CoreLogic

NZ Hedonic Home Value Index

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Lower interest rates may take time to ripple through the housing market

CoreLogic's Home Value Index (HVI) showed that the property market remained weak in August, with values down by another 0.5%. That was the sixth consecutive fall since February's 'mini peak'.

Moreover, following revisions to previous months' data as the index captures more information (July now down -1.0%), **this now takes the total fall since February to 3.7% nationally, or around $31,100 lower.**

The median value across all stock now sits at $811,583, which remains about 17% above pre-COVID levels. But it's also about 17% lower than the January 2022 peak.

August's results are the second release to use the new hedonic methodology, which improves the timeliness and accuracy in measurement of changes to the residential real estate market. The increased weighting on recent sales evidence is clearly showing the re-emergence of soft housing market conditions across the country.

Indeed, apart from Christchurch (up by 0.2%), there were falls in values across each of the main centres in August, with Auckland dropping by another 1.0% (taking its fall since a peak in January to 6.0%) and Hamilton by 0.8%. The falls in Tauranga, Dunedin, and Wellington were more modest at less than half a percent over the month.

CoreLogic NZ Chief Property Economist, Kelvin Davidson said:

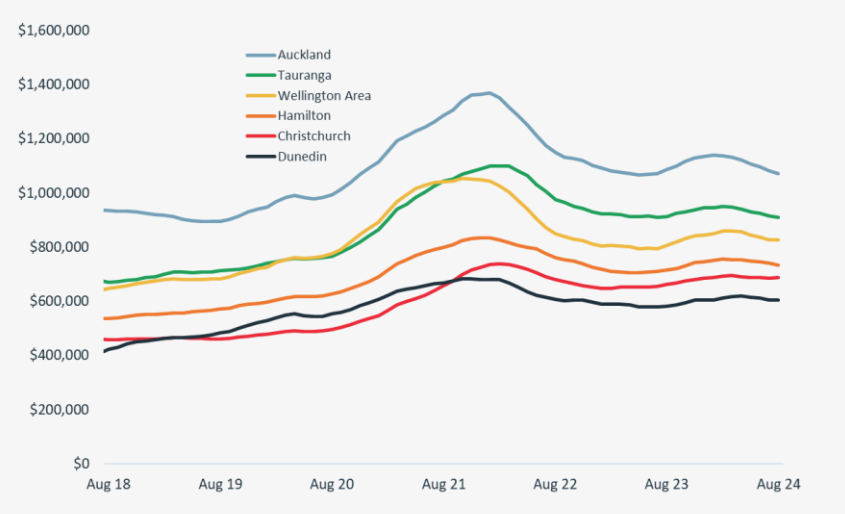
"No doubt many households will be feeling happier now that the official cash rate is falling and mortgage rates are headed lower too. This sentiment effect, as well as the direct boost to borrowers' finances, could support housing in the near term."

"Yet the latest, actual fall in values is a timely reminder that the market still faces considerable challenges too. For a start, housing affordability is still stretched, while at the same time the labour market downturn is fully underway. Even if people haven't lost their jobs, the increased feelings of insecurity will still tend to flow through to less enthusiasm to trade property or pay top-dollar."

"It's also clear that the bargaining power lies with buyers in a market where the stock of available listings is sitting at multi-year highs. But that's still only for the more limited pool of buyers who can actually secure the finance."

"This all adds up to likely further restraint on property values in the coming months, although the potential impact of lower mortgage rates can't be ignored."

CoreLogic HVI – Main Centres



Index results for August 2024 – national and main centres

	Month	Quarter	Annual	From post-COVID peak	From recent cyclical peak	From pre-COVID levels	Median value
NZ	**-0.5%**	**-2.2%**	**0.7%**	**-16.8%**	**-3.7%**	**17.2%**	**$811,583**
Auckland	-1.0%	-3.3%	-1.4%	-21.8%	-6.0%	9.0%	$1,070,494
Hamilton	-0.8%	-1.9%	2.5%	-12.1%	-2.7%	19.9%	$734,414
Tauranga	-0.4%	-2.1%	-0.2%	-17.2%	-4.2%	20.9%	$910,449
Wellington	-0.1%	-2.1%	2.7%	-21.5%	-3.7%	9.7%	$826,976
Christchurch	0.2%	-0.3%	3.6%	-7.0%	-1.2%	40.7%	$686,806
Dunedin	-0.2%	-1.7%	3.8%	-11.5%	-2.3%	10.2%	$604,324

