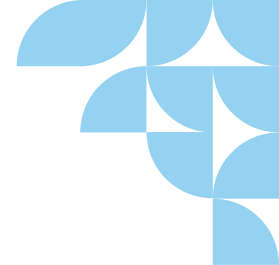


# **REINZ & TONY ALEXANDER REAL ESTATE SURVEY**

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February 2021



# FOMO DOMINATES

Welcome to the REINZ & Tony Alexander Real Estate Survey. This survey gathers together the views of licensed real estate agents all over New Zealand regarding how they are seeing conditions in the residential property market in their areas at the moment. We ask them how activity levels are changing, what the views of first home buyers and investors are, and the factors which are affecting sentiment of those two large groups.

Our first survey for 2021 tells us that FOMO (fear of missing out) is as strong now as it was heading into Christmas, and agents near universally expect that house prices will rise. There are also very strong numbers of people attending Open Homes as well as auctions.

However, in contrast with the Tony's View Mortgage Advisors Survey released recently, which showed firm recoveries in the presence of first home buyers and investors in the market according to the advisors' observations, our survey reveals small declines. This divergence in results from two surveys may reflect the fact that mortgage advisors are likely to be very busy with potential clients seeking information on the changing landscape regarding LVRs (loan to value ratios). Many people are also likely to be enquiring about access to the new 2.29% one-year fixed mortgage rates now being offered by most lenders.

In contrast, agents will be observing actual market presence as opposed to check-up enquiries potentially driven by rule changes. The sheer speed of price rises over the final four months of 2020 is likely to have accelerated the normal economic process of demand easing as prices rise.

Nevertheless, with a net 46% of responding agents saying they are seeing more first home buyers and a net 31% saying they are seeing more investors, demand for housing around the country remains very strong.

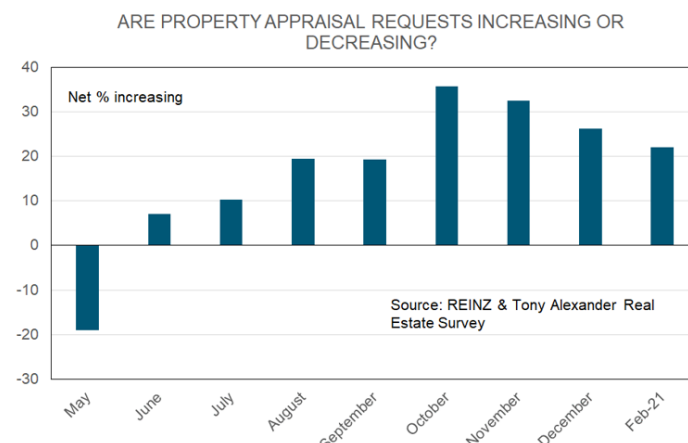
## ARE PROPERTY APPRAISAL REQUESTS INCREASING OR DECREASING?

A net 22% of real estate agents responding in our monthly survey report that they are receiving more requests for the value of properties to be appraised. This is down from results of 26% in December and 33% in November and the lowest since September's 19%.

This suggests that although in December the number of properties freshly listed for sale was 23% ahead of a year earlier according to data from realestate.co.nz, this growth in listings may not continue – in the short-term at least.

One key development in residential real estate markets when prices rise strongly for a period of time is that potential vendors hold off making moves toward placing their property on the market because of hopes for further price gains. When price expectations ease off, capitulation by these vendors can lead to a lift in listings.

There is perhaps one other factor helping to explain the easing in appraisals growth. Many people since May have been undertaking home renovations and while some would have financed their additions, alterations, and refurbishments with money no longer being spent on overseas travel, some may have increased their mortgages slightly. Although the renovation market still remains very strong, it might not be growing at the same pace as before, therefore this will tend to constrain the pace of growth in mortgage top-ups.

