

High LVR lending restrictions dent housing confidence

- House price expectations remain high over the three months to October.
- Housing confidence continues to decline as respondents see now as a bad time to buy.
- Interest rate expectations lift with OCR increases likely from March 2014.

House price expectations remain elevated in the latest ASB Housing Confidence Survey, unchanged over the three months to October. Housing demand continues to rise while supply remains well below demand, and the resulting imbalance will continue to place upward pressure on house prices. The RBNZ's high loan-to-value (LVR) lending restrictions will have a modest impact on demand. However, we do not expect a meaningful reduction in housing market pressures until interest rates and new housing construction increase.

Sentiment deteriorated over the three months to October, with net 5% seeing now as a bad time to buy. Auckland led the decline in outlook, likely influenced by the introduction of the high-LVR lending restrictions.

Interest rate expectations continue to rise, as over half of respondents now expect interest rates to increase over the next 12 months. We continue to expect the RBNZ will lift the OCR from March 2014.

The ASB Housing Confidence survey shows that house price expectations remain firm:

- A net 56% of respondents expect house prices to increase in the next twelve months;
- A net 5% of respondents believe now is a bad time to buy;
- A net 52% of respondents expect interest rates to rise in the next twelve months.

ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to October 2013) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-20%	60%	49%
Rest of North Island	5%	53%	53%
Canterbury	-12%	65%	56%
Rest of South Island	10%	49%	55%
TOTAL NZ	-5%	56%	52%
<i>Compare 3 months to July 2013</i>	<i>0%</i>	<i>56%</i>	<i>39%</i>

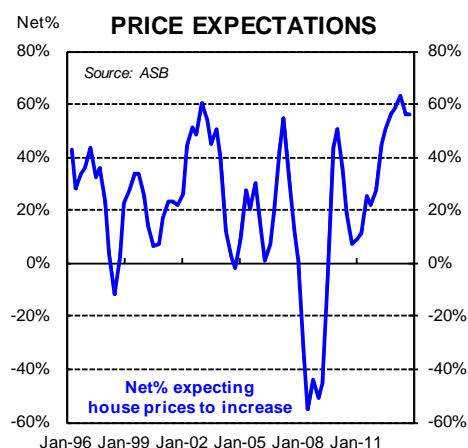
Price expectations remain elevated, highest in Auckland and Canterbury.

Price expectations remained unchanged over the three months to October (compared to the previous three months), with a net 56% of respondents expecting house prices to increase over the next 12 months. House price expectations have remained steady around current levels over the past year, with price expectations the highest in Auckland and Canterbury – where the market is the tightest.

On August 20 the RBNZ announced high-LVR lending restrictions, which came into force on October 1. The monthly results show a slight dip in house price expectations in October, but the magnitude of decline is within the range of typical monthly volatility in the survey. As such, we are reluctant to make a strong conclusion from this movement.

A breakdown of the net quarterly figure is:

- 62% expect higher prices, while only 5% expect prices to fall;
- the difference being the net 56% plotted opposite;
- 18% expect the same;
- 15% don't know.



Fewer see now as a good time to buy as RBNZ introduces high-LVR lending restrictions.

Net 5% of respondents now believe it is a bad time to buy (i.e. the balance of good vs bad time to buy), a deterioration from net 0% in the previous survey. Views on the merit of buying a house tend to reflect the degree of balance in the housing market, with a tight market seen as a poor time to be buying.

Interestingly, the net respondents seeing now as a bad time to buy in Auckland leapt from 17% in August to 29% in October (i.e. the net result of good vs bad time to buy has shifted from -17% to -29%). This was a considerable deterioration in sentiment and timed with the introduction of the high-LVR lending restrictions. Given Auckland house prices are considerably higher than the rest of the country (even after adjusting for income), it is a more challenging market for a first home buyer to raise the 20% deposit now required to enter the market.

Meanwhile there was a slight improvement on views of time to buy in Canterbury (although net 12% still believe now is a bad time to buy). This fits with some tentative indications of more balance in the Canterbury market as supply starts to increase (albeit from very low levels). Nonetheless, despite this slight improvement, the Canterbury housing market remains very tight in an absolute sense.

The breakdown is:

- 17% say it is a good time to buy, while 22% say it is a bad time;
- The difference is the net -5% plotted opposite;
- 46% say it is neither good nor bad;
- 15% don't know.