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Auckland

Each of Auckland's sub-markets registered a fall in property values in August, ranging from 0.5-0.9% in Franklin, Waitakere, Manukau, Rodney, and North Shore, down to more notable weakness in Auckland City (-1.4%) and Papakura (-1.7%).

That said, compared to a year ago, Auckland City has held up a little better than elsewhere, only down by 0.6%, versus falls of around 2% or more in Manukau, Waitakere, Rodney, and Papakura.

Putting aside these variations from area to area, however, Mr Davidson noted that the bigger picture for Auckland's housing market is one of generally renewed weakness.

"Each part of Auckland has dropped by 3% or more since the latest mini-peak for values, and although mortgage rates are now falling, affordability challenges still persist. Meanwhile, an elevated stock of listings gives buyers the pricing power, and the continued flow of new-builds hitting the market only adds to those effects."

	Month	Quarter	Annual	From post-COVID peak	From recent cyclical peak	From pre-COVID levels	Median value
Rodney	-0.8%	-4.5%	-2.1%	-20.7%	-5.9%	15.4%	$1,212,650
North Shore	-0.9%	-3.0%	-1.5%	-19.8%	-5.9%	7.7%	$1,263,121
Waitakere	-0.6%	-3.1%	-2.1%	-23.9%	-5.4%	7.2%	$930,008
Auckland City	-1.4%	-3.4%	-0.6%	-21.5%	-6.1%	6.2%	$1,174,946
Manukau	-0.7%	-3.0%	-1.9%	-23.1%	-6.5%	11.9%	$1,004,429
Papakura	-1.7%	-3.7%	-4.1%	-23.8%	-7.9%	12.0%	$818,024
Franklin	-0.5%	-1.9%	-1.4%	-20.6%	-3.4%	19.4%	$916,953

Wellington

The Wellington area flattened out a little in August, after some weaker results in the prior few months. To be fair, Kapiti Coast recorded another drop in values (0.9%), while Lower Hutt and Porirua also fell. But the Upper Hutt market held steady in August, and Wellington City actually recorded a modest 0.2% lift in values.

The falls in previous months mean that values remain lower than three months ago in each of those sub-markets, as well as their mini-peaks earlier in the year. Indeed, those latter falls are 4% or more in Porirua, Kapiti Coast, and Lower Hutt.

Mr Davidson noted, "the negative sentiment that's circulating around public sector employment at present will be tending to weigh on wider Wellington property values. But just like in Auckland, there are other factors at play too, such as the fact that even after recent falls, there probably aren't too many who would call Wellington's market 'cheap', and affordability pressures could linger for some time."

	Month	Quarter	Annual	From post-COVID peak	From recent cyclical peak	From pre-COVID levels	Median value
Kāpiti Coast	-0.9%	-3.6%	4.1%	-20.1%	-4.4%	16.1%	$813,336
Porirua	-0.2%	-2.1%	0.7%	-22.1%	-4.0%	11.5%	$736,429
Upper Hutt	0.0%	-1.6%	6.1%	-20.4%	-2.4%	12.4%	$763,940
Lower Hutt	-0.7%	-3.0%	1.4%	-23.0%	-4.6%	11.5%	$699,524
Wellington City	0.2%	-1.8%	2.9%	-21.1%	-3.7%	8.2%	$947,484

Regional results

There were some varied results across 'provincial markets' in August, with Whanganui, Invercargill, and Queenstown all rising by at least 0.5%. Nelson and Rotorua also edged higher, while New Plymouth was flat. However, markets such as Whangarei (-0.6%) and Palmerston North (-0.7%) were noticeably weaker.