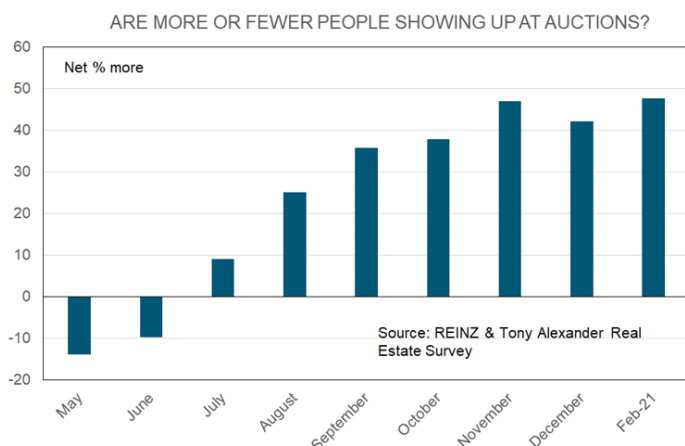




## ARE MORE OR FEWER PEOPLE SHOWING UP AT AUCTIONS?

A net 48% of the 336 agents responding in this month's survey have indicated that they are seeing more people attending auctions. This is the highest result so far since our survey started in May and tells us that having taken a break over Christmas-New Year, buyers generally have returned to the market either bidding or getting a feel for where their local market sits by attending an auction.

The high level for this measure is not necessarily inconsistent with the slight declines discussed below in the proportions of agents noting more first home buyers and investors in the market. This is because when markets are changing quickly, especially when prices are rising rapidly, both buyers and sellers want to make sure that they have the most up to date information on where the market is sitting before they make their own bids through the various purchase processes, or set their asking prices or auction reserves.



Attending auctions is an excellent way of gauging market equilibriums as well as sentiment.

At a regional level auction attendance appears strong everywhere except Otago excluding Queenstown at a net 17% positive, Nelson/Tasman at 21%, and Taranaki at 29%.

## ARE MORE OR FEWER PEOPLE ATTENDING OPEN HOMES?

A net 64% of agents have reported that they are seeing more people attending Open Homes. This is a record for this measure which tells us that the well-acknowledged shortage of listings is likely encouraging people to undertake more viewing and quick property searching activity than might normally be the case.

## ARE MORE OR FEWER PEOPLE SHOWING UP AT OPEN HOMES?

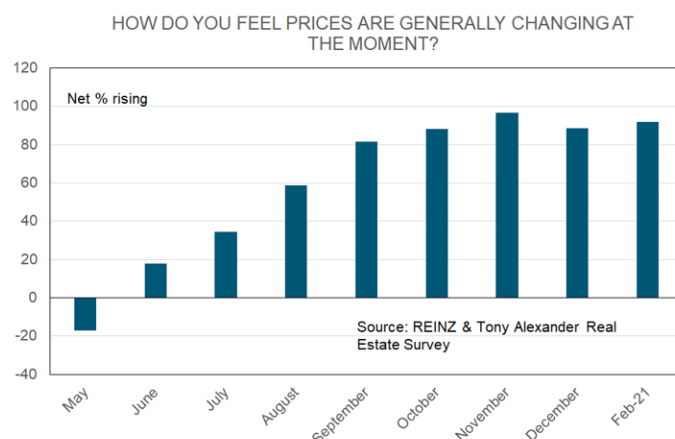


The media has recently included many stories of high Open Home attendance, and comments submitted by agents in this month's survey reveal record observations of attendances for many agents. One reason for this month's high survey result for this measure could be catch-up viewing by buyers who have taken a summer break.

Open Home attendance is seen by agents as being strong everywhere around the country, most notably in Manawatu-Whanganui where a net 89% of respondents have noted high visitation.

## HOW DO YOU FEEL PRICES ARE GENERALLY CHANGING AT THE MOMENT?

A net 92% of agents feel that house prices are rising. This result is essentially the same as those for all our surveys since September when it became clear that the residential real estate markets around New Zealand were undergoing more than a simple short-lived recovery period following the ending of the seven-week nationwide lockdown over March – May.



