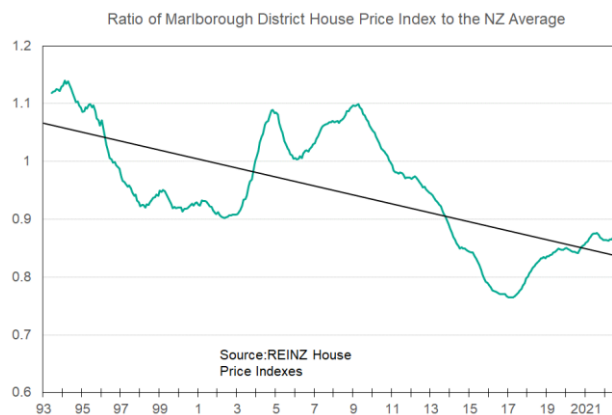
The weather tends to be good in all three districts with extremely good access to the outdoors making the area popular with Kiwis and foreigners seeking outdoor experiences. Alternative lifestyles have also long sought out the warm climes and relaxed natures in the Golden Bay part of the Tasman District.

In Marlborough average house prices are only just above trend. The location has benefitted from people seeking alternative living arrangements as a result of the Covid-19 pandemic. The earthquakes of recent years may however have had a restraining impact on some.

In Nelson City average prices are exactly on their trend level when compared with the country as a whole.



The downward trend is an interesting one considering the aging population one might have thought would have been shifting there. But lack of space for new housing developments, air pollution in the city in winter, and worsening road congestion however have likely acted as a deterrent to many. Instead, they have gone to Tasman where development land has been more available.



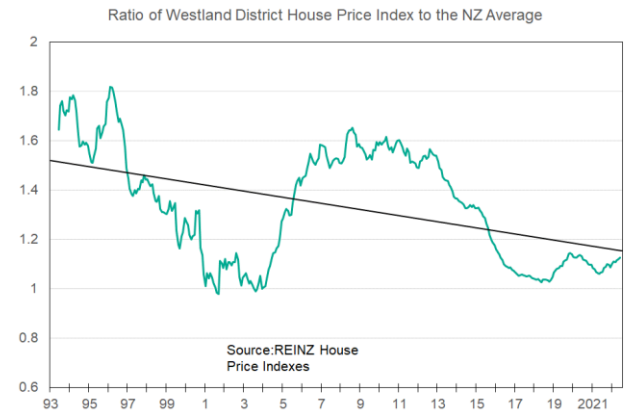
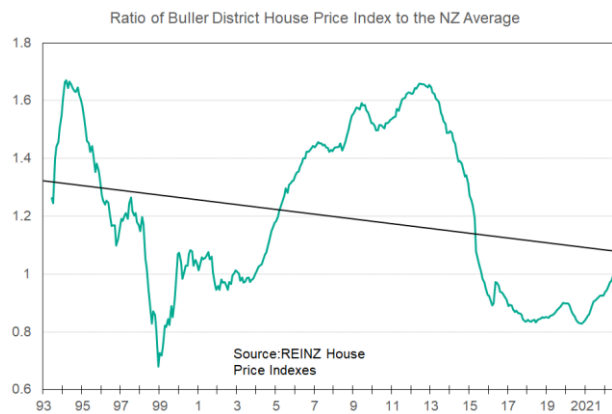
In the Tasman District prices are essentially on trend and display no special vulnerability as the country overall experiences a period of price retracement following the unsustainable Covid boom.

West Coast

Not over-valued

There are three districts which make up the West Coast region. All of them show average prices to be below trend versus the country as a whole. Northernmost is Buller with a population of almost 10,000 people – possibly shrinking slightly more than usual currently because of the impact of flooding events in Westport.

Finally, there is the Westland District with some 9,000 people.

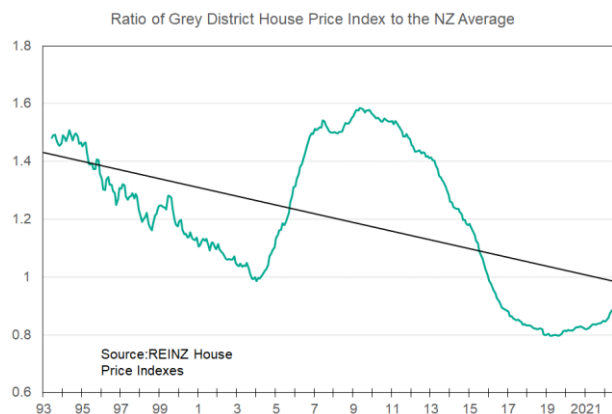


Prices in Buller are holding up better than for NZ overall with no indication that extra weakness lies in prospect.

