

BRIEF | Creating Resilience

It's a tough market but high end residential can work

By Tamba Carleton, Zoltan Moricz

The apartment development environment is very tough. Presales for Q4 2023 were at a ten-year low and sell down speed remains significantly slower than what it was during the 2015-2017 period. These two factors are symptomatic of poor market conditions for new development, and it has been an exceedingly difficult couple of years for developers.

Q4 2023 presales

41 units

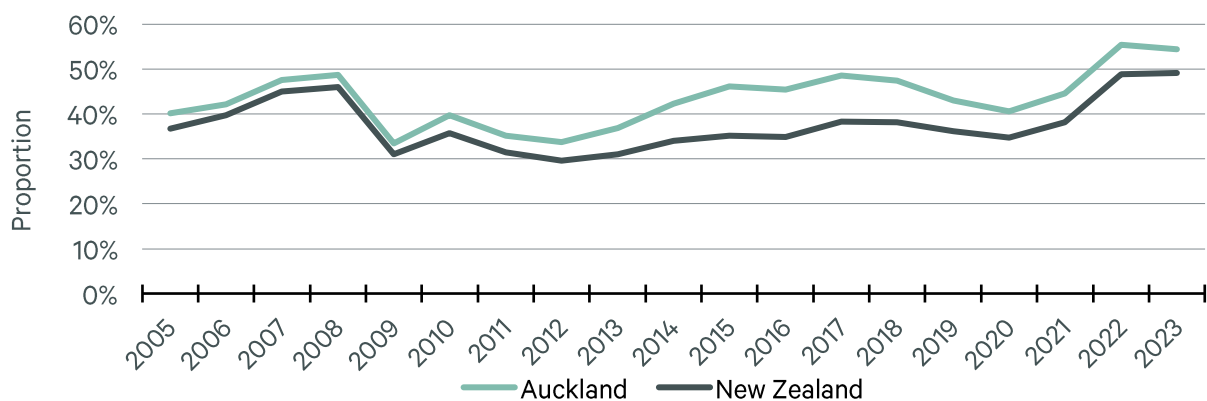
Buyers affected by (lack of) affordability

One of the reasons that presale volume is low is that buyer activity is hampered by affordability. For households that are reliant on mortgages to purchase apartments, the rapid increase in interest rates has made them unaffordable. Existing dwelling prices have come down somewhat to counter this, but it has not gotten any cheaper to construct brand new. Infometrics data shows that mortgage payments as a proportion of income are one of the highest ratios they have ever been, even higher than during the GFC. Reduced affordability is playing a part in limiting presales.

Akl mortgage % of income

54%

FIGURE 1: Housing affordability using mortgage payment as a proportion of income



Source: Infometrics Data measures the proportion of average household income that would be needed to service a 20 year mortgage on the average house value, with a 20% deposit at average 2 year fixed interest rates (March years)

The buyer types most affected by rising interest costs are first home buyers, and investors. These two buyer types almost always take on debt in purchasing a new apartment off the plans. In comparison, the downsizer owner occupier has been much less impacted because they often do not carry mortgage debt. Affordability for these households stems from income, savings, and wealth stored in equity. An estimated 32% of NZ households own their home outright.

NZers who own outright

32%

Despite being unaffected by rising mortgage costs, activity from these buyers was subdued during 2022 and 2023 because their equity was on a downward slide. This was a time of significant uncertainty in market with regard to the scale and severity of the evolving housing downturn. Auckland prices declined from a peak of \$1.3m in November 2021, bottoming out at \$943,000 in January 2023. The rate of year-on-year decline has slowed since then, and in December 2023 growth has tipped into positive territory. This, combined with the general consensus that the OCR is at its peak, gives mortgage free homeowners comfort around their housing equity level and enables them to confidently assess affordability of new off plan units.

OCR change in basis points

+525

Total launches declined from 51 projects in 2022 to 35 projects in 2023, but developers are increasingly recognising the opportunity to capture demand from downsizer owner occupiers. This is changing the type of product being brought to market. In 2023, 56% of market project launches were Prime grade, compared to 38% in 2022.