We already know from the REINZ House Price Index data, that average NZ house prices recorded a record four-month rise of 11.7% over the September – December period last year. Analysis of data from 1992 tells us that periods of extreme prices growth do not last very long, and that we should expect a reversion of the pace of price rises to something more “acceptable” in the near future.

However, the results of our first survey of real estate agents for 2021 tell us that for the very short-term, the extremely high momentum in house prices may well continue.

For this measure responses are universally strong around the country, with the weakest result being a net 86% of agents in Auckland reporting rising prices. Some regions have 100% responses.

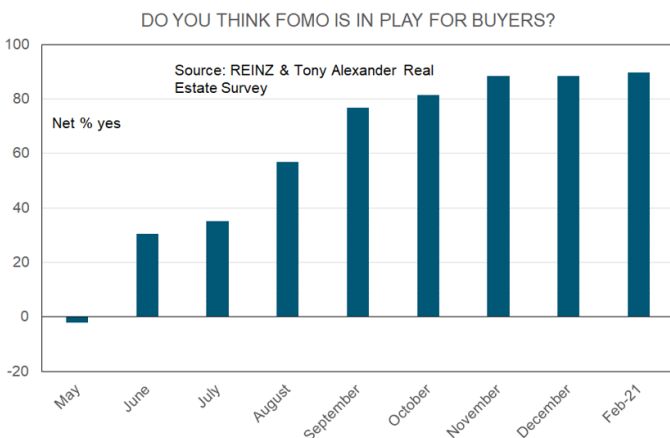
### DO YOU THINK FOMO IS IN PLAY FOR BUYERS?

FOMO = Fear of missing out

Back in May last year, our first survey of real estate agents revealed a net 2% feeling that there was no FOMO being displayed by property buyers. But since September a vast majority have reported that FOMO is present and there is no indication from our latest survey that buyers are becoming any more relaxed in their property search.

A net 90% of agents this month have reported that they are seeing FOMO, up from 88% in both December and November. High FOMO helps explain the high net 64% of agents reporting more people attending Open Homes early in 2021.

FOMO is highly present all around the country, with the weakest result still being a very strong net 71% in Nelson/Tasman.

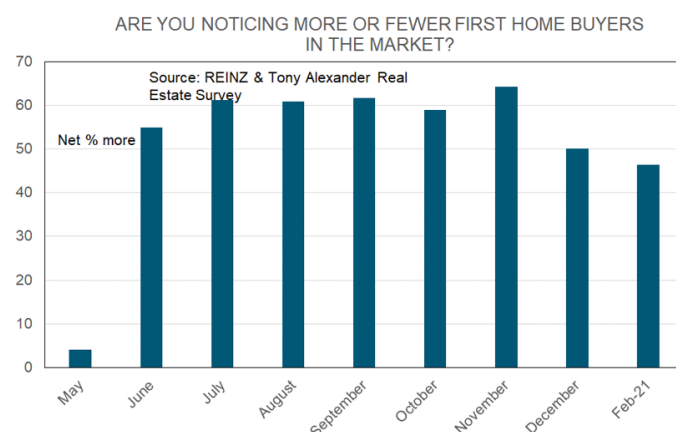


### ARE YOU NOTICING MORE OR FEWER FIRST HOME BUYERS IN THE MARKET?

For the second survey in a row, we have seen a small decline in the net proportion of agents reporting that they are seeing more first home buyers in the market, to a net 46% this month from 50% in December and 64% in November.

In some regards this may be an overdue element. First home buyers jumped into the residential property market as soon as lockdown ended, hoping for listings and wanting to take advantage of the removal of LVR requirements.

However, it is only natural to expect that over time as prices have risen strongly, while many may still be attending auctions and Open Homes and displaying FOMO, an increasing number will simply find themselves unable to keep looking because growth in prices will have exceeded growth in their deposits.



