What's in store for 2022?

Experts discuss the state of Aotearoa's property market and what Kiwis can expect in the year ahead.

trademe property

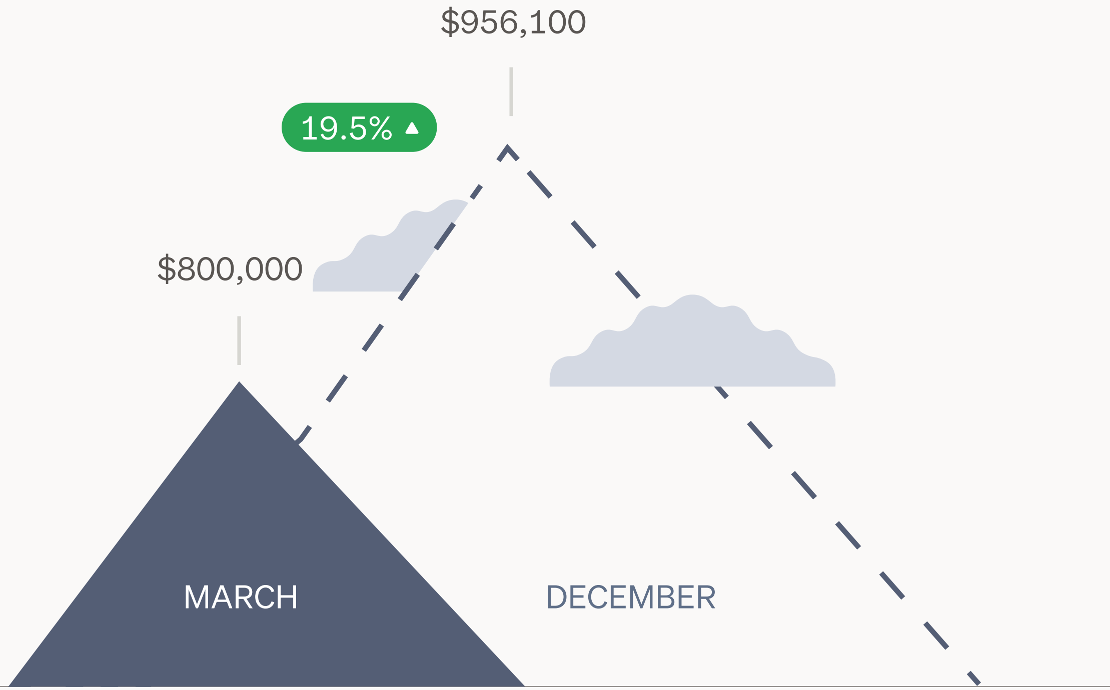
Recapping 2021

Despite the continued challenges posed by the housing market, there's no denying that Kiwis are still passionate about property. The 2020 supply-demand imbalance continued to heat the market in 2021, resulting in record house prices in every region across the country.

Low mortgage rates, strong competition between buyers, and sales bids far higher than RVs added fuel to the fire and made it a tough property landscape for first home buyers.

In March, the national average asking price hit $800,000 and finished the year at an all-time high of $956,100 – that's a 19.5% increase in 8 months!

The average property increased in value by $192,300 between December 2020 and December 2021, meaning many existing homeowners and sellers have benefitted from huge capital gains, have been able to renovate, upsize and buy a second property, by capitalising on the equity of their existing properties.



Foreword by Gavin Lloyd, Trade Me Property Sales Director

Last year was another extraordinary year for the New Zealand housing market, says Gavin Lloyd, Trade Me Property Sales Director. All the key metrics for engagement are very strong year-on-year on the Trade Me site, he says.

As the year ended, there was a good amount of stock in property markets like Auckland, he says. "I think there's a good volume of listings and it's going to **start transitioning to more of a buyers' market** in 2022," says the Trade Me Property sales director.

"The challenge the market had in 2021 was record low inventory levels on-site because the speed of sale was so rapid," he says. The average time on site was around 28 days compared with the usual 40 days.

