mortgages.co.nz

&

Tony Alexander

MORTGAGE ADVISERS SURVEY

April 2021

ISSN: 2744-5194

Investors step back

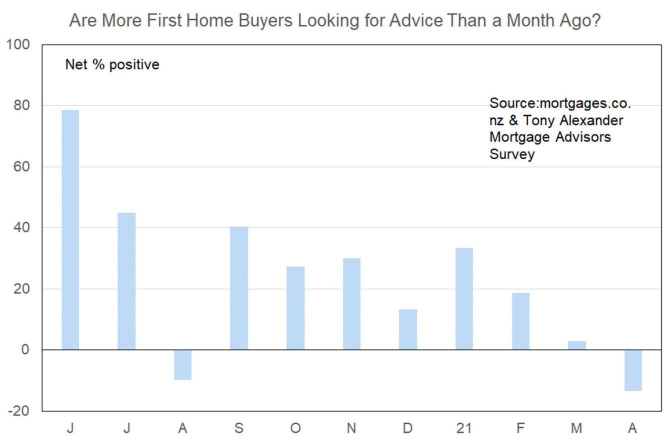
Each month since June last year we have surveyed mortgage advisers throughout New Zealand asking them what they are seeing. The insights which these advisers can provide give us early insight into changes that are happening in buyer behaviour in particular, well before such changes show up in any of the official datasets.

We also gain unique insight into changes in bank lending practices which are not available from any other outlet.

This month we can see a strong continuation of reaction to the government's March 23 housing policy announcement seen in the late-March survey.

COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER FIRST HOME BUYERS LOOKING FOR MORTGAGE ADVICE?

A net 13% of mortgage advisers report that they are seeing less business coming through the door from first home buyers. This result is the weakest on record, but it is also a continuation of the easing trend which was underway from February – before the policy announcements.



The negative result suggests that we can start to answer the question of whether first home buyers are responding to the increasing crackdown on investors by moving in to take advantage of the situation. Not really as yet, especially as a trend over recent years has been for first home buyers to "rentvest" – purchase an investment property to rent out in anticipation of a capital gain which will deliver a good deposit for an eventual home to live in themselves.

These young buyers have had this path all but denied to them now by the rule changes, and in fact they may be more negatively affected by extension of the brightline test to ten years than any other grouping of investors.

One thing we have learnt over the years is that when there is a generalised cooling in the NZ housing market and access to property becomes easier for those still looking to buy, first home buyers tend not to retain the same or greater presence.

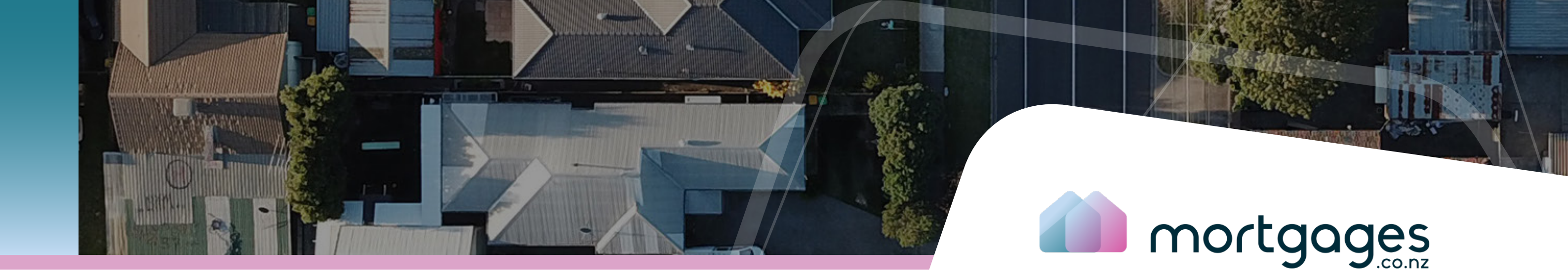
They become concerned about the risk of falling prices, and, for those with small deposits, the risk of negative equity.

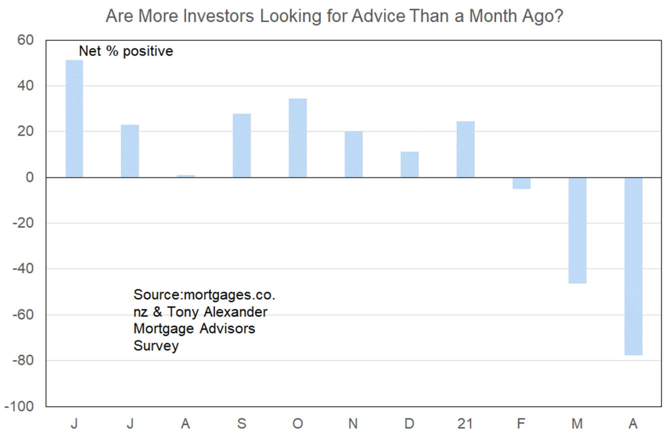
Our latest survey result is consistent with this past behaviour. But these are still very early days in market response to the March 23 announcements and a recovery in first home buyer demand could easily occur given the strong labour market, good levels of consumer confidence, and backlog of frustrated buyers.

