

There is a strong correlation between swift house price increases and overall job volumes on Builderscrack.co.nz.

**A**s a crystal ball-gazer for trade marketplace Builderscrack.co.nz, my job is to understand the delicate supply and demand balance across 500 or so trade categories, across roughly 80 regions in New Zealand. November 2020 saw homeowners post a record 9,000 jobs on our platform, from leaking taps to full house builds.

Through understanding the supply and demand balance across the board, we optimise our marketing to attract

two things: jobs and tradespeople. This means finding more jobs for specific trade and location combinations that have good supply, and more tradespeople for trade and location combinations that have strong job demand. Data mining and predictive analysis are core parts of our ability to fulfil our marketplace promise to both homeowners and tradespeople.

While information is available on the number of consents issued for alterations to residential dwellings, data isn't publicly available for non-consented repairs, renovations and alterations. Consent data from Stats NZ also has no resolution into the nature of the improvements, and which trades worked to complete them.

This is where Builderscrack's data builds a unique view into the renovation space in New Zealand. We can correlate with other data-sets, like the Reserve

Bank (OCR and total mortgage lending), REINZ (median house price) and Stats NZ (consents) to understand the relationships between these metrics.

We can then make some tentative statements, and predictions on the future state of the renovation, trades and housing space, based on these correlations.

### THE 'BUCKETS' OF HOME IMPROVEMENT OR RENOVATION SPEND:

House maintenance jobs cover things like exterior painting, roof and guttering maintenance, tree trimming, plumbing leaks and attending to other issues that crop up. Doing these jobs when they're needed prevents further expenses down the line, which means demand runs relatively independent of economic factors and is consistent throughout the year.

# LINK BETWEEN IMPROVEMENTS AND PRICES

Builderscrack.co.nz's **Jeremy Gray** takes a close look at the data available around trades and renovations to make some predictions on house prices in 2021.



From post-lockdown to present represents one of the most pronounced and sustained increases in demand Builderscrack.co.nz has seen.

Small improvements include discretionary additions like decks and new fences, landscaping, painting and decorating, new floor coverings and similar jobs. We see these types of jobs ebb and flow depending on the state of economic and housing factors (subsequently covered in this piece).

Renovations include new bathrooms and kitchens, larger scale remodels and full house refreshes. These jobs are dependent on economic and housing factors.

Alterations include major additions like top storeys; changing a home's footprint; full home makeovers; and other

large-scale improvements. Though we've historically seen relatively steady demand for this bucket, towards the end of 2020, we've seen a sharp rise – correlating with trends in a variety of metrics subsequently covered in this piece.

### LOW INTEREST RATES FUEL TRADE DEMAND ACROSS THE BOARD

Since the 2008 global financial crisis, the two-year fixed consumer mortgage interest rate has been more or less steadily falling. Beginning 2019, New Zealand has seen a further nuanced drop in average consumer mortgage rates. Each percentage point decrease

in mortgage rates increases average household disposable income - of which we see a portion invested back into property improvements of all types.

Every time we see a drop in interest rates, we see alteration consents rise, and at Builderscrack we see an increase in job post volume and value across the board.

### PERIODS OF SWIFT HOUSE PRICE INCREASES FUEL IMPROVEMENTS AND RENOVATIONS

When house prices rise, homeowner capital as a percentage of home value increases. There is a strong correlation between swift house price increases and overall job volumes through Builderscrack.co.nz.

In particular, discretionary improvements and small to mid-sized renovations really pick up. We put this down to the confidence homeowners

have in their home equity, and an increased willingness for banks to lend for these improvements.

### LOW HOUSING SUPPLY/OPTIONS FUEL INVESTMENT INTO RENOVATIONS AND ALTERATIONS

At times when the housing market is tight, we see an increase in jobs for mid and large renovations and alterations.

For the year ending October 2020 there were \$1.9 billion of alteration consents to residential housing issued; making up 12% of the \$16 billion of consents total (Stats NZ).

Typically, these jobs are undertaken by homeowners who have compromised on their ideals, purchasing a home with the intention of making significant changes; and homeowners that would have otherwise moved homes, instead

opting to upgrade their existing home to better fit their needs.

We also see an increase in jobs for sleepout and granny-flat type outbuildings.

### HIGH DEMAND FOR TRADES QUICKLY IMPACTS SUPPLY

In the past 13 years, we've seen several smaller fluctuations in demand, along with a few large changes. The current period from post-lockdown to present represents one of the most pronounced and sustained increases we've seen in demand.

A useful metric we refer to is our "unchased" rate. This describes the percentage of jobs we receive which have no subsequent interest from tradespeople. Typically this rate hovers around one in 15 jobs. Throughout October to December, we've seen this jump to as high as one in seven jobs.

