Economic Note

Housing Insights

21 October 2020

Housing boom – who's buying?

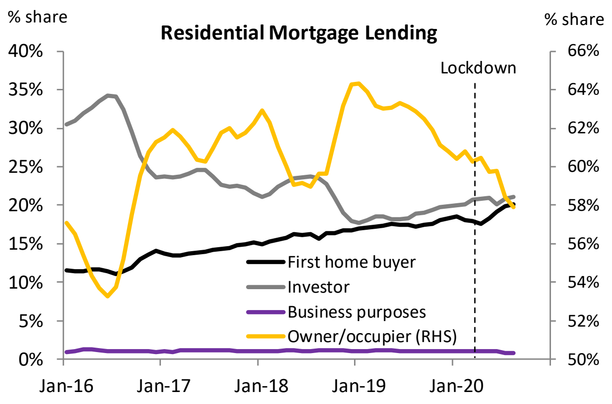
- Investors and first-home buyers have been the most active borrowers recently
- High-LVR investor borrowing in particular has jumped
- The central/lower North Island, notably Wellington, are the tightest markets amongst the regions

The turnaround in the fortunes of the housing market since lockdown has been remarkable. In our *Home Economics* report last week, we materially lifted our house price inflation forecasts for 2020 and 2021. We now see prices sustaining their recent momentum, with annual house price inflation tipped at 12% by June of next year.

Given the sheer strength in the market, it seems logical to ask: who's buying? Where are the hot spots? In this short note, we peruse the data on offer to try and find out. We look at housing activity across buyer cohorts, regions, price brackets, and residency. Overall, we find that first-home buyers and high-LVR investors have been the most active borrowers. Wellington is the tightest regional market and, at least in Auckland, there's a growing preference for high-end homes.

First-home buyers and investors lead lending surge

It doesn't directly cover housing transactions, but RBNZ mortgage lending data can give us a pretty good steer on the relative activity of various cohorts of housing market participants.



Source: ASB, RBNZ

Housing lending has roared back to life since lockdown. This is not that surprising given the surge in housing activity we've seen in recent months. Total mortgage lending in August 2020 was up 26% on August 2019. Splitting the lending numbers by cohort reveals that investors and first-home buyers have been keeping their banks the busiest. Year-on-year growth in mortgage lending to these cohorts is up over 40%.

The share of new lending attributable to first-home buyers hit a new high of 20% in August. Lending to investors has also continued to creep up, and is now at 21% (chart above). Lending to existing owner-occupiers still accounts for by far the largest share of mortgage lending, but this share has fallen sharply from 64% to 58% over the past 18 months.

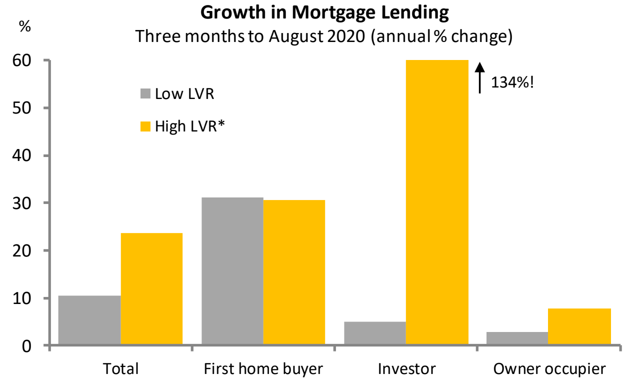
Investors making hay while LVR restrictions are removed

Mortgage lending data are also cut by the loan-to-value ratio (LVR) of borrowers. This gives us a feel for whether the

Mike Jones – Senior Economist (649) 301 5661 mike.jones@asb.co.nz

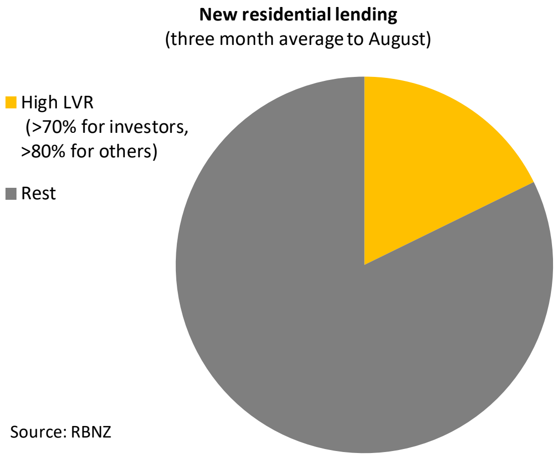
RBNZ's dropping of all LVR limits back in April (for 12 months) has given rise to a rush of new lending to more highly-geared borrowers.

The charts shows that "high" LVR lending[1] has indeed accounted for relatively more of the growth in new lending in the three months since lockdown, but that it's still a small share of the total at around 18%. What is interesting is that the segment experiencing by far the largest growth in high-LVR lending, relative to the same period last year, is investors.[2] Relative to the same period last year, growth in new lending to the high-LVR investor segment for the three months to August is up 134%.



