

Well, since the proverbial hit the fan there's no arguing we are amidst some pretty messy times and the property market is just one of the casualties accounted for.

Investors have run for cover, potential buyers are too spooked, and now the banks are tightening their lending criteria.

We are nearly 12 months on from the height of the last boom and many are wondering where the property market really is at. Will the sun shine again on New Zealand's property market.....? Most definitely.

To regain perspective and look at things rationally, we must not overlook the influential role the media plays in creating the public mood. In turn market sentiment is one of the biggest influencers on the property market. Since the beginning of the year the media has revelled in bringing to us the "best of the bad" property stories. The media loves to spook people. The question I have is how much of the media's reports and prophecies has become self-fulfilling? Have you been spooked?

## The Devil is in the Median

There is nothing more misinterpreted and quoted out of context in property statistics than the median house price. It is a common misperception by many that the median is an accurate indicator of price growth or decline. It is frightening how distorting the median can be, particularly when so many use it as a barometer for their decision-making. The problem with medians (and averages for that matter) is they are subject to compositional factors. The main one being where volume of sales is concentrated in one price bracket. For example one month there could be a large number of sales in a high value price bracket, then the next month there could be a larger volume of sales in the lower bracket. This would show that the median value has decreased from the previous month, when in fact values overall may have increased. The converse could also apply.

The median is best viewed over a large sample of time and interpreted for the trend it tells rather than getting too hung up on the numbers themselves.

Interestingly enough, the % of decrease from one month to the next in the national median since November 07 are no bigger than some of the monthly variances that were recorded during the height of the last boom. I don't remember anyone then buzzing out on one or two months of information and reporting that a storm was coming! My point is not to diminish the impact of the current crisis but to say we should not evaluate the state of the market on small slices of information. The national median has remained constant for Aug/Sept. As we go to print the October median figures have not been released. We will continue to watch the next few months with interest.

## Help, where are we in this storm?

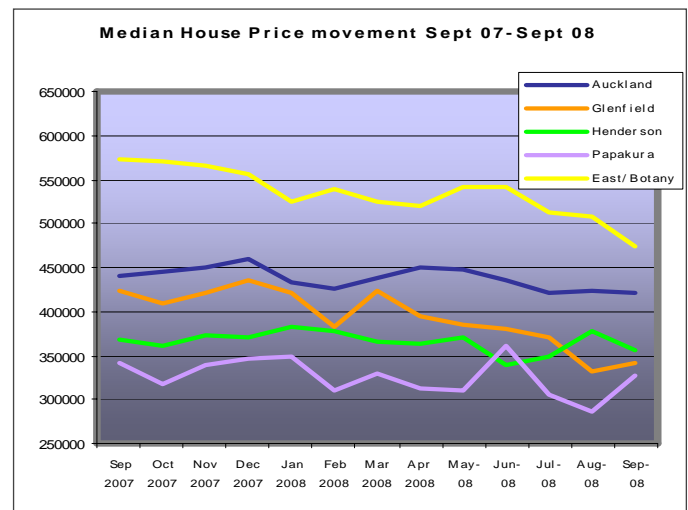
For some time economists have forecasted a drop in property values of up to 30%. Once again will the prophecy become self-fulfilling?

So in terms of a decrease in house values, where are we currently sitting? National property values have declined 5.8% (QV) in the previous 12 months to September. The height of the last boom peaked in November 2007 (national median) so this figure is a pretty fair indicator of the drop in values. Auckland

is currently tracking a decline in growth of approx 7%. To put us in current perspective, these figures are not even close to the drops in values we saw in the property slump of the early 1990's.

## Recession?....No one told us

Once again, what people lose sight of here is a median is simply the middle figure. There are several suburbs that are performing below the Auckland picture and there are several suburbs that quite clearly don't know we are in a recession! The graph below shows a random example of just 2 suburbs that have underperformed the Auckland median and 2 that have outperformed it. (Source: REINZ)



Prices in West Auckland and the Papakura area are just 2 examples of where property prices have remained comparatively stable. One might suggest these are suburbs that didn't experience rapid gains earlier—that is not true. Both achieved growth in the last boom that was close to the national average. Glenfield and the East Auckland/Botany area are 2 examples of where prices have declined up to 3 times more than the Auckland average. Why there is such a difference between suburbs is another story of its own. But now you can see which examples the media may be using! I caution you before you think you might run off to Glenfield to get a bottom basement bargain. Be sure to do your homework. A deal for today doesn't necessarily mean it's a deal tomorrow! Most of us are looking for capital gain. Your research needs to point to reasons that make it a likely suburb for consistent and sustainable growth over the **long term**. Otherwise you may find yourself down a dead-end street in your portfolio.

