Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

HUD2023-002380

s 9(2)(a) [redacted]

Dear s 9(2)(a) [redacted]

Thank you for your email of 29 May 2023 requesting the following information under the Official Information Act 1982 (the Act):

> *The Minister for Housing receives a monthly Housing Market Update from Te Tūāpapa Kura Kāinga. Under the OIA, please can I have the three most recent editions of this report?*

Six documents are within scope of your request are released to you. Some information has been withheld under the following sections of the Act:

Section of Act	Reason to withhold
9(2)(a)	to protect the privacy of natural persons.
9(2)(b)(ii)	protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information
9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.

The documents are detailed in the attached document schedule.

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold information under section 9 of the Act is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review of my response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website at: www.ombudsman.parliament.nz.

As part of our ongoing commitment to openness and transparency, the Ministry proactively releases information and documents that may be of interest to the public. As such, this response, with your personal details removed, may be published on our website.

Yours sincerely

Alex Gunn
Manager, System Intelligence

Annex 1: Document schedule

DOCUMENTS RELEASED			
#	**Date**	**Title**	**Sections of the Act applied**
1	28 February 2023	Housing Market Update – February 2023	N/A
2	28 February 2023	Housing Market Update - February 2023 Information Request	9(2)(a)
3	30 March 2023	Housing Market Update – March 2023	9(2)(b)(ii)
4	30 March 2023	Housing Market Update – March 2023 Aide Memoire	9(2)(a) 9(2)(f)(iv)
5	27 April 2023	Housing Market Update – April 2023	N/A
6	27 April 2023	Housing Market Update – April 2023 Aide Memoire	9(2)(a) 9(2)(f)(iv)

Information Request

HOUSING MARKET UPDATE FEBRUARY 2023			
Date	28 February 2023	**Security level**	Unclassified
Priority	Low	**Tracking number**	HUD2023-001528

INFORMATION FOR MINISTER(S)	
Hon Dr Megan Woods **Minister of Housing**	**Note** the contents of the following information request.

CONTACT FOR DISCUSSION			
Name	**Position**	**Telephone**	**1st contact**
Alex Gunn	Manager, System Intelligence	s 9(2)(a)	✓
Richard Deakin	Principal Advisor, System Intelligence	s 9(2)(a)	

OTHER AGENCIES CONSULTED
-

MINISTER'S OFFICE TO COMPLETE	
☐ Noted ☐ Seen ☐ See Minister's notes ☐ Needs change ☐ Overtaken by events ☐ Declined ☐ Referred to (specify) ________________	Comments

Information Request

HOUSING MARKET UPDATE FEBRUARY 2023			
Minister	Hon Dr Megan Woods, Minister of Housing		
Date	28 February 2023	**Security Level**	Unclassified
Priority	Low	**Tracking number**	HUD2023-001528

PURPOSE

1. To provide you with an update on rental and housing market, construction and macro-economic trends and outlooks.

FEBRUARY 2023 UPDATE

- The Reserve Bank of New Zealand (RBNZ) increased the Official Cash Rate (OCR) to 4.75% with the same OCR forecast peak of 5.5%, and increased their house price decline forecast to 23%. Fall from peak currently is 16.2%. Falls in value will vary regionally.
- Nationally, rental inflation for new tenancies has shown signs of increasing. Further data is needed to confirm a change of trend however there is supporting evidence of tightening markets in Auckland, Canterbury, Otago and Southland. Auckland rental demand pressures could be the result of increased international migration.
- Households displaced by recent flooding and temporary workers will likely increase demand for rentals in the short-term. Smaller rental markets with a poor outlook for new supply and stock-loss may tighten and become more unaffordable to low-income households.
- There is increasing evidence of a construction slowdown although the slowdown is taking some time to filter through to consenting levels, which are falling but still high. Flooding recovery may cushion some trades and businesses by generating remediation demand.
- Recession is forecast for mid to late 2023. Increasing unemployment and a high cost of living (including temporary flood-related inflation) is likely to increase rates of housing stress for some households.

Upcoming advice

- You and the Minister of Finance will receive a briefing by 8 March 2023 that will outline our proposed response to the changing market conditions to ensure we are well placed to respond. This includes not only the growing economic headwinds, but also the impacts of Cyclone Gabrielle.
- This briefing will also respond to questions you and the Minister of Finance raised in response to briefing HUD 2022-001057 Improving the impact of our countercyclical tools, which recommended minor policy changes and funding reallocations to improve the effectiveness and impact of our countercyclical tools.

ANNEXES
Annex A: Housing Market Update February 2023

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Housing Market Update

February 2023

New Zealand Government

Monthly Housing Market Update

The purpose of the update is to provide the Minister for Housing, Te Tūāpapa Kura Kāinga and other housing agencies with the latest information about the housing and rental markets, residential construction, and macro-economic context. The update is not intended for public release.

This month's Housing Market Update also features commentary on the Auckland Anniversary and Cyclone Gabrielle weather events.

Key Insights

- The Stats NZ Rental Price Index (a measure of price change for new tenancies) rose in January after a period of stability, but more data is needed to confirm a change of trend. There is some evidence of tightening rental markets (indicated by falling vacancy rates); a recent increase of international migration is likely to have increased demand for Auckland rentals.

- The Official Cash Rate (OCR) was raised to 4.75% in February, with a forecast peak of 5.5% in late-2023. We expect that house prices will continue to fall with buyers' ability to borrow reduced by high mortgage interest rates and serviceability tests. Those servicing existing mortgages at high rates are largely managing, but more defaults may occur as unemployment rises in a contracting economy and more people refix existing mortgages at higher rates.

- Consents are gradually reducing but remain high. Continued low sector confidence, industry reports of a significant drop-off in demand, and fewer advertised construction jobs indicate a drop in consenting and activity over the next year remains likely.
- Construction work on disaster recovery might lessen the drop in activity. The scale, locations and nature of demand on construction sector capacity will take time to be fully assessed.

- Severe weather events have affected areas of higher deprivation and rental stress, increasing the likely high need for social support and shelter in the short to medium-term. Lower socio-economic communities will have less resilience to climate risks as they have limited financial resources to cope with losses and to adapt to the impacts of climate change.

- The labour market is showing signs of easing, with a slight rise in unemployment and wage growth but slower than forecast by the Reserve Bank (RBNZ). Communities impacted by flooding are also likely to be impacted by job losses in affected industries.

Special topic – Auckland Anniversary & Gabrielle Weather Events

- Communities grappling with economic loss, as well as the acute trauma of the flooding events, will likely require social service support for some time. Livelihoods will be impacted in the agricultural, horticulture, tourism and forestry sectors, and regional economies affected over the long-term.[1]
- Many of the worst hit areas are more deprived areas, often with younger and high Māori and Pacific populations. The Social Wellbeing Agency has highlighted a successful recovery will require being responsive to Māori, focusing on children and families, and utilising existing strong community connections.
- We do not yet know the full scale of the loss of homes. Households displaced by flooding and loss of livelihoods, and recovery workers from other regions are likely to drive up rental demand and apply upward pressure to prices. In smaller and tighter markets increased rental stress, increased need for public and emergency housing, over-crowding and internal emigration are possible outcomes. Northland, Hawke's Bay and Gisborne had high rental stress pre-Gabrielle and in Wairoa District, in particular, rental affordability was already worsening. [2]
- Insurers have good networks of builders specialising in remediation but are expecting a bottleneck of demand for some materials and work may be delayed by required infrastructure work or required land remediation. There may be higher proportions of non-insurance in low-income areas, due to affordability barriers. Owners who have suffered a total loss and are not insured or are under-insured won't be able to replace their property. Risk-appetites of insurers and re-insurers are likely to become more conservative as the risk of climatic hazards heightens.[3]
- Owners and renters without contents insurance, or adequate cover of contents, may not be able to replace household contents or access insurance-funded temporary accommodation support and will be reliant on the Temporary Accommodation Service.
- Banks are working to improve credit and term-deposit access for affected customers, as well as support with managing loan repayments.[4] A temporary exemption from Credit Contracts and Consumer Finance Act will allow banks to process applications at speed, at their own discretion.
- Property prices in affected areas may decrease in the short-term due to the perception of flooding risk or material property and land damage, on top of market downturns driven by tight credit conditions. There is evidence that buyer risk tolerance changes in the long-term (barring any further events in the short-term), resetting to 'pre-flood expectations'.[5]
- Inflation is likely to increase in the short-term in response to weather events, for example food prices are likely to increase further where crop yields are compromised, and domestic supply chain pressures are exacerbated.[6]
- Construction costs may inflate where material and labour shortages are not able to meet a temporary increase in repair-related demand. This could exacerbate any regional disparity in construction cost inflation, although likely only temporarily. However, as the sector is expected to slow down in other areas this year, freed up capacity may help to cover the increased demand.

---

[1] Treasury, Fortnightly Economic Update, February 17th 2023; RNZ, Forestry workers' union to discuss support plan with ministry, February 2023
[2] HUD, Heatmaps of housing outcomes, March 2021; HUD, Change in rental affordability indicator, June 2022
[3] Tower has previously implemented more granular risk-based pricing and some withdrawal of home-insurance cover. Treasury, Residential Flood Insurance Issues, December 2021; RNZ, Insurance risks could increase massively as climate risk rises – modeller, August 2022
[4] NZBA, Banks support CCCFA exemption for flood-affected customers, February 2022
[5] Nguyen et al. Price recovery after flood risk: Risk to residential property values from climate change flooding, 2022
[6] Treasury, Fortnightly Economic Update, February 8th 2023; ASB, Economic Weekly, February 13th 2023

Rental Market

Situation

- After a period of slowing growth, the Rental Price Index (RPI) has shown a higher increase in the year to January 2023 (up 2.8%) than the 0.8% growth seen in the year to December 2022.[7] The series is volatile and seasonal. More data is required to determine if this is an actual trend or a fluctuation due to a drop in RPI this time last year.
- Canterbury and provincial rental markets continue to show higher rates of growth in general, with the Rest of South Island seeing a large monthly increase of 3.2% in January 2023.
- Declining vacancy rates (time between tenancies) in Auckland, Canterbury, Otago, and Southland in the last few months also indicate upward rental pressure in those areas.
- Rising rental costs in Auckland may be due to the growth in migration numbers[8] placing upward pressure on the rental market as Auckland is attractive to both migrants and overseas students.
- Trade Me data showed an uptick in 'demand'[9] in January 2023 (up 8% over the year) after some falls in preceding months.
- The number of households in emergency housing has been trending down since January 2022.[10] New applicants to the housing register have also been declining recently.[11]

Outlook

- A surge in international migration is likely to initially put upward pressure on rent prices in Auckland primarily and possibly more areas as migrants settle in other parts of the country.
- Continued high levels of wage inflation will put upward pressure on rent prices in places with tight rental markets. For lower income households not experiencing much growth in wages, the high cost-of-living increases will remain a struggle and may lead to additional reliance on government and other support services.
- Increases to mortgage interest rates may present cash-flow issues for property investors no longer able to claim interest deductibility,[12] although a recent survey of property investors showed an increase in intentions to buy and a small drop in those intending to sell.[13]

[7] Stats NZ, Rental Price Indexes, January 2023. The 'flow' measure captures price changes for new tenancies.
[8] Stats NZ, International Migration, December 2022. The positive net migration result is subject to revision.
[9] 'Demand' is defined by Trade Me as enquiries on rental properties through the Trade Me site.
[10] HUD, Government Housing Dashboard December 2022
[11] MSD, Monthly Housing Update – January 2023
[12] ANZ, Property Focus, February 2023
[13] Tony Alexander/Crockers, Investor Insight, February 2023

Property Market

Situation

- House prices continue to fall, with the REINZ House Price Index currently 16.2% below the November 2021 peak, taking prices back to a national median price of $762,500. Wellington has experienced the greatest drop at 24.4% below peak, taking prices back to a median of $765,000. Most sellers are still making a paper profit.[14]

- Sales in January were historically low. Inventory is still high but slowly reducing as new listings slow (16% lower in January 2023 than January 2022).[15] A sustained reduction in properties for sale should temper price drops as remaining buyers have less choices.

- The number of mortgage holders entering negative equity positions is likely to be increasing but low[16] because Loan to Value Ratio (LVR) restrictions re-instated before the market peak meant fewer buyers purchased with low deposits (therefore, low equity) near or at the peak. Negative equity is unlikely to adversely affect mortgage holders who can wait out the market downturn.

- Interest rates have been high but stable between December 2022 and January 2023.[17] The average size of new mortgages has fallen by 9% in the year to December 2022, to $358,563;[18] meaning buyers are taking on less debt. Deposit affordability has improved,[19] however high mortgage interest rates mean would-be buyers are not able to access credit unless they can prove they can service rates upwards of 8%. Servicing a mortgage will be challenging for existing mortgagees rolling onto higher rates, especially those tested at lower rates than currently being experienced. Mortgage defaults are increasing but still low with 1.26% of home loans in arrears.[20]

- First Home Buyers (FHBs) have a resilient market share, although overall volumes are down for all buyer types. There were just under 2,000 FHBs in December 2022, with an annual total of 23,275 (32,493 in the December 2021 year).[21] Uptake of Government first home products continues to increase.[22]

Outlook

- The OCR trajectory announced November 2023 remains largely unchanged in the February Monetary Policy Statement but interest rates may rise as banks re-assess their inflation and OCR outlooks. Overall, we expect house prices to keep falling until credit conditions improve, or inventory significantly reduces. RBNZ have upgraded their peak-to-trough forecast to 23%.

- Just under a quarter of mortgages are due to be repriced in the next 6 months[23] and these will roll onto high rates. RBNZ note that a greater share of mortgage defaults is expected as the economy contracts and unemployment increases.[24]

---

[14] CoreLogic, Pain and Gain Report, February 2023
[15] REINZ, Monthly Property Report, January 2023
[16] CoreLogic, Turning point for profitable resales as gains start to fall, August 2022
[17] RBNZ, New special residential mortgage interest rates, January 2023
[18] RBNZ, Loan to Value Ratio statistics summary, January 2023. This figure includes mortgage top-ups. Debt to Income levels (>5) have also been decreasing for more than a year; RBNZ, DTI Key Points, December 2022
[19] HUD, Change in Affordability Indicators, updated to June 2022. The change in deposit affordability indicator compares changes in house sales prices with the growth in median household disposable (after tax) income.
[20] Centrix, Credit Indicator report, February 2023
[21] RBNZ, New residential mortgage lending by borrower type, December 2022
[22] HUD, Government Housing Dashboard, updated to December 2022
[23] RBNZ, Sector lending and deposits summary, December 2022
[24] RBNZ, Monetary Policy Statement, February 2023

Residential Construction

Situation

- Consents remain high but a small monthly drop in December 2022 could indicate the start of a slowdown. Continued high issuance may be in part because of long lead times – starting with intent and confidence to build as far back as two years. Even though the market may have declined, work and costs previously incurred incentivise continuing the consenting process. Additionally, since work can begin up to two years after issuance, some developers may gain consent and hold off on building until conditions improve or try and on sell a "build ready" project. Developers may also wish to gain consent before a change in insulation requirements and associated costs in May 2023.
- The main centres continue to lead consent issuance, particularly Auckland and Canterbury. Provincial towns in the North Island are showing some steep annual declines including Taranaki (-34.8%), Hawke's Bay (-30.7%), and Bay of Plenty (-23%).
- The number of townhouses, flats and units consented has been declining slightly in recent months but is still much higher than the numbers seen prior to mid-2020. A shift towards this type of dwelling, rather than a standalone house, has been evident for a number of years, predominantly driven by Auckland, but also the other main centres.
- The cost of building a new home rose 14.1% in the year to December 2022. However, the rate of growth has eased over the last year as supply chain disruptions lessen. There is a mixed picture across the country with Auckland having a much higher rate of price growth (17.1%) than Canterbury (9.6%) and Wellington (7.2%).
- Advertised construction jobs have been slowing which aligns with reports that almost one-in-five construction businesses expect to let go of staff in the next 12 months. This compares to only 3% of businesses overall.[25] The number of filled jobs in construction also dropped in December.
- Confidence in the sector is low and businesses face continued headwinds including ongoing staffing challenges.[26] There are some reports of restructures,[27] as businesses adapt to the changing circumstances and credit defaults are on the rise for the sector[28] .

Outlook

- Economist expectations are that consent numbers will fall through 2023. Existing regional disparities may exacerbate, risking long-term damage to local construction capability and capacity.
- RBNZ are still forecasting a steep fall in residential investment from the middle of this year but note that this may be masked somewhat by repair work from the recent weather events.[29]
- A recent survey of residential property investors indicated there is declining interest in purchasing new builds[30] and there are reports of a potential significant drop in work within the industry.[31]
- The expected slowdown in residential building activity is likely to lead to increased credit defaults and company liquidations, particularly for small to mid-sized developers who struggle to remain viable as work dries up. For those who can adapt, there may be work available across areas of the North Island impacted by the severe weather.

---

[25] ANZ, Business Outlook, February 2023
[26] Workforce Information Platform (WIP)
[27] NZ Herald, Established house-builder Anthem Homes laying staff off after 'tough market conditions' - NZ Herald, February 2023
[28] Centrix, Credit Insights Report, February 2023
[29] RBNZ, Monetary Policy Statement, February 2023
[30] Tony Alexander/Crockers, Investor Insight, February 2023
[31] NZ Herald, New house builds in 2023 plummet - some companies down 20 to 50pc in wake of recession - NZ Herald, February 2023; Stuff NZ, Fletcher Building puts some developments on hold in face of slowing housing market | Stuff.co.nz, February 2023

Macroeconomic

Inflation

- The Consumer Price Index (CPI) remained at 7.2% in the year to December 2022, with non-tradable (domestically generated) inflation remaining high at 6.6%.

- The Official Cash Rate (OCR) was increased 0.50% to 4.75% in February to reduce domestic inflation in the mid-term. RBNZ have indicated that it is likely to peak at 5.5% in late 2023 and return to the target range (1-3%) in late 2024.[32]

- Rising cost-of-living expenses, including food prices,[33] are putting pressure on low-income households. Demand for food grants and parcels remains high.[34]

- Consumer loan defaults have recently increased,[35] as have KiwiSaver withdrawals for financial hardship reasons.[36]

Population

- Annual net migration (provisional estimate) was 15,800 in the year to December 2022. Border crossings continue to increase with arrivals outpacing departures in the last few months of 2022.[37] ANZ have forecast net inflow of 20,000 in 2023, comparing a 20-year average of over 25,000.[38]

Employment and wages

- Under-utilisation and unemployment rates remain low and annual wage growth is the highest since records began.[39] Wage growth has generally been higher for lower skilled roles, possibly reflecting labour market tightness at this level.[40] Lower skill roles may have also benefitted from minimum wage and equity-based pay increases.[41]

- There was a small decline in advertised jobs for all skill levels in the December 2022 quarter.[42] This aligns with falling employment intentions.[43] This, in combination with any increases to migration, point to improving labour capacity, slowing wage growth and an easing labour market.

- The number of people receiving benefits is slightly lower than previously forecast but is expected to increase as a recession is forecast for mid-2023.[44] RBNZ have also forecast unemployment to increase gradually to a peak of 5.7% in early 2025.[45]

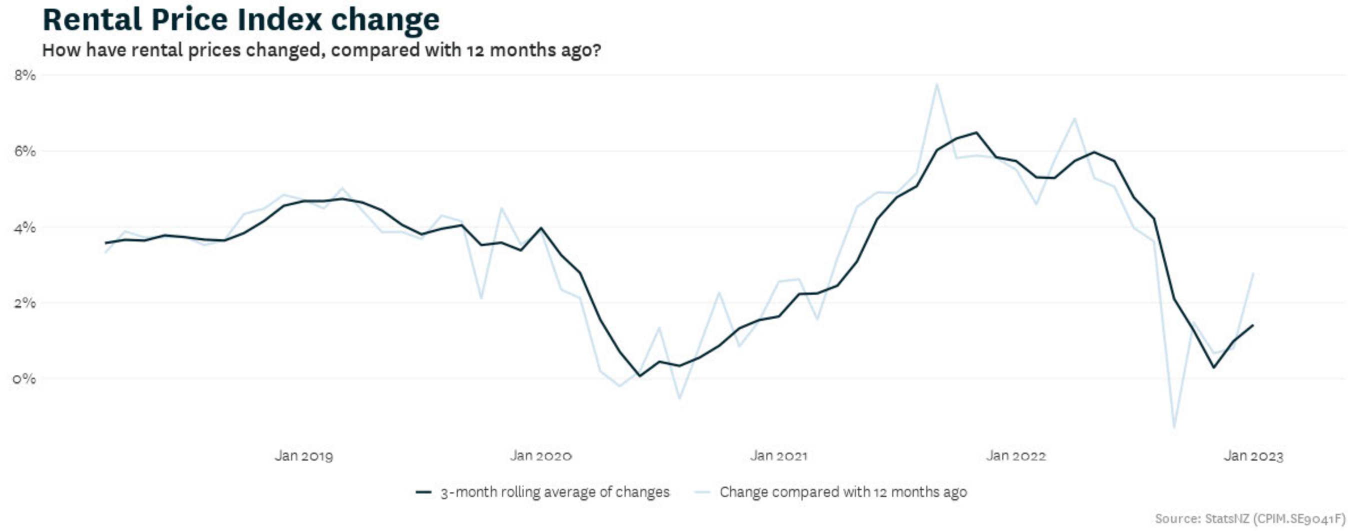
Market confidence

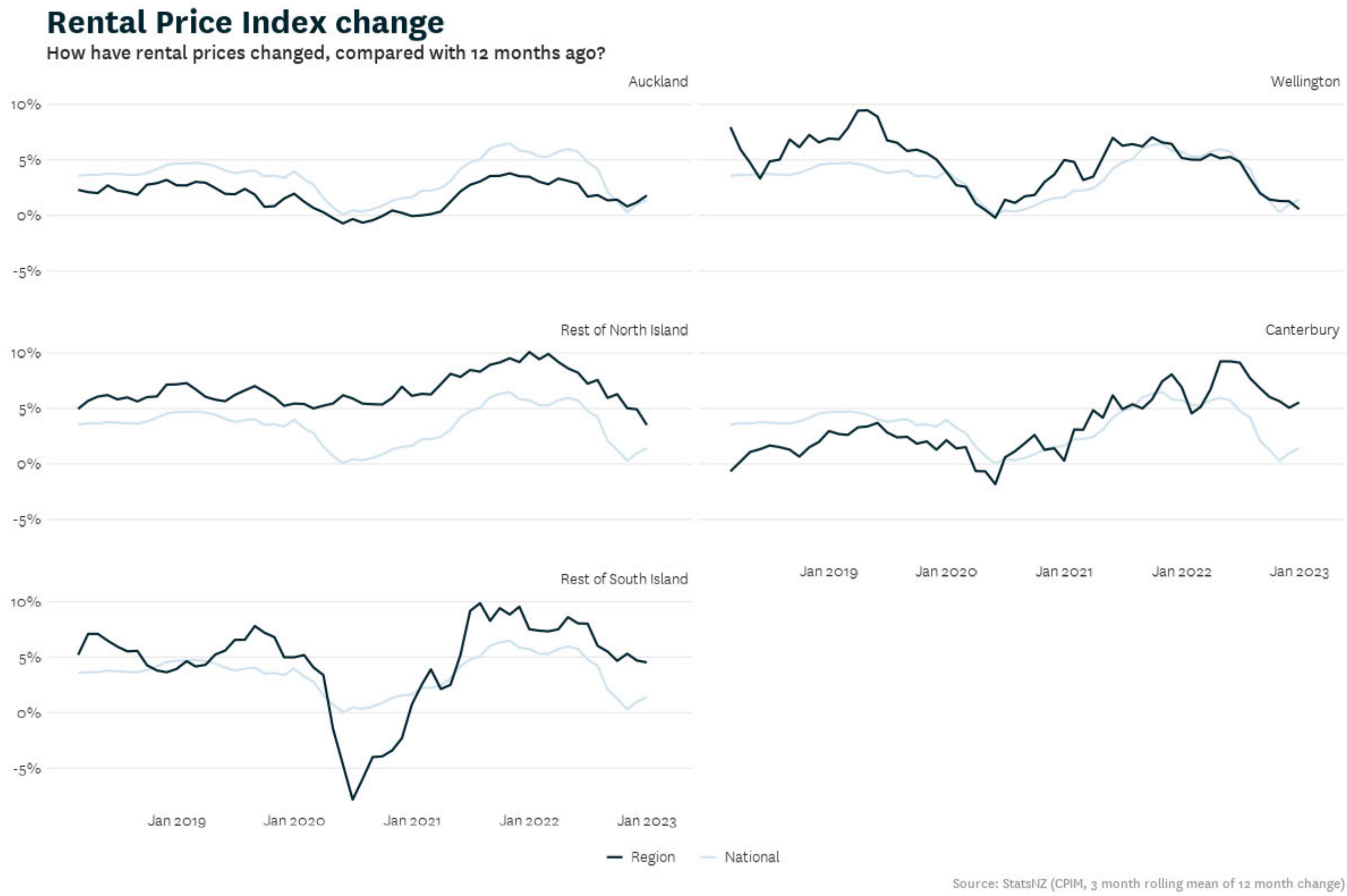
- Treasury expect Gross Domestic Product (GDP) growth to be weaker in the March 2023 quarter, due to lost productivity in regions affected by natural disaster.[46]

---

[32] RBNZ, Monetary Policy Statement, February 2023
[33] Stats NZ, Grocery food drives 10.3 percent annual increase in food prices | Stats NZ
[34] MSD, Monthly Benefits Update – Commentary, January 2023; Kore Hiakai, Aotearoa Food Parcel Measure, January 2023
[35] Centrix, Credit Indicator report, February 2023
[36] IRD, KiwiSaver withdrawals – statistics, December 2022. Hardship includes not being able to meet rent or mortgage payments.
[37] Stats NZ, Border crossings take off, December 2022
[38] ANZ, Property Focus, January 2023
[39] Stats NZ, Unemployment rate remains at 3.4 percent, February 2023
[40] Stats NZ; Labour market statistics, December 2022; Stats NZ, Labour Cost Index (Quarterly): 'Significant events impacting study series', accessed February 2023
[41] The Salvation Army, State of the Nation Report 2022, February 2023. This report refers to pay rates and pay equality rather than the skill levels used by Stats NZ.
[42] MBIE, Jobs Online, December 2022
[43] ANZ, Business Outlook, January 2023
[44] MSD, Monthly Benefit Update, January 2023
[45] RBNZ, Monetary Policy Statement, February 2023
[46] Treasury, Fortnightly Economic Update, 17th February 2023

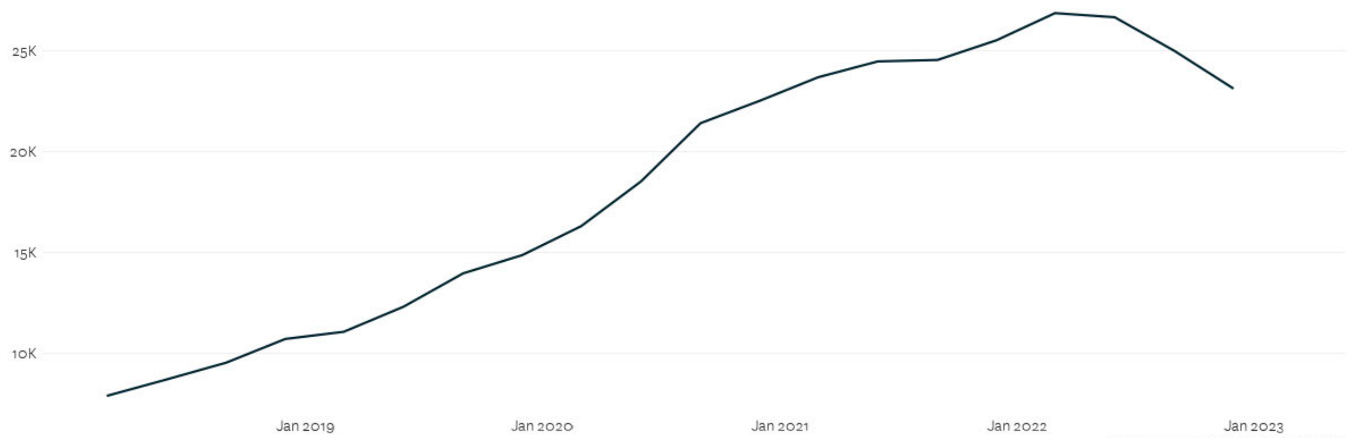
Rental Market Charts





Housing register

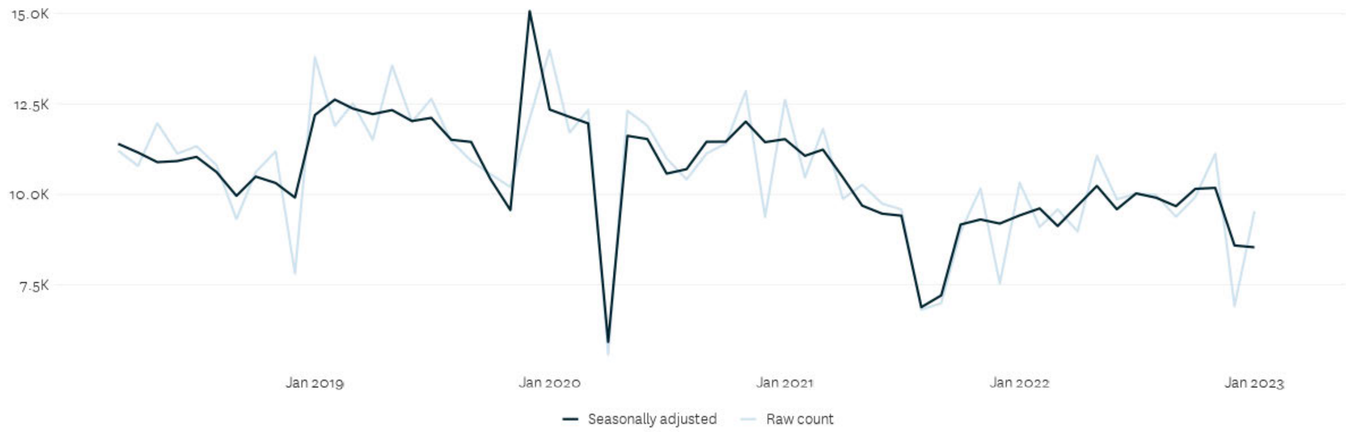
How many households are waiting to access public housing?



Source: MSD (Housing register statistics)

New rental listings

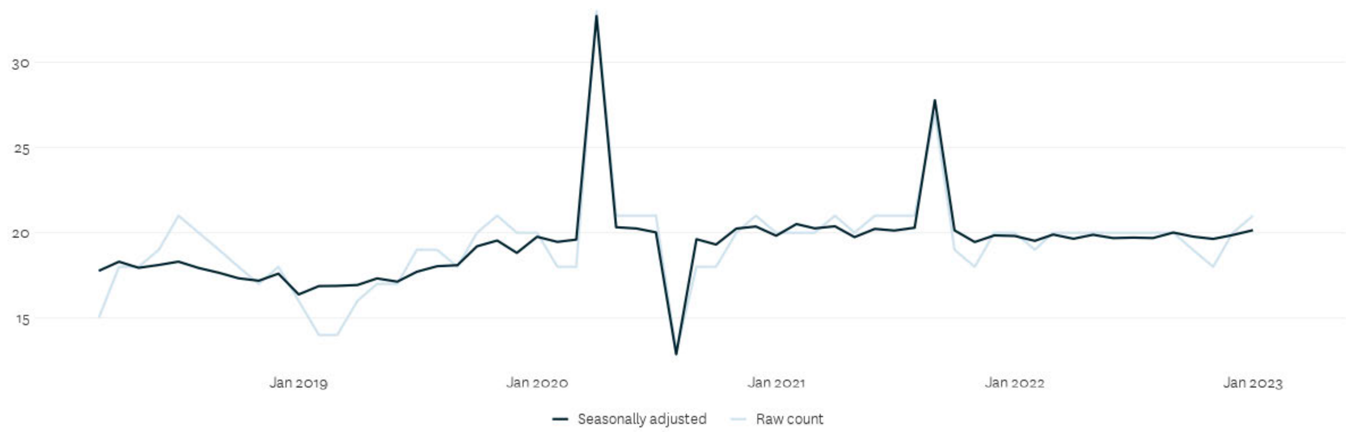
How many homes are being listed for rent?



Source: CoreLogic/HUD (TradeMe listings)

Median days listed for rental listings

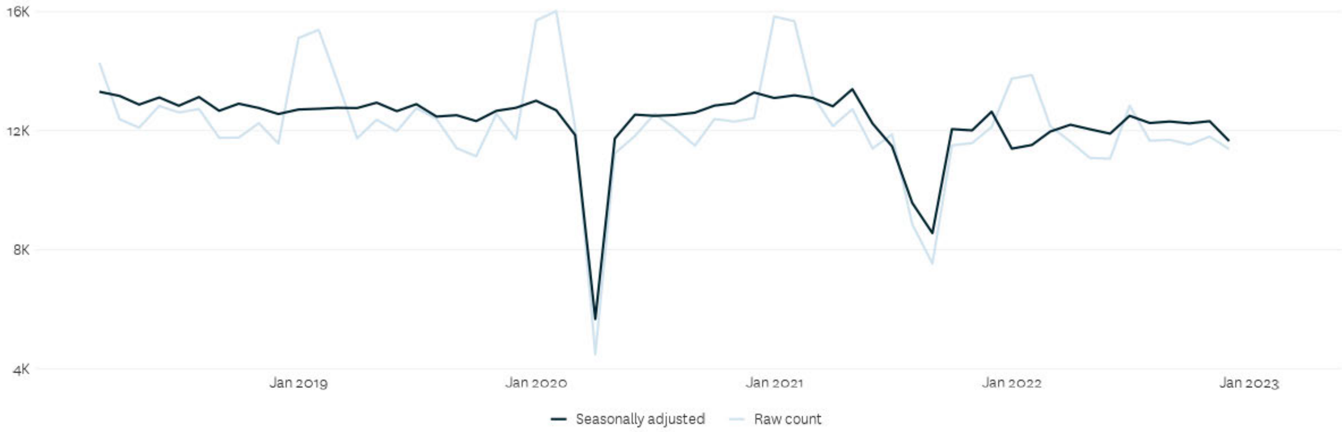
How many days do rental listings stay up for?