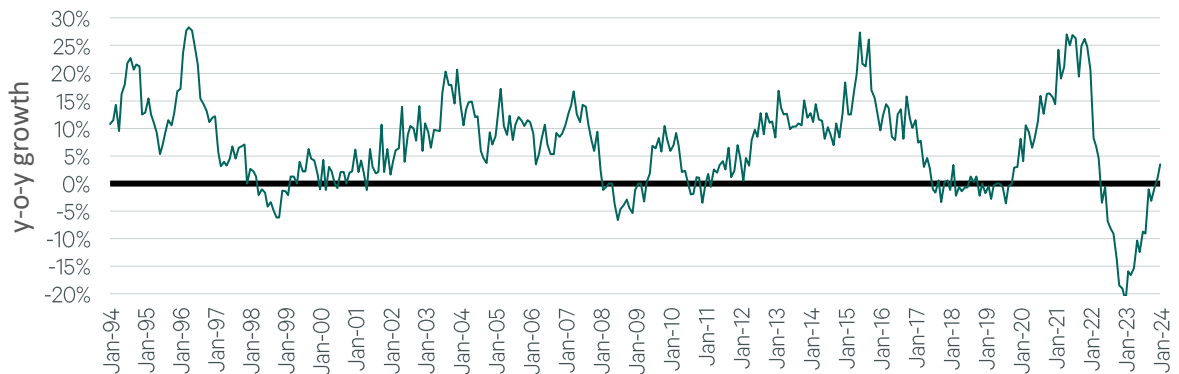
Peak to trough Akl decline

-27%

Prime grade outperforms

The increase in Prime as a proportion of all launches is expected to continue into 2024 given the emerging evidence that projects of this nature are achieving a faster sell down than others. For Prime launches that occurred in 2022, the average sell down after 6 months was 20%, compared to 15% for non-Prime projects. For launches that occurred in 2023, that has increased to 34% for Prime projects and 27% for non-Prime projects.

FIGURE 2: Auckland Annual House Price Growth



Source: REINZ

Prime also outperforms in terms of pricing. The average \$/sqm of Prime launches in 2023 was \$29,300 per sqm. We note that Prime grade buyer demand is often for larger than average dwellings. This, combined with a high \$/sqm, puts overall pricing of units in the multi million dollar bracket.

Naturally, the depth of the buyer pool at this price is limited. There are relatively few Auckland households who can afford a multi million dollar apartment. Developers recognise this and de-risk by making their projects small scale. The average number of units in a Prime project launched in 2023 was 17, around half that of non-Prime. The boutique nature of small-scale buildings holds additional appeal to a discerning group of buyers.

A small buyer pool means that there are not many presales to go around. Even though some Prime projects are finding success, their small scale has little impact on overall Auckland presales. Despite this, the fact that some are achieving good presale momentum means that we believe there is opportunity to create projects that cater to downsizer owner occupiers in 2024. We expect to see more Prime grade launches but in a wide range of locations to avoid exhausting what is an active but limited demand base.

Prime % of 2022 launches

38%

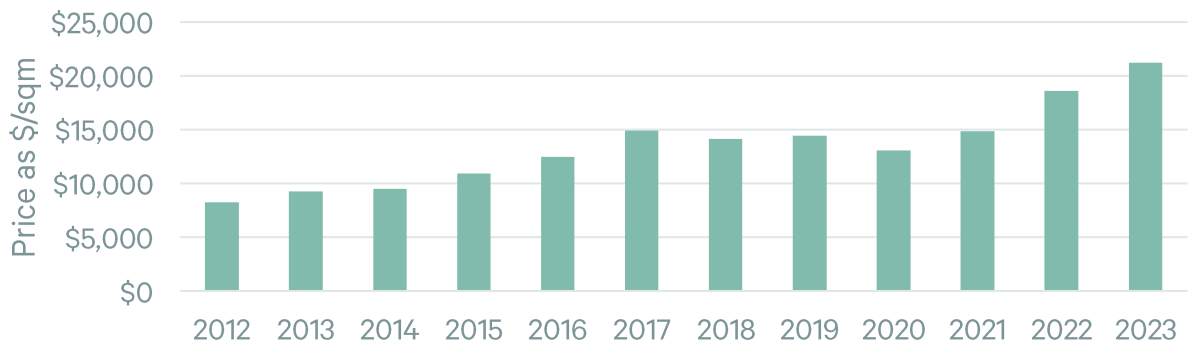
Prime % of 2023 launches

56%

Average \$/sqm of Prime

\$29,300

FIGURE 3: Auckland off plan apartment project pricing by launch year



Source: CBRE

Contacts

Tamba Carleton
Associate Director
New Zealand Research
tamba.carleton@cbre.co.nz

Zoltan Moricz
Executive Director
New Zealand Research
zoltan.moricz@cbre.co.nz

© Copyright 2024. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.