

# A 2023 real estate story

**THROUGHOUT MUCH OF 2023, THE HOUSING MARKET HAD TO CONTEND WITH THE OVERSHADOWING INFLUENCE OF GLOBAL DEVELOPMENTS AND THE PERSISTENT WEIGHT OF COST-OF-LIVING PRESSURES. HOWEVER, KIWIS HAVE SHOWN PATIENCE AND RESILIENCE, AND WITH THE RECENT IMPROVEMENT IN CONDITIONS, ARE NOW PRIMED TO ENGAGE WITH ENTHUSIASM.**

FROM BOOM TO BALANCE, THAT'S the residential real estate story as we close out 2023.

"We began the year on the back foot, noting double-digit value regression across the country," says Johnny Sinclair, Bayleys national director of residential.

"However, it's been a year of resilience, and we're now seeing a firming in housing market conditions, buoyed by three months of value growth and a host of supportive factors lifting the sentiment."

## THE 'I' WORDS

"After restricting housing market performance over the bulk of 2023, interest rates and inflation are releasing their firm grip on consumer confidence, and we're starting to see greater stability, despite borrowing costs pushing higher recently," Sinclair says.

After receding to a record low of just 0.25 percent during the darkest days of the pandemic, the Reserve Bank of New Zealand (RBNZ) has increased the Official Cash Rate (OCR) to 5.50 percent since this tightening cycle began.

Designed to dampen consumer demand and ease supply and capacity pressures which led to record-high inflation and cost-of-living challenges for many Kiwis, the RBNZ appears satisfied with current monetary policy, giving indications it could hold the OCR steady until the first 2024 review in February.

Sinclair says the effects of fiscal measures take time to flow through the financial system. So, the central bank is likely waiting to see whether they've done enough to cool spending behaviour – with the critical summer period being an excellent time to take New Zealand's financial temperature.

Crucially, broad-based inflation has started to trend down after peaking above seven percent in early 2022.

Statistics New Zealand data for the September 2023 quarter shows annual headline inflation fell by 0.4 percent to 5.6 percent – broadly in line with market expectations – which had a meaningful effect on consumer confidence.

However, Kiwis continue to see intense and still-peaking domestically generated price pressures, particularly for wages.

"The holiday season will serve as the litmus test to gauge if the OCR aligns appropriately with the housing market's behaviour during the traditionally vibrant summer selling season," he says.

Immigration and a sharp downturn in residential building consents is another key dynamic with a chapter in the 2023 story.

"New Zealand's building sector contraction is becoming more pronounced, and industry analysts expect a steep reduction in building activities for the coming year, with implications for supply and demand dynamics within the residential sector," Sinclair says.

Monthly residential building consent issuance is now at levels last seen before the pandemic, with numbers dropping another five percent in September, down 20 percent year-on-year nationally.

Sinclair says the downturn reflects more demanding financial conditions with significant increases in building

costs, a regression in property prices with an impact on sales volumes and lending criteria, and continued interest rate increases complicating feasibility for development firms.

"In 2021, the building and construction sectors were impacted by a duality of materials and labour shortages. However, strong immigration has eased some pressure here, firms are still reluctant to bring new projects to market until feasibility dynamics improve, and off-the-plan sales increase.

"It's a complicated paradigm, New Zealand is headed for another period of underbuilding. At the same time, net migration has risen to a record high, with the number of people entering the country exceeding departures by 110,000 over the past year.

"Whilst many new entrants will pressure an already stressed rental market – where average weekly rental rates have risen by \$40 a week over the last 12 months, they add aggregate demand for homes. So, we are seeing investors return to market targeting rental-ready properties."

## GLOBAL DEPARTURES

The consequences of the conflict in Russia-Ukraine intensified international inflation pressures over 2022 and 2023. However, the global community now faces a new challenge of destruction occurring in the Middle East.

"The fallout of conflict on multiple fronts will continue to exacerbate a recovery for the global economy, with supply-side shocks and geopolitical tensions likely to keep interest rates higher for longer across the globe – including New Zealand.

"Historically low interest rates over the last decade have been driven by the deflationary effects of globalisation and the expansion of the international labour force. But as countries seek strategic autonomy and grapple with climate-related challenges, New Zealand is positioned as a haven amid international turmoil."

Sinclair says the incoming government's proposal to reverse the foreign buyer ban would see a tax on residential purchases of 15 percent for sale values exceeding \$2 million.

"Should this policy survive ongoing coalition negotiations, it is expected to add to housing demand, particularly in Auckland and Queenstown, where immigration is already showing up as a housing supply deficit.

**"THE HOLIDAY SEASON WILL SERVE AS THE LITMUS TEST TO GAUGE IF THE OCR ALIGNS APPROPRIATELY WITH THE HOUSING MARKET'S BEHAVIOUR DURING THE TRADITIONALLY VIBRANT SUMMER SELLING SEASON."**

JOHNNY SINCLAIR, BAYLEYS NATIONAL DIRECTOR OF RESIDENTIAL

"Given the relatively small size of our economy, New Zealand is influenced by global economic trends through trade, with immigration playing a significant role in population growth, labour force dynamics, consumer demand – and thus, the housing market. So, this will continue to be a critical performance area over 2024."

As Kiwis navigated initial challenges throughout 2023, improving conditions have seen quick adaptation to the new landscape, reflected by increased sales activity and value growth.

However, as we look to the new year, uncertainty looms.

The effects of global events, monetary policy, immigration and housing supply pressures will continue to shape the path of the market in 2024, with expected growth tempered by affordability constraints and emerging variables, including the potential introduction of Debt-to-Income (DTI) limits in April.

Now, with greater certainty and a clear government direction, the residential real estate market will continue to be a critical performance area for the economy.

Though the year in review is a story of resilience and change, what lies ahead is a narrative waiting to be written, but we do know right now that it presents some of the best buying and selling conditions we've seen in this market cycle.



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*The property featured on the cover at 1 Kennedy Point Road, Kennedy Point, Waiheke Island can be found on page 15.*

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