

Are NZ Housing Prices Still Overvalued?

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Abstract

The paper examines changes in New Zealand House prices through changes in the Quotable Value House Price Index over the period 1989 to 2011.

Comparisons are then made between trends in the House Price Index, and a series of measures of incomes, prices, rental returns, and credit aggregates.

These include

- Gross Ordinary Time Wages
- Net Ordinary Time Wages
- Household Incomes
- Consumer prices
- Rents
- The Massey Housing Affordability Index
- Housing Mortgage Interest Rates
- Sector Credit for Housing

Other issues considered include property sales turnover levels, housing starts, migration, and whether the housing price index fully accounts for quality improvement in housing.

Findings in the paper include the following.

- There were two major cycles in absolute and relative house prices over the period, with length of about a decade, though for the second price cycle this assessment is provisional;
- There has been an uptrend in real and relative housing prices over the longer period
- Prices rise rapidly in the boom phase of the cycle, but are resistant to big falls in the downturn phase. Most subsequent adjustment in relative prices occurs over time as other prices and incomes move upwards

Factors which appear to have driven the cycles are examined, and the somewhat different situation of the two booms compared.

The paper also compares the NZ and U.S experiences with the end of the housing boom. It examine why New Zealand house prices did not fall massively after the end of the boom as they did in the United States

Some initial conclusions are drawn about whether the NZ housing price level has completed its adjustment phase and is ready to begin a further upward movement.