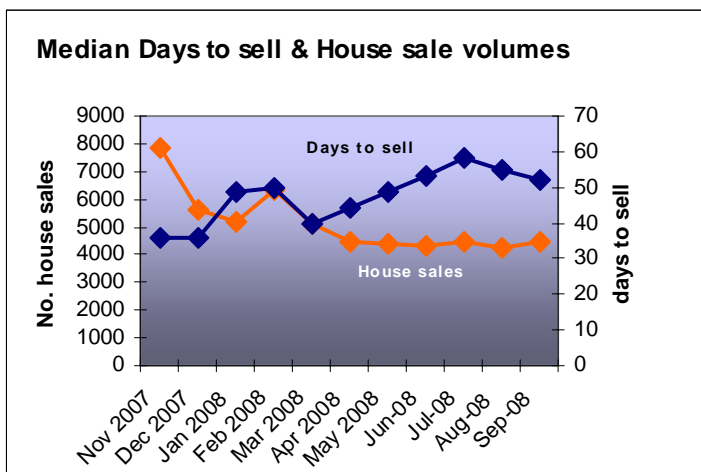
What you should take away from this, is the bottom has not fallen out of ALL of the market. The property market has always been cyclical. It is not a bad time to buy, it is a good time to buy, but like always, what's more important is buying strategically on a well-researched formula. Your property portfolio is too important to make a poorly thought-out purchase. Depending on where you're at with your investments, you could be on your way to committing portfolio suicide.

## House Sale Volumes and Median Days to sell may be a crystal in the ball gazing...

As discussed the median is helpful historically to give us an idea of what has happened over a period of time. If we want to look more closely at indicators that may hold the precursory information for what the median price might do in the future, then you need to look at house sale volumes and the median number of days it takes to sell property.

House sale volumes are an indicator of the level of activity and buoyancy of the market. It is directly correlated to market confidence. If we look back over the height of the last boom (2003-2006), there were many months where there were decreases in the median price but what continued to track strongly was house sale volumes.

Sale volumes for Auckland have remained stable since April of this year. However, during this time the median number of days to sell has trended upwards, but recently has shown signs of trending down again. The median number of days to sell, is linked to the level of demand in the market. (see correlation in graph below. Source: REINZ)



Properties are currently taking twice as long to sell as they did in 2005.

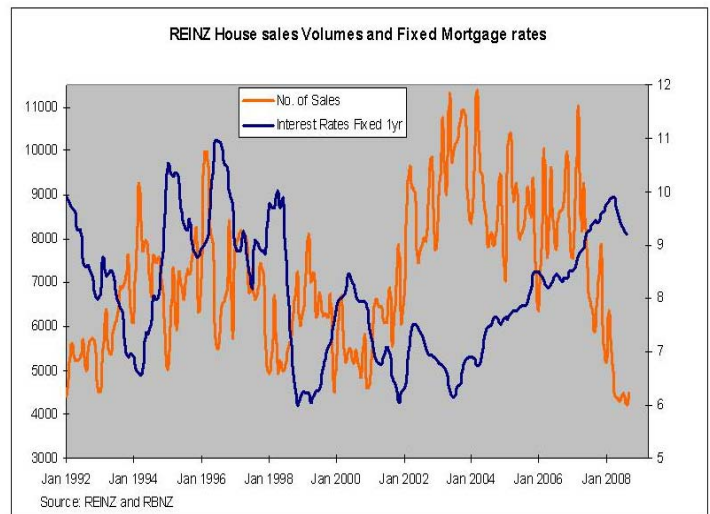
Sale volumes for the national picture have trended upwards (and median days to sell have trended down) for the last 2 months running. This is by no means a big enough sample to get conclusive about but it will be interesting to look at the next couple of months as a decline in values appears to be slowing. Note that the first 2 weeks of October were school holidays and historically sales volumes are always lower during this time. What we will be interested in looking at after actual prices stop falling, is what happens to the inflation adjusted price going forward. After the big boom of the 1970's house price inflation ran well below general inflation.

## Santa and his Reserve Bank Elves

A 1% drop in the OCR on October 23 was the early Christmas present we had been waiting for. But will there be more...? On one hand a drop in the NZD will play a key part in buffering New Zealand from the shock waves and is a possible reason the RBNZ may not be quick to hand out further (large) cuts in the OCR. Then on the other hand the risks associated with the crisis are big, particularly the problems banks are facing

raising funds off-shore, that further OCR cuts may be inevitable. As we go to print the odds favour another cut at the 4th December review. Watch this space...

Interest rates are on the way down...but what does this mean for the property market? The upshot is interest rates along with net migration are 2 primary drivers of housing demand. The graph below shows the direct inverse relationship. (interest rates in blue, sales in orange)



We expect to see some increase in housing demand. It would be unprecedented for there not to be at least a moderate upturn given the significant drop in rates to date. There is always some lagged response, and this response may be taking longer than usual. This stimulus could be countered somewhat by the tightening in lending criteria by banks. Once again, buyers should not assess their capacity to borrow through media articles. Although servicing ability is taking centre stage in loan applications, there is still some 90 and 100% borrowing available. Every financial profile needs to be evaluated on its merits. We recommend anyone interested in borrowing to see a good mortgage broker, to ascertain where things are at for YOU.

## Are we at the bottom yet?

Unfortunately no one rings the bell at the bottom of the market. It would be one a brave soul to make such a call amidst such global uncertainty, together with a change in the US government and an upcoming NZ election. However, suffice to say, there are definitely breaks in the cloud and the fundamentals of the property market are most definitely in tact. The next few months will be interesting.

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