Source: CoreLogic/HUD (TradeMe listings)

New tenancies

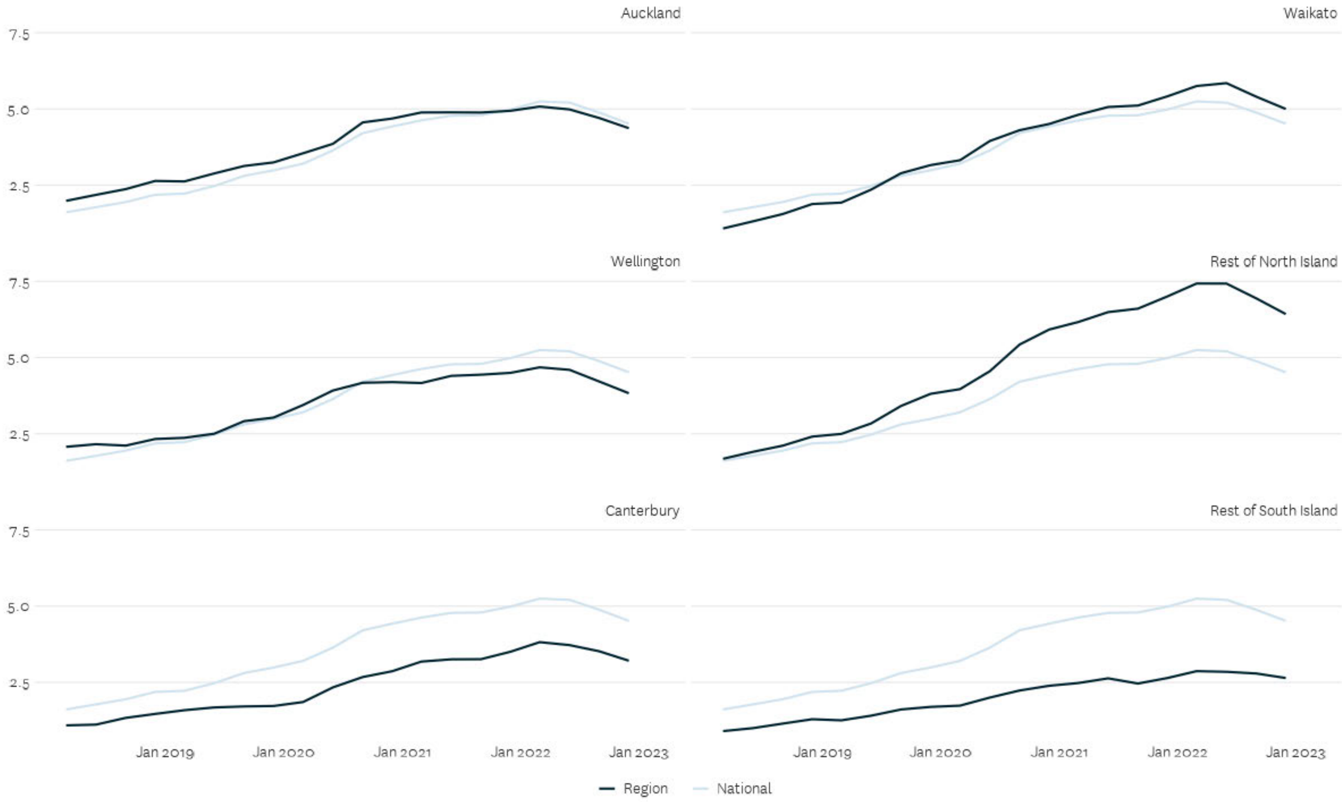
How many private tenancies started this month?



Source: MBIE/HUD (Rental bond data)

Housing register per 1000 people

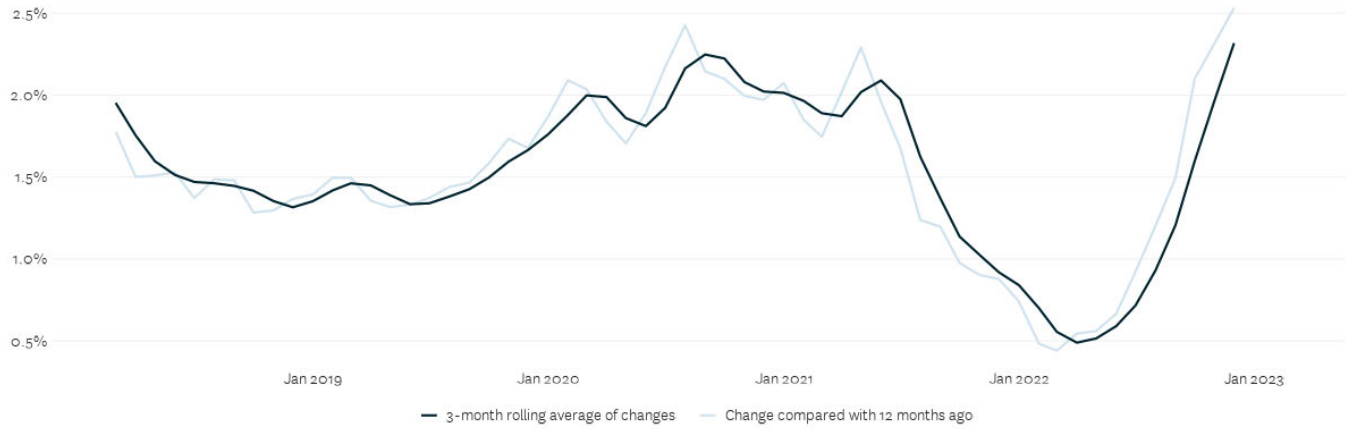
How many households are waiting to access public housing?



Source: MSD (Housing register statistics, per 1000 people)

Active tenancies change

How has the number of private tenancies changed, compared with 12 months ago?



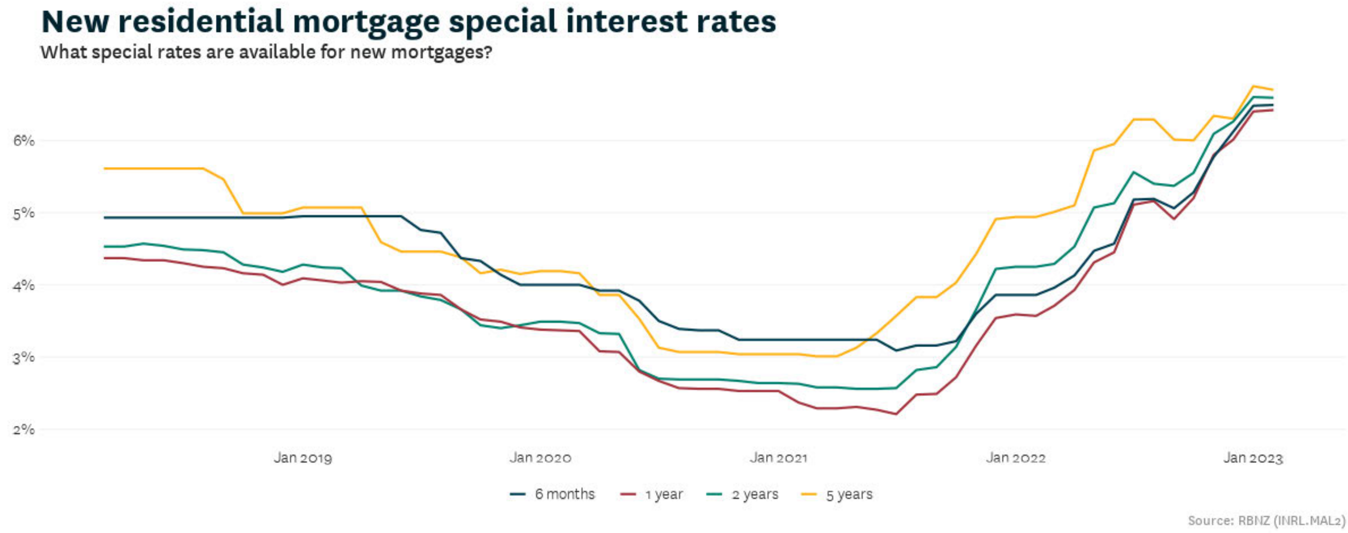
Source: MBIE/HUD (Rental bond data)

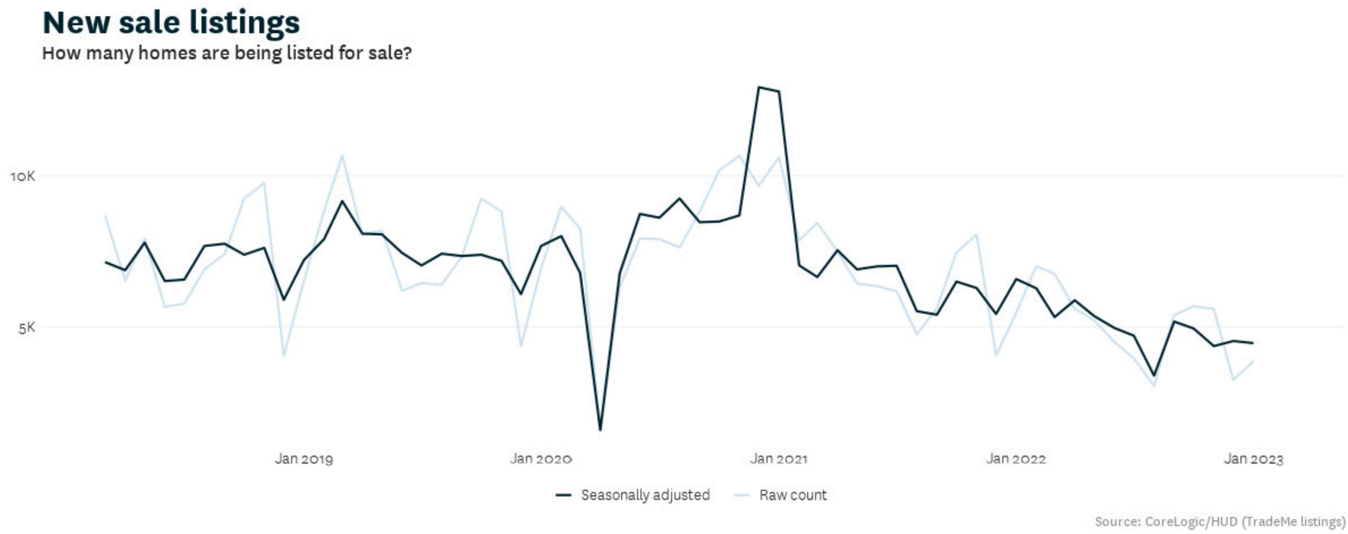
Active tenancies change

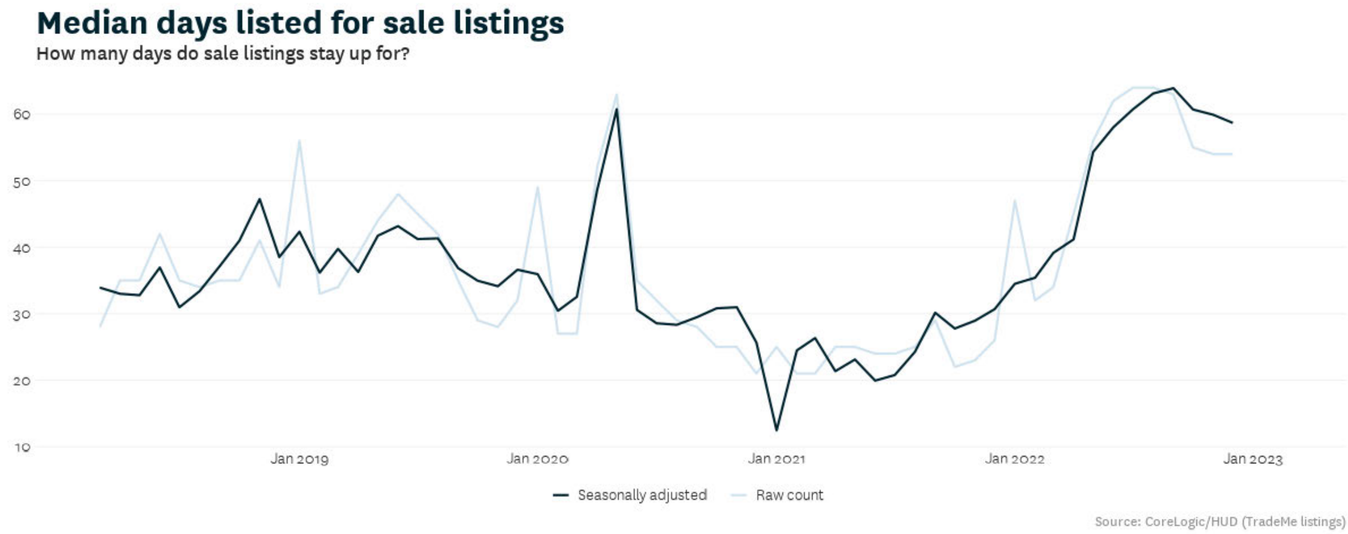
How has the number of private tenancies changed, compared with 12 months ago?

Source: MBIE/HUD (Rental bond data)

Property Market Charts

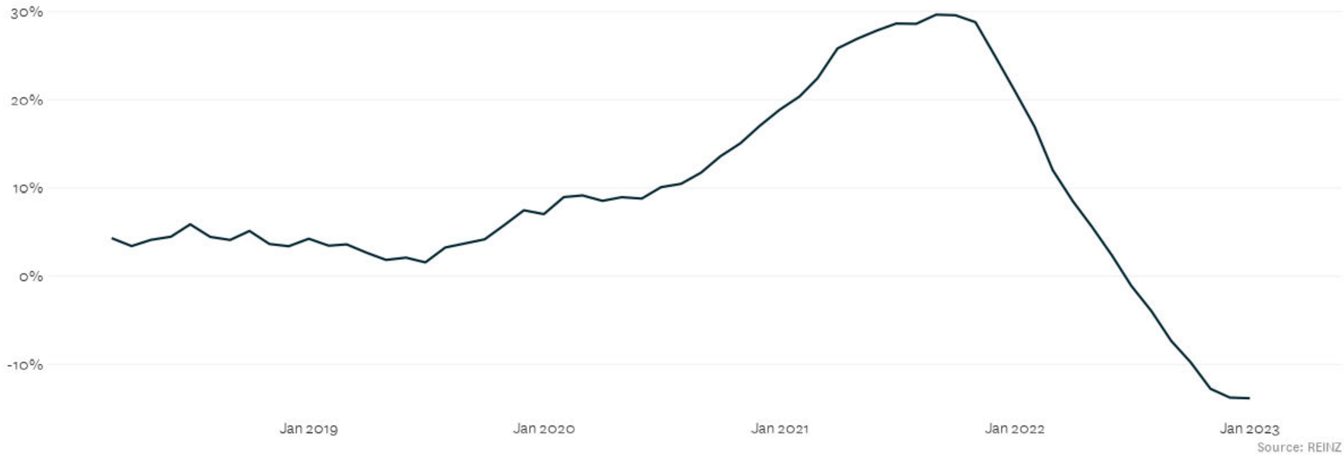






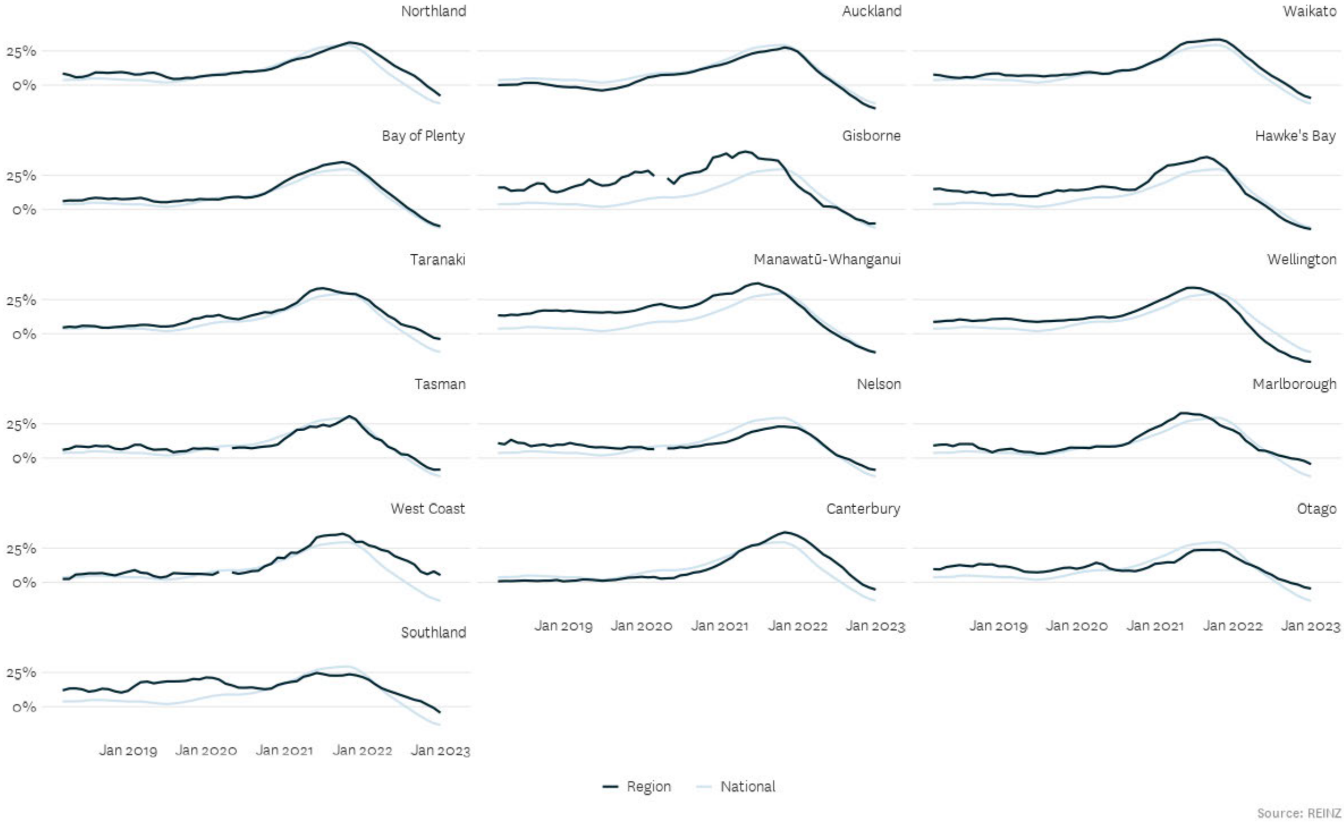
House Price Index change

How have house values changed, compared with 12 months ago?



House Price Index change

How have house values changed, compared with 12 months ago?



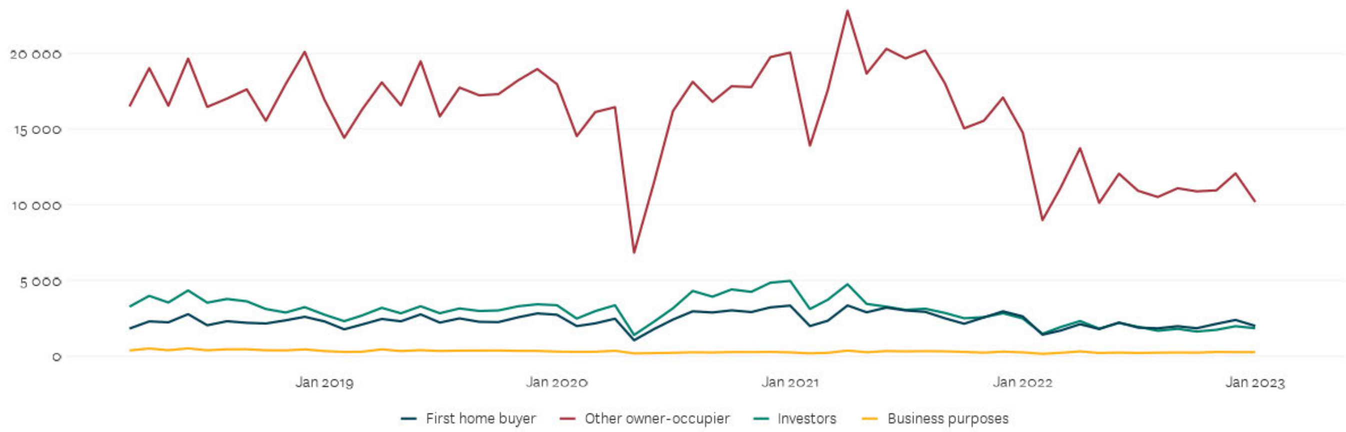
Buyer classification

What proportion of buyers are first homebuyers or multiple property owners?

Source: CoreLogic/HUD

New residential mortgage borrowing (Total)

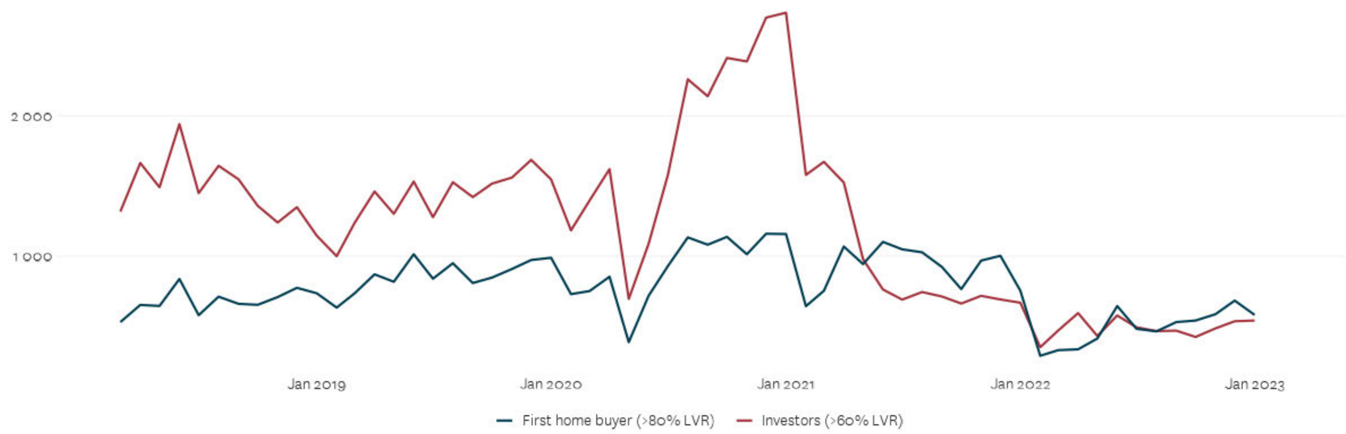
Who is borrowing for new residential mortgages?



Source: RBNZ (LVRN.MMB2)

High LVR New residential mortgage borrowing

Who is borrowing at high loan-to-value ratio for new residential mortages?

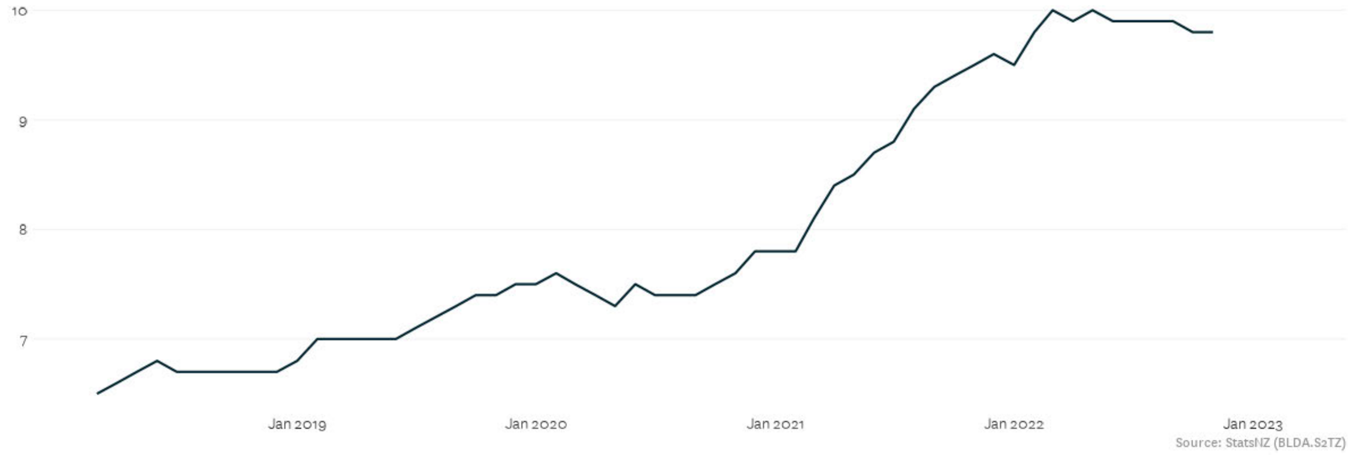


Source: RBNZ (LVRN.MMB2)

Construction Charts

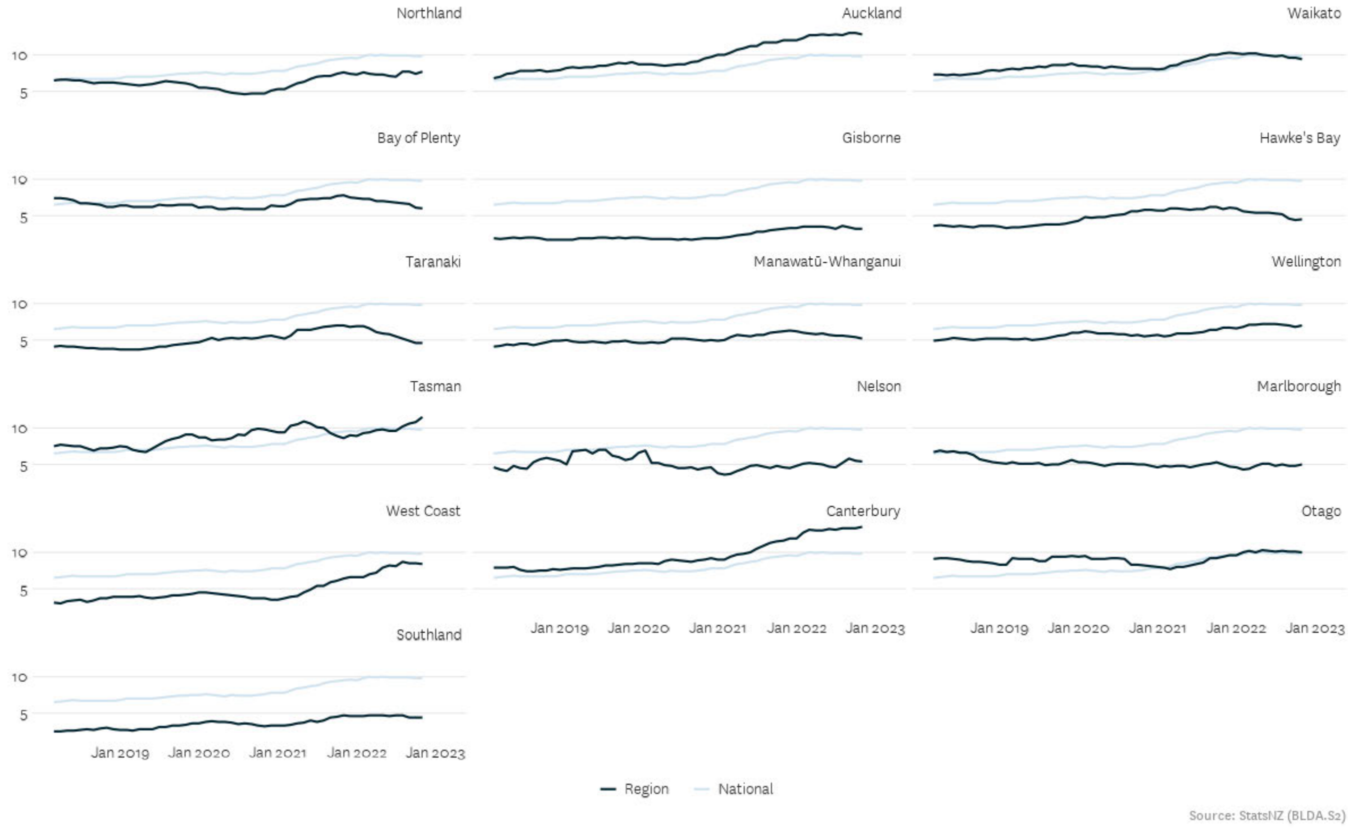
New consents for dwelling units per 1000 people (annual)

How many new homes have been consented, signalling an intent to build, in the last 12 months for every 1000 people?



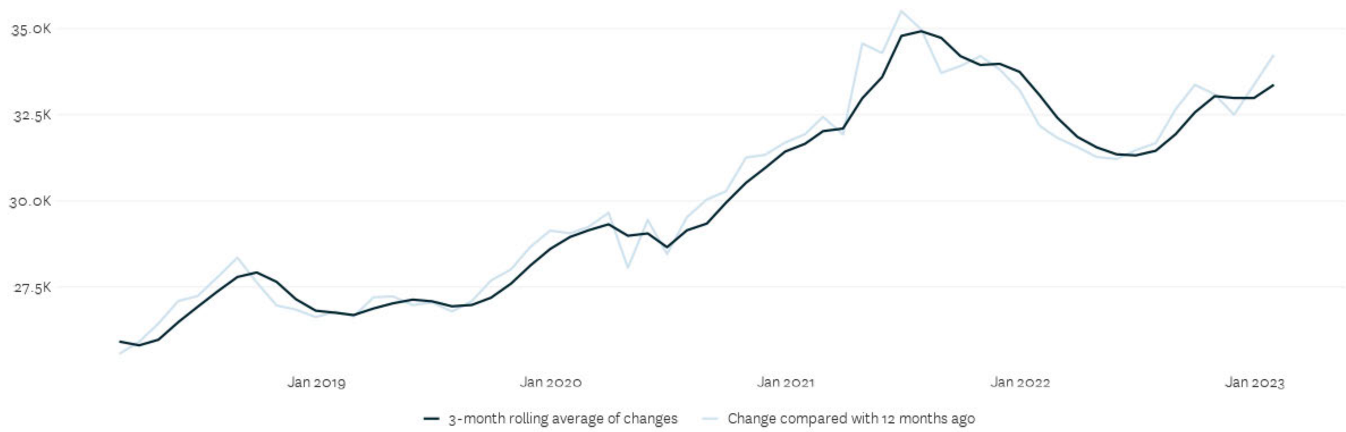
New consents for dwelling units per 1000 people (annual)

How many new homes have been consented, signalling an intent to build, in the last 12 months for every 1000 people?



Electricity connections change

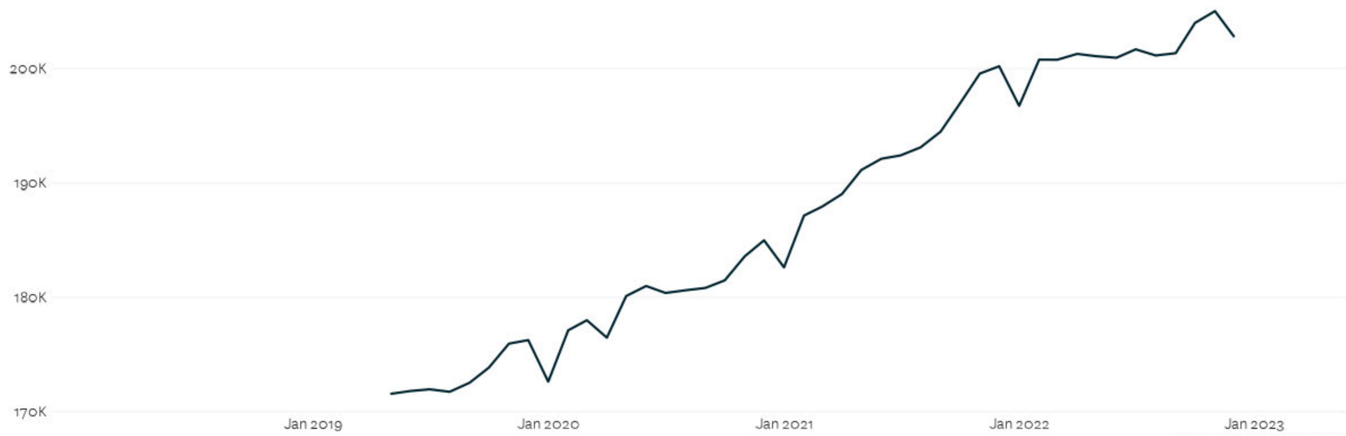
How many more homes are being connected, compared with 12 months ago?



Source: Electricity Authority

Filled construction jobs

How many people are working in construction?



Source: StatsNZ (MEIM.SA1EA)

Listed construction jobs (index)

How much demand is there for workers in construction?

Source: MBIE (Jobs Online data, index base to 100 in May 2007)

Business loans for residential property development

How much is being borrowed by businesses for residential property development?