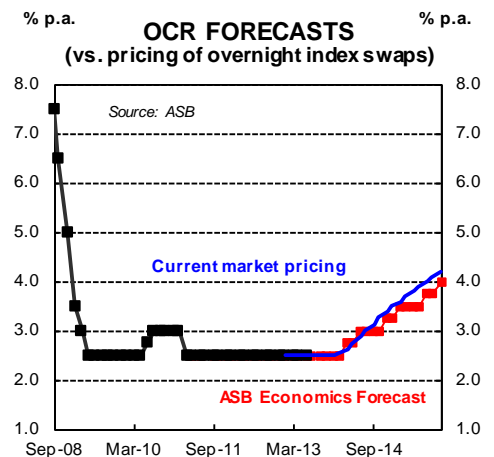
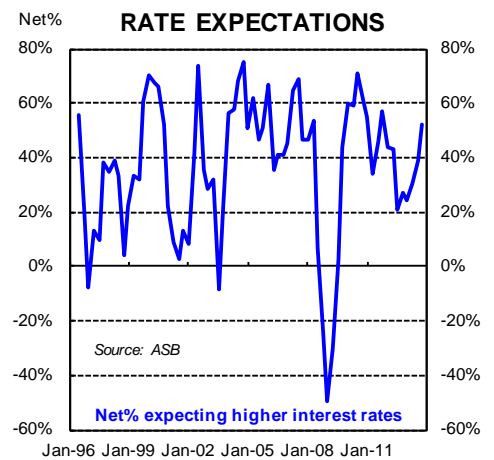
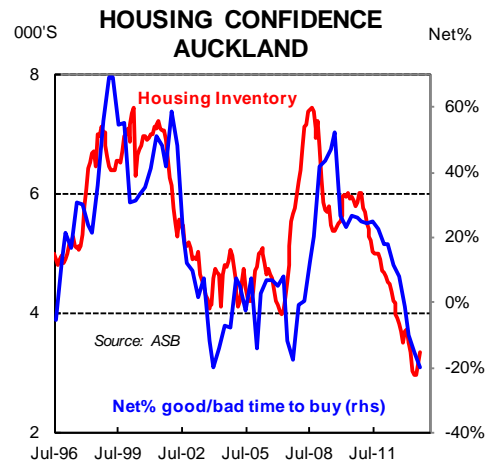
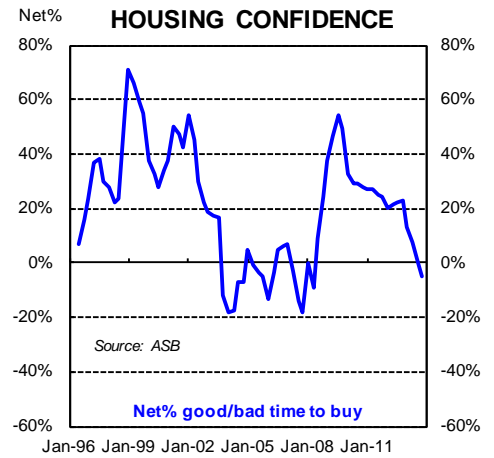
Interest rate expectations lift as rate hikes signalled by RBNZ.

Interest rate expectations lifted over the three months to October, with net 52% expecting interest rates to increase over the next 12 months compared to net 39% in the previous three months. The largest shift in the breakdown was an increase in the number expecting rates to go up (to 55% from 44%). A decline in the number expecting interest rates to remain unchanged (to 20% from 27%) also contributed.

There is a slight North/South split on interest rate expectations, with slightly fewer in Auckland expecting higher interest rates (perhaps wishful thinking on account of their larger mortgages) while those in the South Island are more convinced of imminent rate hikes.

The breakdown is:

- 55% expect higher interest rates, while 3% expect lower interest rates;
- The difference is the net 52% expecting higher rates, plotted opposite;
- 20% believe interest rates will stay the same;
- 22% don't know.



Housing demand continues to lift while supply remains low.

Housing demand continues to lift

House prices continue to increase at a strong pace, consistent with elevated house price expectations over the past year. Demand has continued to gradually increase and become more broad based across the country, supported by low interest rates, increased consumer confidence, increased investor interest and a lift in population growth. In Auckland and Canterbury sales have been relatively flat over recent months, although this is likely due to a lack of listings over most of 2013. Supply remains a key issue in Auckland and Canterbury housing markets.

Auckland housing market remains particularly tight with rents also starting to rise.

The Auckland market in particular remains very tight with the pace of house price growth accelerating over the past few quarters. New listings, though starting to lift, remain at low levels compared to the previous housing boom. Despite a tentative sign of increase, the absolute level of new housing construction is also low and yet to yield any meaningful increase in market supply. At the same time, the increase in net migration inflows into Auckland has added to existing pressures. This is evident in the recent acceleration in Auckland rents. According to data from the Ministry of Business, Innovation and Employment, over the three months to September rents were up 3% on year-ago levels compared to an annual increase of 1.5% for the three months to June. The Auckland market will remain under pressure until there is a meaningful increase in the construction of new housing.

Canterbury market still tight, but starting to show signs of stabilising.