We see tradespeople being more selective over the jobs they take on, often leaving smaller, or poorly defined jobs in favour of well defined, high-value jobs. There is a subtle shift of onus onto the client to attract tradespeople by being efficient and clear in expectations, and communications.

### HIGH DEMAND FOR TRADES DOESN'T IMMEDIATELY LIFT TRADE RATES

The hourly rate to hire a tradesperson in New Zealand has been steadily increasing in line with inflation. Different trades command different hourly rates; they're also variable according to experience, and urgency in some trades.

We haven't seen substantial changes to trade hourly rates, relative to demand. When there is low supply relative to demand, availability is simply more



scarce, lead times grow, and job start dates are delayed.

Depending on a number of factors like border restrictions, availability of materials, housing shortages and broader economic factors, we may enter relatively uncharted territory in terms of trades demand in 2021. Tradespeople may respond to pressure by lifting hourly rates.

### COVID-19 CREATED THE PERFECT STORM FOR THE RESIDENTIAL PROPERTY MARKET

The unique conditions surrounding Covid-19 have created a perfect storm for both house price inflation and increased investment into home improvements.

In the six months from April 2020 to September 2020, overall net migration was provisionally estimated at 2,500. This was made up of a net gain of 7,200 New Zealand citizens, and a net loss of 4,700 non-New Zealand citizens. This is compared to a typical net migration of 20,000 in the same period in 2019 (Stats NZ).

Post-Covid net migration doesn't appear to be a driving force behind housing demand.

New Zealanders spent around \$9 billion on overseas travel in the year preceding Covid-19 (Tourism NZ), while international tourism expenditure was \$17.2 billion (Stats NZ). Domestic holidaymakers spent \$1.8 billion in October 2020, up \$351 million from October 2019 (MBIE).

These numbers paint the picture of less than 50% of Kiwis' overseas travel budget being spent on domestic travel, leaving a projected \$5 billion

## 'As the housing market tightens, homeowners seek to improve their existing homes in greater numbers'

unspent for the year post-Covid.

Government debt has increased 60% over the year to November 2020, with roughly \$50 billion borrowed post-Covid (RBNZ).

In ordinary times government spending would be directed into public services and public sector employment, long-term development and so on. Due to Covid, the Government spent \$13 billion on the wage subsidy scheme (MSD), essentially directly injecting this into the economy as a stimulus.

The Reserve Bank has taken the OCR to its lowest rate on record, with consumer interest rates the lowest ever (RBNZ).

This reduces the return on more conservative investments, and makes borrowing very cheap.

Mortgage lending was up 28% in October 2020, over October 2019 (RBNZ), lifting total housing debt to \$293 billion, up 7.3% from October 2019.

### PUTTING IT ALL TOGETHER

A segment of New Zealand's population has:

- Higher than usual savings by way of less travel, wage subsidy pay-outs and more conservative household spending through and post Covid.

- More disposable income due to lower interest rates.
- A greater appetite to invest in assets which offer a higher return than term-deposits, with less perceived risk and volatility than alternative investment options like shares.
- A closer connection with their home, and a greater desire to improve it.
- More home equity.

This coupled with:

- Low housing supply relative to New Zealand's historic population growth.
- Various tax incentives to invest in property.
- The New Zealand property market having a history of strong returns.
- New Zealand's culture around property investment.
- An appetite from banks to lend, with relatively low loan-to-value ratios (LVRs).

These considerations are major factors for what's driving demand for housing, and for trades that are directly related to the residential space.

As the housing market tightens, homeowners seek to improve their existing homes in greater numbers.

### FINAL WORD

The most recent December Treasury report predicts a continuation of strong house price growth, at twice the rate of wages, for the next four years. ANZ introduced a 40% deposit for investor lending this month, signalling it may not share Treasury's unfettered optimism. With the Government signaling that it's exploring all options with respect to improving housing supply, there are a lot of moving parts to consider.

Despite the "bubble-like" appearance of the housing market, the factors discussed here don't demonstrate any balancing force which will knock the wind out of the housing market's sails any time soon. Thus, I predict strong demand in the trades for at least the next 12 months, alongside the continuation of a tight housing market. The emergence of a potential materials supply shortage may complicate this picture further.

Builderscrack.co.nz is working to soften the trade supply and demand tensions by continuing to focus on the efficient matching of tradespeople to jobs. ■

## FEATURE IMPROVEMENTS AND HOUSE PRICES

Less than 50% of Kiwis' overseas travel budget has been spent on domestic tourism, and it appears a significant amount of the surplus has been spent on upgrading properties.