Prices for houses in Westland on average are very low by NZ standards with slightly more volatility than in the Grey and Buller Districts. A slow movement back towards trend is underway.

This is even more the case for Grey District with a population of 14,000 people. Prices there show quite low volatility despite the small population base.

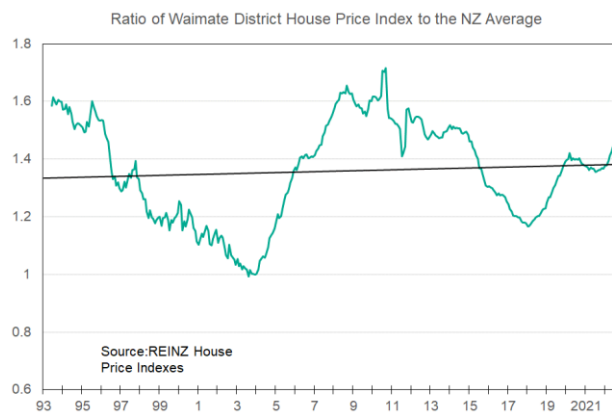
It will be interesting to see what happens when international visitors return and the region as a whole can regain a sector which has become of high economic performance in recent years now that the extractive industries' activities have been curtailed so much by government legislation.



Canterbury

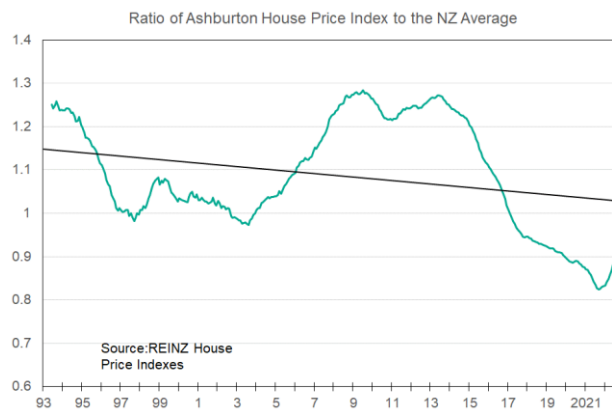
Hardly any district over-valued

There are nine districts in the Canterbury region (plus 59.61% of Waitaki) so we cannot present graphs for all of them. However in terms of where the greatest vulnerability to price declines exists, the only candidate is Waimate.

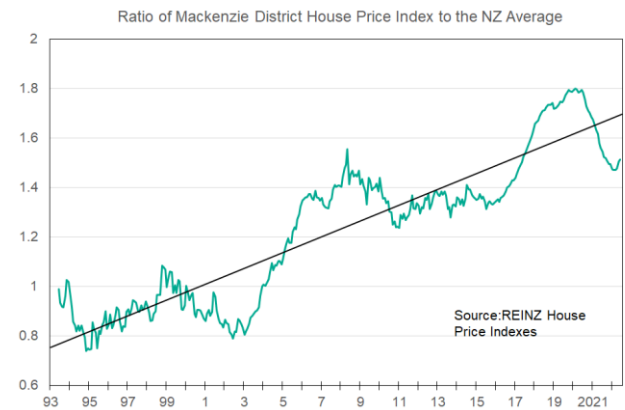


But the level of prices above their trend versus NZ as a whole gives essentially no guidance as to where things are headed. The more interesting situation comes when we look at the other districts which all show prices below trend.

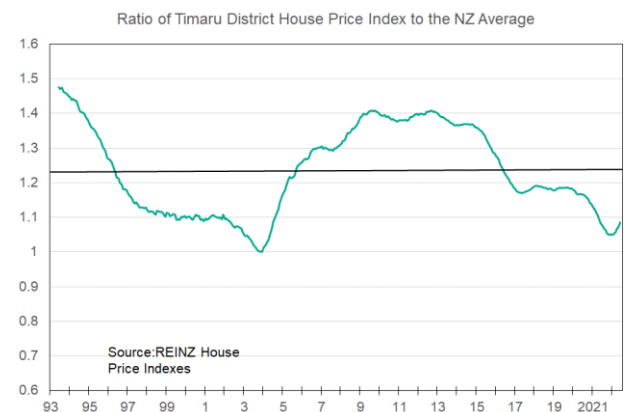
The most below trend district appears to be Ashburton. That is interesting considering the growth and development of Rolleston which will be encouraging many people to look a tad further south for better affordability still.