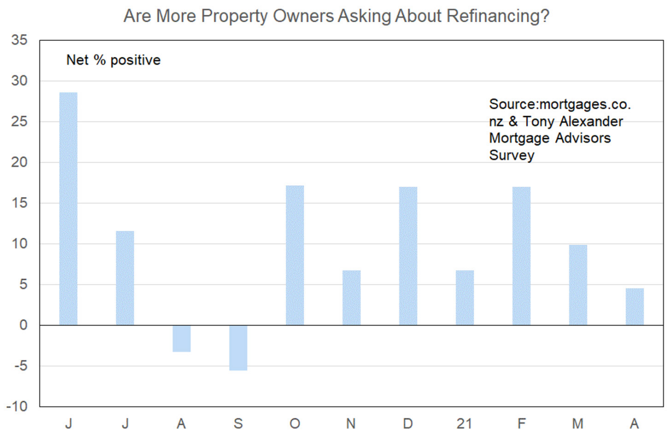
COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER INVESTORS LOOKING FOR MORTGAGE ADVICE?

For the third month in a row our survey has revealed a net negative proportion of mortgage advisers reporting that they are seeing fewer investors. In February the outcome was -5%, March -46%, and this month -78%.

Only one of our 68 respondents this month reported seeing more investors, 54 said fewer, 12 said nothing had changed, and one had no view.







This will be exactly the result desired by the government through its continuing string of policy changes aimed explicitly at "dampening" investor demand for existing properties.

This suggests that people who were thinking about making another purchase are stepping back – and that result would be consistent with the net 78% of advisers seeing fewer investors looking for assistance.

COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER PROPERTY OWNERS LOOKING FOR REFINANCING?

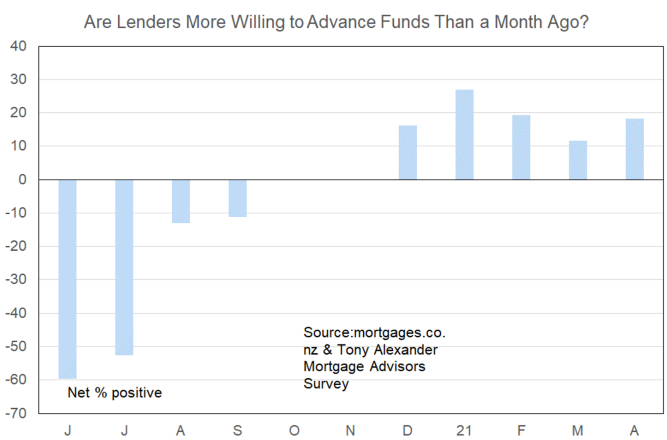
Enquiries about refinancing can be driven by a desire to lock in long-term fixed interest rates before they rise, break fixed rates because of market rate falls, or sometimes draw down equity on one's property to finance purchases of consumer goods and services, or another property.

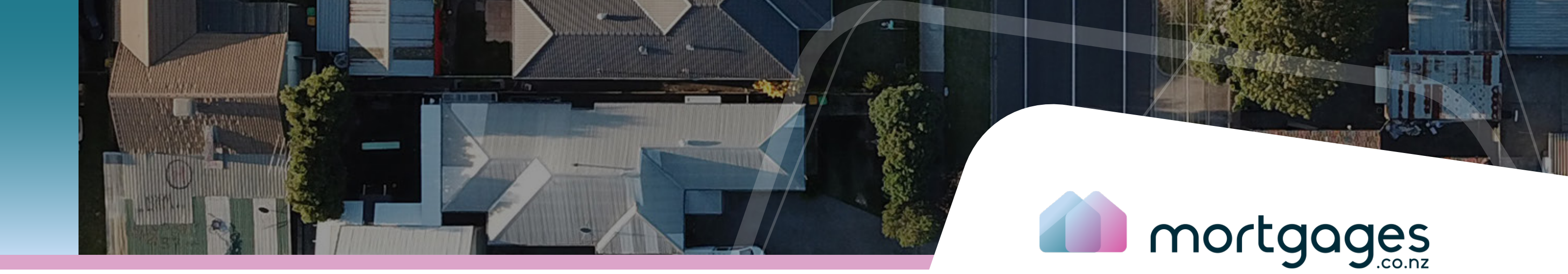
In that regard there are two pressures moving in opposite direction to each other at the moment. Some people will be looking to lock in a longer-term fixed rate – as discussed below. Others will be shelving plans to raise debt to invest in another property.

