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*Welcome to your monthly update from Quinovic Merivale and Rolleston on property investment news and opportunities. 18 Dec 2024*

Well, the end of yet another year. It seems to have gone so quickly. My parents tell me that time goes faster as you get older – so I guess I'm old!

It's been a great year in so many ways. This was the year that we became the largest Quinovic franchise in the country. It was also the year that we opened a new business in Rolleston. I would like to have said 'opened a new office in Rolleston' but Quinovic Rolleston continues to operate out of our Merivale office as it is proving very difficult to secure office space in Rolleston. Of course we seek to replicate our office in Merivale. On a main road, with high visibility and with convenient parking. We are looking for the long term – we have now been in our Merivale offices for over 17 years and would like to have the same level of stability in Rolleston. We continue looking!

The year has ended on a somewhat quieter note. The slowing of the rental market that has been seen in other locations over much of the year has hit home – but not yet at the levels seen elsewhere. Good properties will always rent out as long as they are competitively priced - things are taking just a little longer.

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So, what is happening in the real estate sector. A couple of articles that we have come across.

New Zealand's property market continues to present mixed signals, with sales volumes rising yet the overall level of activity remaining subdued, with prices also declining further and listings at elevated levels.

The CoreLogic NZ November Housing Chart Pack shows property sales activity increased by 16% in October compared to the same time last year, the 17th increase in the past 18 months. However, sales volumes remain 10–15% below typical seasonal levels, reflecting cautious buyer behaviour amidst ongoing affordability challenges.

CoreLogic NZ Chief Property Economist Kelvin Davidson said despite a significant rise in sales activity to 78,360 over the past 12 months, volumes were still well below the long-term annual average of 90,000 sales.

"The abundance of listings on the market is providing buyers with significant choice, allowing them to take their time and negotiate favourable deals," Mr Davidson said.
"This buyer caution is reflected in the CoreLogic Home Value Index, which has recorded eight consecutive months of decline, with national property values now 18% below their post-COVID peak."

The ongoing caution among buyers is also evident in the varied performance of key regions. Wellington, Auckland, and Hamilton experienced further declines in values in October, while Christchurch showed slight growth, reinforcing the uneven nature of the market at present.

First Home Buyers take the leap
First home buyers (FHBs) set a new record last month, making up nearly 28% of purchases in October. This milestone reflects their ability to leverage lower property prices, reduced competition from other buyer groups, and options like KiwiSaver withdrawals and low-deposit financing options at the banks.

Investors are also showing signs of returning, with mortgaged multiple property owners (MPOs) accounting for 23% of purchases, up from earlier in the year. Falling mortgage rates and easing loan-to-value ratio (LVR) restrictions appear to be creating more favourable conditions for this group – alongside smaller tax bills as mortgage interest deductions move back towards 100%.

Mr Davidson noted that the rise in market share for both FHBs and mortgaged investors is an important development.

"Sometimes there's a perception that it can only be one or the other. But we *need* both FHBs and investors to have a solid presence in the market, so the latest figures are encouraging."

Relocating owner-occupiers ('movers') remain quieter than usual, although Mr Davidson said pent-up demand among this usually active demographic could drive increased activity in the coming months.

"Movers are an important indicator of market confidence," he said. "With elevated listings, there's potential for this segment to gain momentum as interest rates come down and market conditions stabilise. Long housing chains seem to have been an issue lately, so increased confidence levels should help all deals in those chains to settle, meaning everybody can move on."

Economic context and outlook

Despite recent cuts to the official cash rate (OCR), New Zealand's economy remains under pressure, with subdued activity across key sectors and a weakening labour market.

Annual inflation has returned to the Reserve Bank's target range of 1–3%, which is contributing to expectations of further OCR reductions in 2025.

However, Mr Davidson cautioned against expecting a strong, near-term housing market rebound despite falling mortgage rates. After all, credit remains constrained for some buyers, with high loan-to-value ratio (LVR) lending still facing restrictions and debt-to-income (DTI) limits on the horizon.

Reserve Bank figures show that two in three mortgages are due to reprice over the next 12 months, which will offer financial relief to borrowers as rates begin to ease.

"Affordability remains a key constraint, and while lower mortgage rates may support price stabilisation, a fresh boom seems unlikely," he said. "Elevated inventory, stretched budgets, and tighter credit conditions continue to weigh on the outlook, as do the emerging job losses."

