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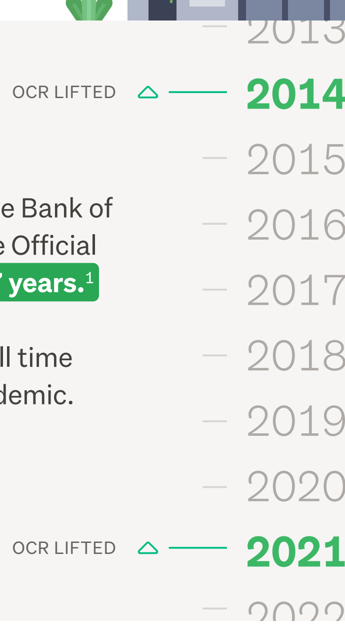
Quarterly market update
November 2021

Market Conditions Spotlight

The **Official Cash Rate** (OCR) has been lifted. In this update, we explain what this means for buyers and the property market as a whole.



At the beginning of October the Reserve Bank of New Zealand (RBNZ) decided to lift the Official Cash Rate (OCR) for the **first time in 7 years.**[1]

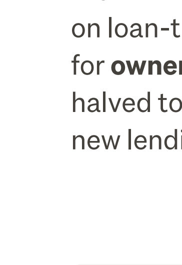
It now sits at 0.5%[1], after reaching an all time low of 0.25%, during the Covid-19 pandemic.

The RBNZ's latest projection is that the OCR **could rise to around 2%** by the second half of 2023[1], meaning another 0.25% increase at their next meeting in November looks likely.

This is already having a flow-on effect with many banks hiking interest rates in response.

What does this mean for buyers?

As a guide for homeowners, a 0.5% increase resulting in a 3.25% initial 1 year fixed interest rate equates to additional repayments of $2,256 per year ($188 per month) for a $700,000 mortgage on a 30 year home loan term.[2]



$2,256

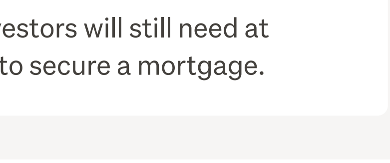
IN ADDITIONAL REPAYMENTS PER YEAR[2]

From 1 November, restrictions on loan-to-value ratios (LVRs) for **owner-occupiers** will be halved to a maximum of 10% of new lending at LVRs above 80%.[3]

So, 90% of owner-occupier loans must be for people with at least a 20% deposit.

THIS MEANS Buyers with less than a 20% deposit will have a tougher time securing a mortgage.

For **investors**, the restrictions remain at a maximum of 5% of new lending at LVRs above 60%.[3]



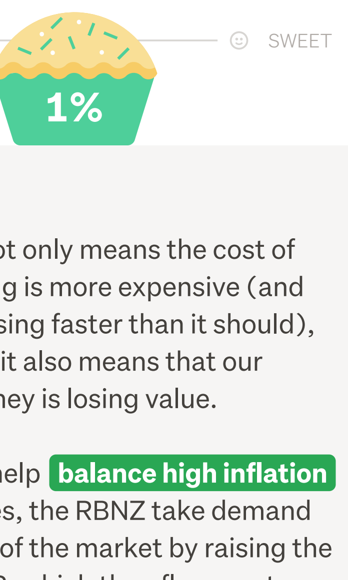
So, 95% of investor loans must be for people with at least a 40% deposit.

THIS MEANS The majority of investors will still need at least 40% deposit to secure a mortgage.

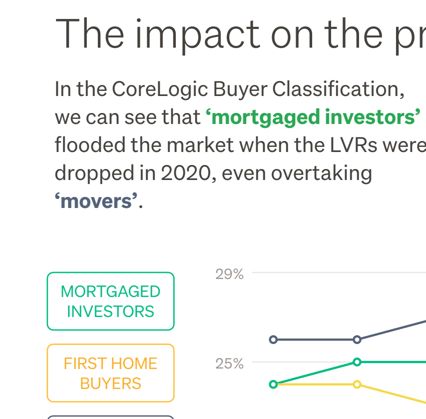
Why have they done this when we're still experiencing Covid-19 restrictions?

The RBNZ's function is to keep prices stable so businesses and households can continue with normal everyday activity.

After the March 2020 lockdown, **inflation** dropped from 2.5% to 1.5%, however it started rising swiftly in March 2021 and now sits at 4.9%[4] — much higher than RBNZ's sweet spot of between 1% and 3%.



To put this in context...
As a guide, a trolley of supermarket shopping that cost $100 in Q3 of 2020 now costs $104.93.[5]



It not only means the cost of living is more expensive (and is rising faster than it should), but it also means that our money is losing value.

To help **balance high inflation** rates, the RBNZ take demand out of the market by raising the OCR, which then flows on to higher interest rates.

