



Housing demand outstrips supply

By ANZ chief economist Cameron Bagrie

Lower mortgage rates have given the property market a shot in the arm, although it has the feel of a statistical rebound from very low levels. The number of new homes being built remains weak.

The housing demand/supply balance has swung back in favour of sellers. A surge in migrants has caused demand to swell. Coinciding with this, is a reduction in the supply of houses as the construction of new houses remains in the doldrums. Against the backdrop of tightening supply, the affordability gauge is still indicating a period of adjustment.

The Reserve Bank has committed to keeping the Official Cash Rate low until the latter part of 2010, which will provide borrowers with a greater degree of certainty. The big uncertainties though are impetus from migration versus fewer jobs.

Mortgage rate cuts have resulted in an improvement in housing affordability. In parallel, debt serviceability has improved for two consecutive quarters - the first such occurrence for seven years.

Recent cuts to the Official Cash Rate haven't been fully reflected in mortgage lending rates - with banks relying less on offshore funding and more on retail deposits, whose rates have risen. Nevertheless, the housing market is showing signs of life - with sales volumes up sharply in April. May saw further signs of encouragement in housing-related indicators.

However, the level of activity still remains well down on the peak.

Recovering house sales look to be leading the way and should start to follow into building consent figures in the second half of this year - which, having hit 1960s lows, were simply unsustainable relative to natural population and migration growth.

There is no doubt that encouraging signs are emerging in some leading economic indicators. For New Zealand, business confidence has recovered off precipitous lows, net migration inflows continue to improve as less New Zealanders choose to leave, and there are undeniable signs of stabilisation and recovery in housing market activity.

However, the challenges for the economy and the housing market are not over yet. As far as the 'big picture' theme goes, we can't go past the household de-leveraging dynamic in this cycle, which will take time to resolve.

House prices continue to surprise, although composition issues with Real Estate Institute of New Zealand data mean that some caution should be taken. The median length of time to sell a house improved to 44 days in seasonally-adjusted terms in May. This is down from 48 days in March and the peak of 57 days in July last year, although it remains above the historical average of 39 days.

Fixer-upper properties

Buying homes in need of some TLC seems like a great way to get a real estate bargain.

You may be wondering why you would buy a house that needs a little bit of rehab. Sure, houses that are move-in ready don't have the problems that a fixer-upper might - like an old roof, a dilapidated porch, or dirty shag carpeting. They might be in good condition by all appearances and appraisals with the little luxuries that make new houses appealing. However, fixer-uppers are often the better choice in so many ways.



Price

The most obvious advantage to purchasing a house that needs work is the price. Often, the price will reflect neglect and necessary repairs. Purchasers may even be able to negotiate a selling price lower than list price of the house depending upon how motivated the seller is. Make sure you very carefully assess the work needed to be done on the house and how much it will cost. This will help you make an offer within your budget.

Quality

Your fixer-upper might be one of those charming old houses that has stood for a hundred years - and will withstand another hundred. Older houses are bound to need some repairs. Drafty windows, outdated kitchens and bathrooms can turn many buyers away from purchasing one of these gems.

However, these houses are perfectly good houses. They just need to be brought up to current style, safety, and energy standards. You won't find beautiful hardwood floors, charming nooks, and spacious dining areas in standard newer houses. Old houses have personality and were built to last - once you get past the updating process, the house you'll have will be your pride and joy, or you will be able to sell it for a lot more than you paid.

Personality

Who wants to live in a house that is the mirror image of the one across the street? By renovating a tired house, you can put your own personality and style into it - making it unique.

When deciding if purchasing a fixer-upper is right for you, weigh the costs versus the benefits. Have a reputable appraiser give you an idea of the necessary repairs and their costs. Chances are you'll get a house that you'll love a lot more for a lot less than a new house in a new development.

homefront

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