November Chart Pack highlights:

- New Zealand's residential real estate market is worth a combined $1.61 trillion.
- Property sales volumes rose 16% year-on-year in October, though activity remains below seasonal norms.
- The CoreLogic Home Value Index fell 0.5% in October, the eight consecutive monthly falls, with values down 18% from the national peak.
- Total listings on the market have reached 28,954, a 25% increase on the five-year average.
- First home buyers reached a record 28% of purchases in October, while mortgaged multiple property owners accounted for 23%.
- National rental yields have improved to 3.9%, the highest level since late 2015.
- Inflation returned to the 1–3% target band in Q3, with further OCR cuts likely.

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Reserve Bank forecast for 2025

One of the most significant news items on the economic and property market calendar over the past month or so was the Monetary Policy Statement (MPS) from the Reserve Bank on 27 November 2024.

As many readers will know, the official cash rate (OCR) was cut on the day by 0.5% to 4.25%, with a firm indication that more OCR cuts lie ahead next year too.

But what is the MPS (and the OCR), what else did it say, and how might things look in 2025?

First up, a quick discussion of the background. The Reserve Bank is basically responsible for two things in New Zealand: monetary policy and financial stability. The latter is all about monitoring

the wider financial system, including banks and insurance firms, to ensure we keep on a stable footing and that the risks of major financial meltdowns (e.g. a bank failure) are mitigated.

Monetary policy is all about managing inflation (the rate of change in general prices such as food and clothing) to provide the best conditions for the economy to flourish. This is done via the official cash rate – which is decreased when inflation pressures are low, in order to get households spending again and get the economy moving. Lower interest rates make saving less appealing and borrowing more attractive, with the opposite moves playing out when inflation pressures are high.
At present, inflation pressures have fallen away again, after a long period where they were uncomfortably high. Hence, the Reserve Bank is easing monetary policy – or in other words, cutting the OCR. That then gets fed through into banks' funding costs, with those reductions being passed on to households through reduced mortgage rates (as well as lower term deposit rates for those people with savings).

The Reserve Bank makes these decisions about the OCR every six weeks or so, alternating between a Monetary Policy Review (a short, written statement accompanying the decision) and a full, Monetary Policy Statement. The MPS contains detailed forecasts for many different factors, including economic growth, inflation, the OCR itself, employment and unemployment, as well as house prices.

So, what else did the latest MPS indicate? As things stand, the Reserve Bank anticipates GDP/economic growth of around zero this year, but an improvement to 2-2.5% in 2025, with the falls in employment coming to an end over the first few months of next year and the unemployment rate peaking at 5.2% (currently 4.8% as at September 2024) around March 2025. In other words, there may still be a few testing months ahead, but as the economy responds to lower interest rates, general conditions should have improved for many households before the middle of next year.

Indeed, with the headline rate of inflation projected to stay at around 2% for the foreseeable future (the Reserve Bank's policy target is to keep it between 1% and 3%), there are also further OCR cuts looking likely – possibly starting with another 0.5% fall on 19 February next year, followed by smaller/slower cuts thereafter as the OCR gets back to 'neutral' (i.e. a more normal level), which is estimated to be around 3% or slightly above.
With the economy improving, unemployment peaking, and interest rates coming down, the Reserve Bank also anticipates a rise in average house prices of around 7% next year. That's decent growth, but certainly not a huge spike, with prices likely to be restrained to some extent by the caps on debt to income ratios for mortgage lending that banks now have to adhere to. However, lower mortgage rates themselves (maybe at a typical level of 5.5% or less pretty soon) will be a silver lining.

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From Tony Alexander:

The Reserve Bank has cut the Official Cash Rate by 1.25% from 5.5% to 4.25% this year and most pundit believe it will reduce the rate further to around 3.3% by the middle of next year.

The common rate for a one-year fixed loan has declined around 1.5% to nearly 5.8%. The three-year fixed rate has dropped by about 1.4% to almost 5.6% and the five-year fixed rate has fallen around 1.00% to the same level.

It is reasonable to expect that by mid-2025, when there is a strong chance that the easing cycle will reach its end point, the one-year fixed rate will be just above 5%. Three and five-year rates probably won't go that low bottoming out around 5.3% - if borrowers are lucky.

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Even if we ignore the silly period from 2019 – 2022 when interest rates were pushed to unusually low levels by a) deflation fears and b) the pandemic, some of these 'low' points may still seem high.

The average one-year fixed rate over 2017-2018 was 4.4%. three-year rate 4.9% and the five-year fixed rate was 6%. It's worth remembering that the OCR over the same period was around 1.7%.

The bulk of the removal of monetary policy restraint on the economy, which the reserve bank is seeking to achieve, is already in train. Does this mean that the upturn in the housing market seen in REINZ sales and price data will stall given that people seem optimistic rates will fall even further?