Anecdotally, he's hearing fewer buyers are turning up to open homes, and auction rates are slowing, leading him to believe there will be a mismatch between vendor and buyer expectations in the earlier part of 2022. "This will put pressure on the market until you see that reset," says Gavin.

As for bank economist forecasts of falling house prices, they've been making these for the past few years and not eventuated. "Just looking at what we see in the property market it's hard to imagine price drops of 4% to 7% next year," says Gavin.

"I think it takes a bold person to say that house prices will drop in the main centres," he adds.

"Generally, when prices drop you also see unemployment lift, and that's not going to happen in the foreseeable future," says the Trade Me Property Sales Director.

You're not going to see big year-on-year growth in 2022 but moderate growth, month-on-month, predicts Gavin.

What does the future hold?

According to CoreLogic chief property economist, Kelvin Davidson, **politics and regulation have had a big effect on the housing market in 2021** from extending the brightline test for existing properties, giving the RBNZ powers to use lending restrictions such as caps on debt to income ratio, (currently under consultation), meanwhile loan to value ratio rules (LVR) meant investors were required to have 40% deposits.

At the same time, from 1 November, owner-occupiers have had it tougher too, with the low deposit lending thresholds for lenders cut from 20% to 10%.

And all those needing a mortgage are having to take into account the two interest rate rises in October and November 2021, with more to come in 2022. Indications from the Reserve Bank are that the OCR will peak at 2.5% by mid-2023, says Kelvin. **This would take a standard mortgage from 4 or 4.5% to 5 or 5.5%**, with some mortgage holders seeing 6%.

Securing finance set to become harder

The big thing about 2021 was house prices rose more than expected, says independent economist, Tony Alexander.

One of the biggest influences on the progress of the housing market was a credit crunch in the latter part of the year brought about by a combination of loan to value restrictions, talk of debt to income caps, the sixth fastest increase in rates since the early 1990s, and changes to the Credit Contracts and Consumer Finance Act (CCCFA) in December.

The latter has meant lenders are asking a lot more questions of borrowers, are wanting bigger deposits, and are harder to please. More conditional offers will be coming through thanks to the credit crunch and buyers' inability to get pre-approvals, says Tony.

"When the second nationwide lockdown happened, we went in knowing what happens with a lockdown: the housing market booms. The housing market continued to grow strongly," he says.

At the same time, conditions changed markedly for investors when they could no longer deduct interest expenses on their existing properties. First home buyers surged in but their ability to act got tougher later in the year when lenders were pickier about their lending criteria.

> "...lenders are asking a lot more questions of borrowers, are wanting bigger deposits, and are harder to please"

TONY ALEXANDER
INDEPENDENT ECONOMIST

Is a price correction on the horizon?

Now, in 2022, people could well redirect their attention to negative factors relating to the real estate market, says Tony. Net migration numbers are already negative, and the Auckland housing market is driven by migration, he notes. A boom on house supply, all these houses being built, could beg the question, is there still a shortage? he asks.

In some locations, such as the regions, prices could easily fall, says the economist. In Auckland it's flattening out, Wellington could go down, and Christchurch is still playing catch up, he says.

Meanwhile, **as listings increase, people will be losing their fear that they won't find something to buy.** March will be the busiest month, with healthy listing volumes and the message to first home buyers is to be active in the market, says the economist.

Meanwhile, in construction, property developers will see a lot of developments not go ahead or get partway through in the next year, predicts Tony.

"They've assumed the bank will finance them, but the pre-sales will fall away as buyers are less frenzied, sourcing materials and labour will get worse," he says.

Signs of slowing

All in all, as 2021 came to a close, the competition was less fierce, prices started to stabilise and buyers felt confident they weren't overpaying.

Some such as Barry Thom, director of UP Real Estate, isn't daunted by a quieter end to the year. "I'm not convinced we're staring down the barrel of damage to property prices," he says. There are too many factors in play over the last six to eight weeks which have impacted buyer behaviour, an oversupply for buyers who have been spoilt for choice and distracted by other things in their lives, such as easing restrictions in Auckland.