Business outlook - activity

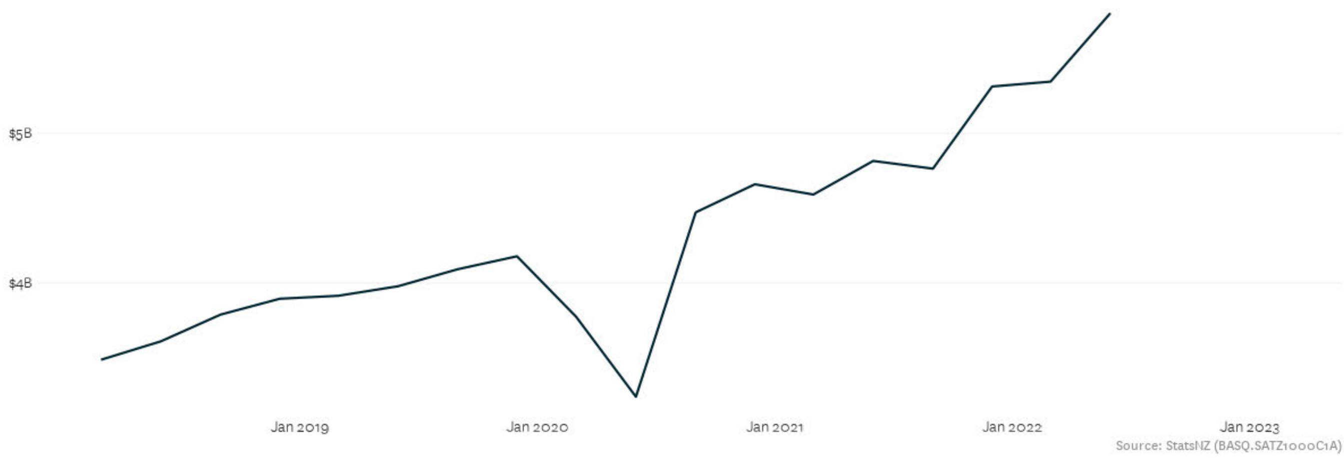
Are businesses expecting activity to increase or decrease in the next 12 months? (% expecting increase minus % expecting decrease)

Business outlook - ease of accessing credit

Are businesses expecting access to credit to improve or worsen in the next 12 months? (% expecting improve minus % expecting worsen)

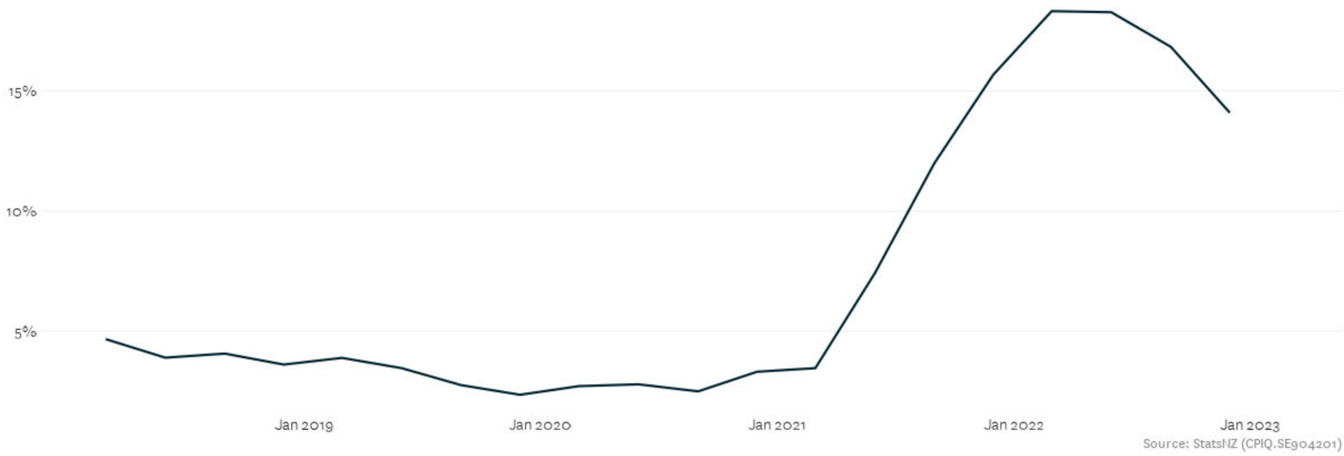
Value of residential building work put in place

How much residential building work has started?



Purchase of new housing price change

How have prices for the purchase of newly constructed housing changed, compared with 12 months ago?



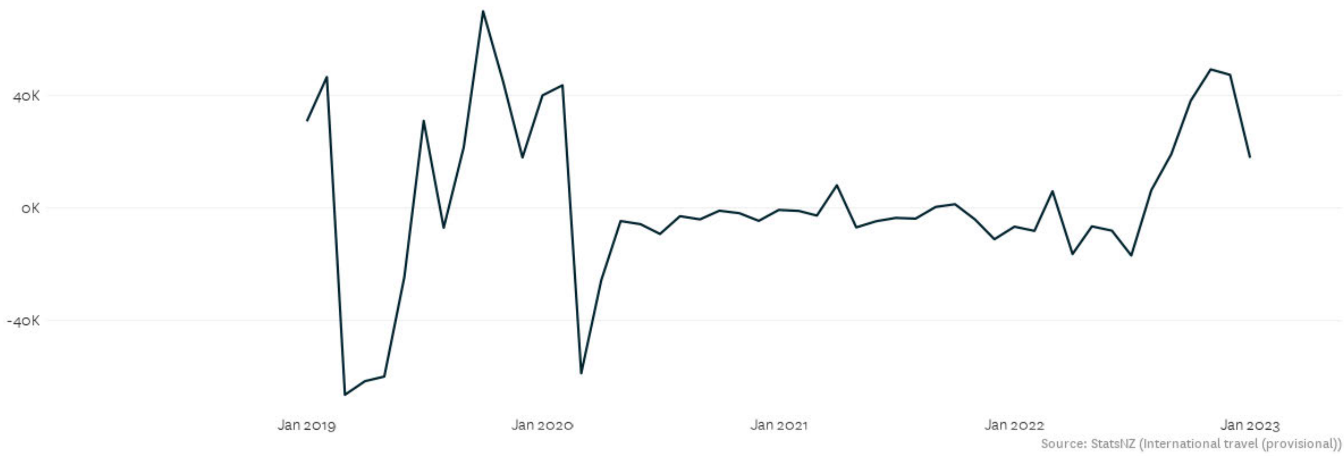
Macroeconomic Charts

Business outlook - employment intentions and general confidence

Are businesses expecting conditions to improve or worsen in the next 12 months? (% expecting improve minus % expecting worsen)

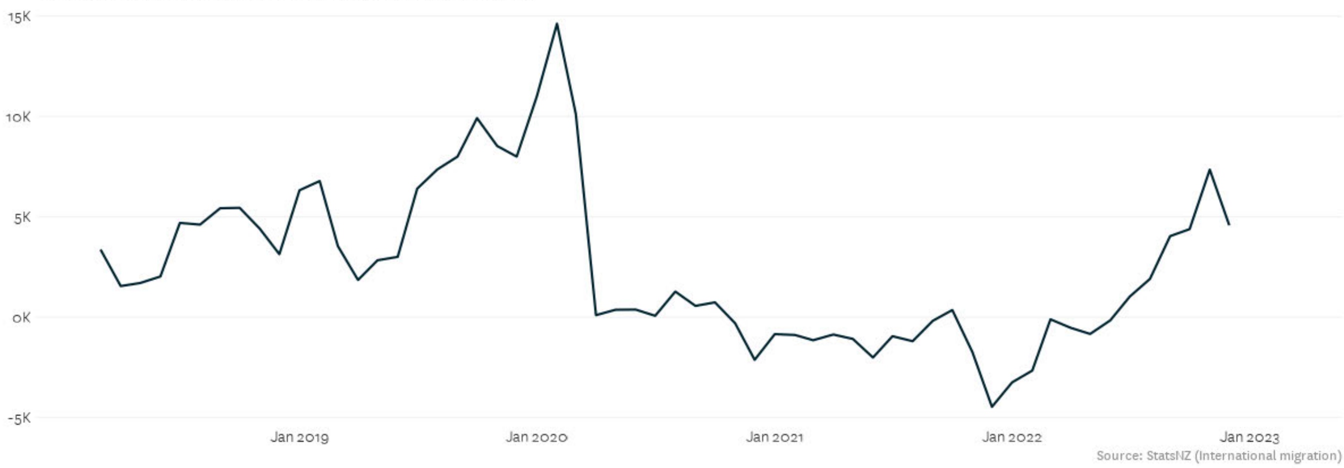
Net arrivals/departures

How many people came in and out of New Zealand?



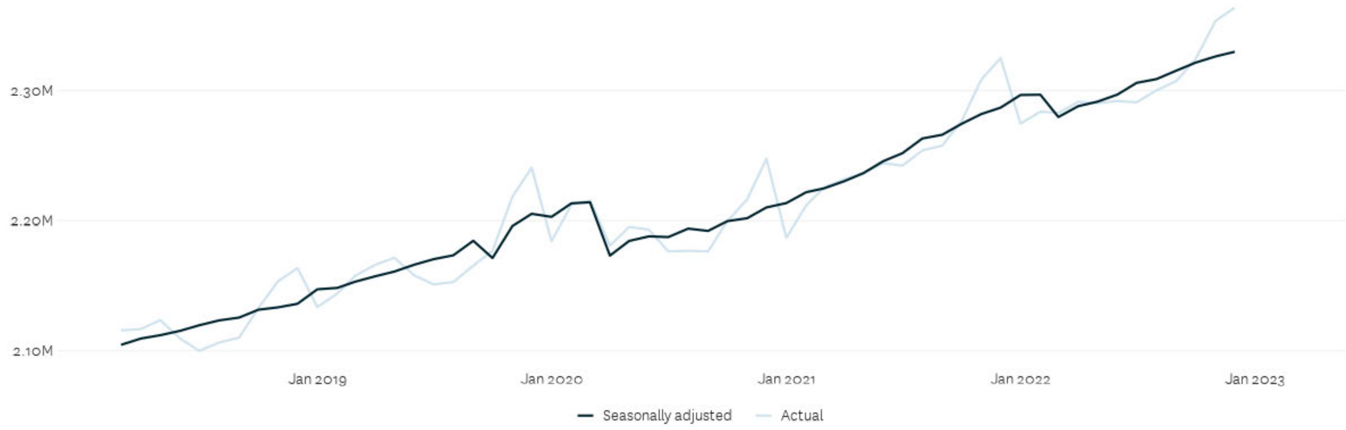
Long-term international migration

What is the net flow of migrants in to/out of New Zealand?



Filled jobs

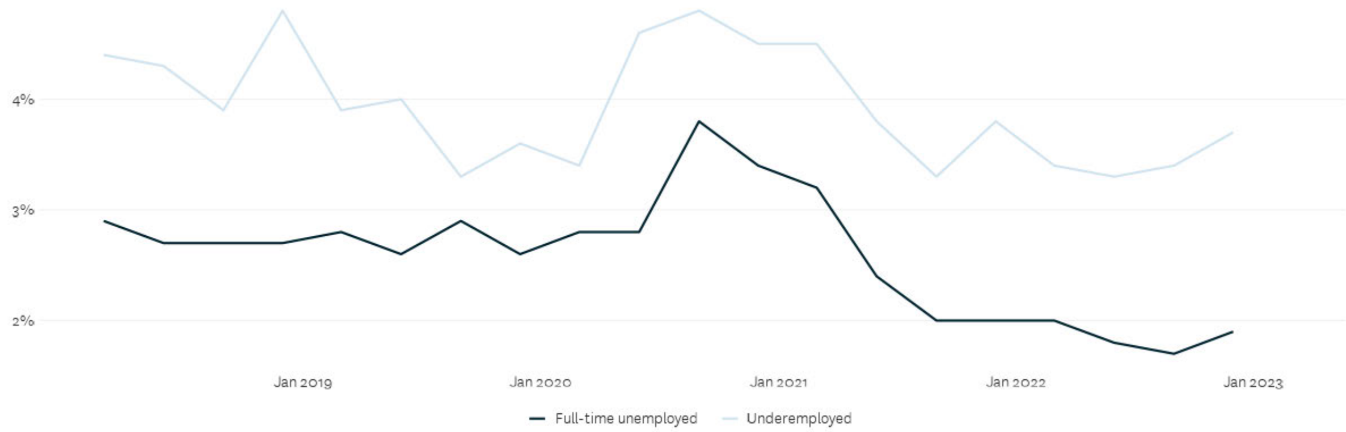
How many people are working in paid jobs?



Source: StatsNZ (MEIM.S1ZA)

Unemployed and underemployed

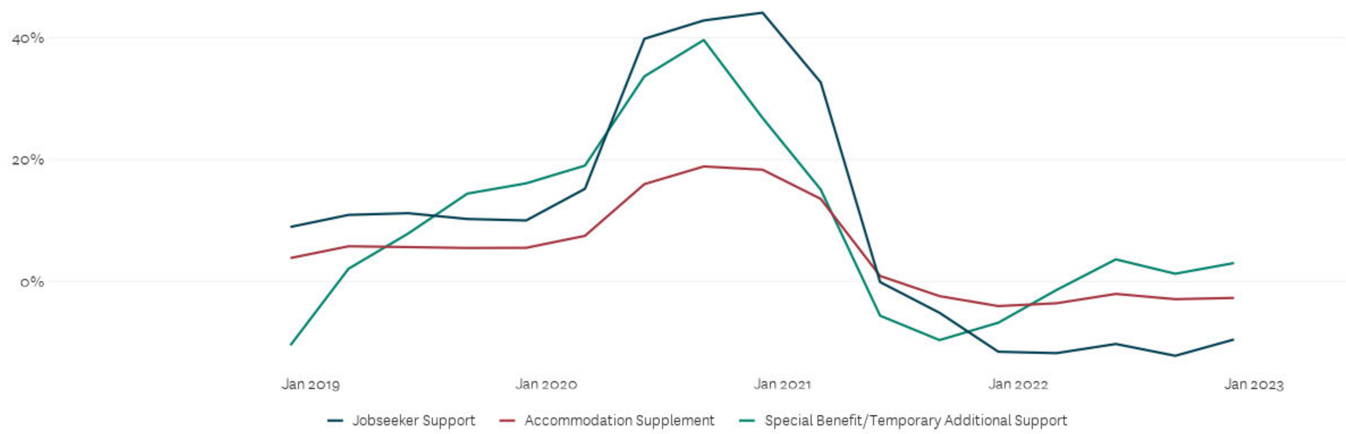
How much of the labour force are unemployed or underemployed?



Source: StatsNZ (HLFQ.SIP3, HLFQ.SUH3)

Benefit recipients change

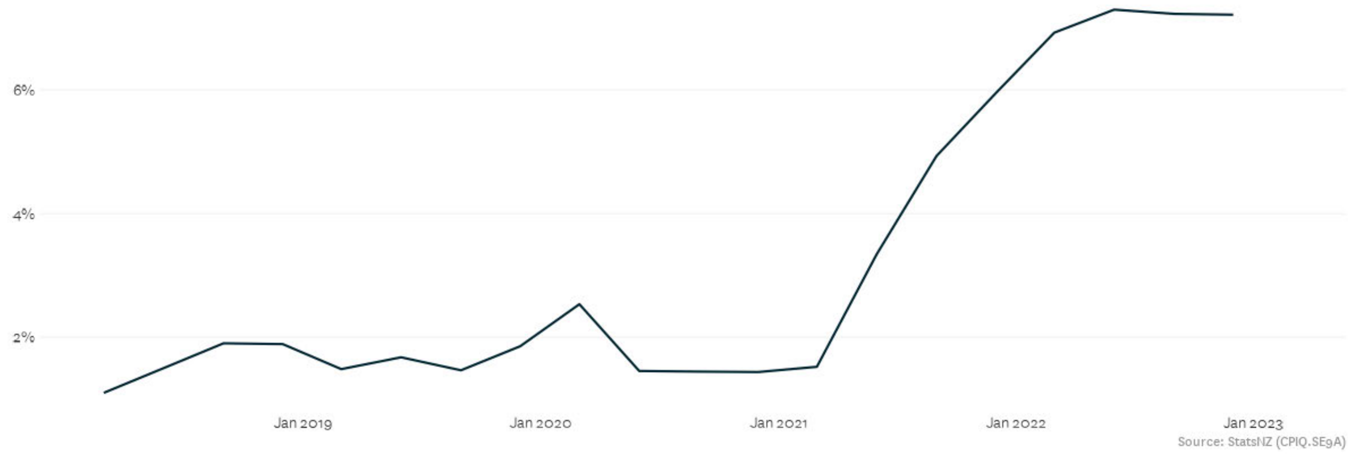
How many people are receiving benefits, compared with 12 months ago?



Source: MSD (Benefit fact sheet, national level data table)

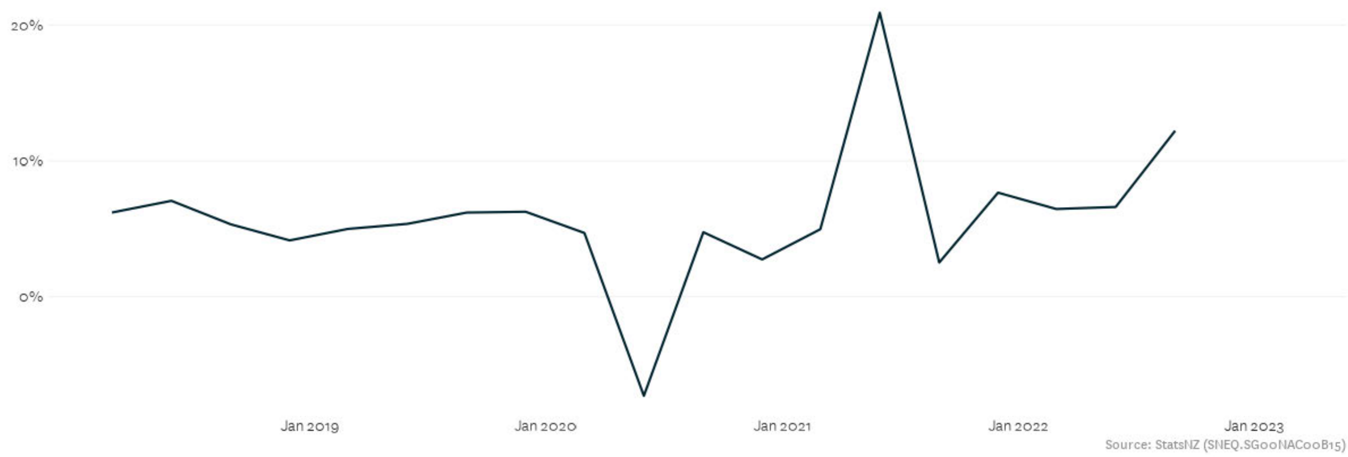
Consumer Price Index change

How have prices changed, compared with 12 months ago?

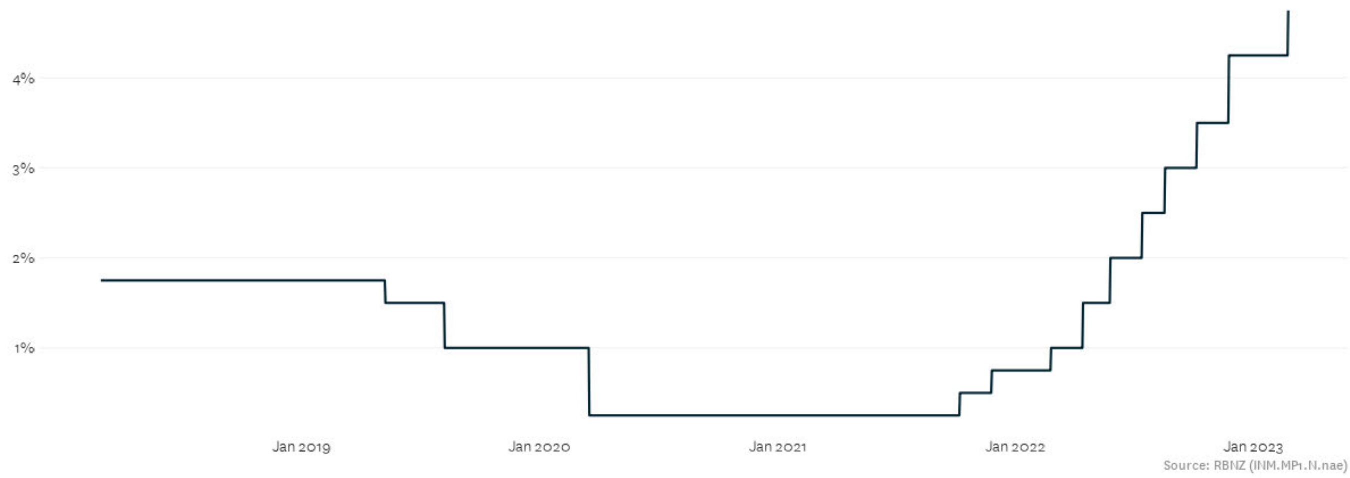


Gross Domestic Product change

How much has the economy grown, compared with 12 months ago?



Official Cash Rate



Aide-memoire

HOUSING MARKET UPDATE 2023			
Date	30 March 2023	**Priority**	Low
Tracking number	HUD2023-001528		

INFORMATION FOR MINISTER(S)	
Hon Dr Megan Woods **Minister of Housing**	**Note** the contents of the following aide-memoire.
Hon Barbara Edmonds **Associate Minister of Housing**	**Note** the contents of the following aide-memoire.

CONTACT FOR DISCUSSION

Name	Position	Telephone	1st contact
Alex Gunn	Manager, System Intelligence	s 9(2)(a)	✓
Jane Keane	Manager, Housing Supply and Affordability	04 832 2564	

OTHER AGENCIES CONSULTED
N/A

MINISTER'S OFFICE TO COMPLETE	
☐ Noted ☐ Seen ☐ See Minister's notes ☐ Needs change ☐ Overtaken by events ☐ Declined ☐ Referred to (specify) ________________	Comments

Aide-memoire

HOUSING MARKET UPDATE 2023			
Minister	Hon Dr Megan Woods, Minister of Housing Hon Barbara Edmonds, Associate Minister of Housing		
Date	30 March 2023	**Priority**	Low
Tracking number	HUD2023-001528		

PURPOSE

1. To provide you with an update on rental and housing market, construction and macro-economic trends and outlooks.

MARCH 2023 UPDATE

- Rent prices for new tenancies have started to rise again at a national level after a period of slower growth last year. Auckland has seen a large rise in rental price growth recently, likely being driven at least in part, by the influx of migrants to the country.
- While some renting households will be struggling due to the high cost of living, many will have experienced a higher rate of growth in wages than rent in the past year and may be finding rent prices more manageable. All households will be impacted by very high rates of inflation, however, with record rates of growth for essential items like food.
- Economic activity dropped at the end of last year. The next Reserve Bank of New Zealand (RBNZ) review of the Official Cash Rate (OCR) is due on 5th April. Broad expectations are of another 0.25bps rise to 5% despite uncertainties around impacts of the North Island flooding events and global financial sector stress. This will result in continued pressure on mortgaged households refixing existing loans as interest rates rise, as well as reducing demand further in the housing market and construction sector.
- High levels of sales listings in combination with low demand mean property prices are likely to continue to fall in the short-term.
- The construction sector is showing clear signs of a slowdown this year. This will have a varying impact across the sector with smaller players more at risk as well as those based in regional areas.
- There is uncertainty around the longer-term effects of the North Island flooding events. Additional demand from the rebuild may put pressure on the construction sector although excess capacity from the slowdown may fill this gap. There are also questions around suitability of rebuilding in hazard prone areas or relocation for those affected.

Upcoming advice on changing market conditions

- The Minister of Finance and the Minister of Housing will take the paper *Using the Build Ready Developments pathway and the Land for Housing programme to respond to changing market conditions* to the Cabinet Economic Development Committee on Wednesday 5 April. This paper seeks agreement to some tactical responses to support the ongoing delivery of affordable housing where it is most needed, including areas impacted by the extreme weather events. This includes drawing down additional funding for the

Build Ready Developments initiative to underwrite or prepurchase public and affordable homes, and seeking a mandate for the Land for Housing programme to finance certain upfront land development costs.

- On Wednesday 5 April the Minister of Housing will also take the paper *Taking a coordinated and place-based approach to housing recovery* to the Cabinet Extreme Weather Committee. s 9(2)(f)(iv) [redacted]

- [redacted]

ANNEXES

Annex A: Housing Market Update March 2023

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Housing Market Update

March 2023

New Zealand Government

Monthly Housing Market Update

The purpose of the update is to provide the Minister for Housing, Te Tūāpapa Kura Kāinga and other housing agencies with the latest information about the housing and rental markets, residential construction, and macro-economic context. The update is not intended for public release.

The commentary, data and charts included in this update are current to midday 30th March 2023.

Key Insights

- Nationally, rent price inflation for new tenancies is growing again after slowing down over 2022 with most rental markets across the country showing signs of tightening as vacancy times between tenancies shorten. Auckland, in particular, is showing accelerated growth, likely driven by the higher levels of international migration when compared to the previous few years.

- Those who have benefited from high wage inflation in recent months may find rent prices relatively more affordable given wages have been increasing at a faster rate than rents, but this is likely to vary widely for different households, some of which may not have seen much of an increase in wages. In either case, many households will be eating into disposable income to pay for the rapidly escalating cost of essentials like food. The Stats NZ Food Price Index for February 2023 showed that food prices were up 12.0% annually.

- Economic activity fell 0.6% in the December 2022 quarter according to Stats NZ's gross domestic product (GDP) measure. Inflation remains high and the Reserve Bank of New Zealand (RBNZ) have made it clear they are committed to using the Official Cash Rate (OCR) to bring it under control. This will result in continued pressure on mortgaged households refixing existing loans as interest rates rise, as well as reducing demand further in the housing market and construction sector.

- The housing market outlook remains weak. Supply of property for sale is firmly outweighing demand, and tight credit conditions, including stringent serviceability testing, are limiting the number of borrowers and amount able to be borrowed.

- Building consents are still high, though slowing, and while construction activity is currently strong, demand for new housing has fallen significantly. Reports from the sector of a drop in ‘off the plan’ pre-sales, pipelines drying up, and businesses starting to cut costs point to a significant slowdown later this year. The impact of this will differ across the industry. Larger, more established construction businesses are likely to be better set up to ride out the slowdown than smaller or newer businesses. This impact is also likely to be greater in the regions.

- The longer-term impacts of the Auckland Anniversary and Cyclone Gabrielle weather events remain unclear. Whilst insurers make progress on accessing insurance claims, concerns around whether homes and communities should be rebuilt in existing hazard zones are raising uncertainty with homeowners and insurers. Rebuild and repair work may create additional demand on the construction sector, although the overall slowing of building activity may free up capacity.

Rental Market

Situation

- After a period of slowing growth last year, rents for new tenancies have started to show higher rates of inflation (up 2.1% in the year to February 2023).[1] However, this is lower than the average rental price inflation over the last couple of years and is lower than Consumer Price Index (CPI) inflation.

- Auckland rents for new tenancies appear to be climbing again with annual price inflation for new tenancies at 4.1%. Rising immigration may have already started to put some upward pressure on the Auckland rental market as the primary migration gateway to the country.

- The number of rented properties nationwide continues to rise, up 3.0% on January 2022, with Auckland experiencing a 4.6% growth in tenancies over the past 12 months, signifying more rental properties becoming available.

- Most rental markets are showing signs of tightening with the time of properties staying vacant between tenancies getting shorter. The exceptions are Wellington and the West Coast where the rental markets appear to be loosening (rentals staying listed for longer).

- Trade Me notes a significant increase in 'demand'[2] of 22% in February. This aligns with increased immigration but may also be related to seasonal effects such as the start of the university year. It could also relate to increased searching across the North Island by storm displaced renters and homeowners seeking alternative accommodation.

- Investors remain active in the market, although at lower volumes than previous years. According to surveys of investor intentions fewer are intending to sell whilst property prices fall and interest in purchasing existing apartments has increased, possibly in response to a growth in demand from returning overseas students, new migrants and tourists.[3] There is subdued investor interest in buying new builds despite tax incentives to encourage this.

Outlook

- Increasing net migration is likely to increase rental demand, particularly in Auckland. However, some regions may struggle to attract migrants due to the availability and/or high cost of housing.[4]

- Wage growth is a driver of rental prices in tight markets, where demand outweighs supply.[5] Many renters may find renting more affordable given wages have been increasing at a faster rate than rents. However, this may not be the case for those on low and fixed incomes, especially as they grapple with other price inflation like fuel and food. Demand and dependence on government or non-governmental organisational support to service basic living needs may increase, as may demand for quick-access finance products like Buy Now Pay Later and credit defaults.[6]

- There may be regional differences in the prevalence of rental stress depending on local labour market conditions and rental market tightness (where prices are driven by higher earning renters).

[1] Stats NZ, Rental Price Indexes, February 2023.
[2] Defined as enquiries on rental properties listed on their website.
[3] Crockers/Tony Alexander, Investor Insights, February 2023
[4] Treasury, Fortnightly Economic Update, 17 March 2023
[5] Treasury, Housing affordability in Aotearoa New Zealand: The importance of urban land supply, interest rates, and tax, September 2022.
[6] Consumer New Zealand, Buy Now Pay Later preys on the poorest customers, November 2022

Property Market

Situation

- Mortgage interest rates remain high in line with the Official Cash Rate (OCR). Global swap rates, another determinant of retail mortgage rates, are volatile and so cuts are unlikely in the near term because lender access to cheaper wholesale lending is not guaranteed.[7] RBNZ anticipates the OCR to reach 5.5% meaning mortgage interest rates may rise further and remain high for some time. Existing homeowners refixing from a low to current higher rate are likely to experience significant increases in mortgage repayments, impacting household budgets and available expenditure. New borrowers will be tested at higher rates and if approved will find their borrowing ability reduced. This will continue to put downward pressure on sales prices and volumes.

- There has been an increase in mortgage arrears[8] in January, however the ratio of all non-performing loans remains low at 0.3%.[9] We do not expect a significant rise in mortgagee sales as banks are well capitalised currently, unlike during the GFC, and have stated a strong preference to restructure loans where possible to avoid forced sales.

- The supply of homes for sale has returned to pre-pandemic levels and is likely above the number of buyers who might realistically be able to access credit. Despite the poor outlook for prices and longer selling times, new listings are still coming onto the market, likely the result of life or financial changes for sellers.

- The North Island flooding events mark the largest weather-related insurance cost in New Zealand history.[10] Insurers have said that they can handle claims emerging from North Island weather events and have their own trade networks to support repair work, although it's likely that they will need to draw on wider construction resources which might impact other projects. There is evidence that the Hawke's Bay homes of Ngāti Kahungungu whānau damaged by flooding could be around 25% uninsured and 25% underinsured.[11] Similar issues are expected in other affected areas.

- There is significant uncertainty in communities worst affected by flooding regarding willingness to return to damaged or rebuilt homes. Communities have been asking councils and government to step in and support relocation for affected residents and their homes.[12] Similarly, insurers are working with the Cyclone Taskforce to build up an accurate picture of hazard prone land which will allow decisions to be made, including possible 'managed retreat' or additional mitigation and resilience measures.[13]

Outlook

- Tight credit conditions persist and household purchasing power is low, pointing to further price falls. Current higher listing levels possibly reflect a return to the more stable pattern seen before 2020.

- Insurers and re-insurers will likely be considering the long-term viability of insuring in high-risk areas, considering the increasing frequency of weather-related events, and this may result in longer term 'insurance retreat' from affected areas.[14] In the shorter term, insurance premiums will increase, and more insurers are also likely to expand per hazard property level risk-based pricing.

---

[7] Tony Alexander, Why collapse of Silicon Valley Bank is a good thing for NZ house prices, March 2023
[8] 90 days past due but not impaired.
[9] RBNZ, Banks: Assets – Loans by asset quality, January 2023
[10] Insurance Business Magazine, Revealed – industry loss estimate for NZ North Island floods, March 2023
[11] Te Ao Māori News, Secure housing is post-cyclone goal – Kahungungu, March 2023
[12] RNZ, Residents of 'ghost-town'-like stress demand managed retreat, March 2023; Stuff, Some blindsided by red zone proposals, March 2023; Te Ao Māori News, Iwi leading urgent housing rebuild and managed retreat for Wairoa, March 2023
[13] Cyclone taskforce working with insurers to determine high-risk areas for floods – Insurance Business New NZ, March 2023
[14] Insurance Business Magazine, Gabrielle and Auckland floods to erode profits of NZ property insurers, March 2023. Note that the total claims are now currently much more than anticipated in this article.

Residential Construction

Situation

- Residential consents have been trending down since mid-2022 but remain above capacity and high compared to pre-pandemic levels. Long lead-in times for projects pre-consenting means these volumes likely reflect the confidence of 2021 peak market conditions. Developers may also be trying to get ahead of Building Code changes in May this year, estimated to add 3-5% to construction costs.[15] In the year to January 2023, consents fell fastest in Taranaki, Hawkes Bay, and Bay of Penty regions. Gisborne has consistently had the fewest consents per population of any region.[16]

- Actual construction activity is still strong with high levels of dwellings completed in Auckland, although time taken to construct appears to be increasing.[17] The volume of residential building work put in place dipped in the December 2022 quarter, the first decline since the September 2021 quarter although the data is provisional and remains some 20% above the same period last year.[18]

- ‘Off the plan’ pre-sales have ‘dropped off a cliff’ according to sector sources, to around 10% of their ‘normal’ levels. Without enough pre-sales to cover the value of the construction loan required, most lenders won’t advance finance on favourable terms. The lack of pre-sales is put down to a mixture of high construction costs, finance pre-approvals having to be renewed every 90 days under changing assessment criteria, general low confidence in the construction sector and the continued fall in price of existing dwellings.

- Some buyers of newly completed dwellings are being put in difficult situations as pre-settlement registered valuations, required for lending purposes, are coming in significantly lower than prices agreed at the start of projects a year or two prior. Buyers must either make up the shortfall, resell the contract, or risk losing their deposit.

Outlook

- Many developers and builders are reporting that they can see the end to their job pipeline and are actively planning for declining activity by reducing back-office staff and, in some cases, offloading land to reduce debt and improve operating cashflows. s 9(2)(b)(ii)

- Consents are slowing gradually but activity outlooks in the near-term are mixed.[19] Outsized provincial declines threaten local sector capability and capacity in the long-term if workforces relocate or transfer to other sectors. Many larger developments are proceeding at pace, including many multi-unit and apartment developments, but some group home builders are slowing more quickly and have excess capacity emerging quickly.

- Many planned developments that have been consented but not yet pre-sold are being put on hold pending improving market conditions. Many of these are financed with capitalised payments due in 12-18 months’ time, so these developers may face financial difficulties when repayments are due.