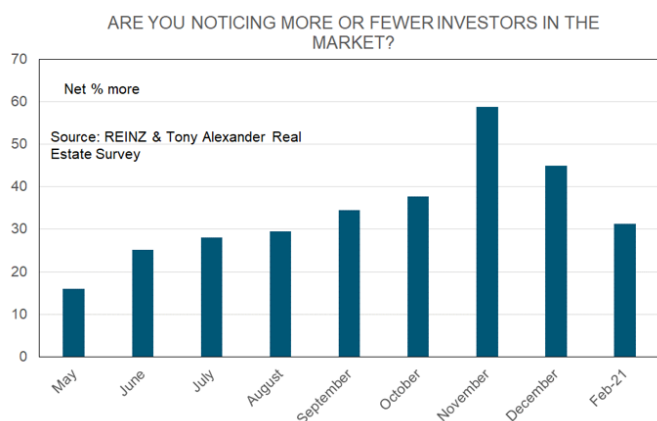
Nonetheless, agents continue to report that first home buyers are in high presence, and after all, according to data from CoreLogic, over the December quarter last year 23% of property sales (title transfers) went to first home buyers. So, it is not accurate to say that first time buyers have been priced out of the market.

In contrast to results for the previous four measures, there is some wide variation in results for presence of first home buyers around the regions. In Marlborough a net 14% of agents report that they are seeing fewer first home buyers, and in Taranaki the result is a net zero. Manawatu-Wanganui sits at a net 78% of agents seeing more first home buyers.

## ARE YOU NOTICING MORE OR FEWER INVESTORS IN THE MARKET?

A net 31% of agents this month have reported that they are seeing more investors in the market. This is down from 45% in December and 59% in November and is the lowest proportion since August's net 30%.

This is a greater easing off of market presence than for first home buyers and that is likely to partly be because of the extra tightening of minimum deposit requirements for investors by one bank. But a key factor may well be reduced hopes of finding a bargain.



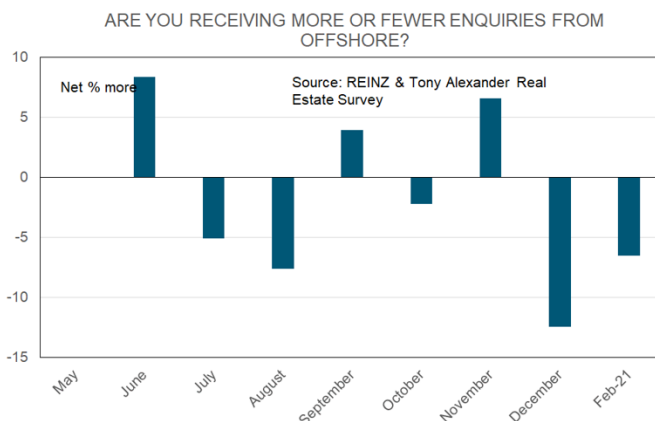
In June when we first asked agents to indicate why investors were in the market, a gross 60% reported that the investors were hopeful of finding a bargain. But that proportion has been falling since then and this month only a gross 18% of agents reported that those bargain hopes remain. The last graph in this report shows the decline in this measure of investor motivation.

In all regions agents note that they are seeing more investors, ranging from a net 8% in Northland and 13% in Hawkes Bay to 100% in Manawatu-Wanganui and 71% in Marlborough.

## ARE YOU RECEIVING MORE OR FEWER ENQUIRIES FROM OFFSHORE?

Much as we are all aware of stories regarding Kiwis offshore buying homes before repatriating, and stories of the occasional high-priced purchase in Queenstown by an Australian, the truth is that agents are not reporting a wave of enquiry from offshore.

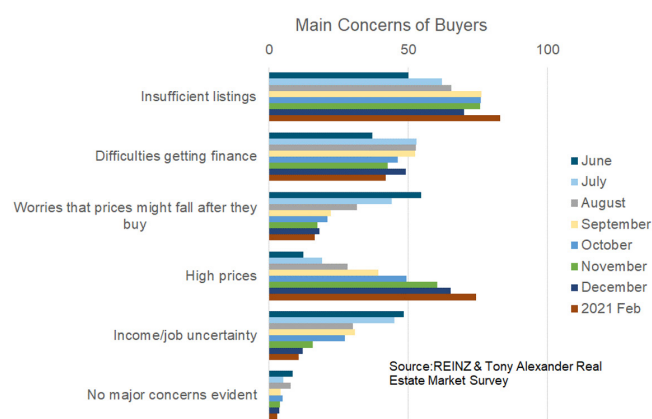
A net 7% of agents this month have noted that they are seeing fewer enquiries about properties, and more often than not since we started asking this question in June, agents have reported reduced offshore queries.