In Wellington, however, where price falls are predicted by some in 2022, the head of Wellington agency, Lowe & Co, Craig Lowe, says the capital has seen price gains of up to 30% in the past 12 months.

But by the end of 2021, he'd never seen a steeper buyer drop off, with buyer inspections more than halving from 55% to 23%. It's leading to lower numbers of offers but properties are still turning over, says Craig.

"A huge factor is the banks' credit is a lot harder to get," he says. Lowe & Co have still had good results in the upper price points but the bottom and middle markets are more affected, he says.

"There's no doubt that there's change happening in the marketplace but it's orderly. This isn't a bad thing, ultimately, for prices to slow," he says.

My feeling is things will stabilise at a more typical turnover point sometime this year so it'll be more like a 2015 market than a 2021 one, he says.

The market is still resilient

Ray White chief economist Nerida Conisbee put some numbers to the credit crunch in the last quarter of 2021. Loan commitments declined from $10.5 billion in March to $7.7 billion in October, a drop of 27%, she says.

Despite this, median prices took off in October and November, REINZ data **reporting a jump of $130,000 in just two months.** This showed the resilience of the current property market upturn, she says.

The biggest risk is that the RBNZ has gone in too hard and too fast and that a consequence is declining consumer confidence, she says.

"More positively, finance restrictions can be wound back quickly if they lead to adverse conditions in property markets," she adds.

> "Finance restrictions can be wound back quickly if they lead to adverse conditions in property markets"

NERIDA CONSIBEE
RAY WHITE CHIEF ECONOMIST

Buyer confidence remains high

People are more confident to put their homes on the market, which is totally predictable and buyers are having more choice, says Harcourts managing director, Bryan Thomson.

“Vendors can’t sit back, they have to go back to all the basics for a successful sale, some of those have slipped by in the frantic (selling period) because of such an excess of demand.”

In 2022, the marketing and negotiating skills of a real estate agency will be absolutely key, he says.

Prices won’t continue to the extremes of 2022 but says he would struggle to say it’s a buyers’ market yet. Based on more listings, there will be greater choice but warns the best properties are always sought after.

“In 2022, people are going to have to be very careful about what they believe, they need to do their own research and not believe the next headline,” says Bryan.

“The market is not driven by economists, it’s not driven by the banking industry, but by human beings buying homes for family and investment purposes,” he says.

What can first home buyers expect from 2022?

Undoubtedly, 2021 saw a highly competitive market for first home buyers. To help level the playing field, a number of legislative changes were announced, targeted towards investors. Most notably, phasing out interest deductibility on a mortgage on a residential investment property and a five-year extension to the bright-line test for existing homes, with the intent of steering investors towards new builds.

Financial support for first home buyers was also increased, with house price caps for The First Home Grant on both existing homes and new builds lifted and **the combined income threshold increased to 150k.**

However, despite these announcements, the 2021 housing boom means **first home buyers will need to save an additional $35k for a 20% deposit** when compared with this time last year. That's a deposit of $187,220 for the **national** average asking price and a whopping $250,000 for the **Auckland** average asking price.

Increasing barriers to ownership

First home buyers can expect stringent bank criteria in 2022, with the biggest barrier to homeownership being getting the funds together, says CoreLogic chief economist Kelvin Davidson.

Deputy Prime Minister Grant Robertson has said he wants to keep helping first home buyers, says Kelvin. In 2021, the banks' allowance for giving low deposit loans to owner-occupiers halved from 20% of lending flows to 10%, so they're no longer an option for many first home buyers starting from scratch.

Tony Alexander's Mortgage Advisers' Survey with mortgages.co.nz, says that the credit crunch is shutting out first home buyers, finding it almost impossible to buy with less than a 20% deposit now, his survey found.