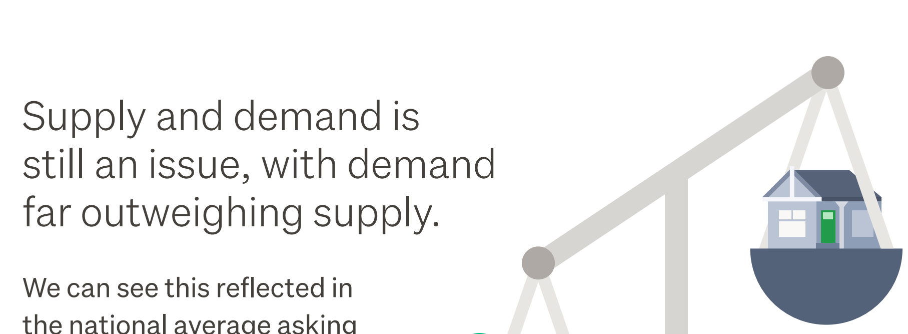
The impact on the property market so far...

In the CoreLogic Buyer Classification, we can see that **'mortgaged investors'** flooded the market when the LVRs were dropped in 2020, even overtaking **'movers'**.

While **'first home buyers'** struggled to compete during this time, they have seen a slight comeback and are likely to continue to benefit from tightening restrictions on investors, who's market share is slowly declining.[6]

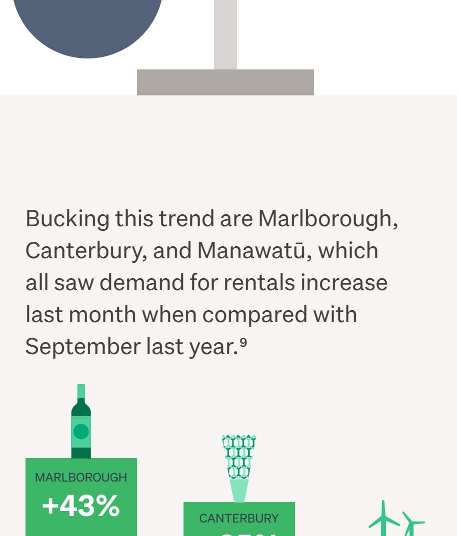
While we continue to see the impact of the extended 2021 lockdown in Auckland, visits to Trade Me Property have **bounced back far quicker this time around**.[7]

This shows that property seekers are still active but not only that, **they're less risk averse** than they were during the 2020 lockdown, and have more confidence in the strength of the market.



Supply and demand is still an issue, with demand far outweighing supply.

We can see this reflected in the national average asking price of **$852,750**, which is **up 18.8% YoY.**[8]



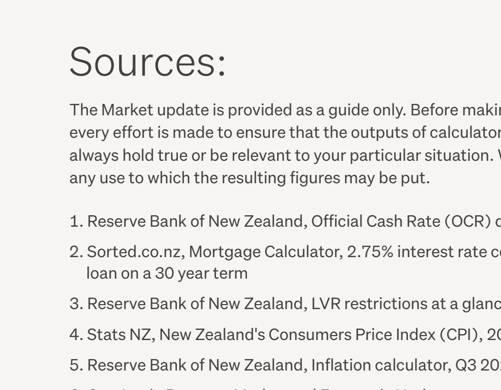
However, there's good news for renters

The national median weekly rental price fell by $15 in September (compared to the month prior) to $535.[9]

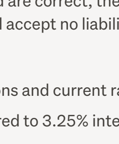
Nationally, demand for rentals was down by 14% YoY.[9]

Bucking this trend are Marlborough, Canterbury, and Manawatū, which all saw demand for rentals increase last month when compared with September last year.[9]

What does the future hold?



"With tighter restrictions in place, we aren't going to see the astronomical price growth we saw after the 2020 lockdown. However, just like last year, there's plenty of pent up demand, so it's likely that prices will grow before evening out in 2022."



- Gavin Lloyd, Trade Me Property Sales Director

Sources:

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1. Reserve Bank of New Zealand, Official Cash Rate (OCR) decisions and current rate, October 2021
2. Sorted.co.nz, Mortgage Calculator, 2.75% interest rate compared to 3.25% interest rate for a $700,000 loan on a 30 year term
3. Reserve Bank of New Zealand, LVR restrictions at a glance, October 2021
4. Stats NZ, New Zealand's Consumers Price Index (CPI), 2020 - 2021
5. Reserve Bank of New Zealand, Inflation calculator, Q3 2020 compared to Q3 2021
6. CoreLogic Property Market and Economic Update report, Buyer Classification data, Q3 2019 - Q3 2021
7. Trade Me Property site statistics, 7 day average listing views, 2020 compared to 2021
8. Trade Me September 2021 Property Price Index
9. Trade Me September 2021 Rental Price Index