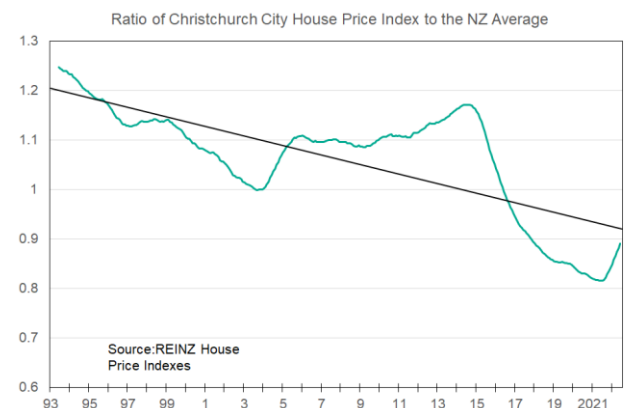
Also below trend is the Mackenzie District for which there is one of the strongest long-term upward trends of all districts throughout the country.



Timaru is below trend.



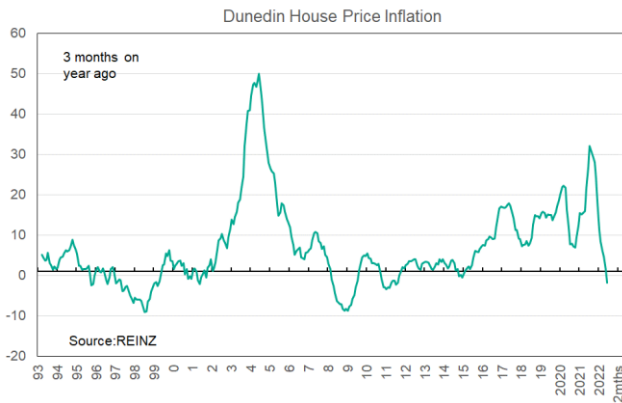
Christchurch City is tracking down versus the country overall, but is undergoing a period of catch-up following the earthquake's impact. That means we should be wary of the strong downward slope of the trendline shown here. In a few years it is highly likely that this line will be far less steep.



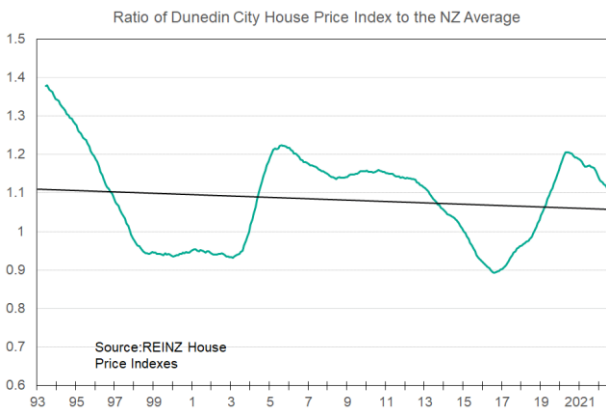
Dunedin City

Not high vulnerability

There was a period of very strong house price growth in Dunedin from early-2016 through to late-2021. That has now ended, and prices are falling.

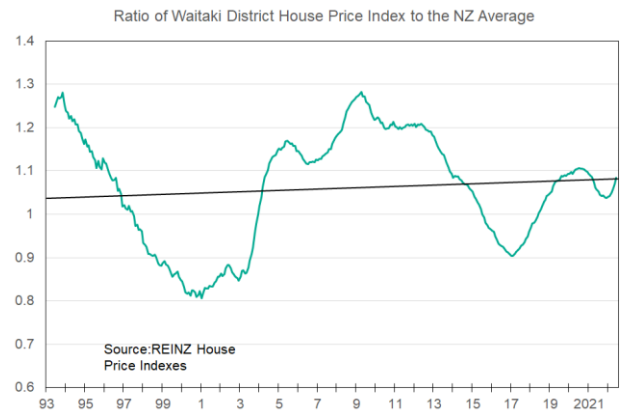


As things stand prices are only slightly above trend now – but there is momentum in the movement and further correction of prices back toward trend is likely.

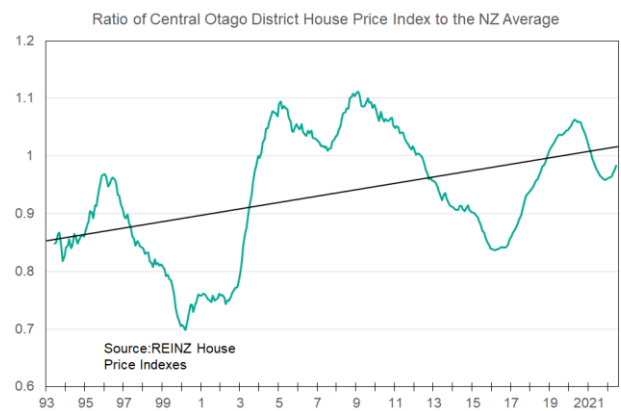


We have split the Otago region into Dunedin City and Queenstown Lakes, meaning the other three districts in the region get essentially no attention in our monthly publication. The following page has a graph for Clutha which shows high vulnerability to price declines.