Because, previously, over 40% of their borrowing involved a small deposit, the change in bank policy lending is shutting almost half of first home buyers out of the market, now that there are new assessment regimes to meet the CCCFA requirements, says the survey.

First home buyers have strongly stepped back, says Tony. The FOMO gauge from prospective buyers has fallen to a level not seen since April 2021 when the country was in its first nationwide lockdown and house prices were widely expected to decline.

Crackdown on lending

First home buyers' ability to show their strong saving pattern is extremely important now and into 2022. Loan Markets mortgage adviser, Cameron Marcroft, says if you're frugal you'll be okay.

The advice he and his team give first home buyers is to get together three months of bank statements to show their spending habits over an average of this chunk of time.

Lending criteria is getting more stringent; if you want a $900,000 house you need to save $180,000 for a 20% deposit. "The goalposts keep on moving," says Lesley Harris, Spokesperson for the First Home Buyers Club.

Banks are looking very closely at debt, says Lesley. And if you have debt, excluding student loans, (NZ average of $9000), that's $75,000 of lending you won't get, she calculates.

> "Get together three months of bank statements to show their spending habits over an average of this chunk of time"

CAMERON MARCROFT
LOAN MARKETS MORTGAGE ADVISOR

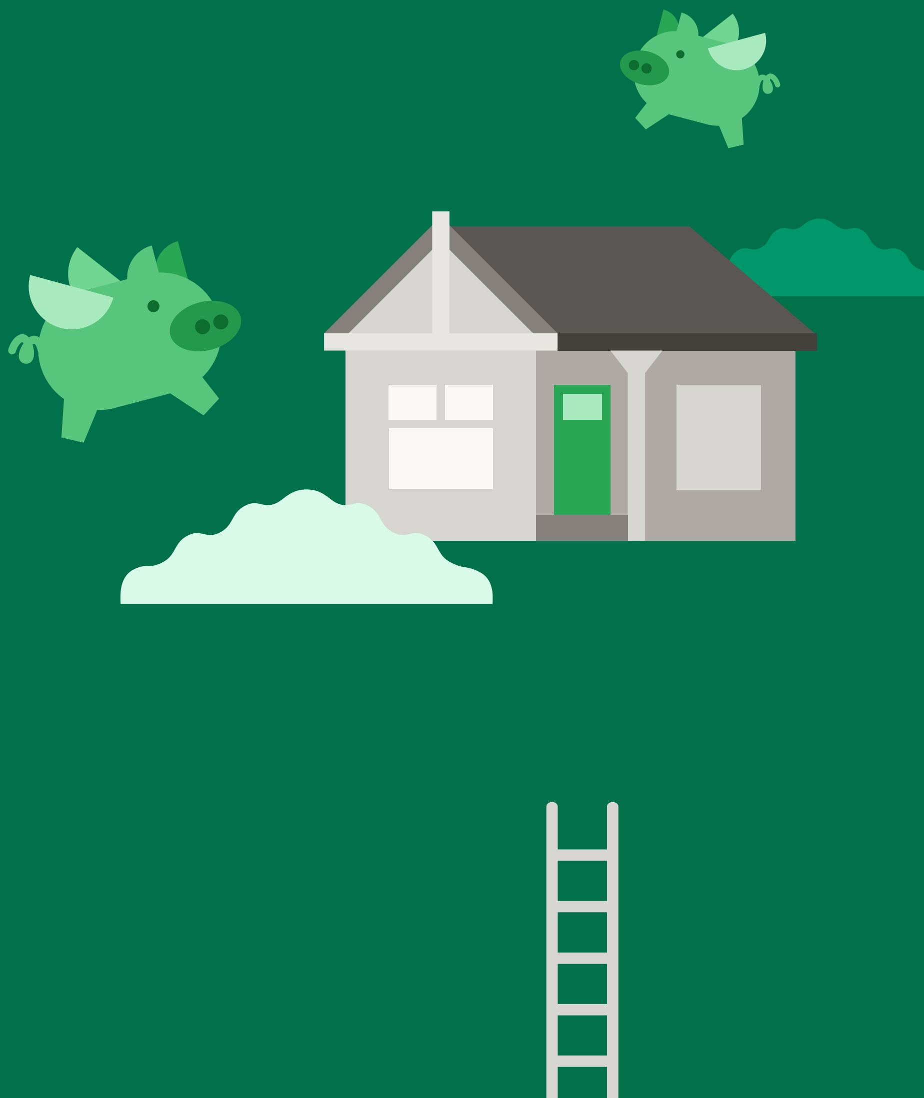
Only going to get tougher