## WHAT ARE THE MAIN CONCERNS OF BUYERS?

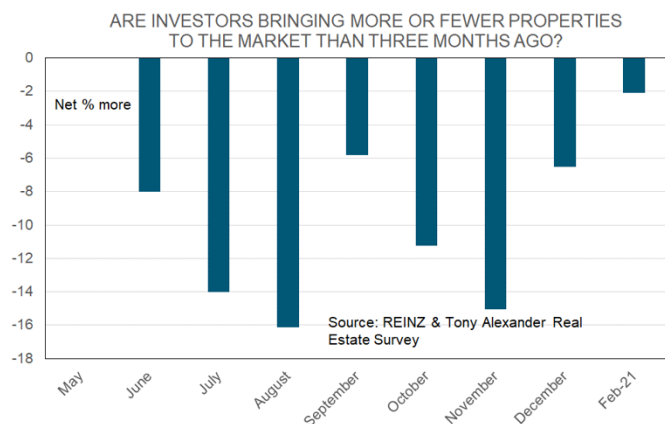
A deficiency of listings and high prices are the main concerns being expressed by buyers in the residential property market. A gross 83% of agents report lack of listings as a concern, up from a gross 50% back in June.

But this increase from 50% to 83% pales into insignificance with the change from 12% to 74% in the gross proportion of agents reporting buyers as having high prices as their greatest concern. This is a result to be expected when prices over the last four months of 2020 rose at their fastest pace on record, and discussion has been growing regarding what might be done by the Reserve Bank and government to slow the pace of price increases.



In contrast to rising concerns about listings and prices, over time we have seen substantial easings of concerns regarding prices falling and about incomes and job security. Perhaps we can note that if there were a good number of buyers feeling that the government and Reserve Bank might be successful in their as yet unspecified efforts to slow down the pace of price increase, the "Worries that prices might fall after they buy" area of concern would be increasing.

## ARE INVESTORS BRINGING MORE OR FEWER PROPERTIES TO THE MARKET TO SELL THAN THREE MONTHS AGO?



A net 2% of agents report that they are seeing fewer investors stepping forward to sell their properties. This is the smallest result on record for this measure and it will be very interesting to see if it changes much in the next few months. If it does then we will probably be able to interpret that as a sign that some investors are looking to take profits on their purchases – whether they be recent or of many years ago.

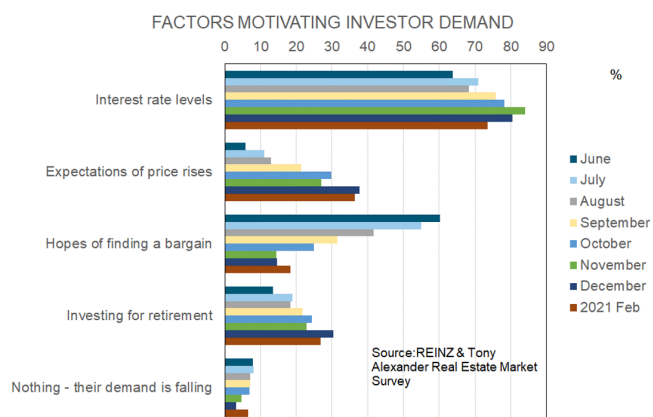
There is also potential for this measure to eventually give a strong signal of investor capitulation in their price expectations.

## WHAT FACTORS APPEAR TO BE MOTIVATING INVESTOR DEMAND?

As noted above in the discussion regarding whether agents are noticing more or fewer investors in the market, investor hopes of finding a bargain have fallen substantially during the period of our monthly survey. In contrast, there has been a rise in the proportion of agents noting expectations of price rises amongst investors to 38% in December and 36% this month from just 6% in June.