- It’s unknown whether recent weather events will add to the demand for workers or just absorb spare capacity in the sector. Damage is localised and the scale not fully clear, insurance payments will take a while to settle, civil infrastructure needs to be in place, and the practicalities of transferring capacity across different regions and trades is complex.

---

[15] MBIE, Building Performance Consultation document, Building Code update 2021
[16] Stats NZ, Building Consents, January 2023
[17] Interest.co.nz, More new homes being built but taking longer to finish as the effect of industry disruptions come home to roost, March 2023
[18] Stats NZ, Value of building work put in place, December 2022 quarter. This series is provisional for the last three quarters.
[19] Consent levels are becoming less of a reliable indicator of activity as market conditions deteriorate. Consents represent intention to build only.

Macroeconomic

Inflation

- High inflation persists and may peak later than forecasted by RBNZ.[20] Loss of food crops in Cyclone Gabrielle and localised flooding recovery efforts will add temporary additional pressure, particularly as insurance claim settlements gather pace. RBNZ take a long-term view of inflation, so respond to inflation expectations rather than current events.
- The economy contracted during the last quarter of 2022 with a fall of 0.6%. The next Official Cash Rate (OCR) review is due on 5 h April, before the key Consumers Price Index release, making it harder for the RBNZ to weigh risks and have confidence in economic forecasts. Recent stresses in the global banking sector may introduce a deflationary effect adding another layer of uncertainty into the mix.[21]
- Food prices hit a record with annual inflation for the Food Price Index reaching 12.0% in February, which will be impacting on the tight budgets of lower-income households, particularly those already experiencing rental stress. However, both MSD grants and food parcels distributed by NGOs decreased in February.[22]

Population

- Annual net migration continues to trend up (33,200 in the year ended January 2023), with recent provisional monthly numbers being revised upwards as data becomes more robust.[23] Work and student visa approvals have continued to see increases in February,[24] potentially signalling net migration will keep increasing in the near-term. While this is likely to help ease labour constraints, increased rental demand risks price increases where supply is not able to keep up.
- There has been a large processing catch-up of a back-log of 2021 Resident Visa applications.[25] Many of these new residents are eligible to purchase homes in New Zealand.

Employment and wages

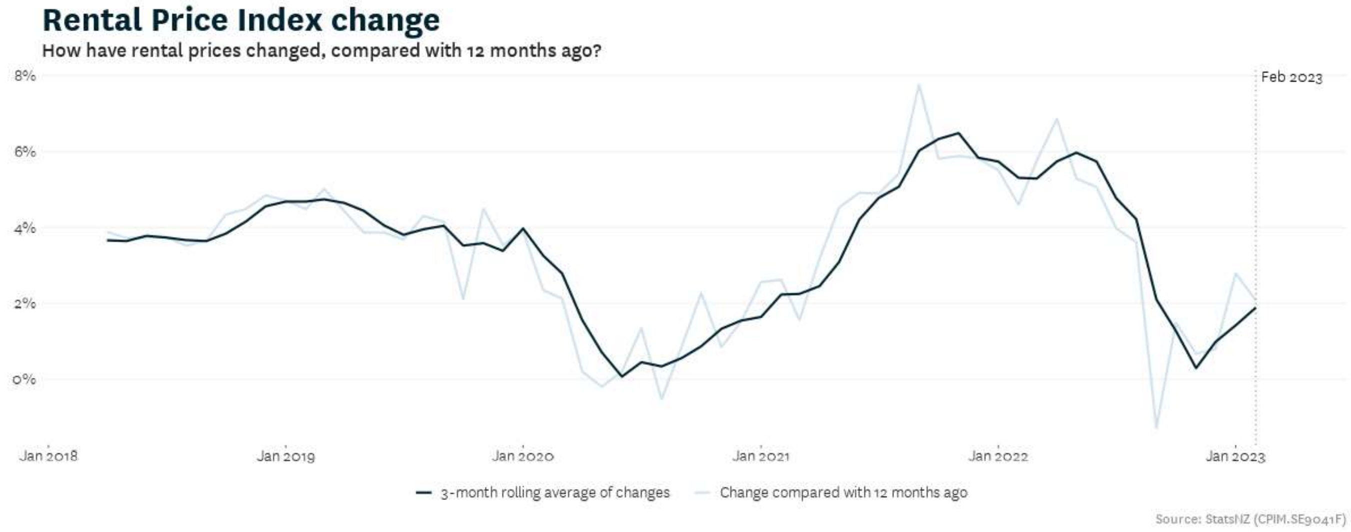
- There are ongoing indications of labour market tightness. However, MSD report that benefit exits (to paid work) are slowing, potentially indicating less employment opportunities for clients.[26] Increased immigration may be helping with shortages and could help to ease labour market tightness.[27] Wage growth may slow as workforce capacity pressures ease alongside consumer demand, which would in turn reduce inflationary pressure.
- The depth and length of the forecast recession is difficult to predict – but increasing unemployment in a high-inflation environment could push vulnerable households into further housing stress.

Market confidence

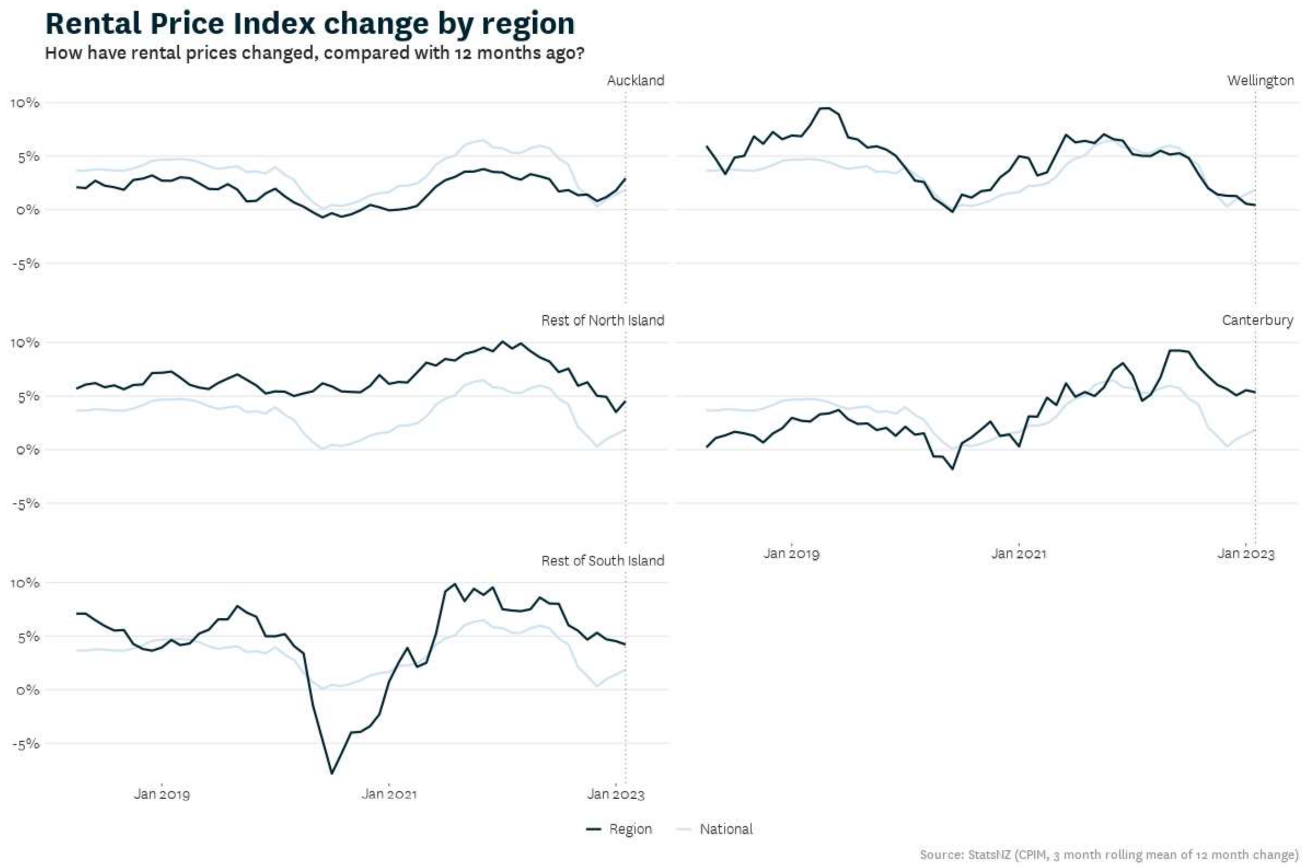
- The global economic outlook is uncertain however there are some indications that monetary tightening efforts in other countries could reduce tradable and non-tradable inflationary pressures by reducing demand and competition for goods.

[20] ANZ, NZ Forecast Update – Getting an extension, March 2023
[21] NZ Herald, Liam Dann: Why banking crisis means cheaper petrol and (maybe) lower mortgage rates, March 2023
[22] MSD, Monthly Benefits Update, February 2023
[23] Stats NZ, International Migration, January 2023
[24] MBIE, Migration Data Explorer, updated to February 2023
[25] Immigration New Zealand, 2021 Resident Visa Processing Times, accessed March 2023
[26] MSD, Monthly Benefits Update, February 2023. These slowing exits may also relate to extreme weather events in February.
[27] Treasury, Fortnightly Economic Update, 17 March 2023

Rental Market Charts

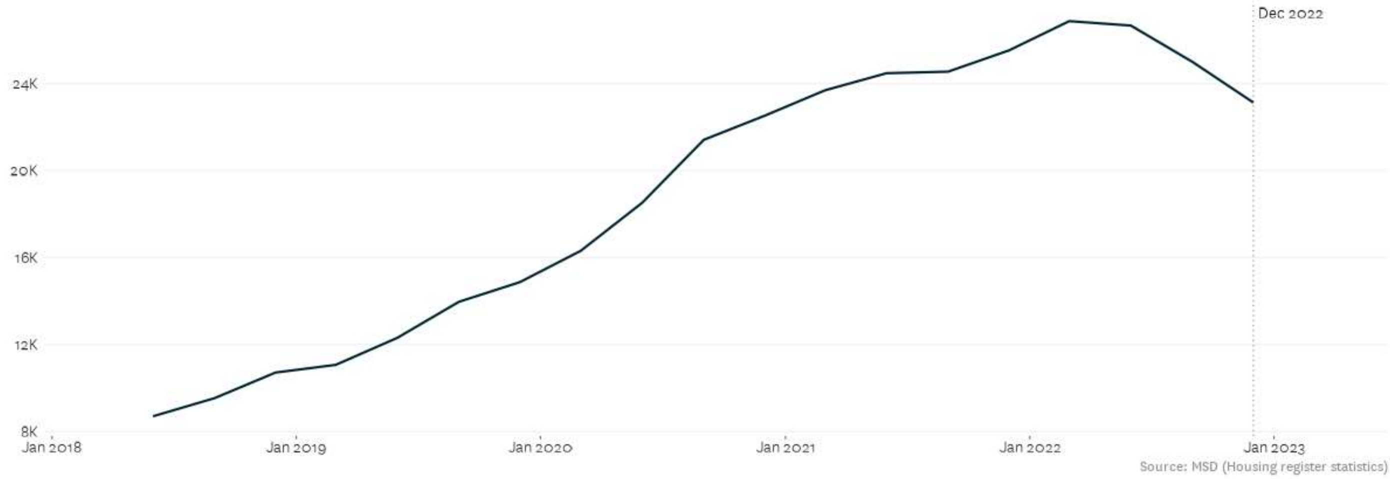


The Rental Price Index measures price change for new private sector tenancies only.



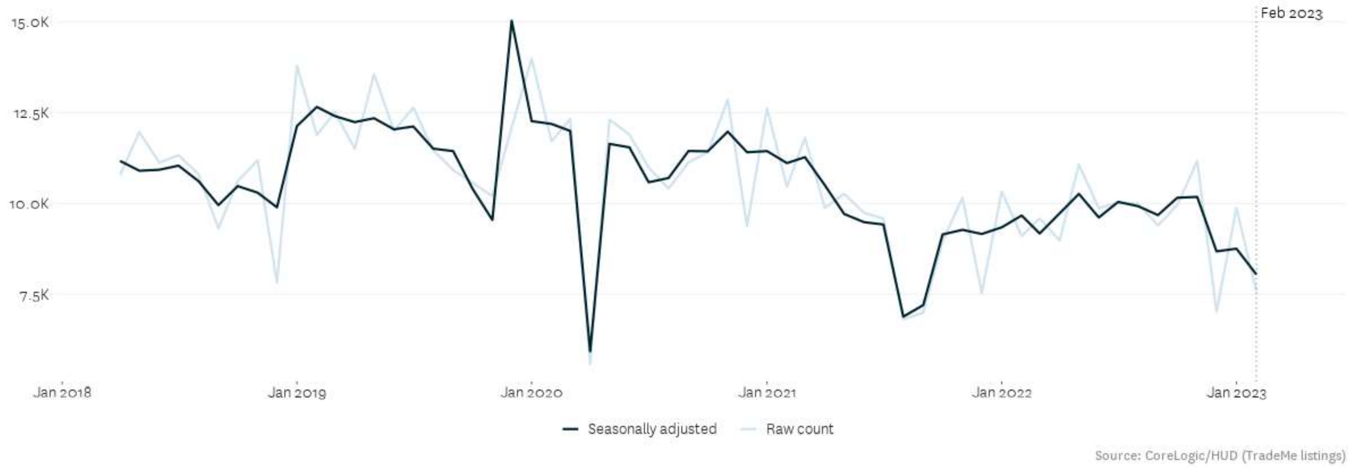
Housing register

How many households are waiting to access public housing?



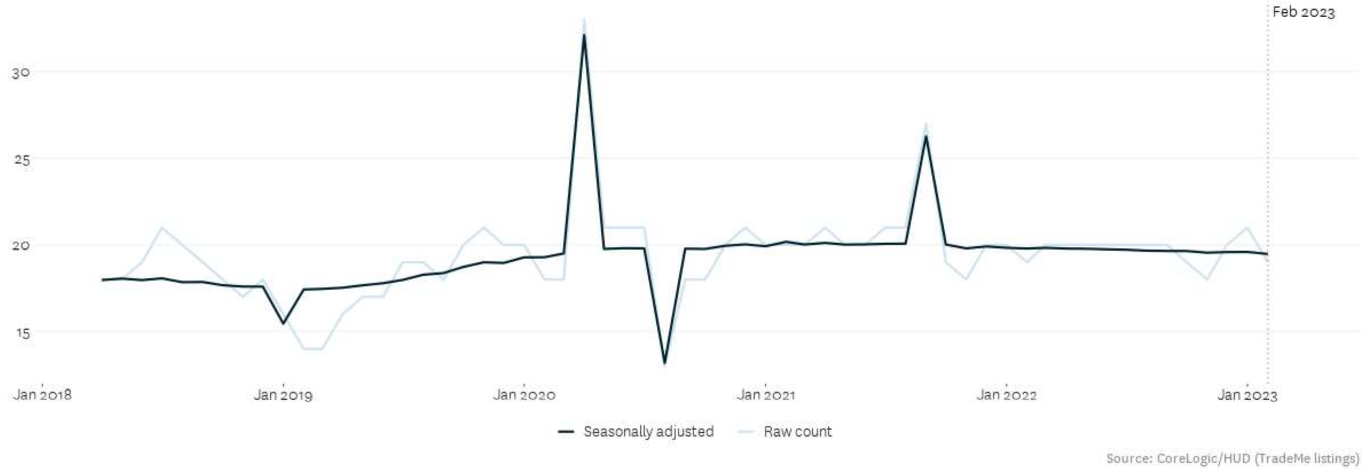
New rental listings

How many homes are being listed for rent?



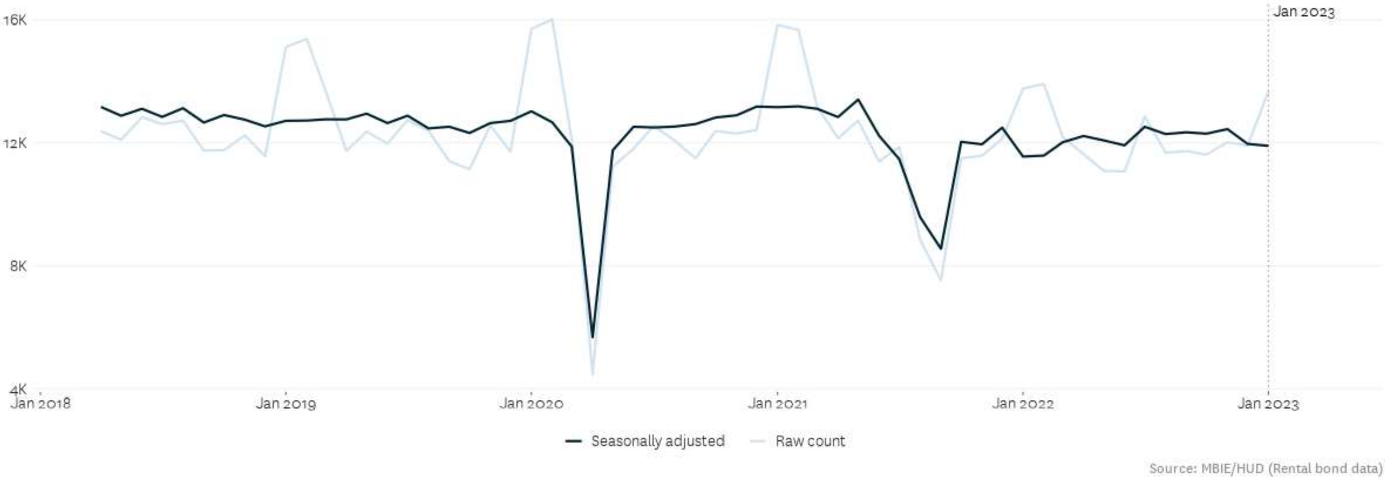
Median days listed for rental listings

How many days do rental listings stay up for?



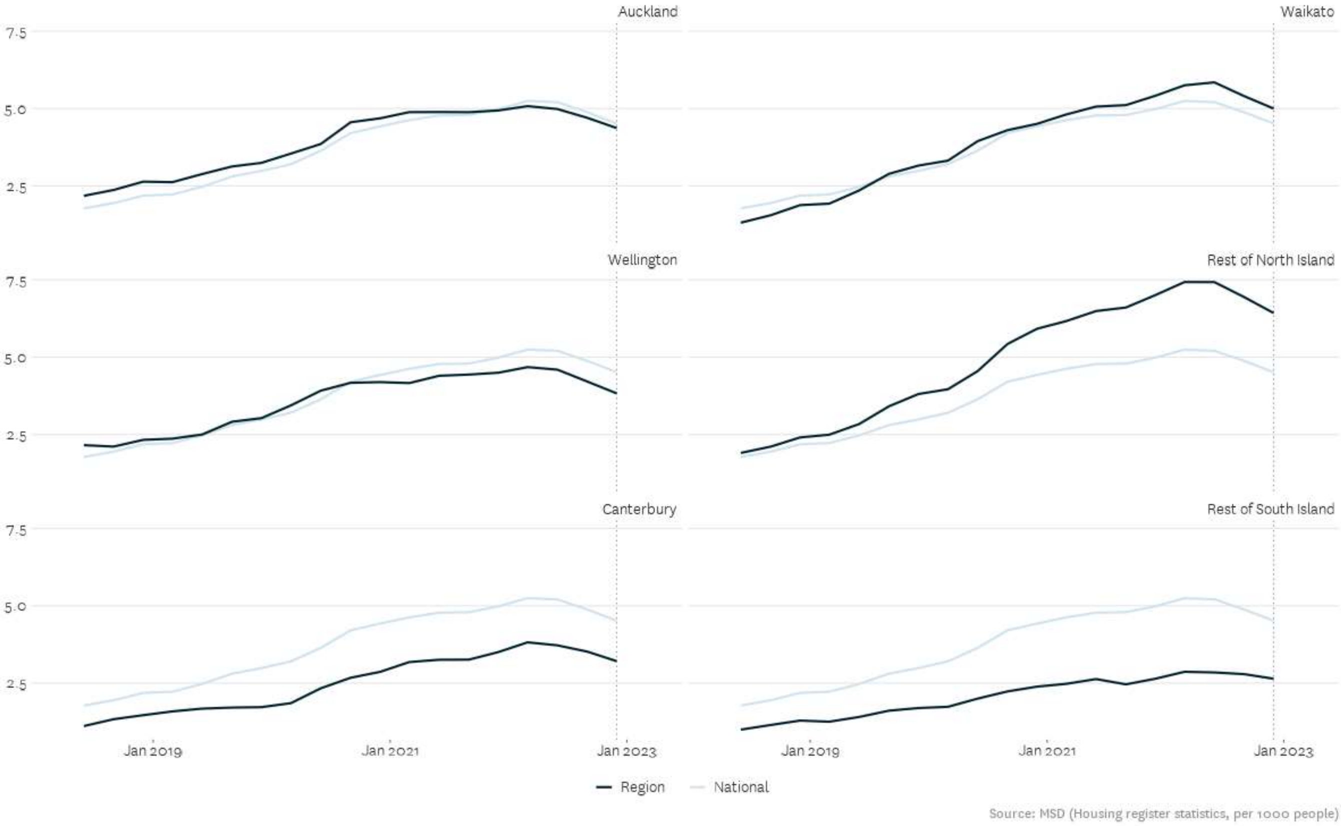
New tenancies

How many private tenancies started this month?



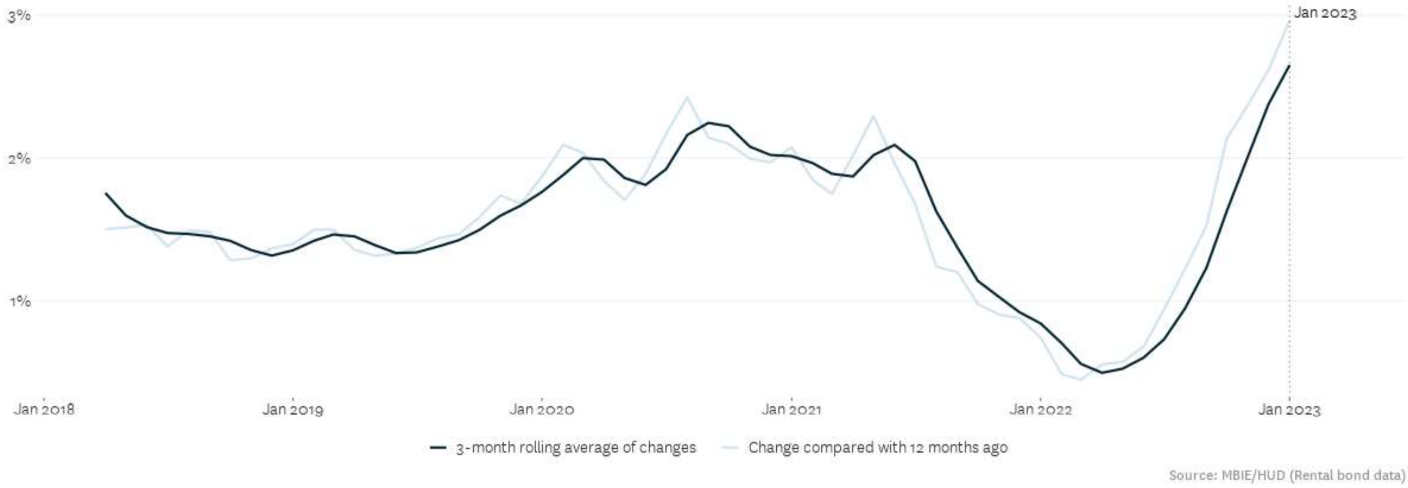
Housing register per 1000 people by region

How many households are waiting to access public housing?



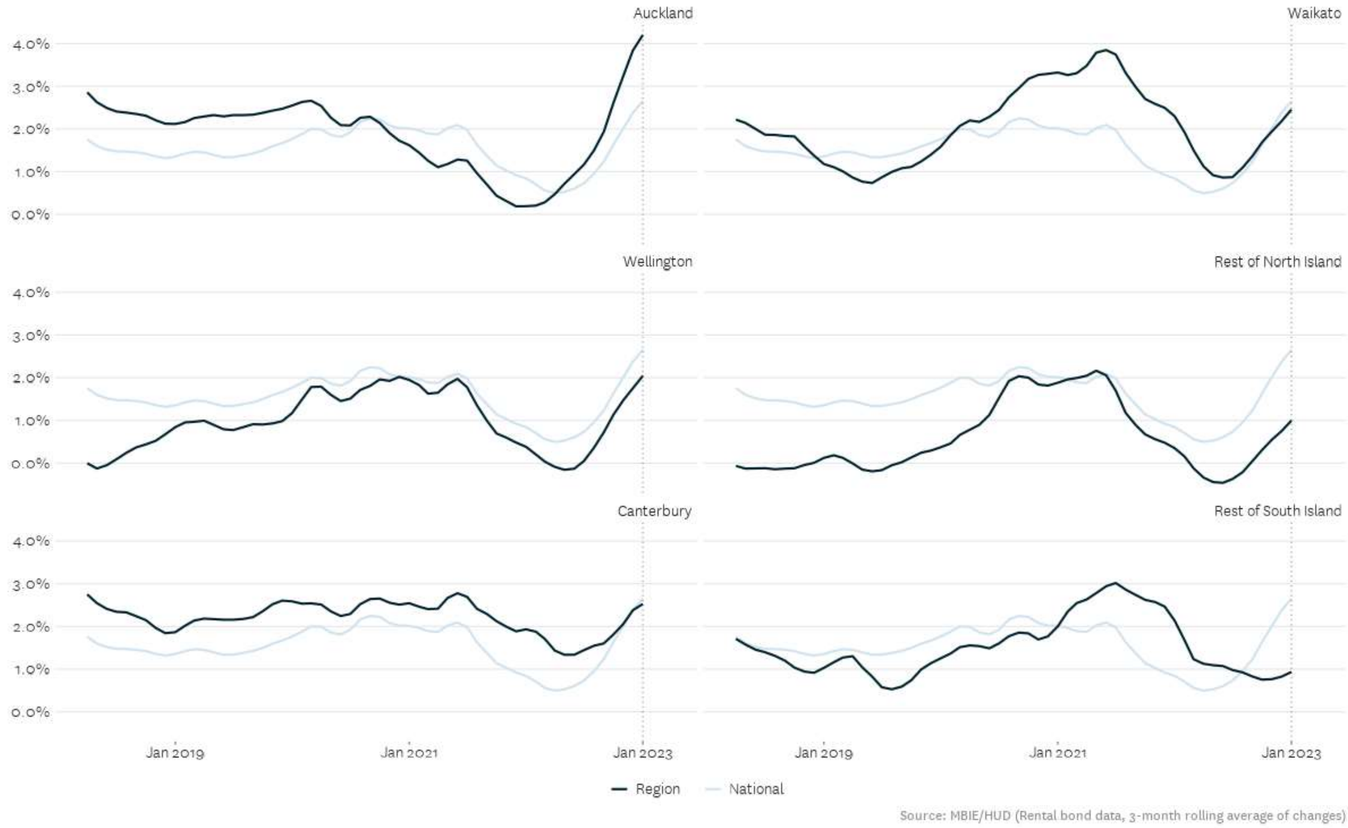
Active tenancies change

How has the number of private tenancies changed, compared with 12 months ago?

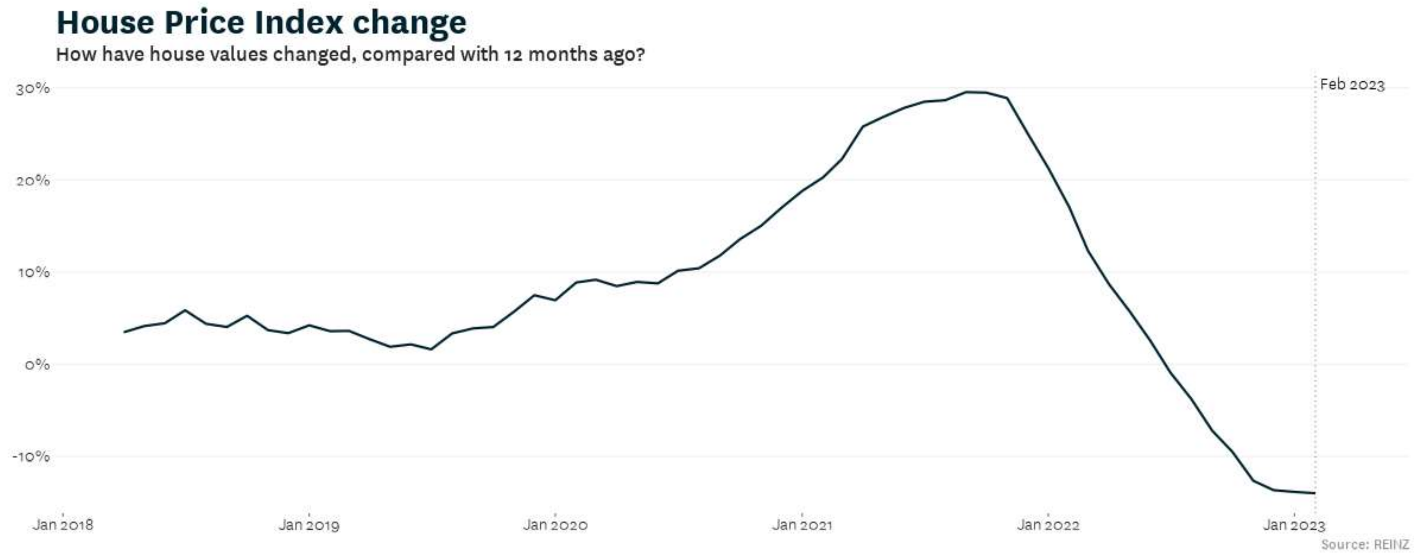


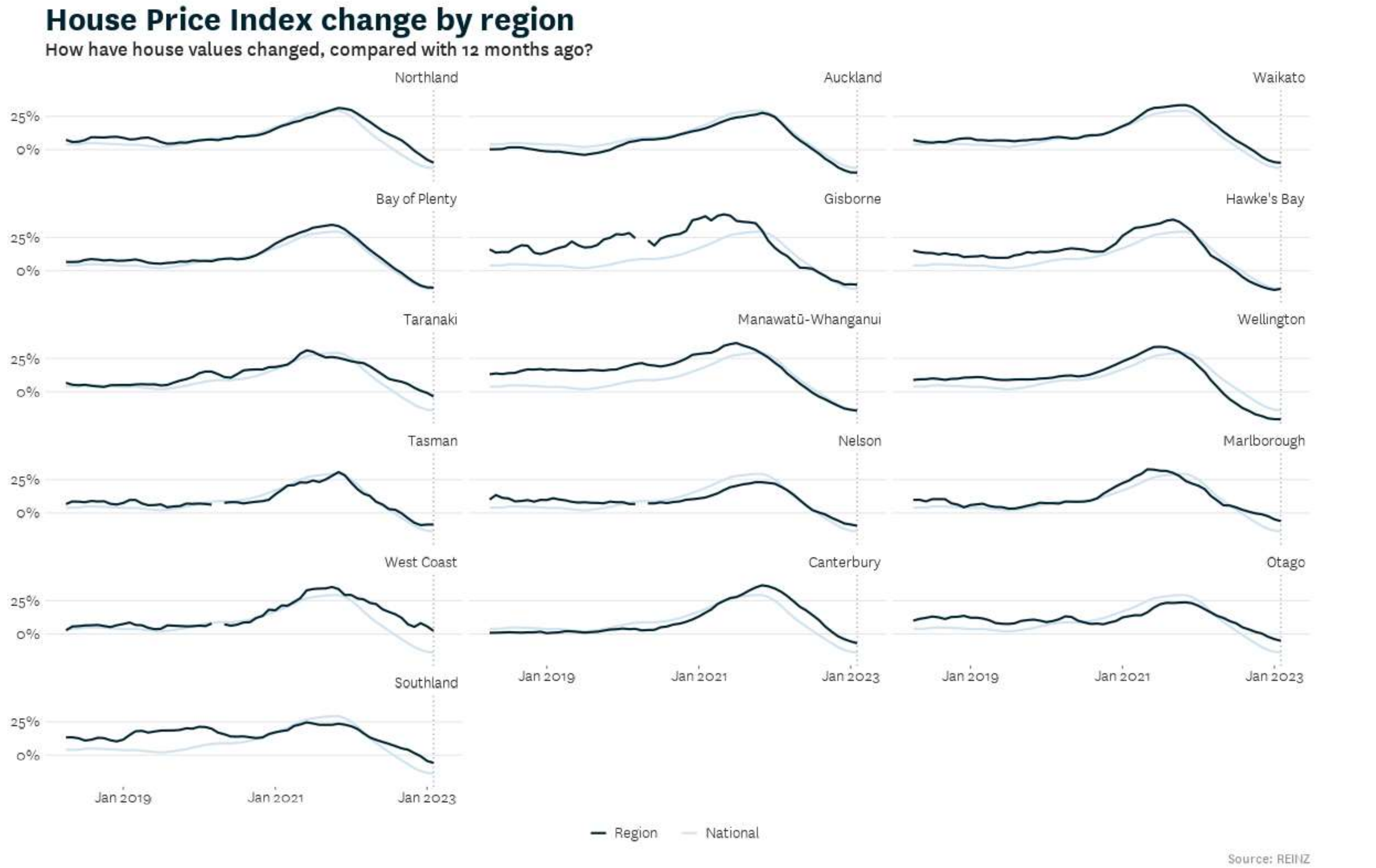
Active tenancies change by region

How has the number of private tenancies changed, compared with 12 months ago?