“We’ve seen things tighten and tighten in 2021. In certain areas, house price values doubled, and that’s massive in terms of people saving for a deposit and trying to get lending approved.”

First home buyers are facing a real shortage of affordable stock, adds Lesley. **The average house price in Auckland is $1.4 million. “Is that affordable if I was a first home buyer?”** she asks.

Meanwhile, renting is getting more and more expensive, so for people saving for a home, soaring rental prices are making it that much harder, and they haven’t had a similar jump in income.

The saving grace, until recently, has been very low-interest rates, but they’re now rising. As they climb, there’s less lending that the banks deem you can service. None of this is getting easier, says Lesley.



Government support doesn't go far enough

The First Home Buyers Club Spokesperson would like to see good affordable housing, assistance with the deposit, and a refreshment of the HomeStart Grant. In Auckland, you can only get the grant if the home is valued under $700,000.

"I challenge anyone to find a single property apart from an apartment at this price," says Lesley.

> At the moment, 5% to 10% of first home buyers are eligible for that grant. You want this to be 95%.

LESLEY HARRIS
FIRST HOME BUYERS CLUB SPOKESPERSON

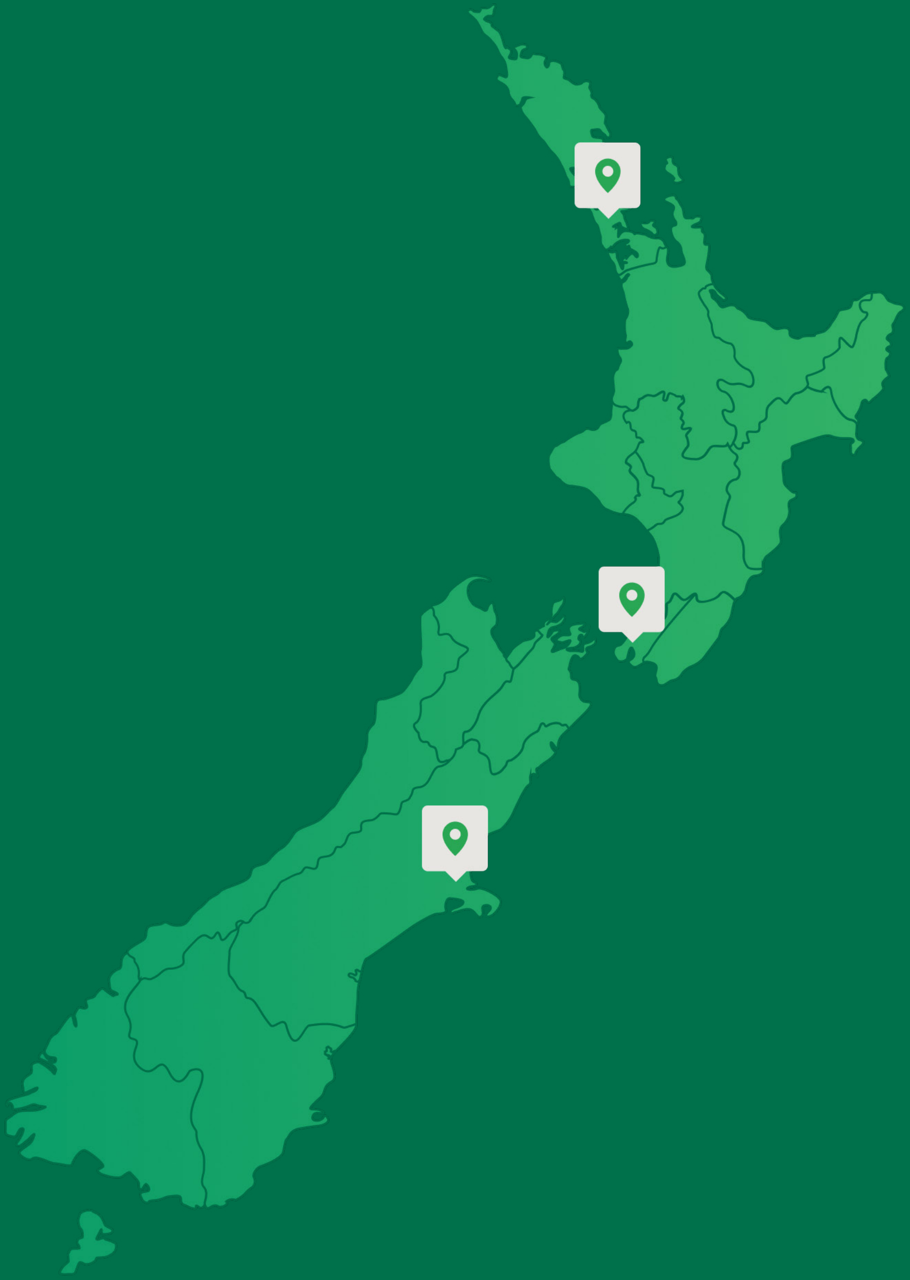
New builds were once attractive to first home buyers as they were offered double the HomeStart grant for these properties, but now the pricing of materials are fluctuating so greatly that developers are not doing turnkey fixed price deals.