Probably not, but the strength of the upward leg of the housing cycle this time is likely to be muted compared to other upward cycles over the past three or four decades. Restraint on the upturn will not just come from the limited nature of interest rate declines. Gaining access to credit is harder than it used to be. Banks have to apply more rules as set by the Reserve Bank, the newest being debt-to-income ratio limits.

Restraint on the upturn will also come from the much higher number of new dwellings being built than in the past. Even after the economy's dire period over the past couple of years, the number of consents issued for new builds has only dropped to just under 34,000 – a number last seen when heading into the boom of 2004.

Now add in the rule changes freeing up more land for housing development and allowing for greater housing density and we get a different supply vs demand dynamic than over recent decades.

House prices over the next three to four years are likely to rise but the annual gains will be in the 5%-10% range rather than the 10%+ we have seen before.

If you are thinking things have been bad in Christchurch over the past year take a look at Wellington.  A sharp decline in jobs (estimated at 11.6%) has cast a long shadow over the regions real estate sector – once the beacon of stability.

Economist Shamubeel Eaqub's analysis paints a grom picture. The city's dependence on public sector jobs means that cuts to Government roles reverberate widely, affecting not only the workers but those businesses that rely on their spending. This has contributed heavily to a shift in housing market dynamics. As of October 2024 the median house price in Wellington is $795,000. Prices continue to fall and are now at about 20% lower than pre-Covid peaks.

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Predictions for 2025:

The market is expected to reflect a blend of recovery and recalibration. Factors such as population growth, immigration policies, regional development incentives will play pivotal roles but so will buyer confidence and banking criteria for borrowing.

Economists predict that the market will stabilise in 2025

While metropolitan areas like Auckland, Wellington and Christchurch tend to dominate property trends, regional areas are anticipated to gain traction in 2025. Hawkes Bay, Northland and Otago are highlighted as Government infrastructure spending in these areas will enhance their appeal.

Demand driven immigration policies Are set to boost population growth, Migrants and international students will add pressure on the rental and housing markets. This trend is expected to drive demand for 'mid-tier' properties.

Sustainability will remain a priority for developers and buyers alike. Eco-friendly and energy efficient houses will be encouraged through Government incentives and tighter building regulations.

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Digital innovations such a virtual tour, AI-driven valuations will redefine how New Zealanders buy and sell homes. These will enhance market efficiency and MAY lead to lower transaction fees / commissions.

These positives may be impacted by some of the challenges identified.

Mortgage affordability will remain a concern. Lower interest rates may be offset by higher household debt levels and higher buyer nervousness around things like employment security.

Construction sector struggles – construction faces a strong head-wind. Rising material costs, skilled labour shortages, tightening credit availability. Combined these may impact new housing supply.

Global economic conditions, trade tensions, potential recessions, political uncertainty / wars could impact investor confidence. Domestic economic growth and employment will be critical in sustaining market momentum.

None of the above, in our opinion, creates uncertainty for rental property investors. People will either be looking for rentals or choose to stay in rentals for longer. Investors will need to adapt to regulatory changes, including bright-line test periods, stricter tax rules, changes to accounting procedures. But long-term opportunities remain, particularly in the rental sector, where demand is set to grow due to immigration and affordability challenges for owner-occupiers.

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**We would not have achieved what we have achieved this year if it were not for three things.**

Firstly, to you our clients. We are so grateful that you have entrusted us to look after your rental properties. We try hard to act professionally at all times taking into account your requirements but also those of your tenant. It can be fun finding the right balance on occasions but that's our job. Thank you so very much and we wish you and your families all the best for the Christmas and New Year celebrations.

Secondly, where would I be without the wonderful team of ladies that I have around me. They work hard and take all aspects of their job seriously. And they have to put up with me!! So, a big thank you to all of my team. Together we can make things happen.

Thirdly, a big thank you to all of our service people. We make big demands on them throughout the year, often as an emergency but usually scheduled. They are reliable and make a huge contribution to our efficiency.

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To close, some details.

Our office closes at 12.00pm on Friday 20th December, 2024 and reopens at 8.30am on Monday January 6th, 2025.

Of course, someone will be on the end of the phone at all times over this period. Simply call 03-355-0348 for Merivale or 03- 983-1189 for Rolleston.

Please appreciate that there may be delays in getting service people over the break should they be required. We have an excellent relationship with them all and we know they will be there just as quickly as is possible.,

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Thank-you, have a great break and I look forward to working with you all again in 2025.

Regards Sharon.