"High" LVR = higher than most recent RBNZ threshold before it was dropped - 70% for investors, 80% for all other cohorts

Source: ASB, RBNZ



Source: RBNZ

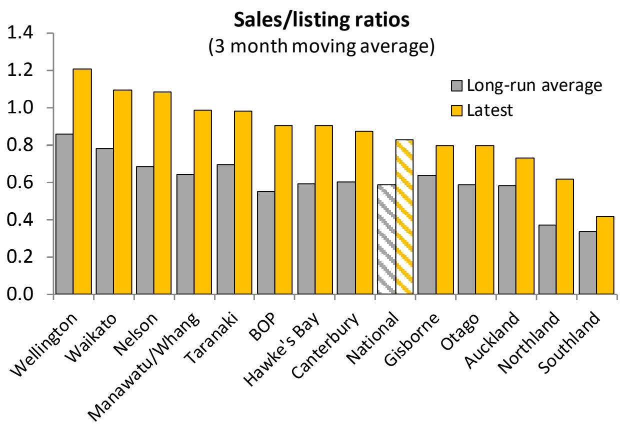
Regional hot spots in Wellington, central/lower North Island

We've also dug into regional housing activity data to examine more closely where the hot spots are. One way to assess this is to look at the pace at which houses are selling. Relatively speaking, Auckland, Nelson, Waikato, and Canterbury come out on top here.

However, house sales can be held back by a lack of available listings for prospective purchasers to buy. This looks to have been the case in Gisborne recently, for example. A more useful measure of market "tightness" is the ratio of sales to listings. This effectively shows how quickly house sales are burning off any available inventory.

Using REINZ and realestate.co.nz figures, we've computed sales/listing ratios for most NZ regions. In the chart opposite we show, for each region, the average sales/listing ratio of the past three months relative to the long-run average.

Sales/listings are above average for all regions, showing all markets are currently "tight". This even extends to those regions that were hit particularly hard by COVID like Otago.



Source: ASB, REINZ, realestate.co.nz

Wellington, Waikato, and Nelson are currently the tightest markets in the country. As we illustrated in last week's Home Economics, these regions have, unsurprisingly, also tended to outperform in terms of house price inflation since February. They will likely continue to do so in the short term. The Northland and Southland markets,

[1] Defined for these purposes as higher than the most recent RBNZ thresholds before they were temporarily dropped in April – 70% for investors and 80% for all other cohorts.

[2] Defined as those drawing down a mortgage for a house they don't intend to live in (not including bachs).

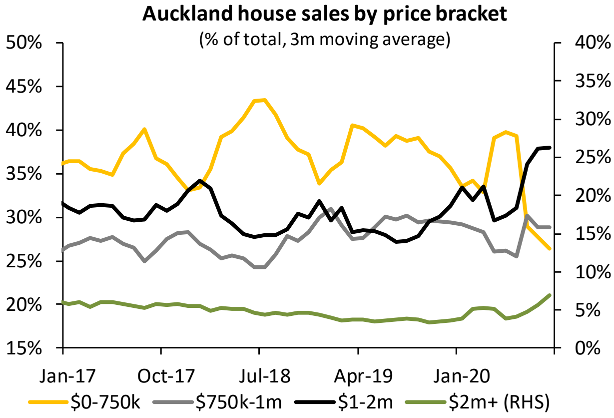
while still tight in an absolute sense, occupy the opposite end of the spectrum.

Activity in more expensive price brackets picking up

The best data we have on housing activity by price bracket is from Barfoot & Thompson, which covers just Auckland. In the early stages of the post-lockdown recovery, we noted that house sales in the lower price brackets (<$750k, $750k-$1m) were accounting for a larger share of the total. This was supportive of other data and anecdotes pointing to increased activity from first-home buyers and investors.

However, more recently, increased activity has broadened out to the more expensive price brackets as well. "Bracket-creep" as house prices have risen strongly since lockdown will also be a factor here.

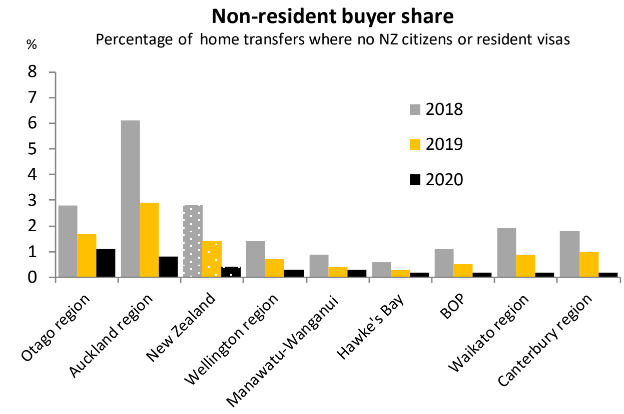
The chart shows that the share of sales in the $1-2m bracket have risen from around a third of the total to 40% in September (figures in the chart are three month moving averages). Sales in the $2m+ bracket accounted for an astonishing 9% of the total in September, up from 3% in May.



Source: ASB, Barfoot & Thompson

It's definitely not foreign buyers

Foreign buyers remain largely absent. The latest property transfer statistics show that participation from non-residents in the NZ property market has continued to drift down to almost nothing following the imposition of the so-called 'foreign buyer ban' in October 2018.



Source: Statistics NZ. Notes: June years, full data set not available for all NZ regions

ASB Economics & Research			**Phone**
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5957
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Economist	Mike Jones	Mike.jones@asb.co.nz	(649) 301 5660
Economist	Nat Keall	Nat.keall@asb.co.nz	(649) 301 5660
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

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