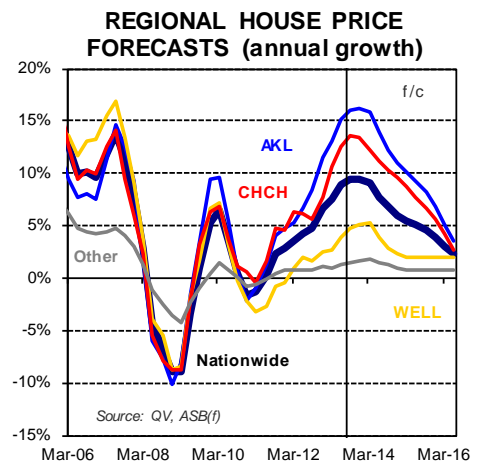
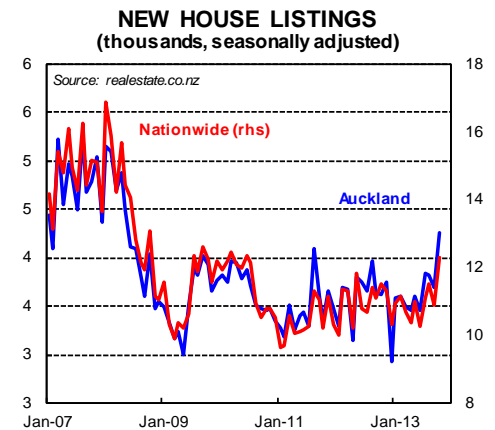
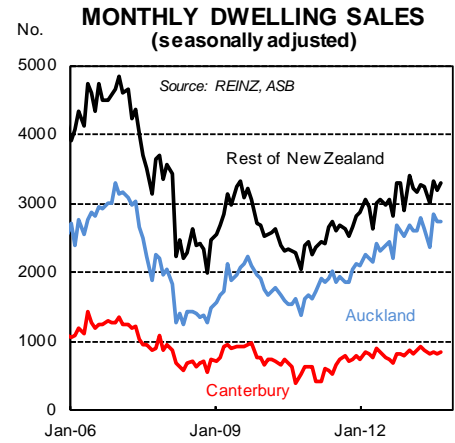
In contrast, there is some very tentative evidence that pressures may be stabilising a touch in Canterbury. The rate of house price has slowed (slightly), and the median of days to sell has edged marginally higher which is an indication the market has become slightly less frantic. However, the region's fundamental supply issues do remain, with rents up 13% on year-ago levels. The stronger rental growth vs. house price growth may reflect that new arrivals into Canterbury may look to rent initially. This similar dynamic was evident in Auckland in the wake of the Canterbury earthquakes as some Cantabrians relocated, with Auckland rents lifting initially and housing market activity increasing 6-12 months later.

High loan-to-value lending restrictions to dent demand slightly.

While housing market pressures remain intense, conditions are starting to subtly shift. The RBNZ introduced high loan-to-value lending restrictions on the 1st October. These restrictions were relatively aggressive and will lock a subset of buyers out of the housing market and reduce demand at the margin. At the same time, the RBNZ's more hawkish monetary policy outlook has seen market expectations of rate increases lift and some fixed-term mortgage rates have also increased in recent months. The combination of higher interest rates and increased construction of new housing should see some of the pressures gradually come out of the housing market.

Increase in housing supply needed for pressures to materially ease.

We continue to expect house prices will increase over the next year, but at a slightly slower pace than seen this year. But any delay in the delivery of higher interest rates or new housing construction would risk housing market pressures intensifying, particularly given the recent strength of net migration inflows.



RBNZ to lift OCR from March 2014.

In summary:

- House price expectations remain unchanged over the past three months, holding at elevated levels. A large imbalance between housing demand and supply remains and will continue to underpin further house price growth. However, we expect demand to ease over the coming year and supply to increase, which will slow the pace of house price growth.
- On balance, it is now viewed as a bad time to buy a house. There was a sharp deterioration in sentiment from Auckland over October, which may reflect the RBNZ's high-LVR lending restrictions making it harder to enter this relatively expensive market.
- Interest rate expectations have continued to increase. Some fixed-term mortgage rates have lifted on the increasing probability of OCR increases in coming years. We continue to expect the RBNZ will increase the OCR from March 2014.

ASB commentary on housing and home loan rates.

For more ...

Commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Housing Confidence \(this report\)](#)
- [Home Loan Rates](#)
- [Weekly Economic Reports.](#)

For general reference, the reports are included within the online Information Centre (<https://reports.asb.co.nz/index.html>).

For specific reference to housing, reports that include housing commentary can be accessed via a Search page (<https://reports.asb.co.nz/search/keyword.html>) by selecting the keyword "Housing".

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