Interest rates consistently rate as the most important factor influencing investor purchase decisions, and there is an upward trend in the proportion of investors viewed as positioning themselves for retirement. This is one way in which the government faces a challenge should it attempt measures which reduce returns to investors.

For three decades New Zealand governments have run campaigns telling Kiwis to save and invest for a retirement which may be less generous pension-wise than in the past because of government fiscal constraints. Many have heeded this message and chosen to invest in property, assisted by an ability to gear up (borrow money to make a purchase) not available for the purchase of other retirement assets such as shares.





## REGIONAL RESULTS

The following table breaks down answers to the numerical questions above by region. No results are presented for regions with fewer than 7 responses as the sample size is too small for good statistical validity of results. Even for regions with responses between 7 and 20, caution needs to be applied as results may prove quite volatile from one month to the next. Nelson and Tasman results have been joined together.

Key variations between regions have been discussed in each of the sections above.

- |   |   |
|---|---|
| A. # of responses   | G. Are you noticing more or fewer first home buyers in the market?                              |
| B. Are property appraisal requests increasing or decreasing?    | H. Are you noticing more or fewer investors in the market?                                      |
| C. Are more or fewer people showing up at auctions?             | I. Are you receiving more or fewer enquiries from offshore?                                     |
| D. Are more or fewer people attending open homes?               | J. Are investors bringing more or fewer properties to the market to sell than three months ago? |
| E. How do you feel prices are generally changing at the moment? |   |
| F. Do you think FOMO is in play for buyers?                     |   |

|                   | A<br>#obs | B<br>Appraisals | C<br>Auction | D<br>Open H. | E<br>Prices | F<br>FOMO | G<br>FHBs | H<br>Invest. | I<br>O/seas | J<br>Inv. selling |
|-------------------|-----------|-----------------|--------------|--------------|-------------|-----------|-----------|--------------|-------------|-------------------|
| Northland         | 25        | -20             | 52           | 68           | 92          | 84        | 28        | 8            | -12         | -24               |
| Auckland          | 114       | 42              | 54           | 58           | 86          | 86        | 49        | 27           | -13         | 7                 |
| Waikato           | 31        | 6               | 45           | 77           | 90          | 94        | 48        | 23           | -16         | -32               |
| Bay of Plenty     | 24        | 33              | 54           | 75           | 100         | 100       | 63        | 38           | 0           | 8                 |
| Gisborne          | 1         |                 |              |              |             |           |           |              |             |                   |
| Hawke's Bay       | 8         | 25              | 38           | 63           | 100         | 100       | 63        | 13           | -13         | 0                 |
| Taranaki          | 7         | 0               | 29           | 57           | 100         | 100       | 0         | 57           | 29          | 0                 |
| Manawatu-Wanganui | 9         | 0               | 56           | 89           | 100         | 100       | 78        | 100          | 22          | 44                |
| Wellington        | 25        | 56              | 44           | 56           | 92          | 88        | 44        | 20           | 4           | 16                |
| Nelson/Tasman     | 14        | -36             | 21           | 57           | 93          | 71        | 21        | 29           | -43         | -21               |
| Marlborough       | 7         | -14             | 57           | 43           | 100         | 100       | -14       | 71           | 14          | -71               |
| West Coast        | 1         |                 |              |              |             |           |           |              |             |                   |
| Canterbury        | 44        | 11              | 50           | 70           | 95          | 89        | 55        | 36           | 11          | 14                |
| Queenstown Lakes  | 9         | 33              | 56           | 56           | 89          | 100       | 33        | 67           | 33          | -33               |
| Otago exc. Q'town | 12        | 8               | 17           | 58           | 100         | 92        | 50        | 25           | -17         | -33               |
| Southland         | 5         |                 |              |              |             |           |           |              |             |                   |
| New Zealand       | 336       | 22              | 48           | 64           | 92          | 90        | 46        | 31           | -7          | -2                |



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This publication is written by Tony Alexander, independent economist.

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