For the Waitaki District this is decidedly not the case. Prices are exactly on trend and tending to do a bit better than the country overall.



For Central Otago, prices are even more below trend and not looking vulnerable.

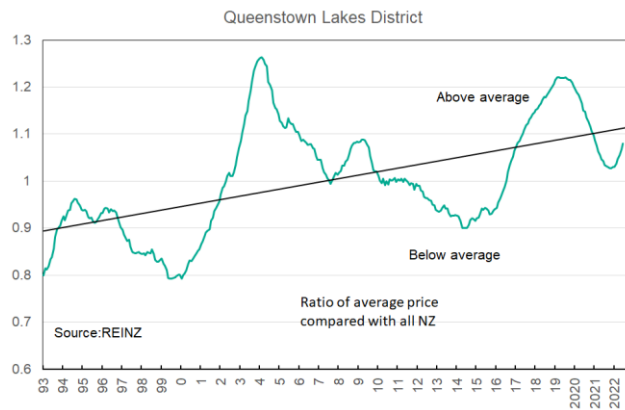


Queenstown Lakes

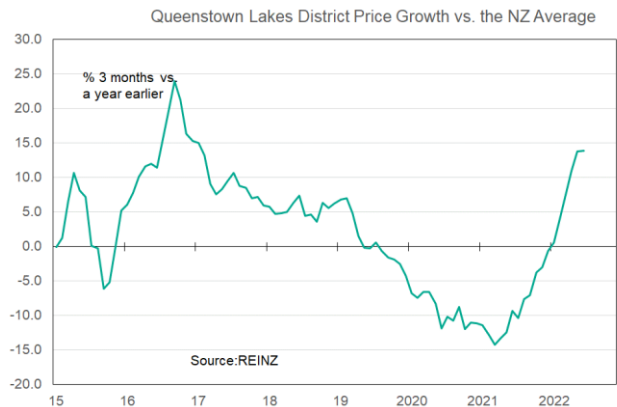
Catch-up underway

We track developments in the Queenstown Lakes District even though it is not a region, simply because it seems wise to split the area out of the rest of Otago including Dunedin, because of the very different characteristics of the district. That means we only have the one graph to present – as follows.

It tells us that prices are in the process of correcting back toward their long-term average relationship with the country after a period of relative weakness.



That relative weakness of course reflects the very specific impact of border closure on the district’s economy. But that impact has been muted through this period of time by a lift in the flow of Kiwis choosing to shift to the district as the world over saw people placing greater emphasis on where they live. That process may still be occurring at the same time as we now see foreign visitors returning and this suggests that a period of price out-performance for the Queenstown Lakes District is likely to continue.

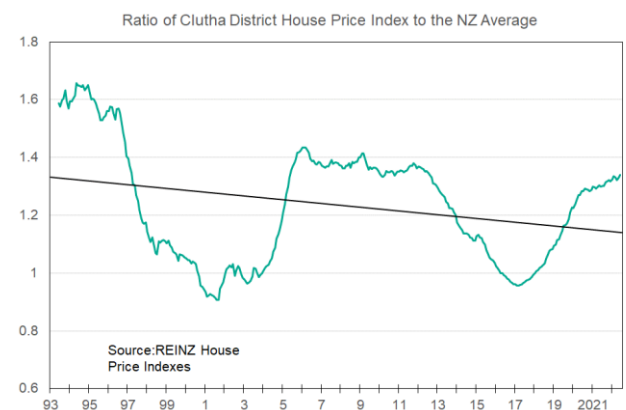


However, there is one thing to keep an eye on; because part of the demand in Queenstown Lakes comes from people purchasing holiday homes, generalised weakness in the economy and declining business profits in particular can have a whiplash effect not seen in most of the rest of the country.

Could this effect along with rising mortgage rates actually offset the tourism effect? That is not likely given that recession is not guaranteed in New Zealand and if one occurs it is likely to be quite shallow.

Another factor to keep an eye on, is the cost of construction in the district. This tends to be about double what one might expect to pay in Dunedin or Christchurch. With construction costs having soared and still rising, some buyers wanting to get a dwelling built could easily put their plans on hold for a few years as they wait for things to settle down.