The price may well move up during the build, so it's hard to get lending on this because it's perceived as too risky. If you look at most of the contracts now, the fixed price guarantee is removed because they can't guarantee it.

First home buyers are still getting the deal done, making a lot of compromises along the way, says Lesley.

"We're still seeing people do it by doing it a bit differently," says Lesley. People are buying apartments, townhouses, buying outside of the city, and then renting in the city they work, there's help from families and multi-generational living.

Parents are contributing to the deposit but **most people don't have parents with $50,000 to spare**, says Lesley.



The Breakdown: Our major cities

Auckland

Auckland was the first region to race past the $1 million average asking price and continued to climb, reaching $1,253,600 in December 2021 – a 22.5% price increase year-on-year

A total of 129 Auckland suburbs joined the $1 million+ club

Unsurprisingly, all five of New Zealand's most expensive suburbs are in Auckland:

Okura	$3,832,500	Coatesville	$3,430,800
Herne Bay	$2,737,050	Westmere	$2,753,100
Remuera	$2,652,150		

The only suburbs under 900k are:

Parakai	Weymouth	Grafton
Henderson Valley	Clover Park	City Centre
Clover Park	Wiri	Port Waikato
Favona	Manukau	Drury
Clendon Park	Eden Terrace	Papakura

Wellington

Historic supply issues fuelled record growth in the Capital

The Wellington region is just shy of the $1 million mark, reaching $966,300 in December 2021 – a 68% increase since 2016 and a 27% increase in 2021 alone

Porirua maintained its title as the most expensive district to rent in the country, with the median rent at an eye-watering all-time high of $680 per week. The most expensive suburbs over $1.4 million are Khandallah, Aotea, and Eastbourne.

The most affordable suburbs under 750k are Wellington Central, Otaki Beach, and Featherston

Canterbury

The average asking price is $671,550, a 28% increase YoY and the biggest growth of any of the major cities

Canterbury's affordability, when compared to other major cities has resulted in serious activity in the region, with skyrocketing searches, property views increasing, and homes being snapped up in record time

The only suburbs over $1 million are Fendalton, Merivale, Prebbleton and West Melton

The most affordable suburbs under 500k are Hornby, New Brighton and Sockburn

The Breakdown: Our regions

Every region in the country reached a record average asking price. Due to historically low prices, Manawatū-Whanganui and Hawke's Bay experienced more year-on-year growth than any other region in New Zealand.

