July 2016 – More Reserve Bank measures to slow the Auckland market?

Figures released by the Real Estate Institute of New Zealand (REINZ) last week show that the number of sales across the Auckland region for June 2016 dropped, down 3% compared with June 2015, and down 14% when compared with May 2016. However, the re-acceleration of Auckland values continued across all parts of the Auckland region with the former Manukau City suburbs seeing the strongest growth - up 20.4% since June 2015 and 5.3% over the past three months. REINZ Spokesman, Bryan Thomson noted that, "The Auckland region is seeing sales volumes flatten out, although this may be due more to lack of choice for buyers given very low levels of listings available heading into winter. Demand has softened in some parts of the region, but there is still strong demand in the eastern suburbs and in the southern parts of the region. The lack of supply and continuing strong demand is driving prices higher." www.reinz.co.nz.

Jono Ingerson, Head of Research for CoreLogic NZ Ltd (that powers qv.co.nz), speculated a few days ago that “it is the combination of a nationwide increase in values, plus Auckland lifting off again that seems to have caught the eye of the Government and Reserve Bank. Well, to be fair, they have had their eye on it for a long time now but the calls to act on it have grown louder and from more corners lately.”

The Reserve Bank introduced tougher lending rules for Auckland investors last November, just after the Government introduced a new ‘bright line’ capital gains tax on re-sold investor properties.

Those efforts to slow investor activity appear to have had only a slight and short-term impact. CoreLogic NZ Ltd buyer classification analysis shows that investor activity dropped briefly immediately after those restrictions came into play, but bounced back with a vengeance shortly afterwards. Now investor activity appears to be at record levels in Auckland.

Reserve Bank’s Deputy Governor Grant Spencer announced two weeks ago that the Reserve Bank is considering further options. These include extending the existing LVR speed limits, especially for investors; introducing a debt-to-income ratio to limit how much people can borrow relative to their income; and implementing requirements for retail banks to hold a higher ratio of capital for the money they lend, which can lead to higher interest rates.

The Reserve Bank has indicated that it may introduce these policies before the end of 2016. So two things could happen. One is that investors, in particular, will purchase more properties before the rule changes take effect, increasing the already fierce property fire. The other is that people will know that rule changes are coming, and think that the market will slow right down or even decline following those changes. If so, market activity would drop dramatically.

What will happen? If a slow down occurs, will it last? Who knows. Previous measures introduced by the Reserve Bank have only had a short term impact, but this time there will be a combination of measures which may have a more permanent effect. Time will tell.

Winter is a great time to sell your property as there is generally less competition in the market. Please don’t hesitate to contact us if you have any questions about where the real estate market is heading.