Mr Davidson noted that while all areas across NZ face similar pressures from key drivers such as elevated listings and still-high (albeit falling) mortgage rates, local factors can still play a very important role.

"More favourable affordability, with lower property values, is no doubt playing into some of the resilience in markets such as Whanganui and Invercargill. While very few people would say the same for Queenstown, it's clearly got its own benefits, such as the pull of tourism and the appeal to wealthy buyers from inside and outside the area."

	Month	Quarter	Annual	From post-COVID peak	From recent cyclical peak	From pre-COVID levels	Median value
Napier	-0.4%	-2.9%	0.2%	-19.8%	-4.6%	13.5%	$706,479
Palmerston North	-0.7%	-2.3%	0.6%	-18.5%	-3.4%	15.8%	$604,264
Hastings	-0.1%	-1.5%	0.3%	-17.9%	-3.9%	23.4%	$692,090
Whangārei	-0.6%	-2.1%	-0.8%	-18.0%	-2.8%	16.8%	$730,679
Whanganui	0.7%	0.9%	6.3%	-11.3%	*At peak*	31.8%	$484,349
Rotorua	0.1%	-1.1%	-0.6%	-14.2%	-2.1%	21.4%	$596,560
Gisborne	-0.1%	-6.5%	-9.4%	-20.2%	-11.1%	20.2%	$582,102
Nelson	0.3%	0.3%	0.5%	-13.1%	-1.1%	13.7%	$718,302
New Plymouth	0.0%	-1.8%	8.5%	-2.9%	-2.9%	43.2%	$676,973
Invercargill	0.7%	1.2%	6.1%	-2.2%	*At peak*	28.4%	$471,443
Queenstown	0.5%	0.5%	3.3%	-5.8%	*At peak*	30.6%	$1,559,958

Property market outlook

Looking ahead, Mr Davidson suggested that whilst job losses are tough to handle, we shouldn't get unduly pessimistic about the labour market. Even so, it's obviously still a restraint on housing activity and values at present, and the debt to income (DTI) ratio caps are new this time around too.

"Nobody is expecting employment to absolutely crash, so although a rise in the jobless numbers is never pleasant and will also tend to dampen house sales and prices, further *significant* falls may not necessarily eventuate."

"That said, a fresh property boom is not our central expectation either. One major change from previous cycles is that we now have formal limits on DTIs, and although they're not binding yet, there will be a meaningful effect down the track, even once you account for the 20% speed limit and the exemption for new-build properties."

"Our ballpark estimate is that mortgage rates of around 5.5% or less will be low enough for the impact of the DTI rules to become more noticeable in terms of keeping loan sizes lower than people might have been expecting. That mark could be reached by mid-2025, or even sooner," he concluded.

For more property market news and insights: www.corelogic.co.nz/news-research

Methodology

The CoreLogic Hedonic Home Value Index (HVI) is calculated using a hedonic regression methodology that addresses the issue of compositional bias associated with median price and other measures. In simple terms, the index is calculated using recent sales data combined with information about the attributes of individual properties such as the number of bedrooms and bathrooms, land area and geographical context of the dwelling. By separating each property into its various formational and locational attributes, observed sales values for each property can be distinguished between those attributed to the property's attributes and those resulting from changes in the underlying residential property market. Additionally, by understanding the value associated with each attribute of a given property, this methodology can be used to estimate the value of dwellings with known characteristics for which there is no recent sales price by observing the characteristics and sales prices of other dwellings which have recently transacted. It then follows that changes in the market value of the entire residential property stock can be accurately tracked through time.

The detailed 'frequently asked questions' and methodological information can be found at: https://www.corelogic.co.nz/our-data/hedonic-index

CoreLogic is able to produce a consistently accurate and robust Hedonic Index due to its extensive property related database, which includes transaction data for every home sale in every region and territorial authority. CoreLogic augments this data with recent sales advice from real estate industry professionals, listings information and attribute data collected from a variety of sources.

The results can be shown in index form and as a median dollar value. The median value is the middle estimated value of all residential properties derived through the hedonic regression methodology that underlies the CoreLogic Hedonic Home Value Index.

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