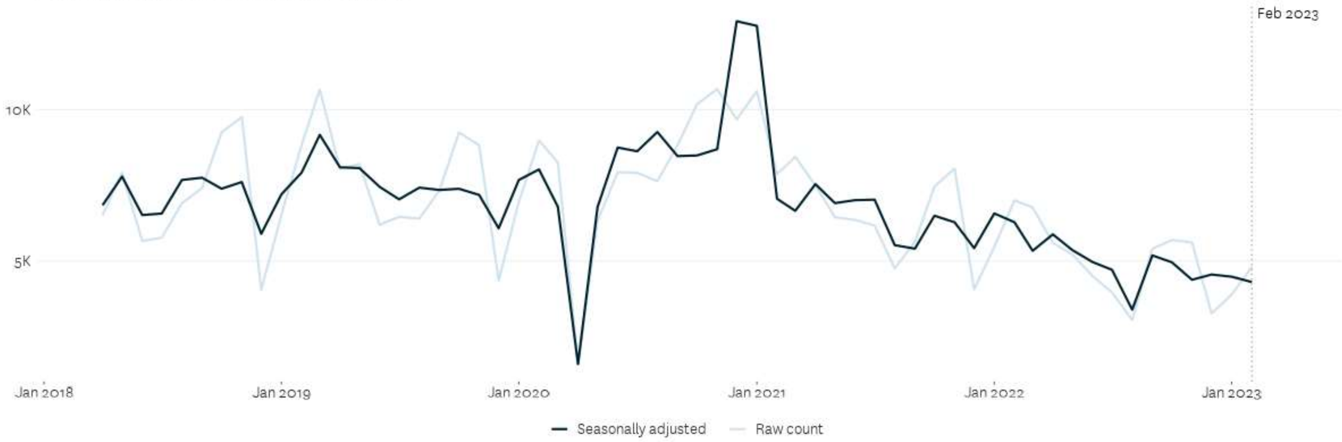
Property Market Charts





New sale listings

How many homes are being listed for sale?



Source: CoreLogic/HUD (TradeMe listings)

Buyer classification

What proportion of buyers are first home buyers or multiple property owners?

Source: CoreLogic/HUD

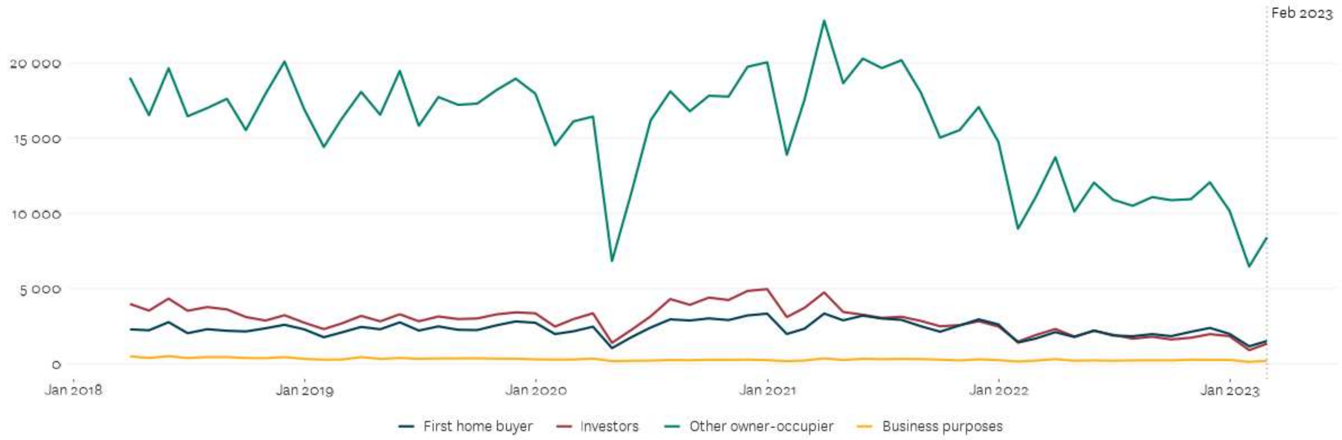
New residential mortgage special interest rates

What special rates are available for new mortgages?

Source: RBNZ (INRL.MAL2)

New residential mortgage borrowing (Total)

Who is borrowing for new residential mortages?



Source: RBNZ (LVRN.MMB2)

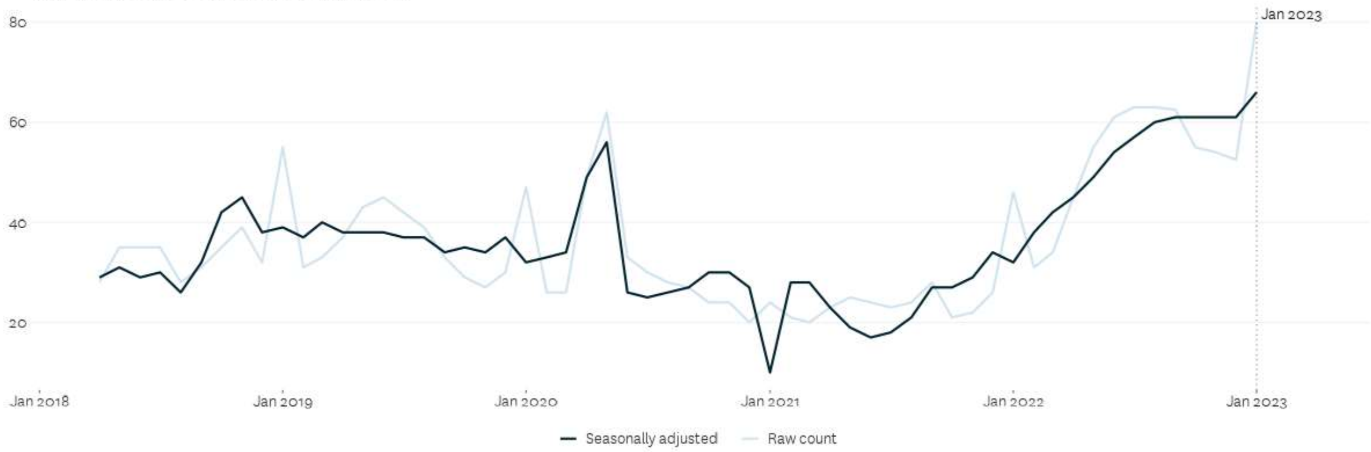
High LVR New residential mortgage borrowing

Who is borrowing at high loan-to-value ratio for new residential mortages?

Source: RBNZ (LVRN.MMB2)

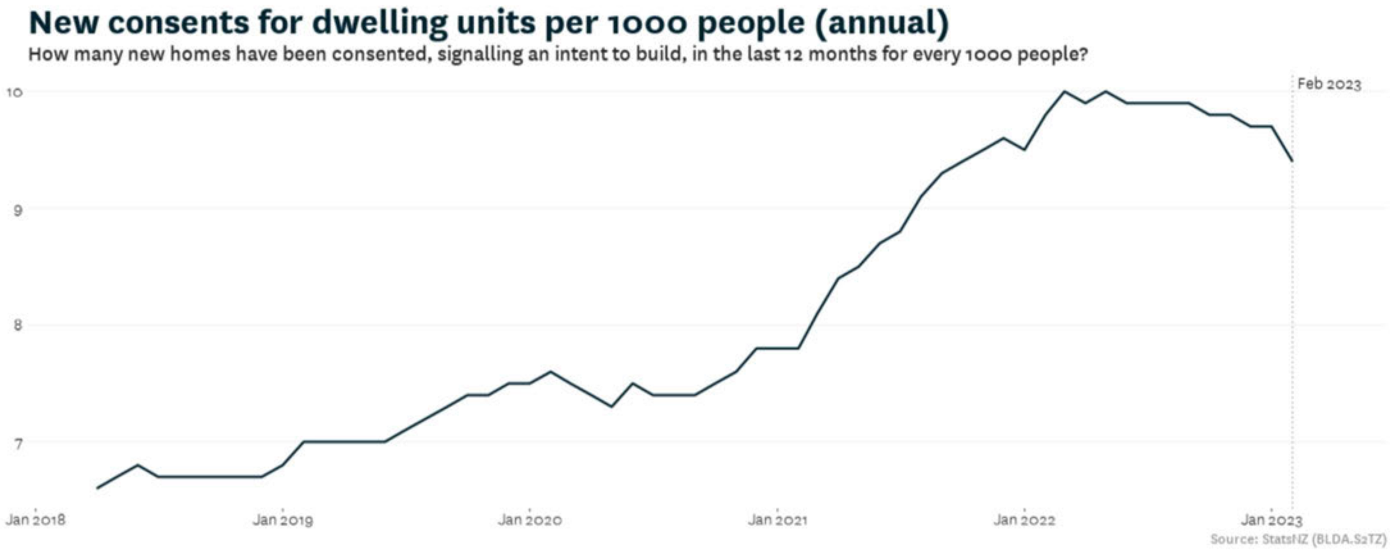
Median days listed for sale listings

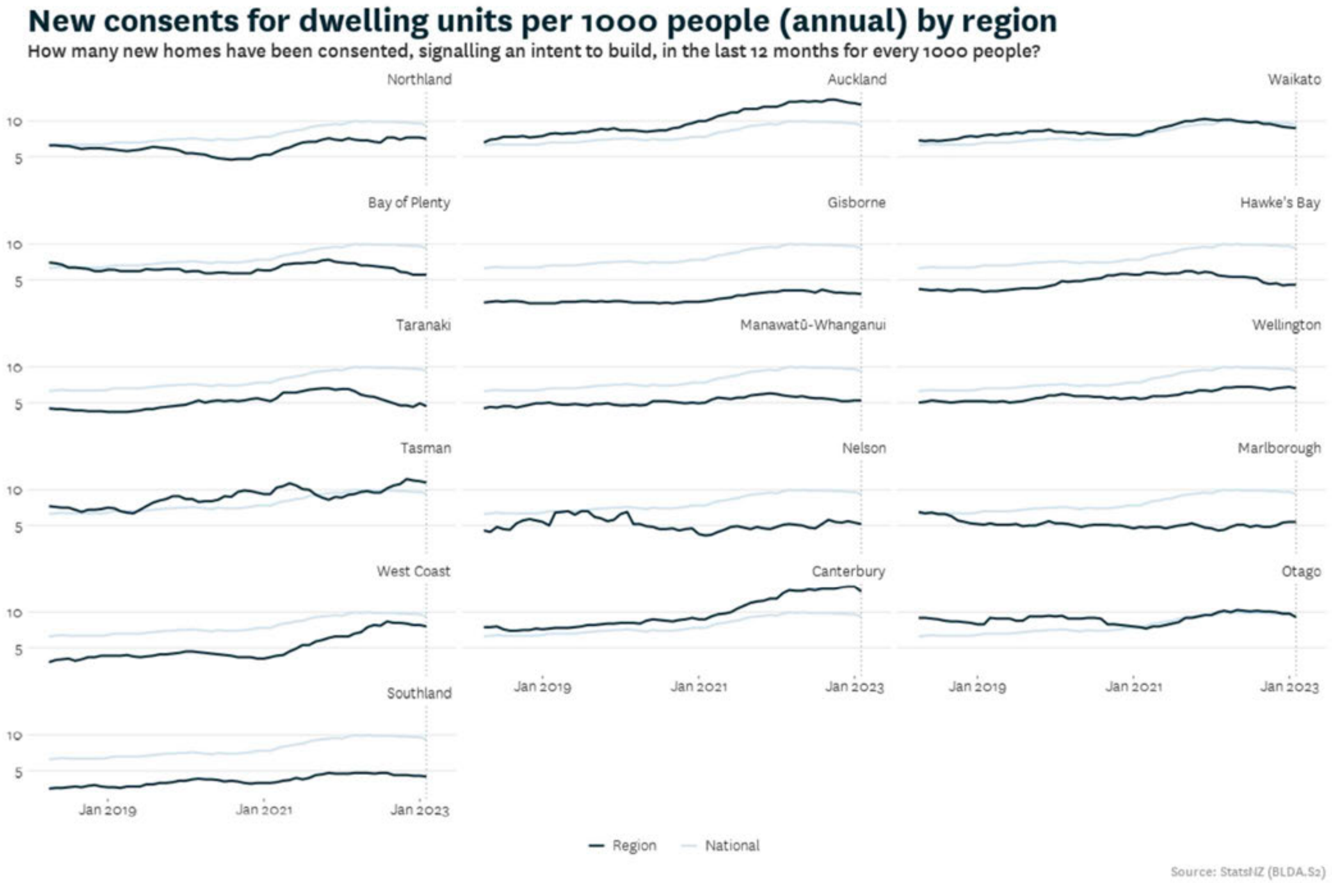
How many days do sale listings stay up for?



Source: CoreLogic/HUD (TradeMe listings)

Construction Charts





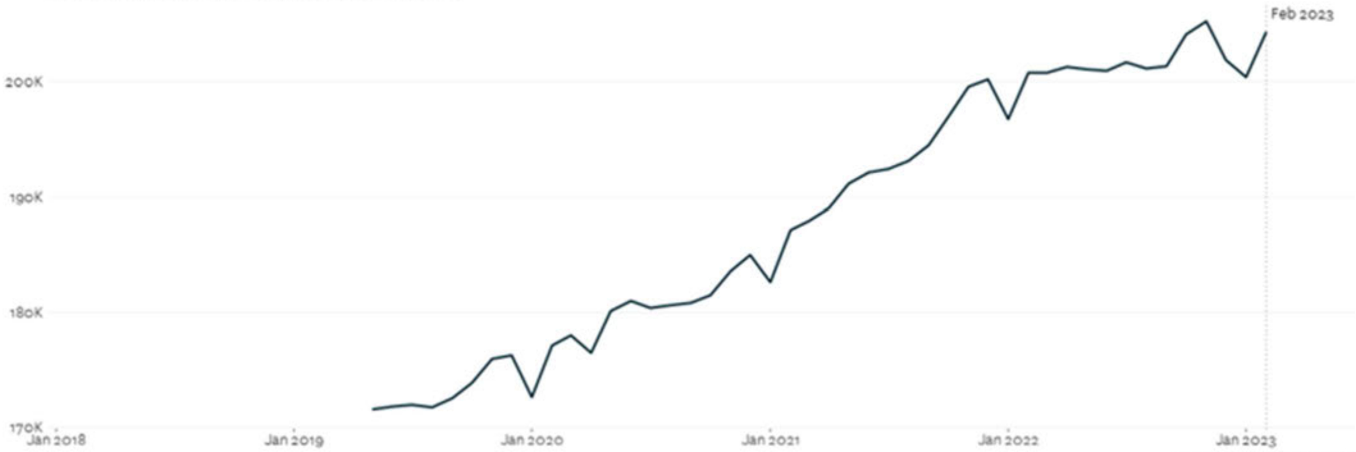
Electricity connections change

How many more homes are being connected, compared with 12 months ago?

Source: Electricity Authority

Filled construction jobs

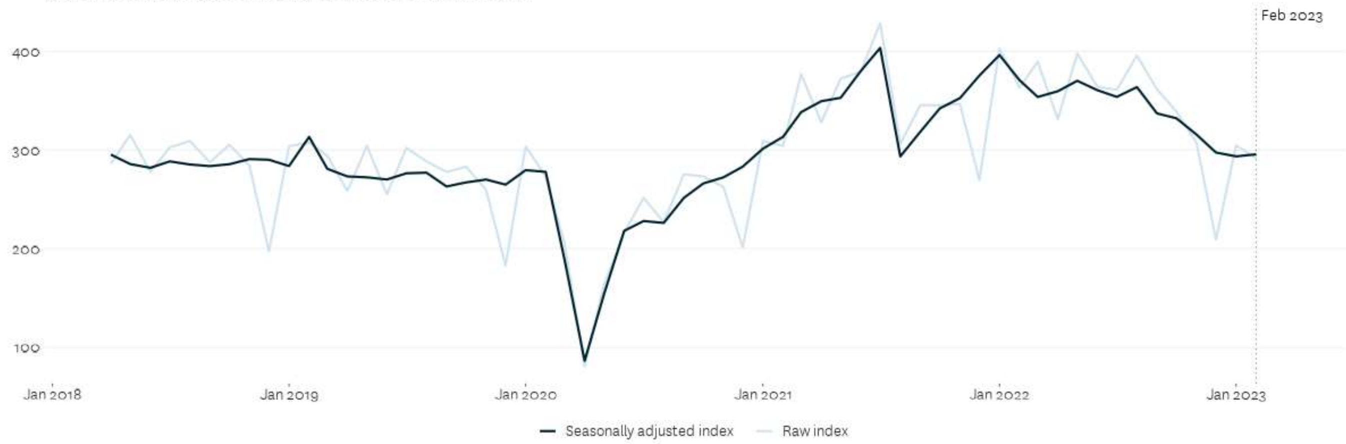
How many people are working in construction?



Source: StatsNZ (MEIM.SA1EA)

Listed construction jobs (index)

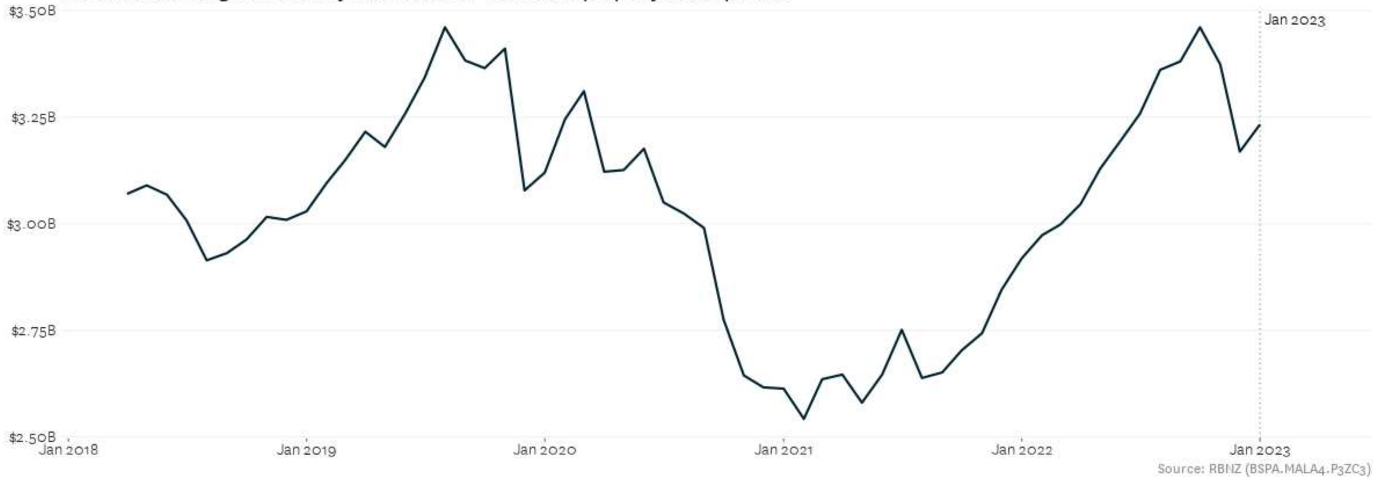
How much demand is there for workers in construction?



Source: MBIE (Jobs Online data, index base to 100 in May 2007)

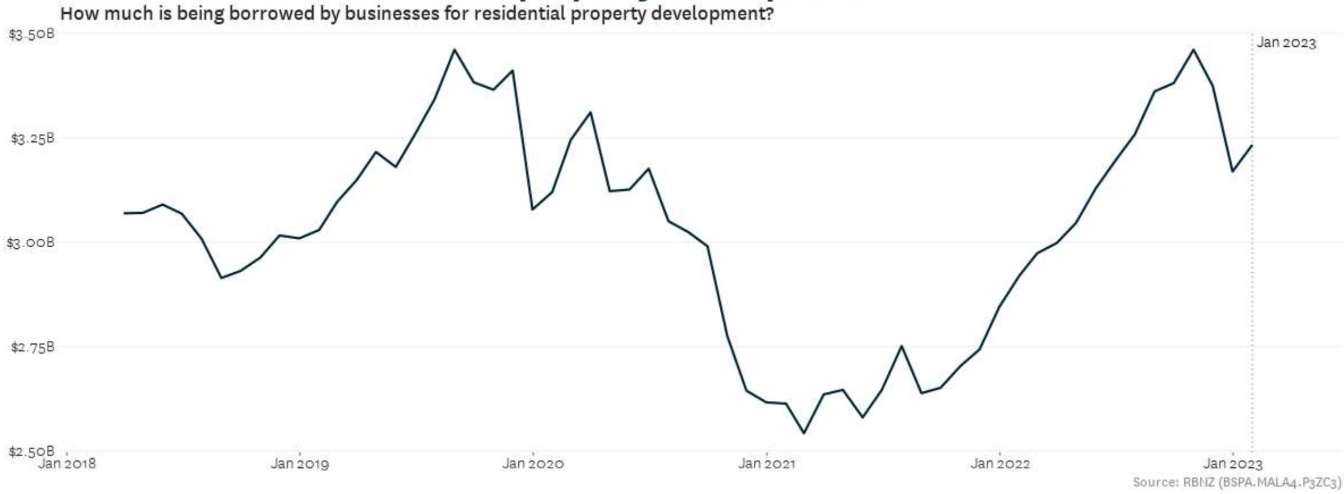
Business loans for residential property development

How much is being borrowed by businesses for residential property development?



Business loans for residential property development

How much is being borrowed by businesses for residential property development?



Business outlook - activity

Are businesses expecting activity to increase or decrease in the next 12 months? (% expecting increase minus % expecting decrease)

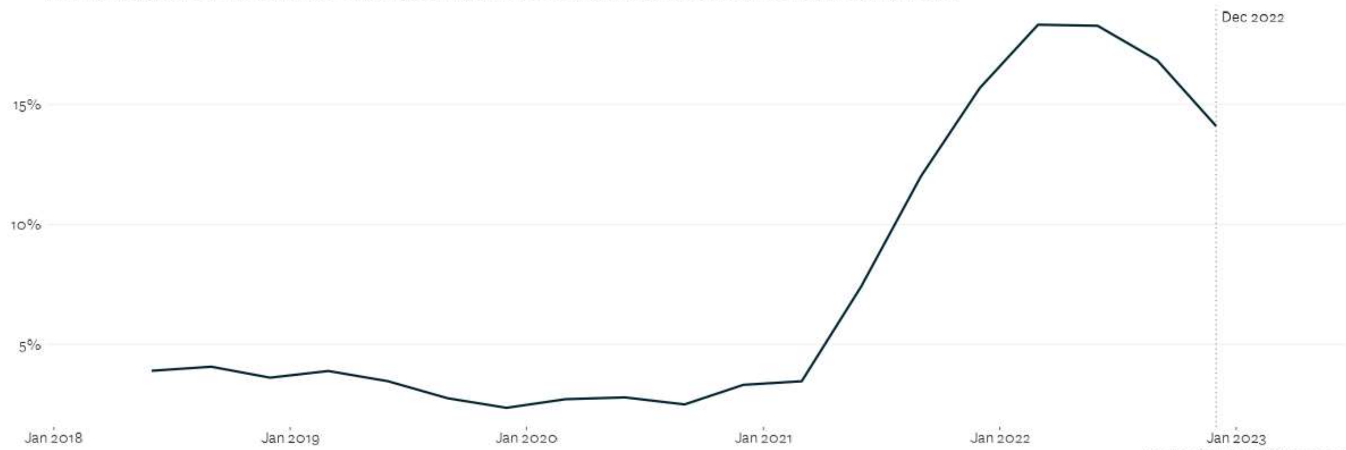
Business outlook - ease of accessing credit

Are businesses expecting access to credit to improve or worsen in the next 12 months? (% expecting improve minus % expecting worsen)

Source: ANZ Business Outlook Survey

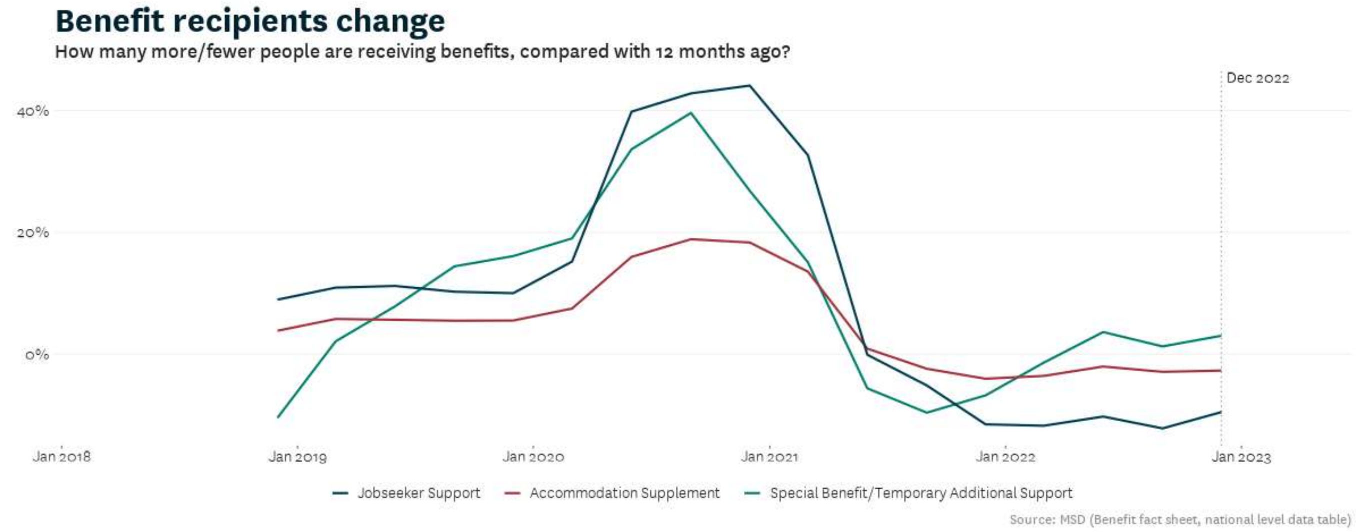
Purchase of new housing price change

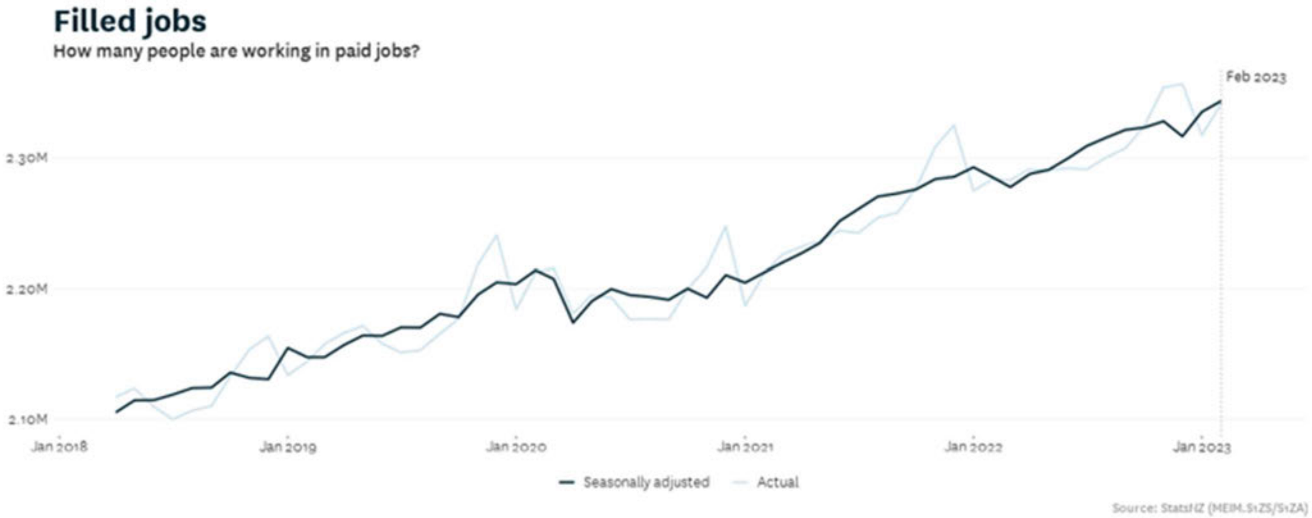
How have prices for the purchase of newly constructed housing changed, compared with 12 months ago?

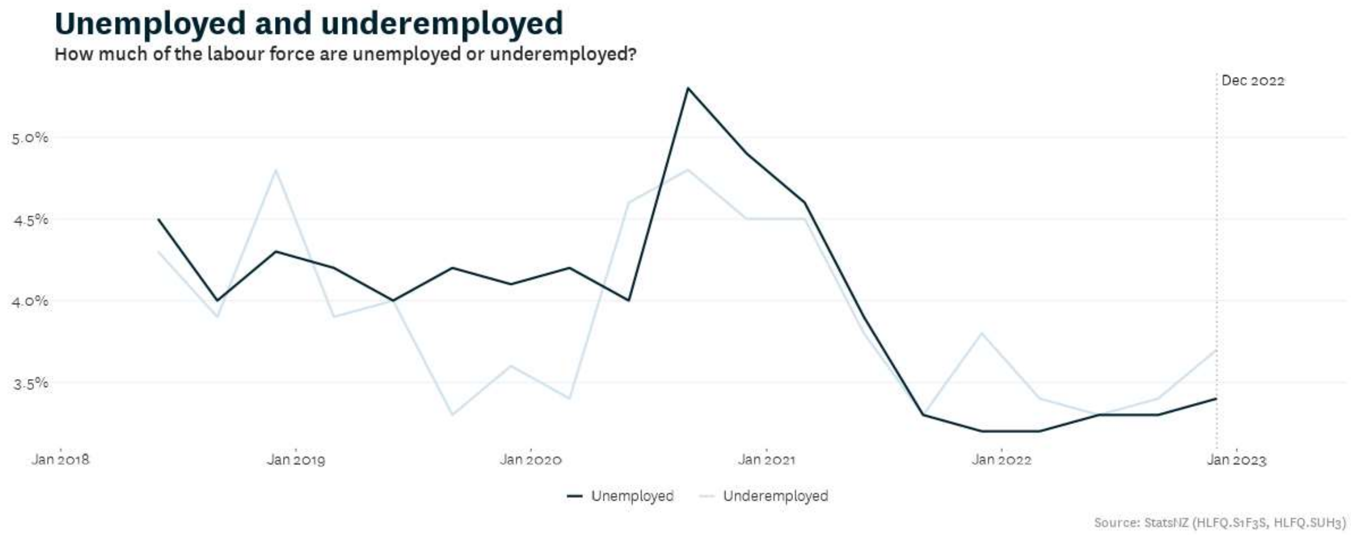


Source: StatsNZ (CPIQ.SE904201)

Macroeconomic Charts

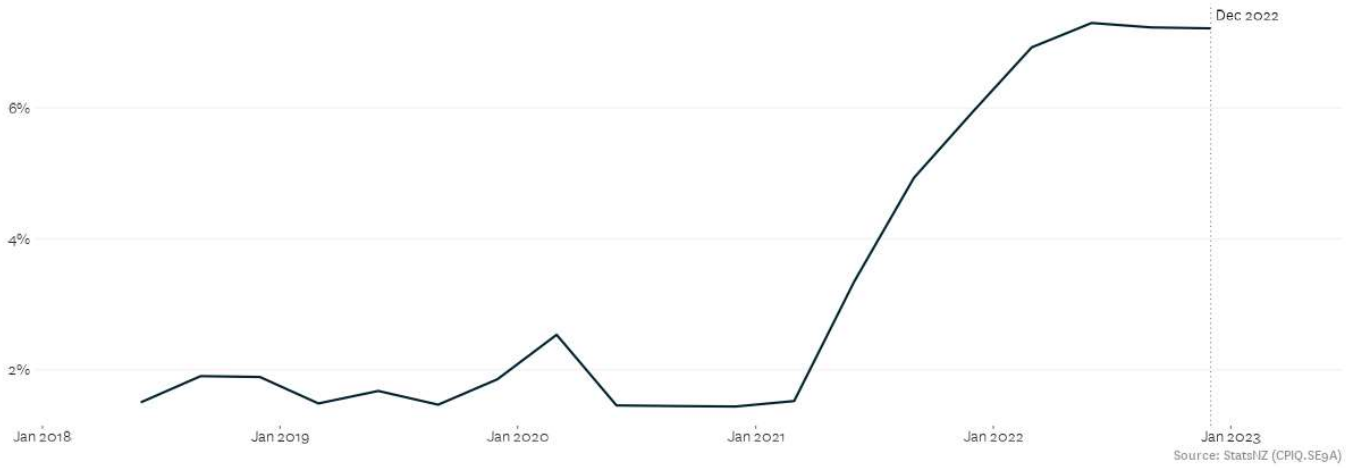






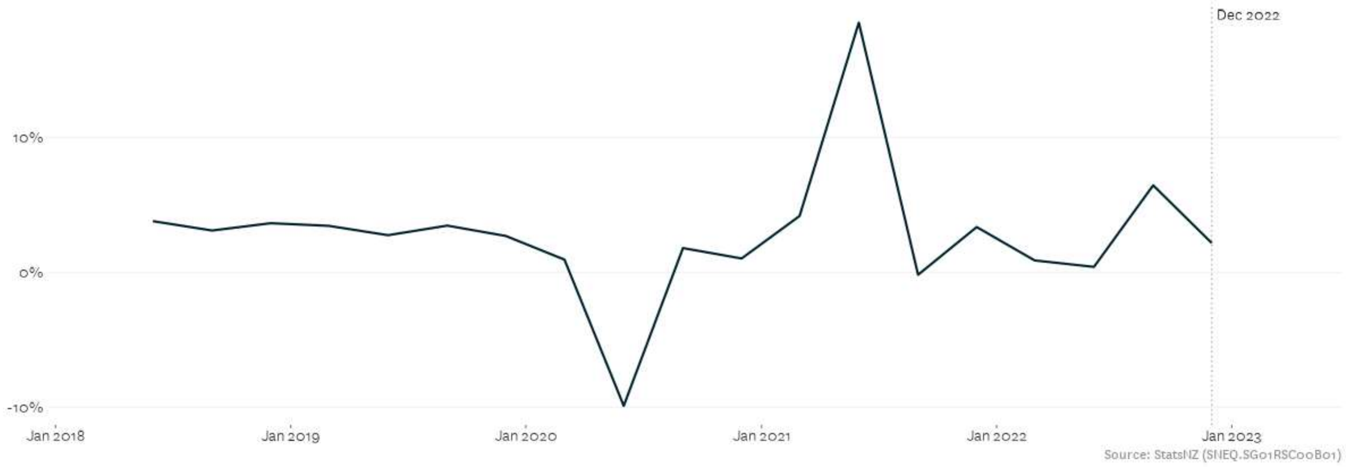
Consumers Price Index change

How have prices changed, compared with 12 months ago?