Despite extraordinary growth, the average house price in many regions remains below $700,000 (West Coast, Taranaki, Southland, Marlborough, Manawatu, Gisbourne, and Canterbury) making buying in the regions appealing for many city-dwellers. Remote working is certainly here to stay, giving people employment and lifestyle options that weren't previously available. This, alongside a piping hot property market, saw one in five city-based Kiwis hint they'd consider relocating to a more affordable region.

The Breakdown – The regions

Northland

The average asking price is $789,800, a 17.4% increase YoY

The most expensive suburbs are Mangawhai Heads, Langs Beach, and Kerikeri

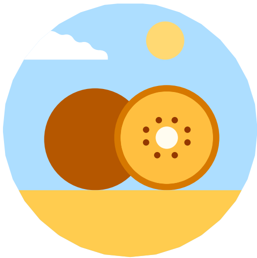
The most affordable suburbs under 700k are Taipa, Dargaville, and Kaitaia

Waikato

The average asking price is $843,550, a 26% increase YoY

The most expensive suburbs over $1 million are Whangamata, Acacia Bay, and Flagstaff

The most affordable suburbs under 600k are Turangi, Paeroa, and Huntley



Bay of plenty

The average asking price is $953,350, a 26.4% increase YoY

The most expensive suburbs over $1.5 million are Tauriko, Oropi, and Waihi Beach

The most affordable suburbs under 800k are Te Puke, Greerton, and Gate Pa

Gisbourne

The average asking price is $663,550, a 32% increase YoY

The most expensive suburbs over 800k are Riverdale, Wainui, and Okitu

The most affordable suburbs under 650k are Te Hapara, Mangapapa, and City Centre

Hawke’s Bay

- The average asking price is $840,350, a 31% increase YoY
- The most expensive suburbs over $1.2 million are Bay View, Poraiti, and Waimarama
- The most affordable suburbs under 600k are Marewa, Onekawa, and Waipawa

Taranaki

- The average asking price is $613,450, a 22% increase YoY
- Only City Centre, Strandon, and Oakura have an average asking price of over $1 million
- A number of suburbs are under 550k, the most affordable are Stratford, Patea, and Opunake

Manawatu-Whanganui

The average asking price is $644,900, a 30% increase YoY

The most expensive suburbs over 850k are Fitzherbert, Aokautere, and Hokowhitu – all in Palmerston North

The most affordable suburbs under 500k are Taihape, Aramoho, and Gonville

Nelson-Tasman

The average asking price is $866,450, a 17% increase YoY

The most expensive suburbs over $1 million are Mapua, Ruby Bay, and Kaiteretere

The most affordable suburbs under 750k are Motueka, Lower Moutere, and Takaka

Marlborough

The average asking price is $744,250, a 25% increase YoY

The most expensive suburbs over $1 million are Queen Charlotte Sounds, Kenepuru Sounds, and Fairhall

The most affordable suburbs under 700k are Picton, Havelock, and Redwoodtown

West Coast

Officially the most affordable region in NZ, with an average asking price of $401,000

Only Awatuna, Barrytown, and Fox Glacier have an average asking price of over 600k

The most affordable suburbs under 400k are Westport, Haast, and Runanga

Otago

The average asking price is $813,900, a 15% increase YoY

The most expensive suburbs over $1.6 million are Arrowtown, Wanaka, and Jacks Point

The most affordable suburbs under 700k are Mornington, Port Chalmers, and North East Valley

Southland

The average asking price is $469,700, a 17% increase YoY

The most expensive suburbs over 600k are Te Anau, Otatara, and Riversdale

The most affordable suburbs under 450k are Winton, Gore, and Bluff

That's what's in store for 2022, thanks for reading.

Head to trademe.co.nz for more insights and listings