For the record, Clutha District prices are well above trend and vulnerable to correction.

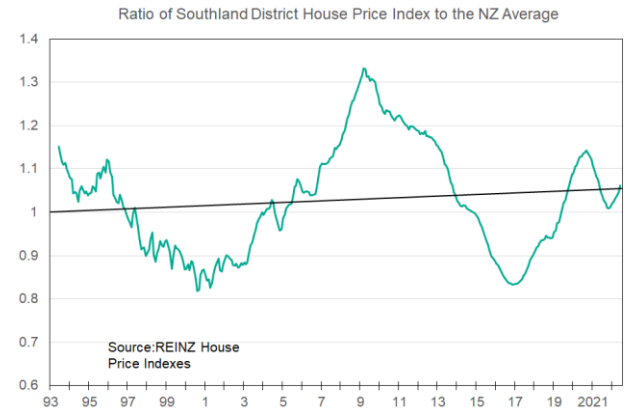
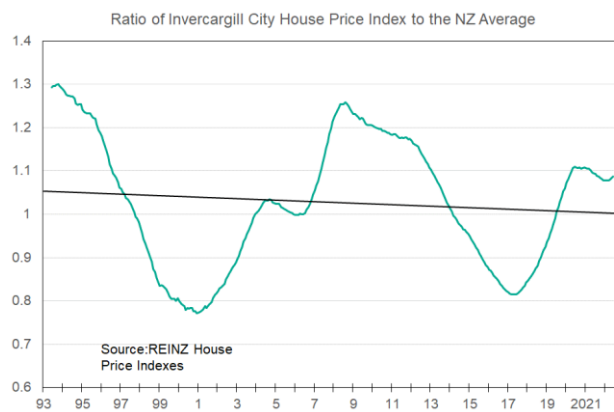


Southland

Not much above trend

There are three territorial authorities in Southland – Gore, Southland, and Invercargill. Most of the region’s population is in Invercargill and our first graph shows that average house prices have been running above their long-term trend with the rest of the country since late-2019 and with price performance exceeding that for all NZ from early in 2017.

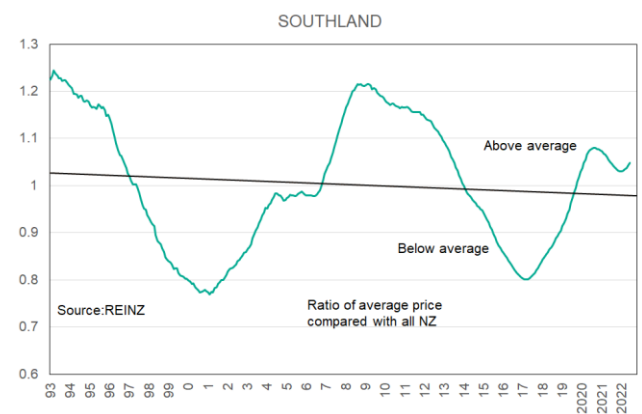
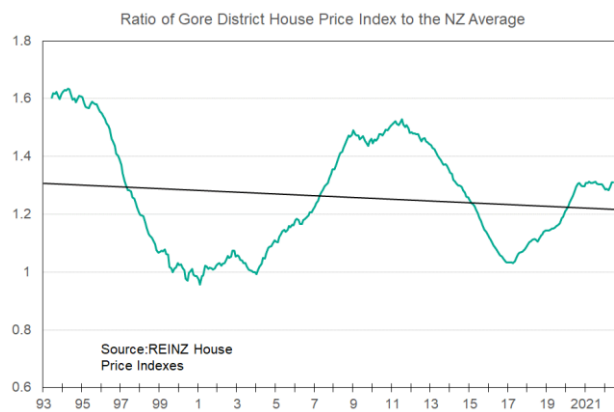
For the rest of the Southland region, the Southland District, there is no reason for believing that the various forces in play will naturally produce weak price changes in the near future. Things are exactly on trend.



This extended period of relatively strong price growth has flattened out now, but actual retracement has yet to occur. With support from the return of international visitors and good farming sector incomes, any retracement may be limited.

Overall, Southland Region average house prices are above trend, but not by all that much. There seems little reason for taking any particularly dour view of house price prospects in the near future, beyond some decline still being likely as the country as a whole pulls back still from the pandemic boom.

In the Gore District, prices are also above trend but not by much. Scope for retracement seems quite limited.



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A light green map of New Zealand is positioned in the background, showing the North and South Islands with regional boundaries.

TONY ALEXANDER Regional Property Insights

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This publication is written by Tony Alexander, independent economist. You can contact me via LinkedIn or email tony@tonyalexander.nz

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