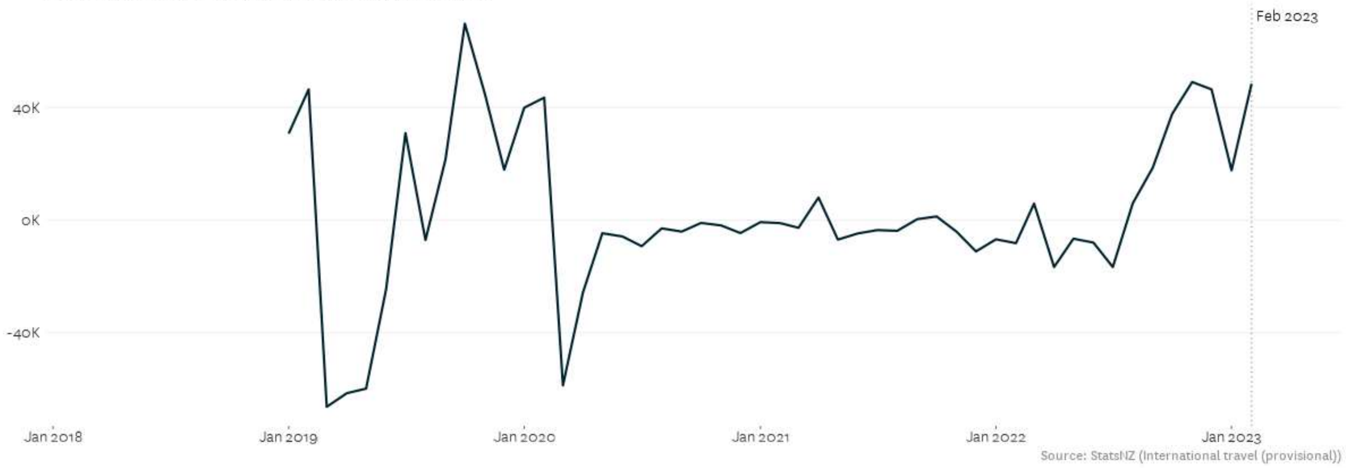
Gross Domestic Product change

How much has the economy grown, compared with 12 months ago?



Net arrivals/departures

How many people came in and out of New Zealand?



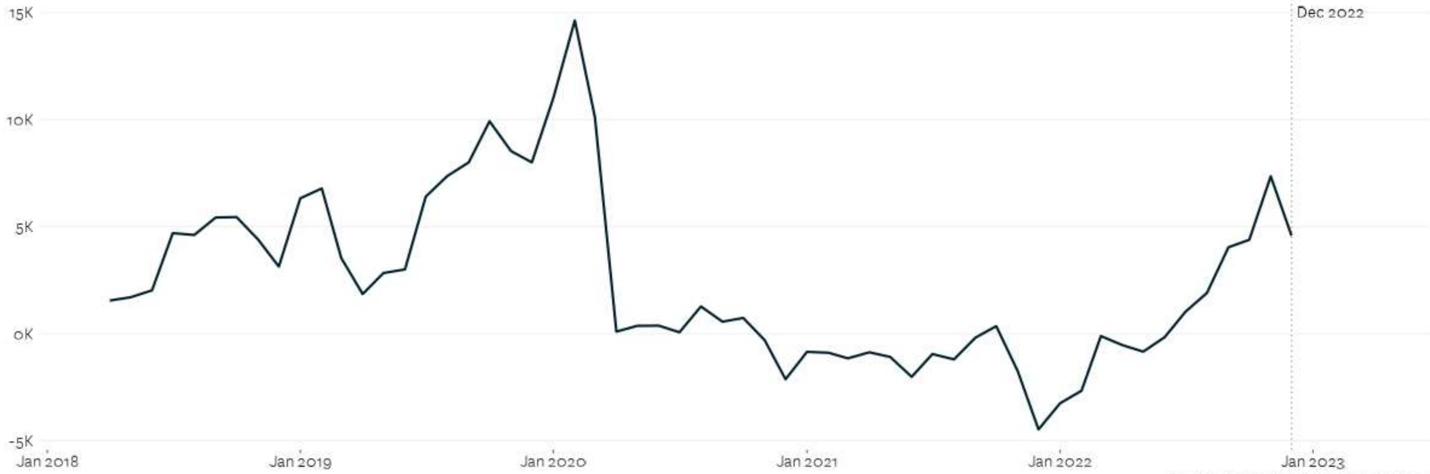
Business outlook - employment intentions and general confidence

Are businesses expecting conditions to improve or worsen in the next 12 months? (% expecting improve minus % expecting worsen)

Source: ANZ Business Outlook Survey

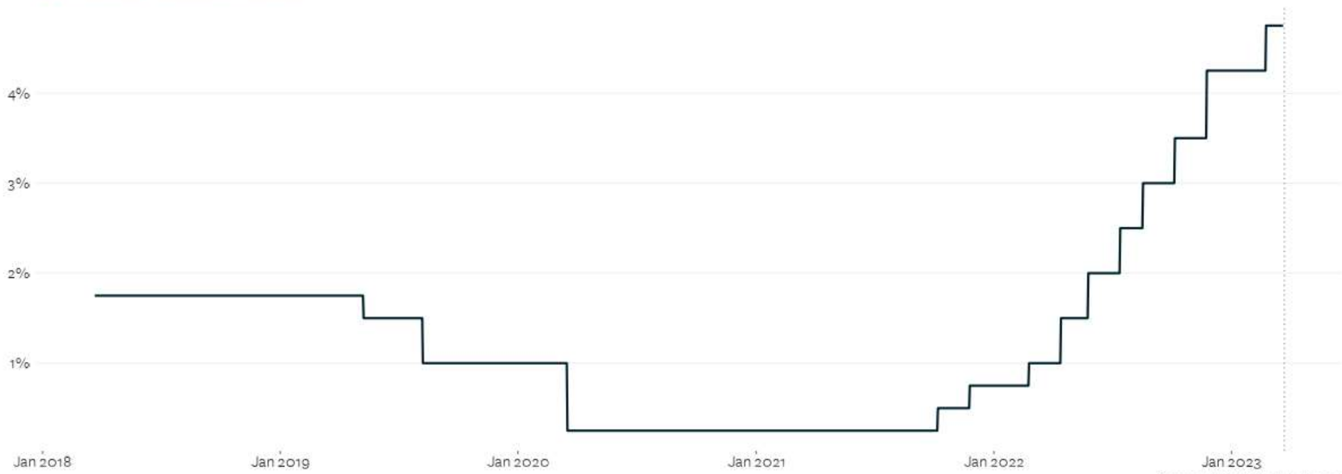
Long-term international migration

What is the monthly net flow of migrants in to/out of New Zealand?



Source: StatsNZ (International migration)

Official Cash Rate



Source: RBNZ (INM.MP1.N.nae)

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Aide-memoire

HOUSING MARKET UPDATE (APRIL)			
Date	27 April 2023	**Priority**	Low
Tracking number	HUD2023-001528		

INFORMATION FOR MINISTER(S)	
Hon Megan Woods **Minister of Housing, Minister of Building and Construction** Hon Marama Davidson **Associate Minister of Housing (Homelessness)** Hon Willie Jackson **Associate Minister of Housing (Māori Housing)** Hon Barbara Edmonds **Associate Minister of Housing**	**Note** the contents of the following aide-memoire.

CONTACT FOR DISCUSSION

Name	Position	Telephone	1st contact
Jane Keane	Manager, Housing Supply and Affordability	04 832 2564	
Alex Gunn	Manager, System Intelligence	s 9(2)(a)	✓

OTHER AGENCIES CONSULTED
-

MINISTER'S OFFICE TO COMPLETE	
☐ Noted ☐ Seen ☐ See Minister's notes ☐ Needs change ☐ Overtaken by events ☐ Declined	Comments

☐ Referred to (specify) ________________	

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Aide-memoire

HOUSING MARKET UPDATE (APRIL)			
Minister	Hon Megan Woods, Minister of Housing Hon Marama Davidson, Associate Minister of Housing (Homelessness) Hon Willie Jackson, Associate Minister of Housing (Māori Housing) Hon Barbara Edmonds, Associate Minister of Housing		
Date	27 April 2023	**Priority**	Low
Tracking number	HUD2023-001528		

Purpose

1. To provide you with:

   1.1 an update on rental and housing market, construction and macro-economic trends and outlooks

   1.2 an update on policy responses by Te Tūāpapa Kura Kāinga to the changing market conditions.

Housing Market Update (April 2023)

2. The HMU for April 2023 is attached as Annex 1. Key points to note include:

   2.1 Rent prices for new tenancies are growing slowly but are still below the large increases of 2021 and 2022. Wage inflation will be buffering most renting households but fixed and low-income households may be dependent on government housing products and services

   2.2 While wage growth has been high and sustained in recent times, lower wage growth and increasing unemployment in a softening economy will impact the financial resilience of households. Formation of new households may be less possible. Immigration, however, is likely to be a strong driver of household demand for housing, particularly rental housing. This is already evident in the increase of new tenancies and appears to be placing demand pressure on the Auckland rental market.

   2.3 Non-tradeable inflation hit a record high of 6.8% in the year to March 2023, signalling that continued monetary tightening is likely. Mortgage interest rates will stay high as a result. There is a risk that further monetary tightening may overshoot and slow the economy more than required, resulting in a worse than forecast recession.

2.4 Our housing market outlook remains unchanged - house prices will continue to fall. Continued house price falls are likely to lead to closures of some construction sector businesses in the near-term; credit defaults and liquidations are likely to increase due to the credit-dependency of the sector overall. Smaller and less experienced developers with low equity remaining most at risk of failure.

2.5 A fall in construction activity will alleviate some pressure as the industry has been running over capacity for some time, however a steep decline could result in longer term negative impacts on the sector such as loss of skills with workers moving permanently to other sectors. Post-cyclone and flooding recovery may cushion some construction businesses in affected areas, but the timeliness of this work is dependent on infrastructure repair and the scale of the rebuild work is not yet known.

Policy update on changing market conditions

3. The indicators of slowdown in the construction sector suggest that the delivery of new housing is likely to fall. However, demand for housing is also on the rise, due to higher immigration levels and the impacts of extreme weather events. Put together, these factors could result in worsening rental affordability and more acute housing need. These impacts are likely to be particularly severe in places that already have more marginal development economics, and those that have been significantly impacted by the cyclone.

Update on policy responses

4. On Tuesday 11 April Cabinet agreed to the proposals in the paper *Using the Build Ready Developments pathway and the Land for Housing programme to respond to changing market conditions*. These proposals consisted of some tactical responses to support the ongoing delivery of affordable housing where it is most needed, including areas impacted by the extreme weather events. This includes drawing down additional funding for the Build Ready Developments initiative to underwrite or prepurchase public and affordable homes, and seeking a mandate for the Land for Housing programme to finance certain upfront land development costs.

5. Following a period of sector engagement, the Build Ready Developments pathway will open for its second round of applications for a three week period. We are targeting an indicative launch date of 22 May, subject to confirmation.

6. s 9(2)(f)(iv) [redacted]

[redacted] [redacted]

s 9(2)(f) [redacted]

Annexes

Housing Market Update – April

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Housing Market Update

April 2023

New Zealand Government

Monthly Housing Market Update

The purpose of the update is to provide the Minister for Housing, Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development and other housing agencies with the latest information about the housing and rental markets, residential construction, and macro-economic context. The update is not intended for public release.

Key Insights

- Rent prices for new tenancies are growing slowly but are still below the increases of 2021 and 2022. Wage inflation will be buffering most renting households but low and fixed-income households who are not able to access public or affordable private rentals will be feeling the pressure of inflation overall. Rising immigration is evident in the increase of new tenancies and appears to be placing demand pressure on the Auckland rental market.

- Inflation overall eased to 6.7% in the year to March 2023, however non-tradeable inflation hit a record high of 6.8% indicating the Reserve Bank of New Zealand (RBNZ) have more work to do to bring inflation under control. The Official Cash Rate (OCR) outlook is for continued tightening and interest rates will stay high as a result. There is a risk that further monetary tightening may overshoot and slow the economy more than required, resulting in a worse than forecast recession.

- The housing market outlook remains unchanged. House prices continue to fall, driven by increases to mortgage interest rates and the ability of buyers to access credit. First Home Buyers are managing to maintain their market share although volumes have declined overall for all buyer types.

- While the residential construction sector is mostly managing to adapt to changing market conditions for now, the short-term outlook points to a sharp decline in activity putting many businesses in jeopardy. Smaller and less experienced developers with low equity remain particularly at risk of failure and continued house price falls are likely to lead to closures of some of these businesses in the near-term. Credit defaults and liquidations are likely to increase due to the credit-dependency of the sector overall.

- A fall in construction activity will alleviate some pressure as the industry has been running over capacity for some time, however the outlook appears to be pointing to a steep decline rather than a softening of demand. A steep decline could result in longer term negative impacts on the sector such as loss of skills with workers moving permanently to other sectors. Post-cyclone and flooding recovery work may cushion some construction businesses in affected areas. But the timeliness of this work is dependent on infrastructure decisions and activity, and the scale of the rebuild work is not yet known.

- The weakening economic outlook will impact on business confidence and hiring intentions. While wage growth has been high and sustained in recent times, lower wage growth and increasing unemployment in the medium term will impact the financial resilience of households. Formation of new households, which happens in times of high employment and wage growth, may be less possible. Immigration, however, is likely to be a strong driver of household demand for housing, particularly rental housing.

Rental Market

Situation

- The rate of rental price growth has been increasing in recent months but remains lower than the average growth in the last few years and inflation overall. Rents for new tenancies rose 2.7% in the year to March 2023.[1]

- Auckland has seen sharper increases in new tenancy rental price inflation than other regions. Tightening vacancy rates (time between tenancies) in the area, particularly for 1- and 2-bedroom properties, may be evidence that much of this increased demand is from migrants and international students.

- Tightening vacancy rates are also being seen in Canterbury, Otago, Southland and Waikato indicating increased rental market pressure in those areas. In contrast, Wellington has seen lengthening vacancy rates in the last few months, likely meaning there is more choice for prospective tenants.

- The number of rented properties[2] continues to rise at a national level with 3.1% more tenancies in February 2023 than a year previously, driven by Auckland, which grew by 4.6%. However, provincial areas are showing much slower rates of growth and have been tracking below the national growth rate for the last few months. Investors are still actively purchasing (although at lower levels since overall volumes are down for all buyer types) and do not appear to be selling more than usual despite contrary media commentary.

- Rising rental costs will be felt disproportionately by low-income households, even if average wage growth is increasing at a faster rate. Special Needs Grants for food are growing and MSD notes this is likely due to cost of living increases[3] illustrated by recent record food price growth - food price inflation rose 12.1% in the year to March 2023.[4] Increasing food poverty indicates overall household budget strains for renters, who tend to be lower-income households and are grappling with inflation overall.

Outlook

- Increasing levels of international migration could increase rent pressure in places where demand outweighs supply. In the longer term, reduced residential construction activity could result in additional pressure on these rental markets.

- Areas affected by recent adverse weather may see rental stock drop, likely putting strain on places that already have a lack of affordable rentals and increasing demand on government housing services. A lack of affordable rental supply also presents challenges for housing repair workers who may temporarily migrate to affected provincial regions to help with recovery efforts.

[1] Stats NZ, Rental Price Indexes, March 2023. The 'flow' measure refers to new tenancies. Existing tenancies are less responsive to changing market conditions, known as 'sticky rents'. Stats NZ models an approximate 'stock' measure using bond data but it may not reflect actual rent changes for existing tenancies.
[2] New tenancies include recurring rentals as well as those returning to the rental pool and those being rented for the first time.
[3] MSD, Monthly Benefits Update Commentary, March 2023
[4] Stats NZ, Food Price Index, March 2023

Property Market

Situation

- The housing market remains in a downturn, with the REINZ House Price Index (HPI) having fallen 16.8% from the November 2021 peak. The largest fall has been in Wellington (down 24.8% from peak). The number of national sales is also down 15.0% on this time last year.[5] Continued low sales have led to higher levels of properties for sale – hitting an eight-year high in March 2023 of 29,284.[6]

- While deposit affordability for First Home Buyers (FHBs) has improved as prices have declined, this is offset by the increased cost of servicing a mortgage at current high interest rates.[7] There were further interest rate rises for variable and shorter-term fixed rates after the latest Official Cash Rate (OCR) increase. The 2-year special interest rate rose to 6.47% in March, compared to 4.53% in March 2022 and 2.58% in March 2021.[8] As an example, a FHB who borrowed $500,000 in March 2021 on a 2-year rate would have been paying $2,263 per month in 2021. Their new 2-year rate would mean monthly payments of $3,367 – an annual increase of $13,248. A homebuyer today, with the same monthly budget of $2,263 would only be able to borrow $335,000[9], a reduction in purchasing power of around a third. Mortgage defaults are rising but still low with 1.29% (18,900) of home loans in arrears.[10] Large proportions of mortgagees remain ahead on their repayments.[11]

- FHBs continue to hold a consistent share of transactions despite increased mortgage servicing costs and more barriers to finance, but sales volumes are down overall for all buyer types. The proportion of FHBs taking out loans of more than 5 times their income fell from 51% in December 2021 to 30% in December 2022[12] with the average loan value falling 10% from $595,274 in December 2021 to $536,184 in February 2023.

Outlook

- Almost half of mortgages are due to be refixed in the next 12 months, onto higher interest rates.[13] Existing owners refixing onto these higher rates will need to manage their spending to service higher repayments. Whilst employment remains strong, it is likely that most homeowners will not be pushed into severe hardship in the short-term. We do not expect large numbers of mortgagee sales since banks are well capitalised and have little appetite for forced sales. But there is likely to be a rise in sale listings from financially strained households who are unable to keep up with repayments because of higher mortgage rates and/or job loss due to deteriorating economic conditions.

- Despite falling house prices, higher interest rates are a barrier for many would-be purchasers meaning that a pick-up in buyer activity is unlikely, at least in the medium term. A proposed loosening of current mortgage loan-to-value ratio (LVR) restrictions[14] may make it easier for some borrowers with a small deposit and high incomes to get finance but this is unlikely to result in a large increase in purchases. The Reserve Bank of New Zealand (RBNZ) has made it clear they will continue to use the OCR to bring down inflation, pointing to continued tight credit conditions, low demand, increased buyer choice, and further price falls while monetary tightening continues.

---

[5] REINZ, Monthly Property Report, March 2023
[6] Interest.co.nz, A mountain of homes for sale and falling asking prices suggest the housing market could be in for savage winter, April 2023
[7] HUD, Change in Housing Affordability Indicators, updated to December 2022.
[8] RBNZ, New residential mortgage special interest rates, March 2023
[9] This is based on interest rates alone – other factors like serviceability testing will also impact this.
[10] Centrix, Credit Indicator Report, March 2023
[11] Interest.co.nz, Banks say many of their borrowers are ahead of schedule on home loan repayments but tougher times are ahead, April 2023
[12] RBNZ, Residential mortgage lending by debt-to-income (DTI) purpose use, February 2023
[13] RBNZ, Sector lending and deposits summary, March 2023
[14] RBNZ, Reserve Bank proposes to ease LVR restrictions, April 2023

Residential Construction

Situation

- Consent issuance is now showing clear signs of a slowdown with the number of consents granted dropping 3.3% in the year to February 2023 - the first annual decline since 2012. Given the current headwinds facing the sector, we expect this trend to continue through 2023. Some drop in consents issued is needed to ensure that demand is better matched with the construction sector's capacity to deliver. Consent issuance is still well above the long-run average however it is possible that construction activity will fall to a level that could cause long term damage to the sector.

- There was an uptick in filled construction jobs in February aligning with recent business survey results of a lift in employment intentions. [15] This may be an indication that employers are seeing increased migration as an opportunity to fill roles.

- A recent report from EBOSS showed easing of supply chain issues with the price of building materials stabilising, or even declining in some instances. [16] Alongside dropping demand, this has slowed cost inflation for building a new home (falling from 14.1% in the year to December 2023 to 11.5% in the year to March 2023). [17] While supply lead times have improved internationally, freight pressures appear to be increasing domestically with almost one in three businesses experiencing longer lead times than a year ago.

- Demand for credit has fallen in the residential construction sector [18] and orders for new builds fell sharply at the end of last year. [19] Smaller construction businesses are more likely to report pipeline activity declines [20] and there has been an increase in credit defaults for the sector, particularly for small to mid-sized businesses [21] indicating the sector slowdown may have a varying impact on the industry with larger, more established companies more insulated from the effects.

- The Cyclone Gabrielle Recovery Taskforce is working with insurance companies and councils to assess the risk status of areas affected by the weather events. A consolidation of insurance and council risk assessments for severely affected areas is being developed which will provide a basis for further discussion with affected communities on where future risks can be mitigated. This may result in identification of areas where repairing/rebuilding may not be safe or viable longer term.

Outlook

- BRANZ forecasts for building work [22] suggest an 18% decrease in residential building consents in 2023 however this is much more optimistic than anecdotal reports suggesting consents are about to reduce rapidly, particularly for smaller and less experienced developers with less equity and limited access to finance.

- Tightening credit conditions will keep downward pressure on house prices and demand for new housing construction – maintaining the challenging outlook for the sector. However, rising net migration and a relatively strong labour market may help to prevent large drops in demand.

---

[15] ANZ Economic News, 4 April 2023: NZIER QSBO – Going the right way for the RBNZ, slowly, April 2023
[16] EBOSS Construction Supply Chain Q1 Update, Q1 2023
[17] Stats NZ, Consumers Price Index, March 2023
[18] Centrix Credit Insights Report March 2023
[19] ANZ Economic News, 4 April 2023: NZIER QSBO – Going the right way for the RBNZ, slowly, April 2023
[20] BDO, Beyond Boom and Bust, April 2023
[21] Centrix Credit Insights Report March 2023
[22] EBOSS Construction Supply Chain Q1 Update, Q1 2023

Macroeconomic

Inflation

- The Consumers Price Index for the March 2023 quarter was lower than generally expected, 6.7% for the year to March 2023. However, non-tradeable inflation[23] was at record levels, driven by the food, and housing and household utilities (including rents and the cost of new housing) groups.[24]

- The Official Cash Rate (OCR) was lifted 0.5% to 5.25% in April 2023, higher than many had anticipated, and evidence that RBNZ remain determined to prevent persistently high inflation. The latest OCR review also noted the recent fall in wholesale interest rates as motivation for the increase and left the door open for further tightening should the current monetary policy be ineffective at sufficiently slowing down inflation.[25] The high non-tradeable inflation result means RBNZ are likely to continue a course of monetary tightening, despite global inflationary pressures and the cost of new housing showing signs of easing.

Population

- Annual net migration (provisional estimate) was 52,000 in the year to February 2023 bringing migration firmly back to pre-pandemic levels.[26]

- High wages, looser monetary policy and new citizenship pathways in Australia could lead to an increase in trans-Tasman emigration.

Employment and wages

- Though filled and advertised jobs remain high, the latest business survey results[27] indicate the tightness in the labour market is easing, likely due to migrant availability to fill vacancies. A softening labour market would put downward pressure on wage inflation.

- MSD expects the number of people accessing main benefits to increase in coming months due to softening economic conditions.[28] The numbers of people exiting the benefit for paid work have been slowing recently. Main benefit exits have noticeably slowed in cyclone-affected regions.

Market confidence

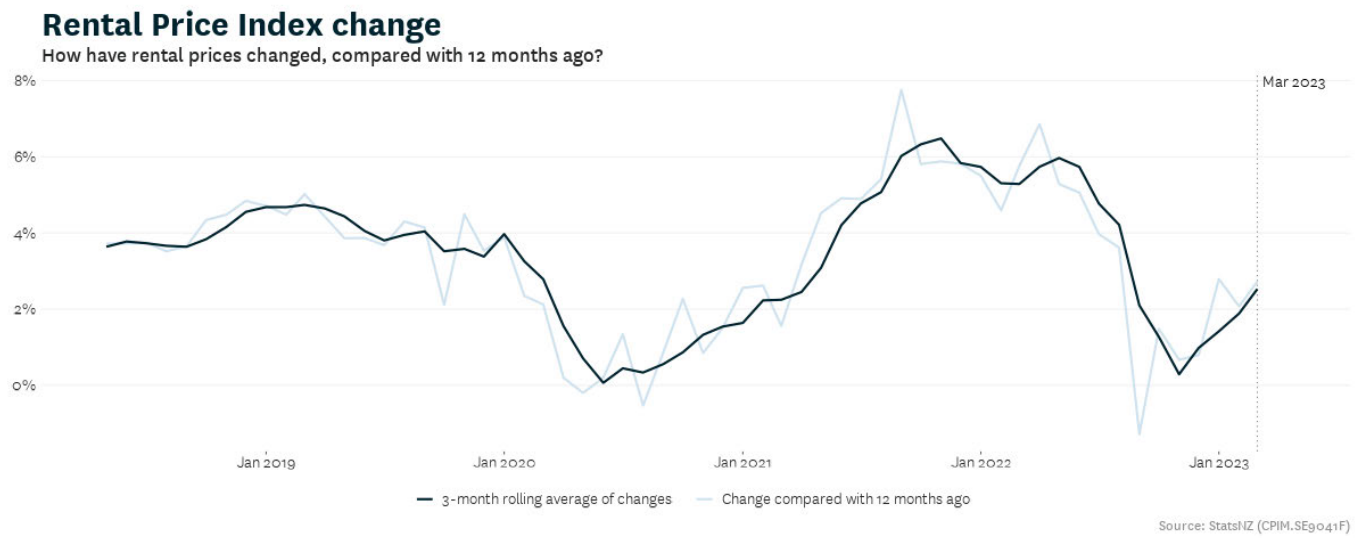
- Business and consumer confidence remain low[29] and may edge lower given the current monetary policy outlook and forecast of a global economic slowdown by the International Monetary Fund.[30]

- Some central banks have paused monetary tightening but may resume interest rate increases as inflation remains higher than they would like. In contrast to this, the RBNZ has continued with OCR rises which may risk a deeper and/or more prolonged than anticipated recession.

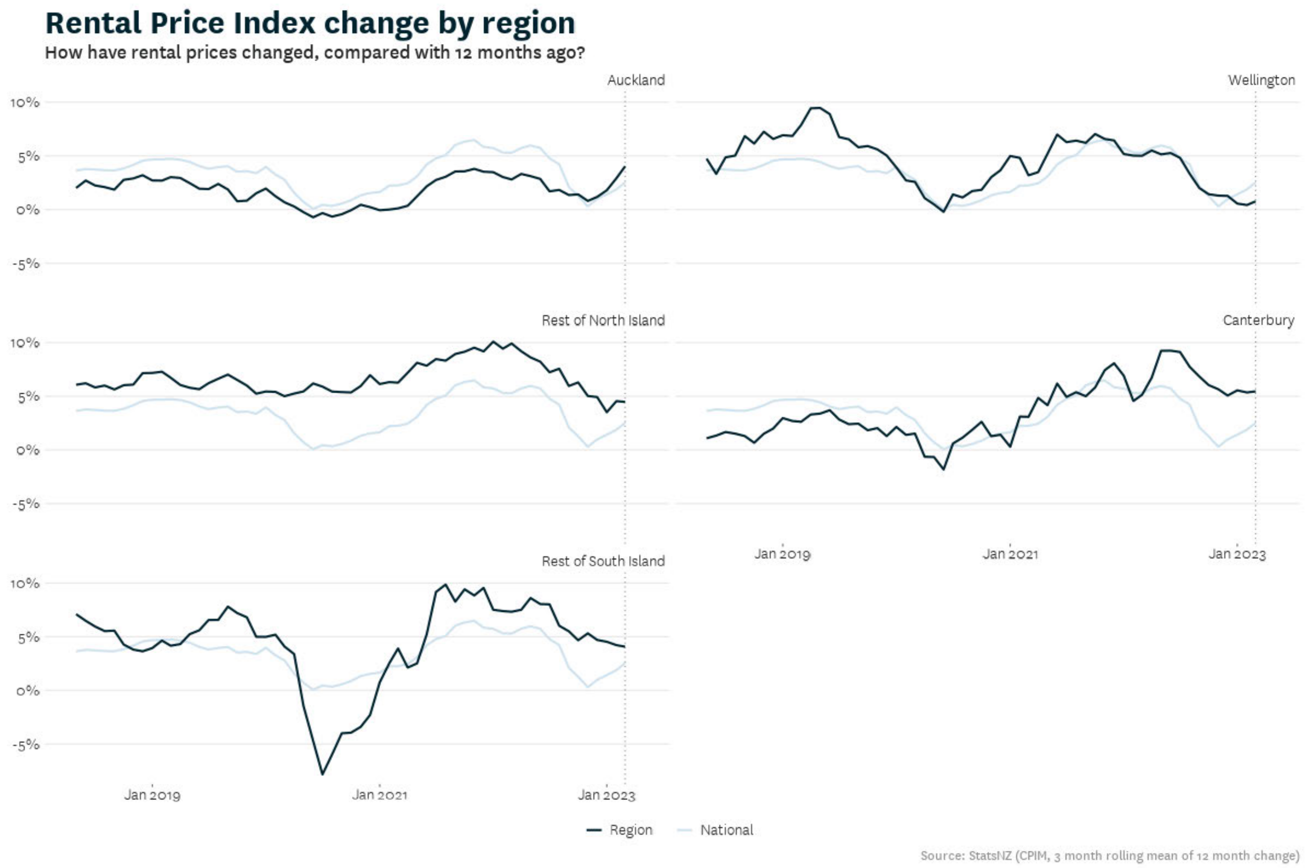
---

[23] A domestic measure of inflation where products and services do not face foreign competition, for the most part.
[24] Stats NZ, Annual inflation 6.7 percent, March Quarter 2023
[25] RBNZ, Monetary Policy Review announcement, April 2023
[26] Stats NZ, International Migration, February 2023
[27] ANZ, Business Outlook survey, March 2023 and ANZ Economic News, 4 April 2023: NZIER QSBO – Going the right way for the RBNZ, slowly, April 2023
[28] MSD, Monthly Benefits Update, March 2023
[29] ANZ, Business Outlook survey, March 2023 and ANZ-Roy Morgan Consumer Confidence, March 2023
[30] International Monetary Fund, World Economic Outlook April 2023

Rental Market Charts

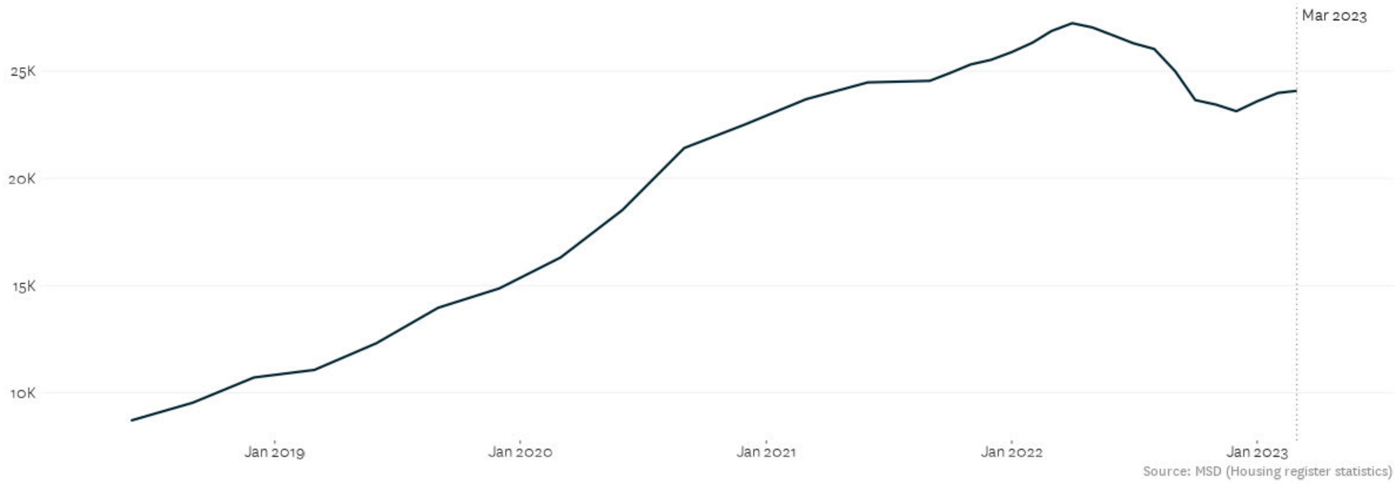


The Rental Price Index measures price changes for new private sector tenancies only.



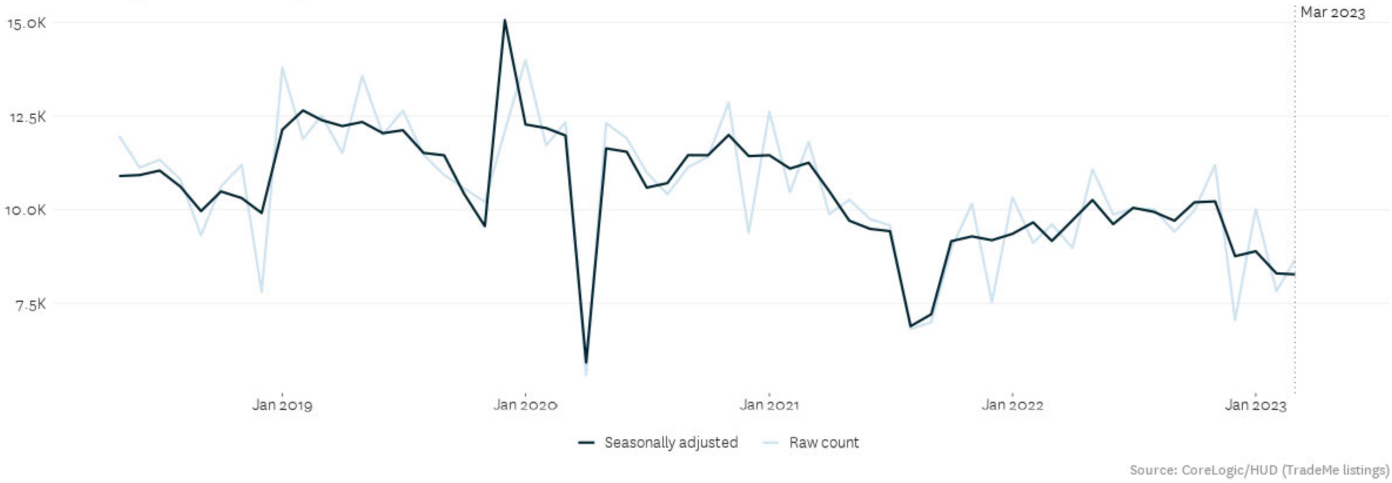
Housing register

How many households are waiting to access public housing?



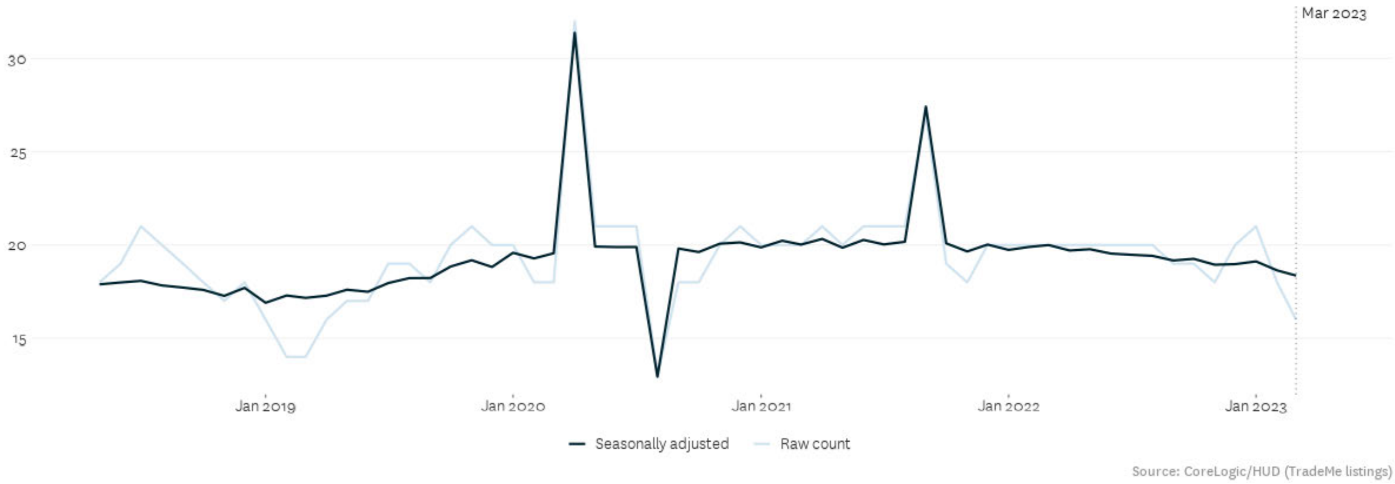
New rental listings

How many homes are being listed for rent?



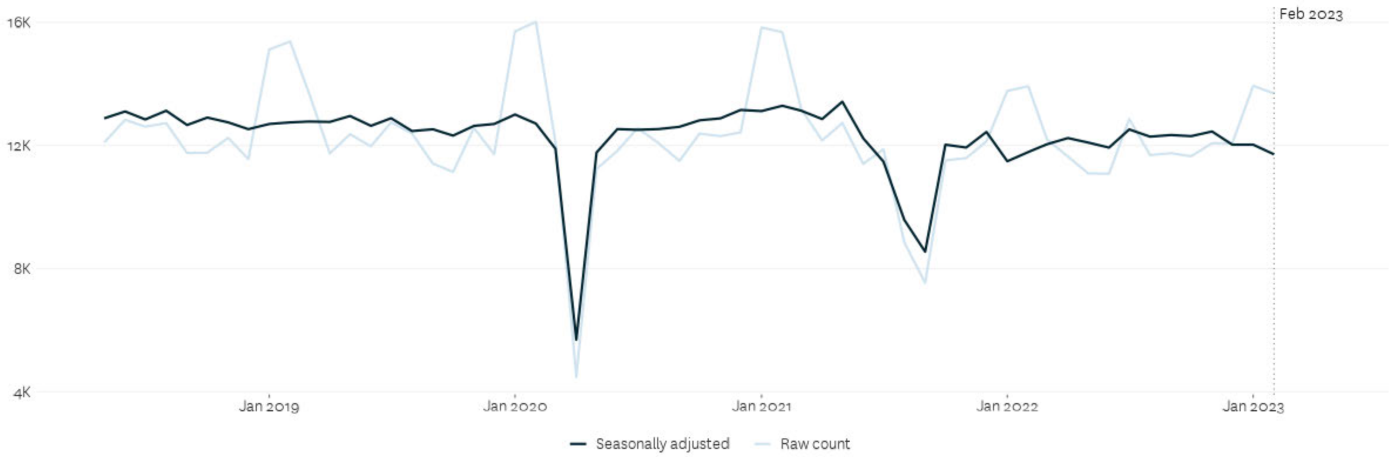
Median days listed for rental listings

How many days do rental listings stay up for?



New tenancies

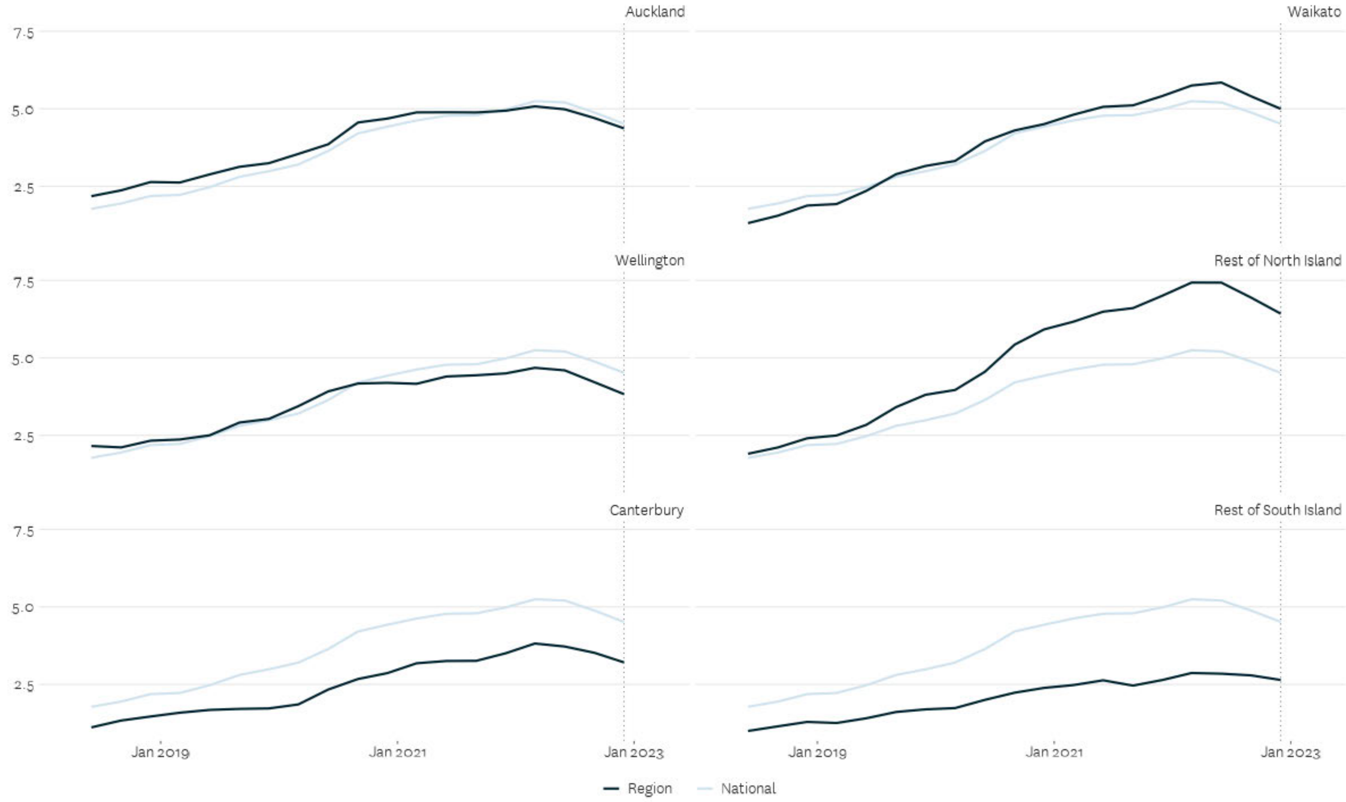
How many private tenancies started this month?



Source: MBIE/HUD (Rental bond data)

Housing register per 1000 people by region

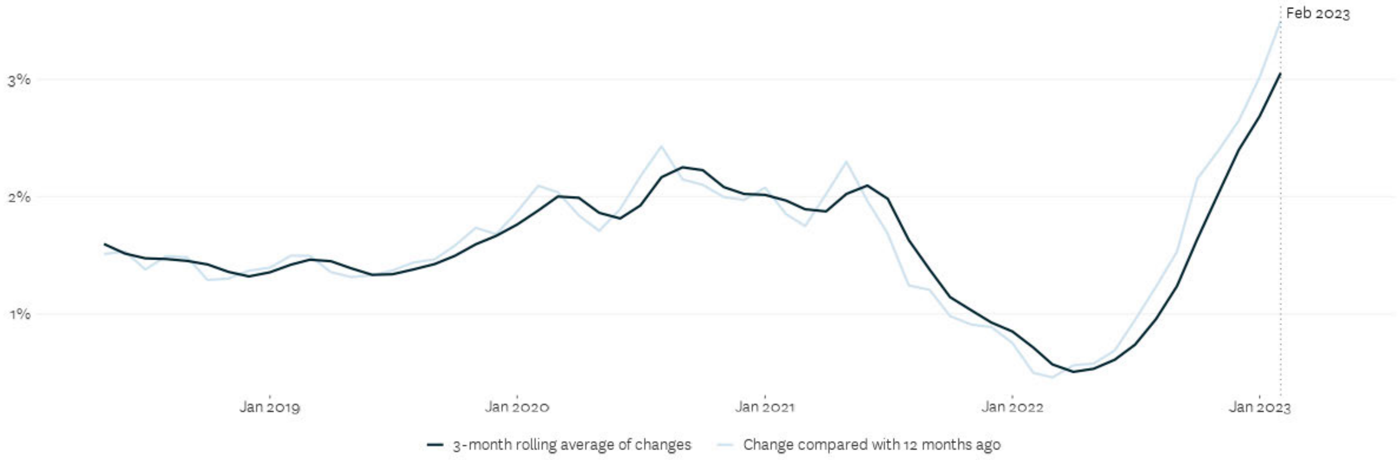
How many households are waiting to access public housing?



Source: MSD (Housing register statistics, per 1000 people)

Active tenancies change

How has the number of private tenancies changed, compared with 12 months ago?



Source: MBIE/HUD (Rental bond data)

Active tenancies change by region

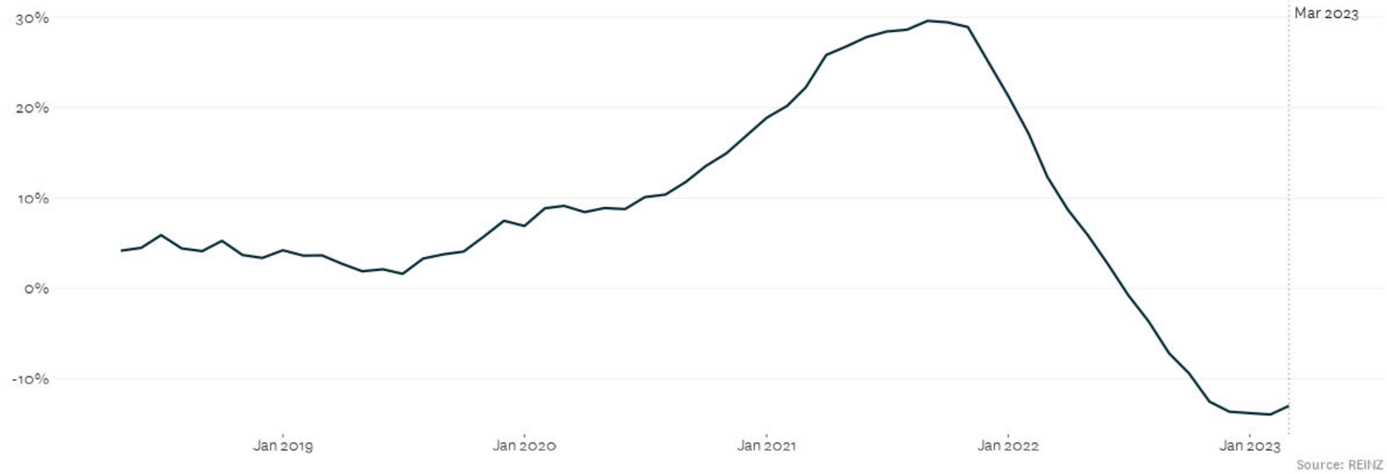
How has the number of private tenancies changed, compared with 12 months ago?

Source: MBIE/HUD (Rental bond data, 3-month rolling average of changes)

Property Market Charts

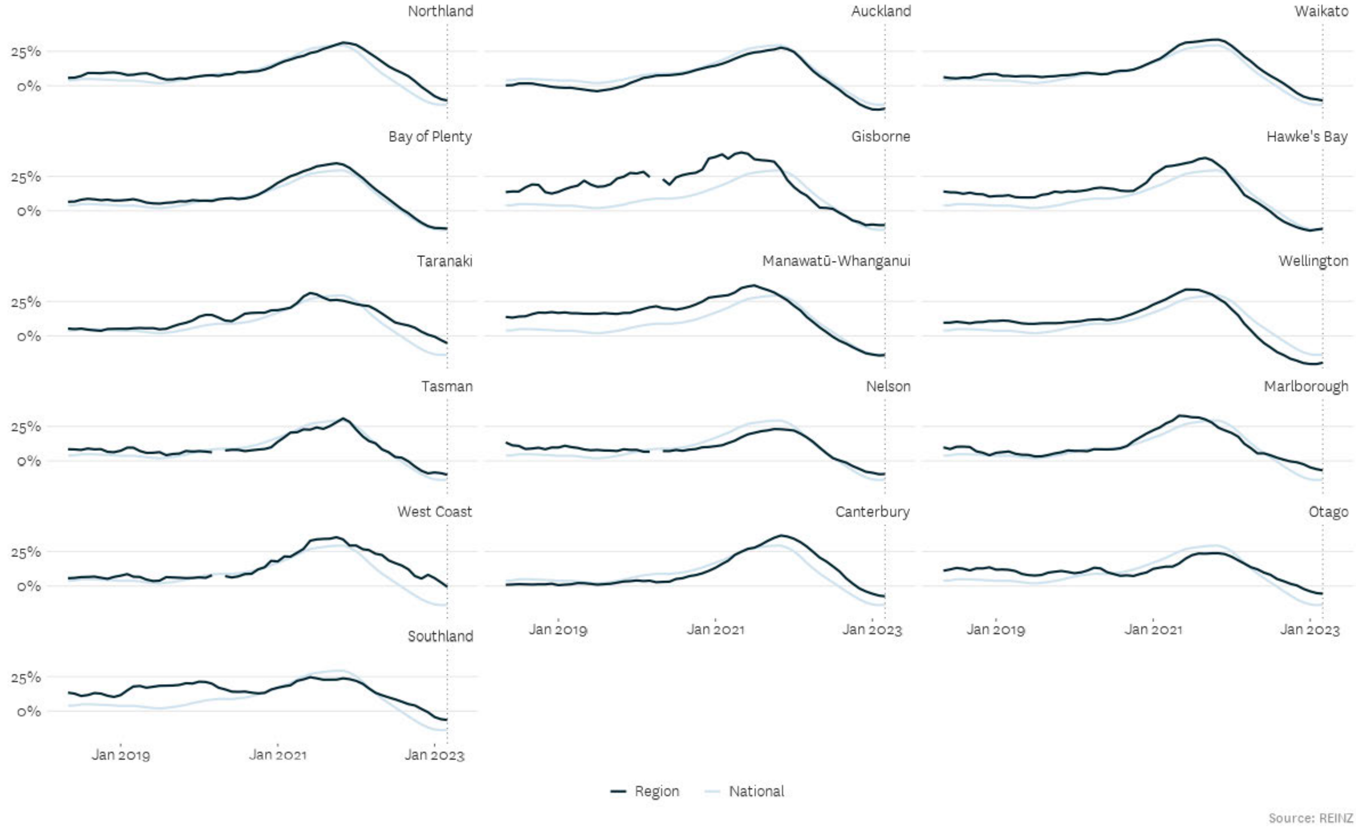
House Price Index change

How have house values changed, compared with 12 months ago?

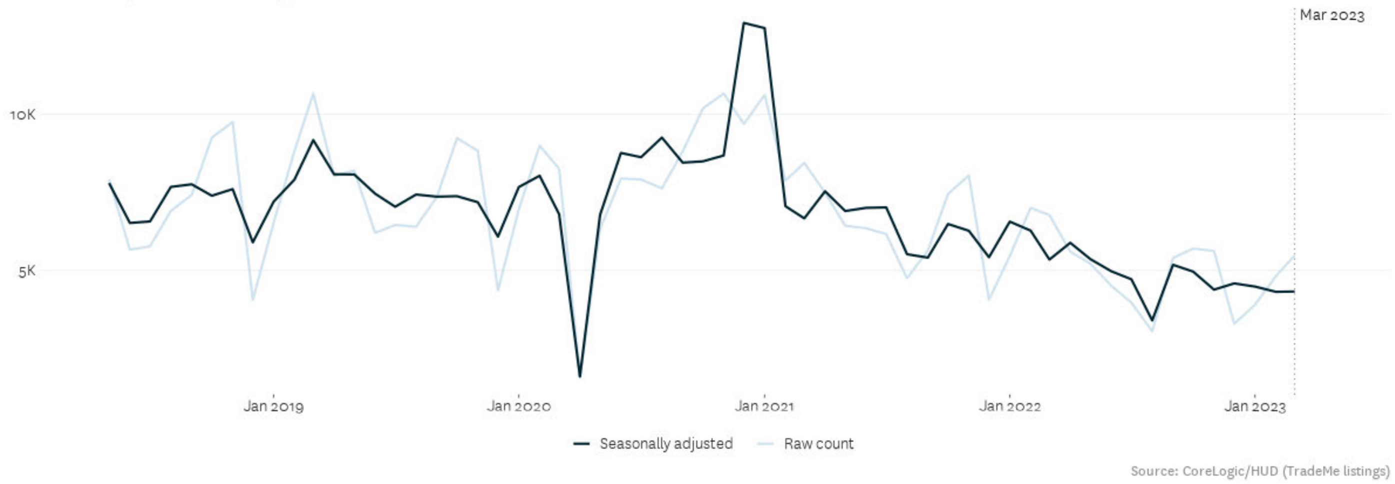


House Price Index change by region

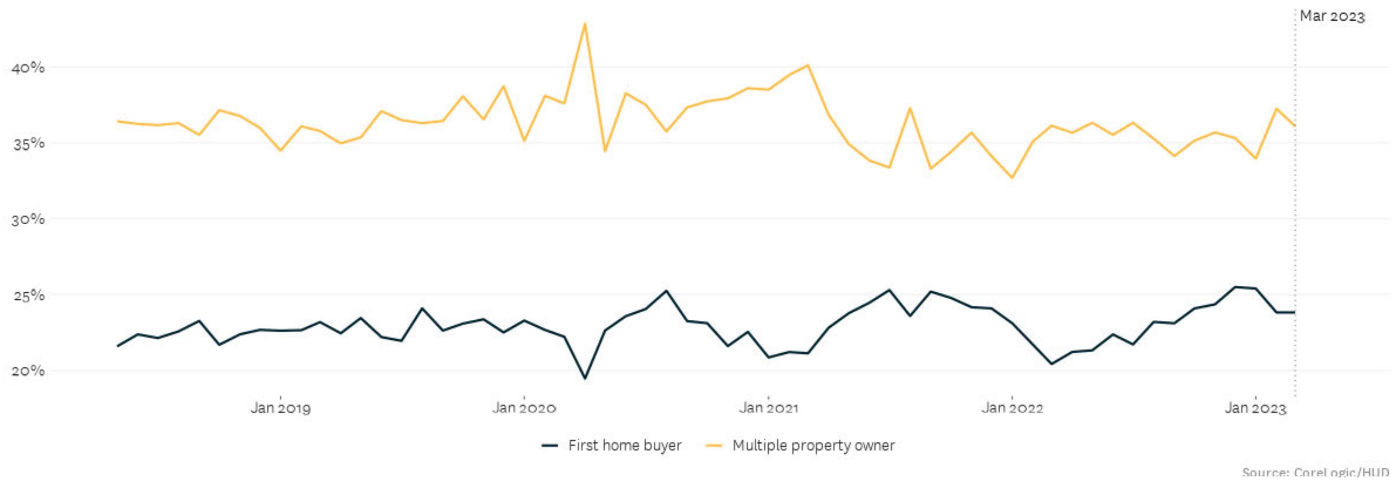
How have house values changed, compared with 12 months ago?



New sale listings
How many homes are being listed for sale?



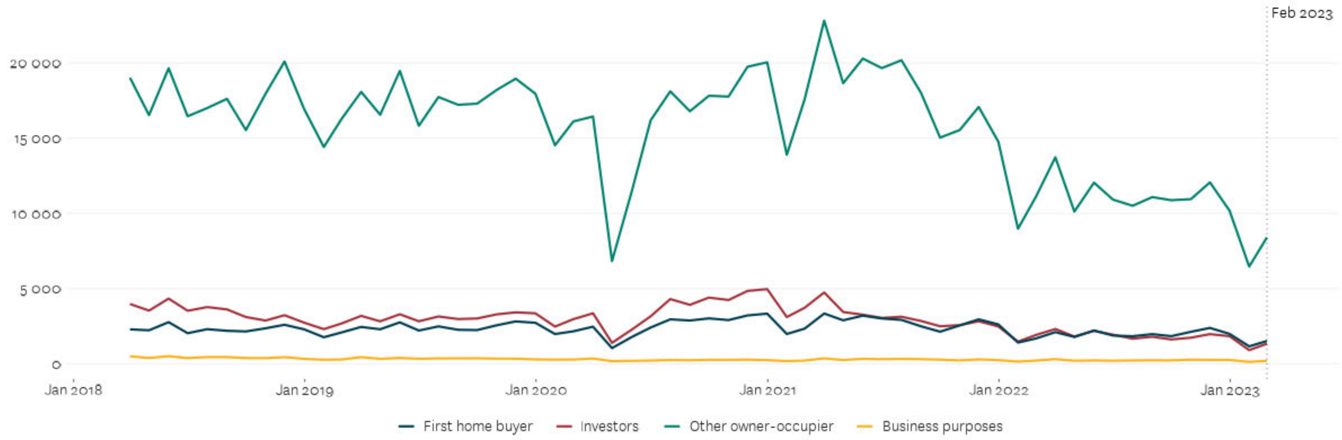
Buyer classification
What proportion of buyers are first home buyers or multiple property owners?



New residential mortgage special interest rates
What special rates are available for new mortgages?

New residential mortgage borrowing (Total)

Who is borrowing for new residential mortgages?



Source: RBNZ (LVRN.MMB2)

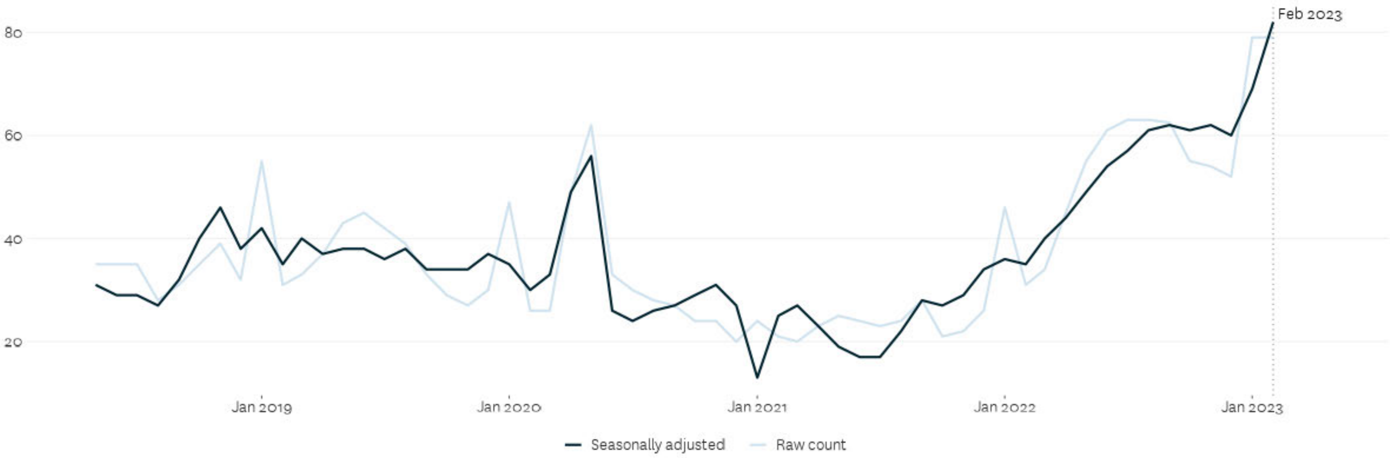
High LVR New residential mortgage borrowing

Who is borrowing at high loan-to-value ratio for new residential mortgages?

Source: RBNZ (LVRN.MMB2)

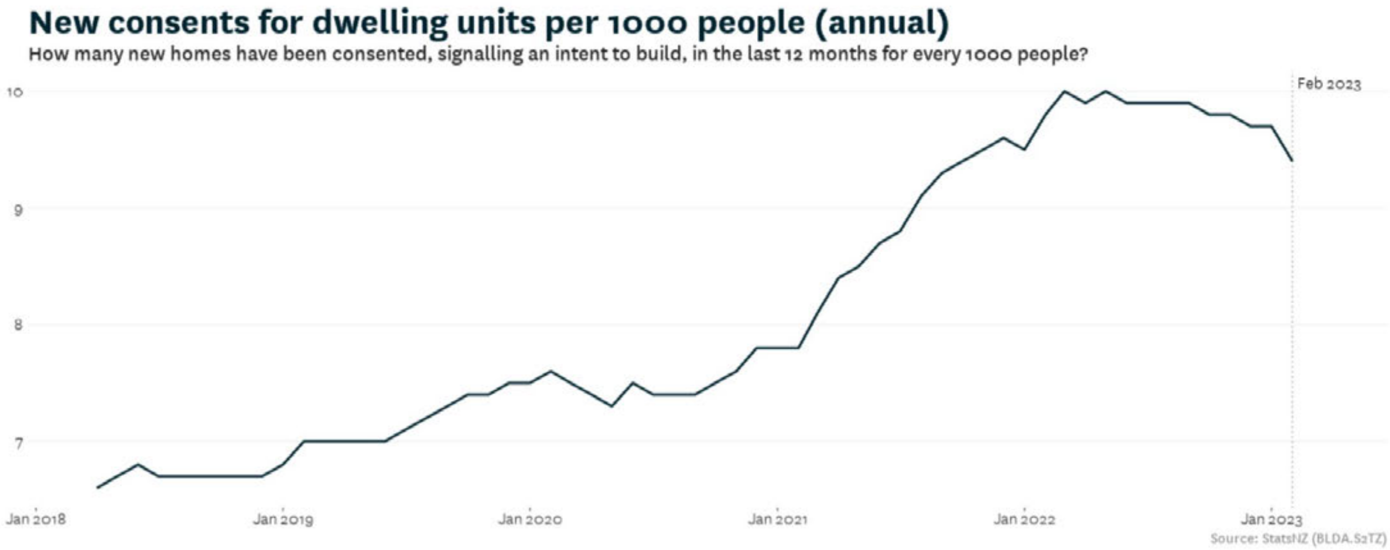
Median days listed for sale listings

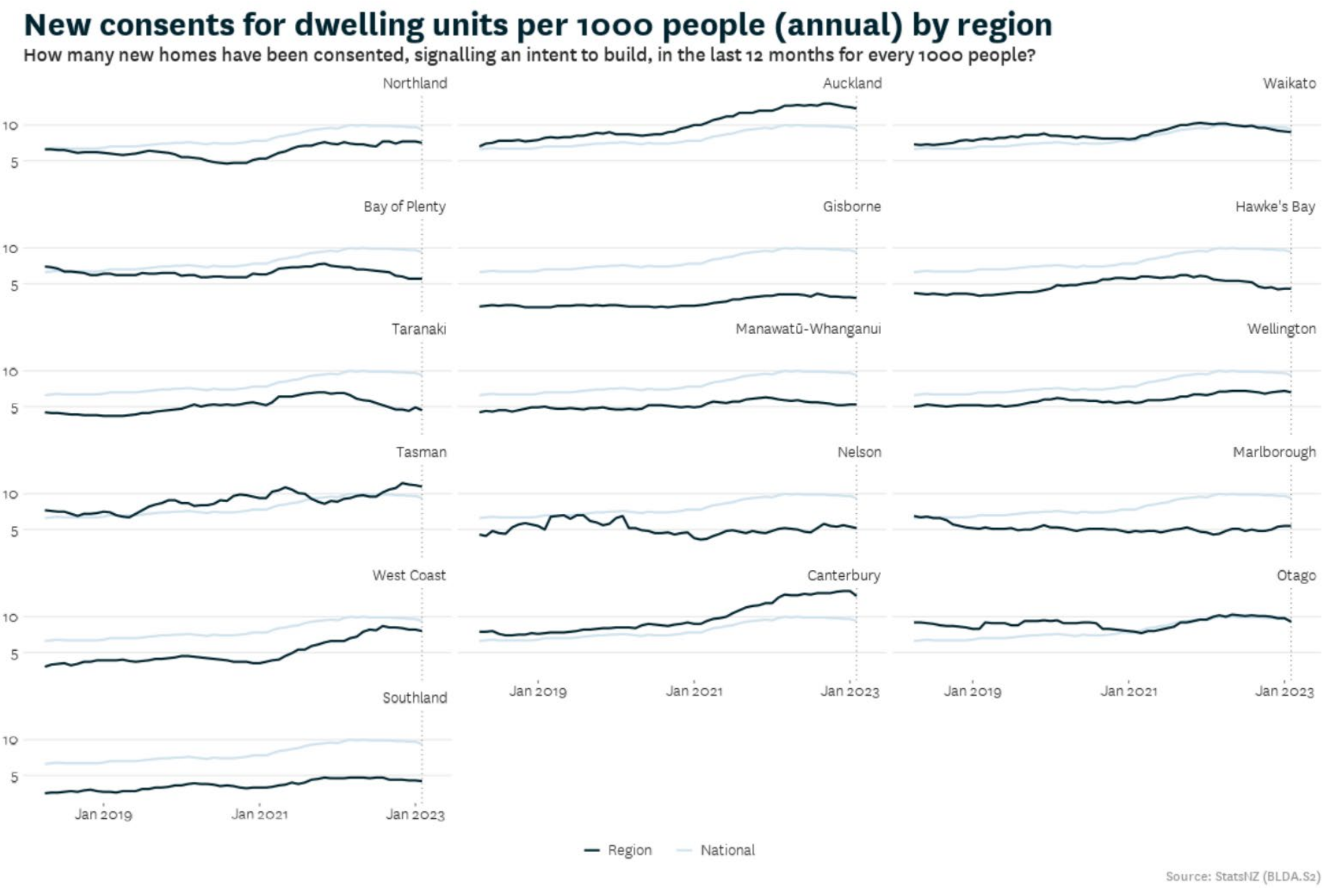
How many days do sale listings stay up for?



Source: CoreLogic/HUD (TradeMe listings)

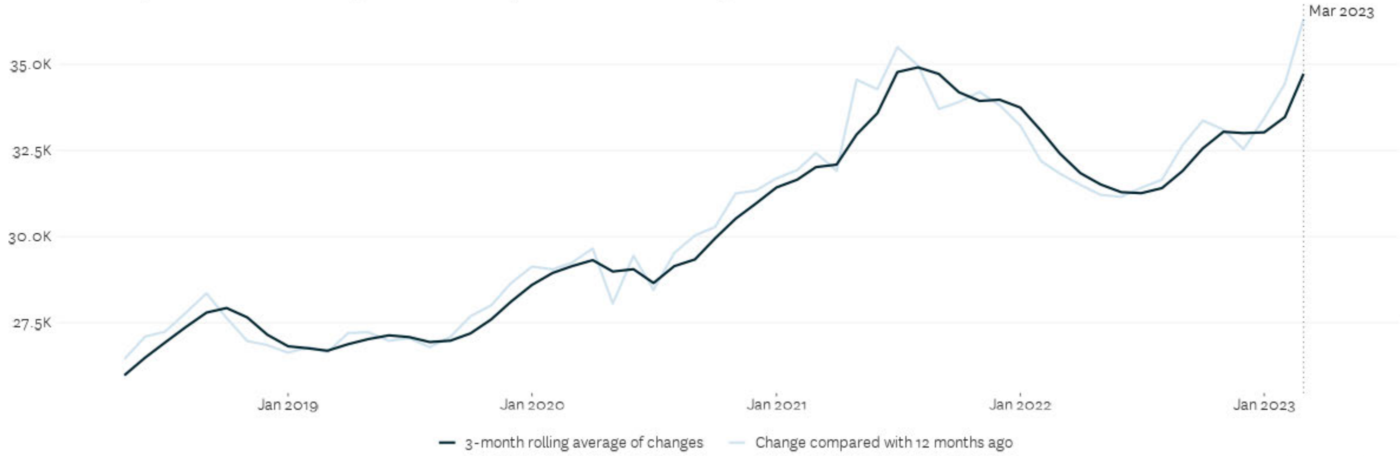
Residential Construction Chart





Electricity connections change

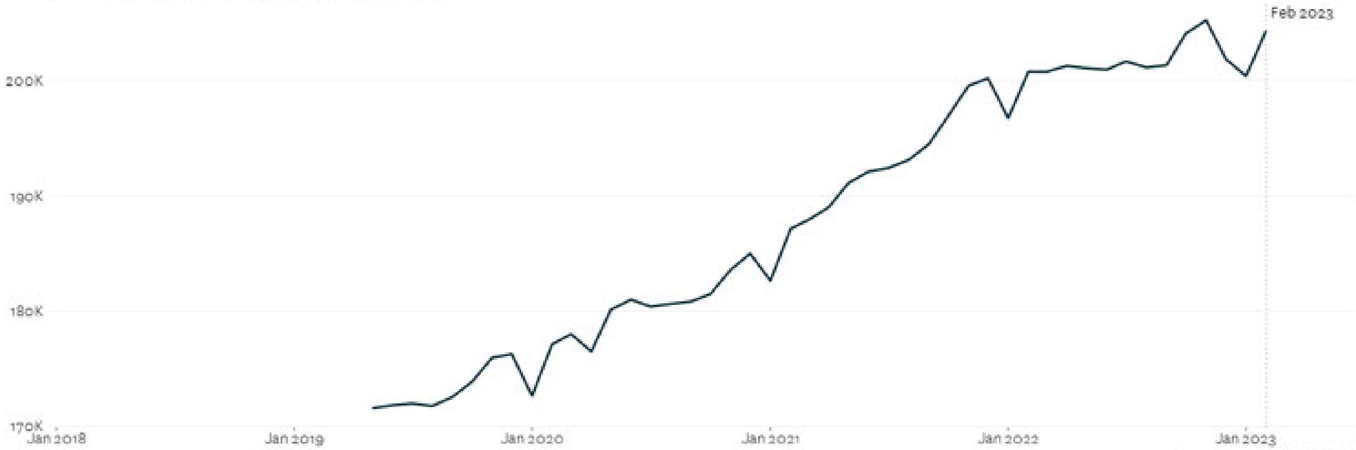
How many more homes are being connected, compared with 12 months ago?



Source: Electricity Authority

Filled construction jobs

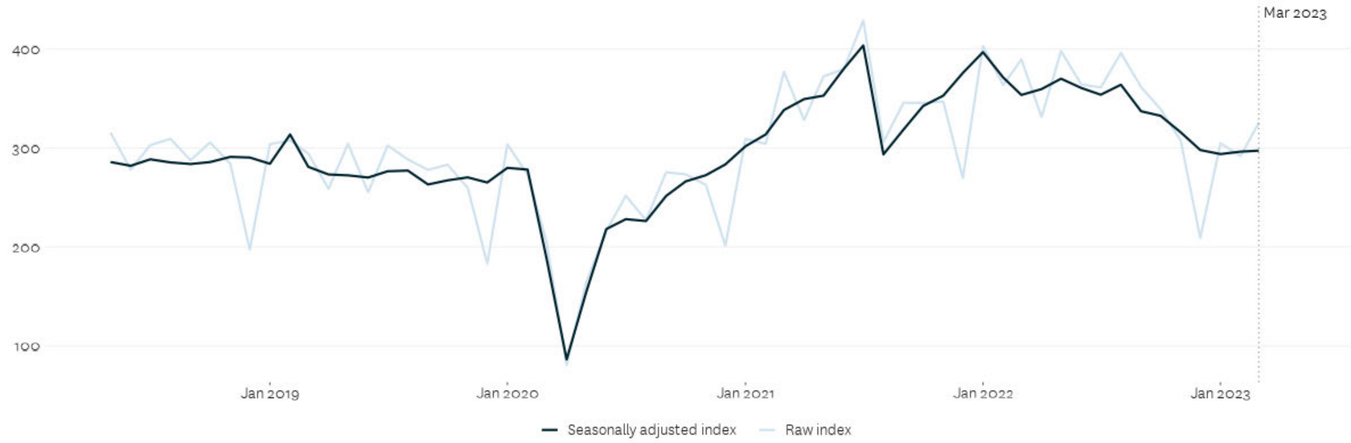
How many people are working in construction?



Source: StatsNZ (MEIM.SA1EA)

Listed construction jobs (index)

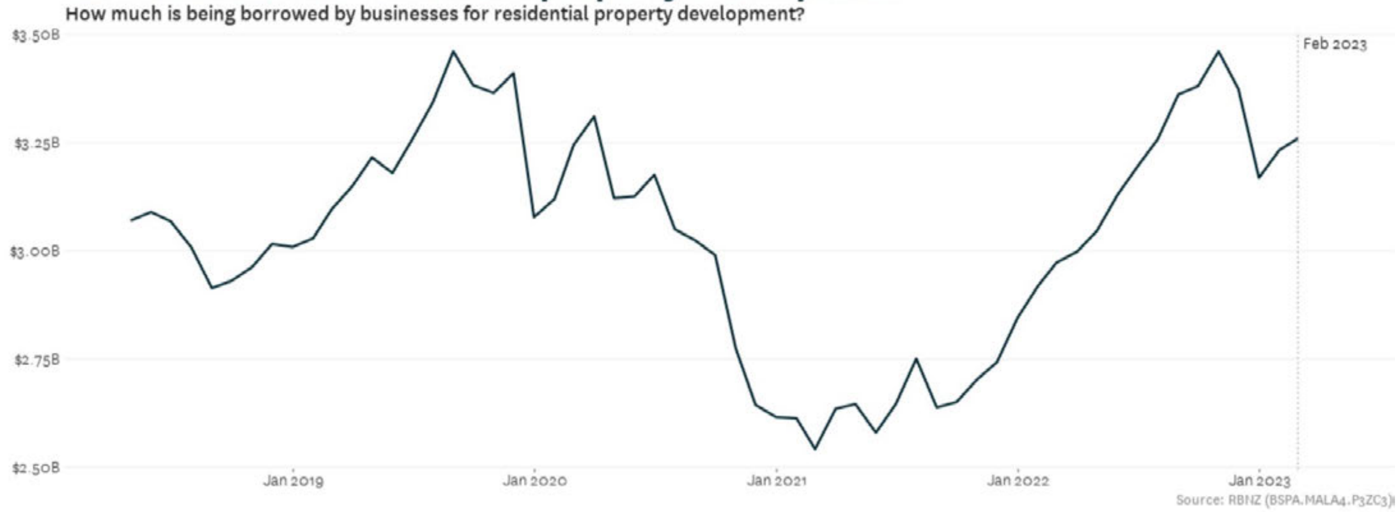
How much demand is there for workers in construction?



Source: MBIE (Jobs Online data, index base to 100 in May 2007)

Business loans for residential property development

How much is being borrowed by businesses for residential property development?

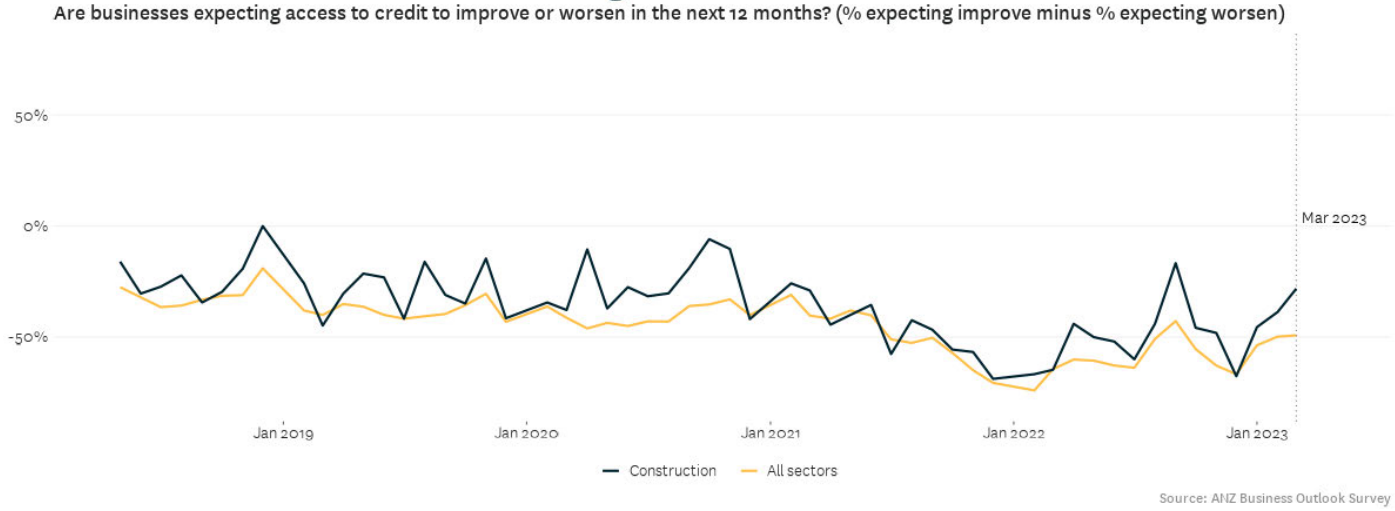


Business outlook - activity

Are businesses expecting activity to increase or decrease in the next 12 months? (% expecting increase minus % expecting decrease)

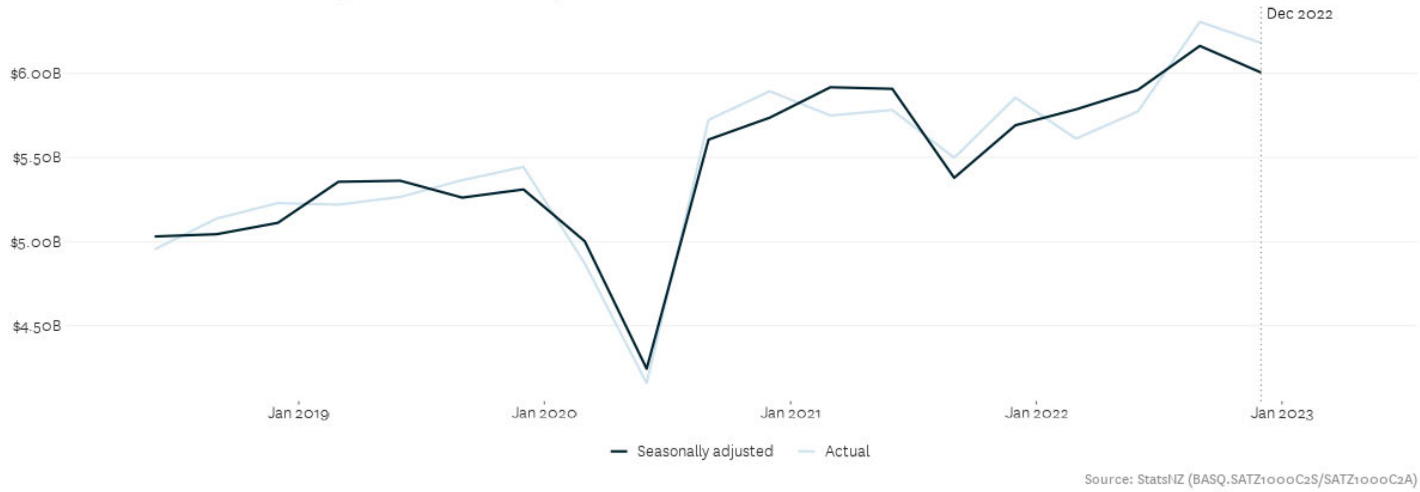
Business outlook - ease of accessing credit

Are businesses expecting access to credit to improve or worsen in the next 12 months? (% expecting improve minus % expecting worsen)



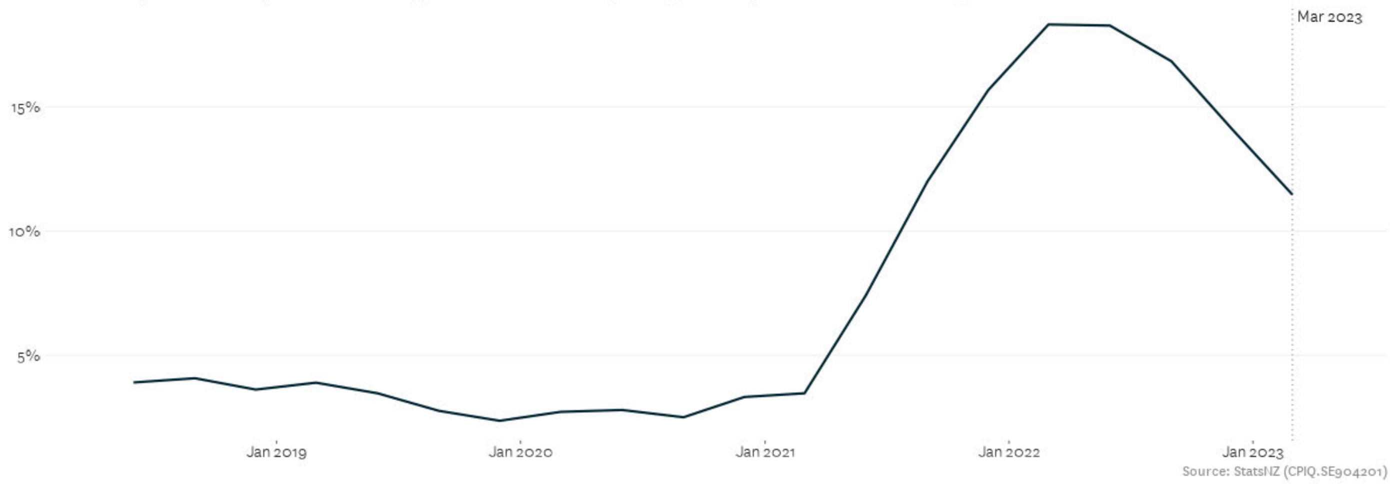
Value of residential building work put in place

How much residential building work was started this quarter?

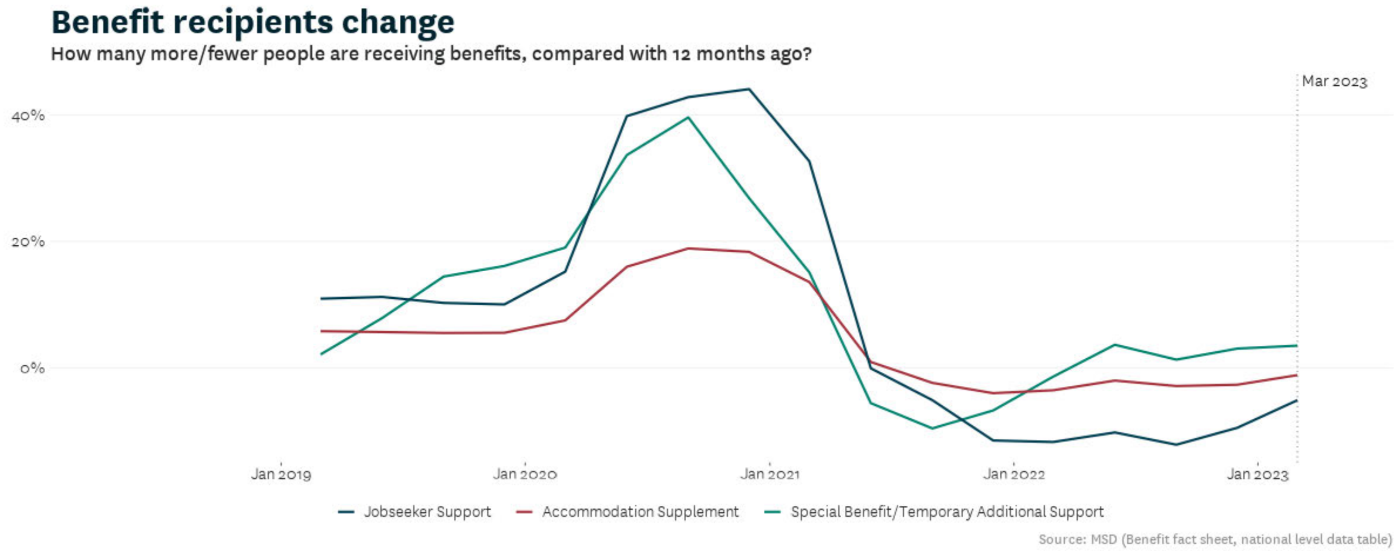


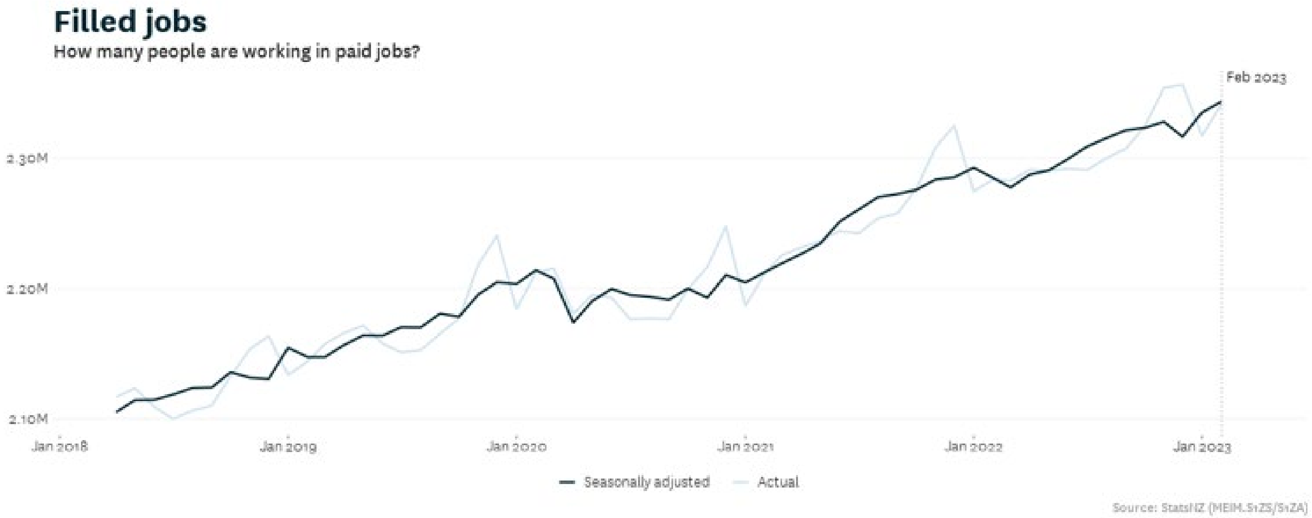
Purchase of new housing price change

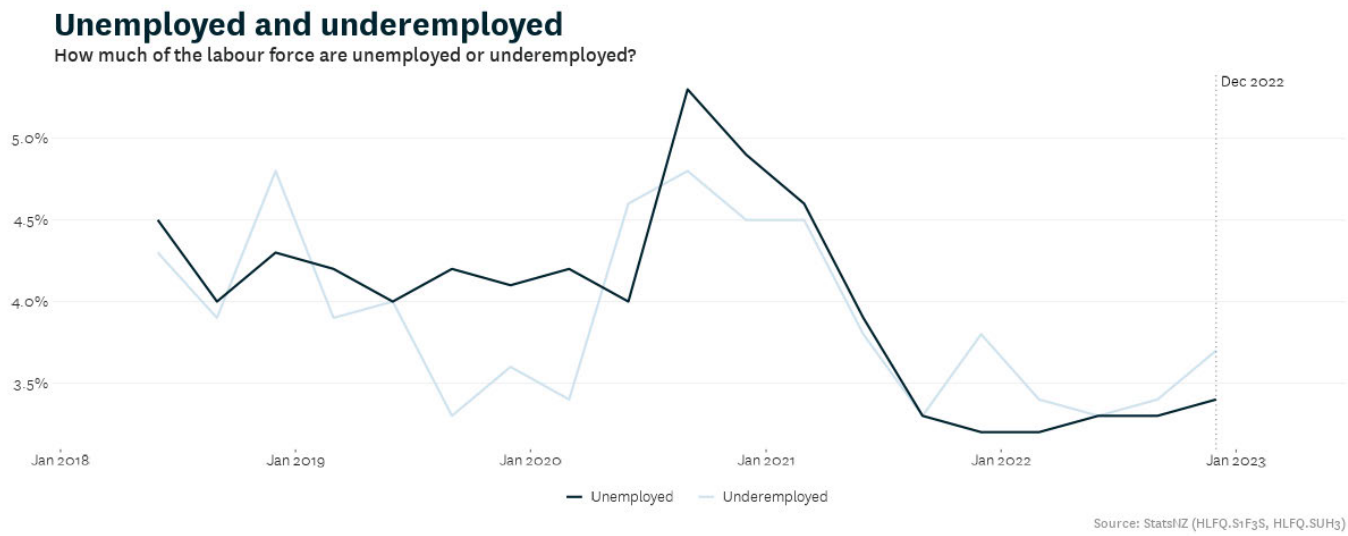
How have prices for the purchase of newly constructed housing changed, compared with 12 months ago?



Macroeconomic Charts

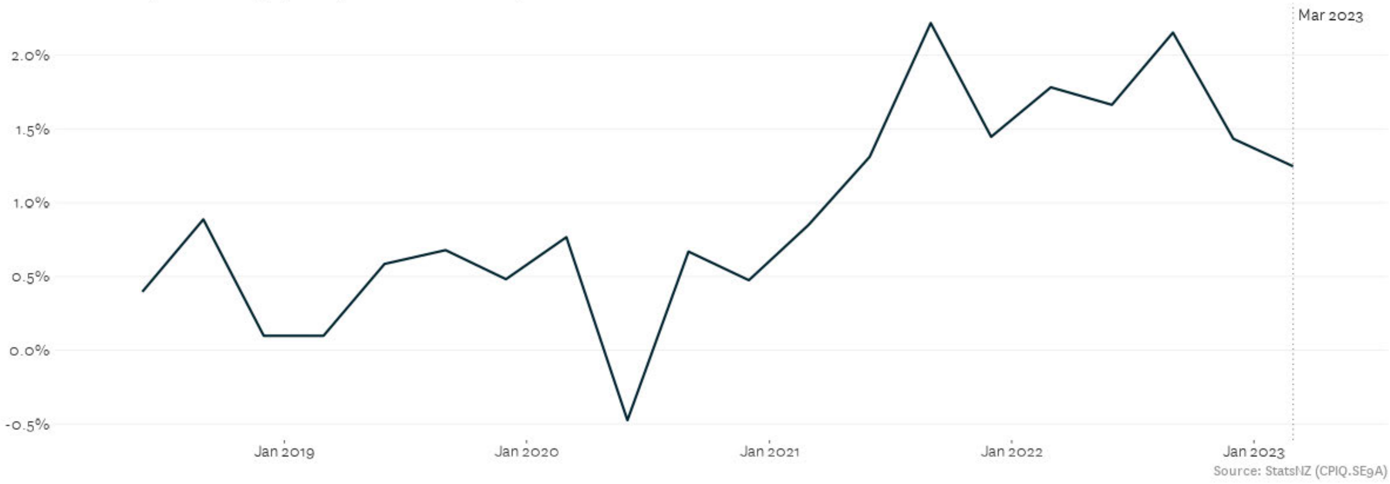






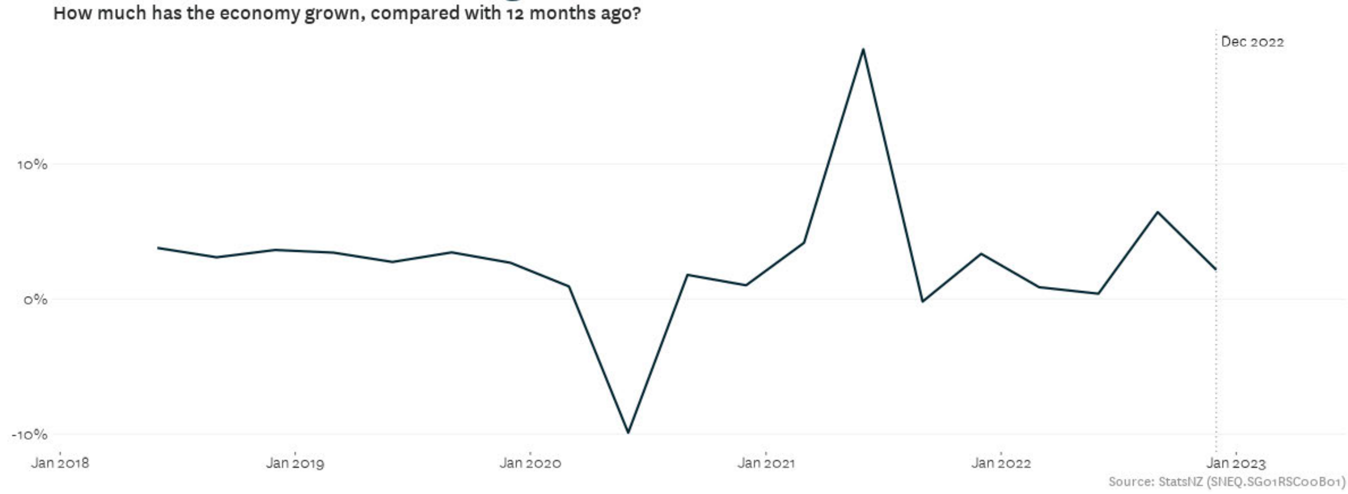
Consumers Price Index change

How have prices changed, compared with the last quarter?



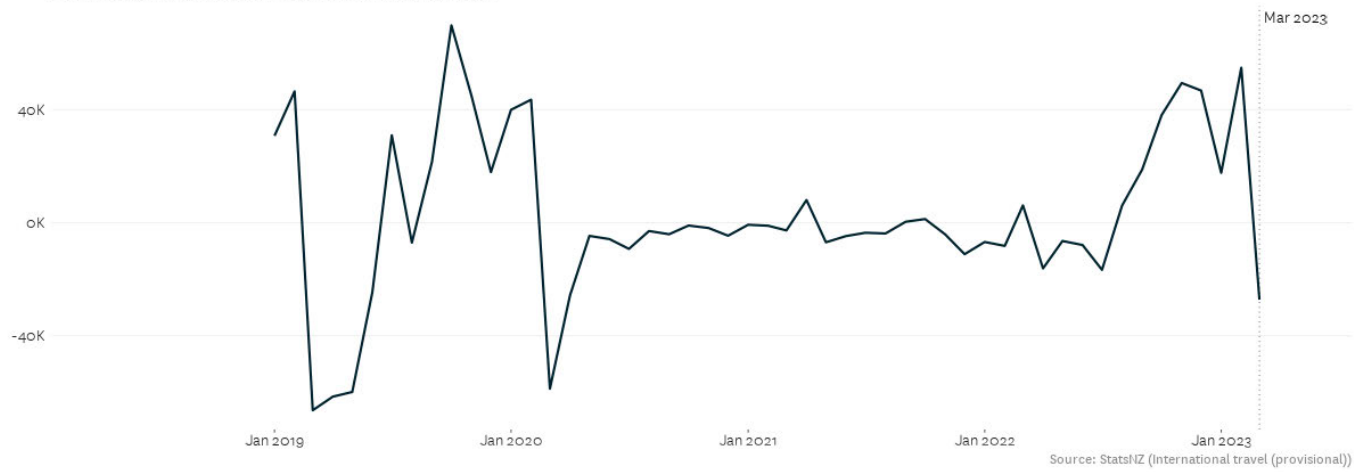
Gross Domestic Product change

How much has the economy grown, compared with 12 months ago?



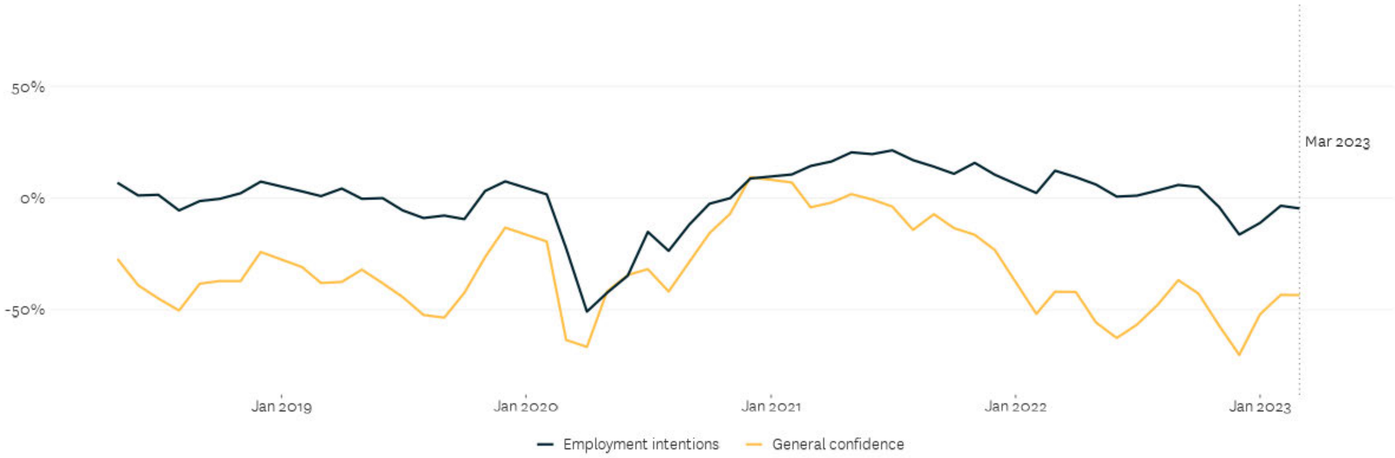
Net arrivals/departures

How many people came in and out of New Zealand?



Business outlook - employment intentions and general confidence

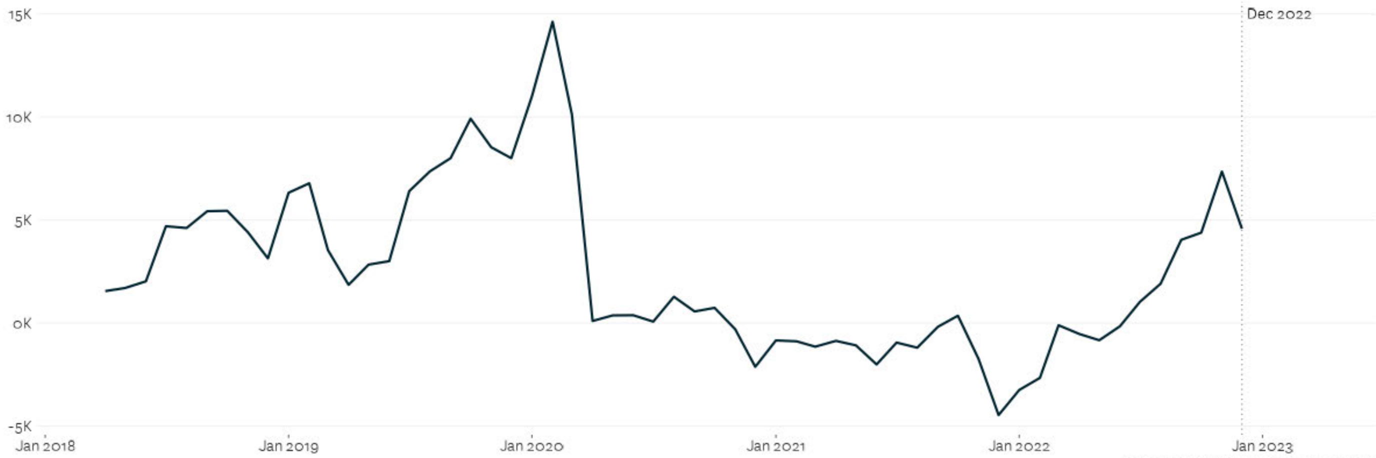
Are businesses expecting conditions to improve or worsen in the next 12 months? (% expecting improve minus % expecting worsen)



Source: ANZ Business Outlook Survey

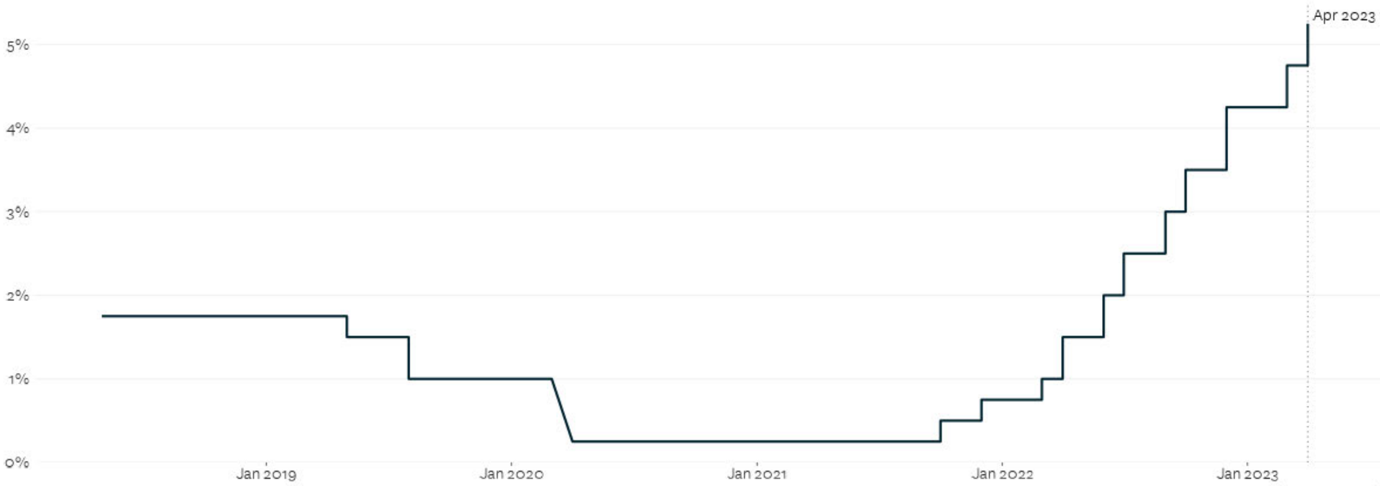
Long-term international migration

What is the monthly net flow of migrants in to/out of New Zealand?



Source: StatsNZ (International migration)

Official Cash Rate



Source: RBNZ (INM.MP1.N.nae)