We would expect in the current climate of rising concerns about interest rate increases, that more people would be asking about refinancing. But this month there has been a fall in the net proportion of mortgage advisers seeing such enquiries to a net 4% positive from 10% in March and 17% in February.

COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

There is no trend change in mortgage adviser perceptions of bank willingness to advance funds, with that trend change being towards slight improvement each month. A lack of any particular surge in perceptions of willingness to lend is understandable in light of the resourcing pressures which banks remain under according to many of the comments submitted by advisers and reported below.



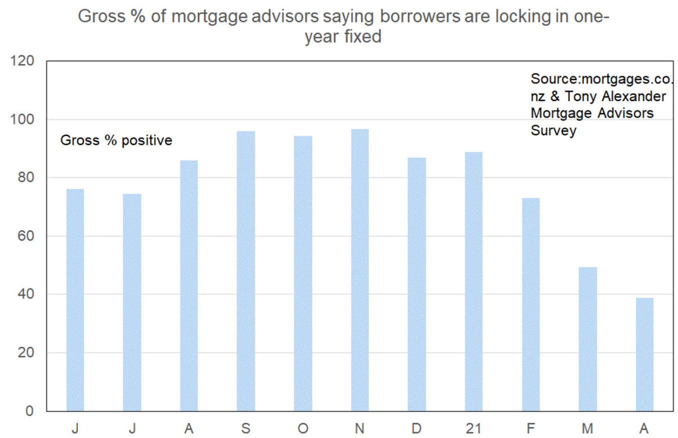


WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

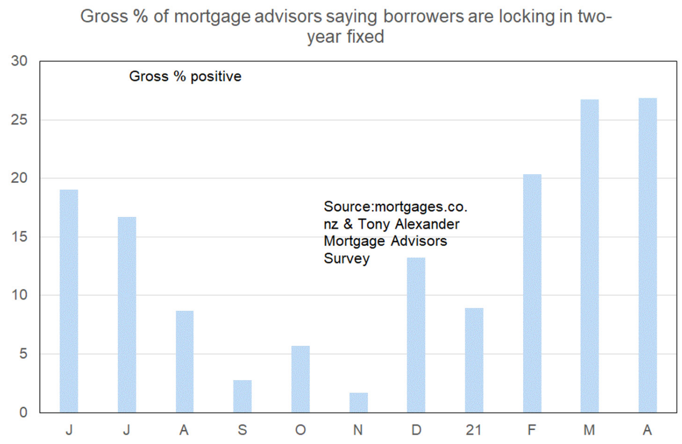
In recent surveys and other commentary, we have been noting growing optimism about recovery in the world economy, and growing expectations of rising inflation and tightening monetary policies. As yet, central banks by and large are continuing with their mantra that they do not intend raising their official interest rates until 2024. But the Bank of Canada broke ranks last week with an indication that they anticipate tightening monetary policy from late-2022. The financial markets in New Zealand are also pricing in at least one 0.25% increase in the official cash rate here before the end of 2022.

As retail borrowers have picked up on these changes in commentary and market pricing, they have started to shift their previous strong preference for the one-year fixed rate term towards slightly longer terms.

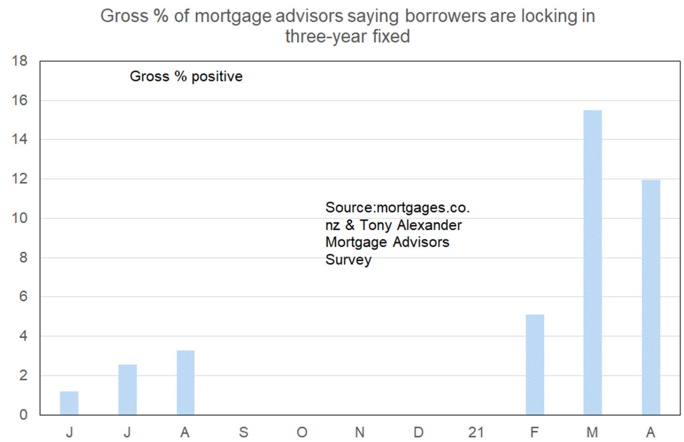
In this month's survey a gross 39% of mortgage advisers say that the term most preferred by their clients is one-year. This is the lowest proportion since our survey started in June and down from 49% last month and 73% in February.



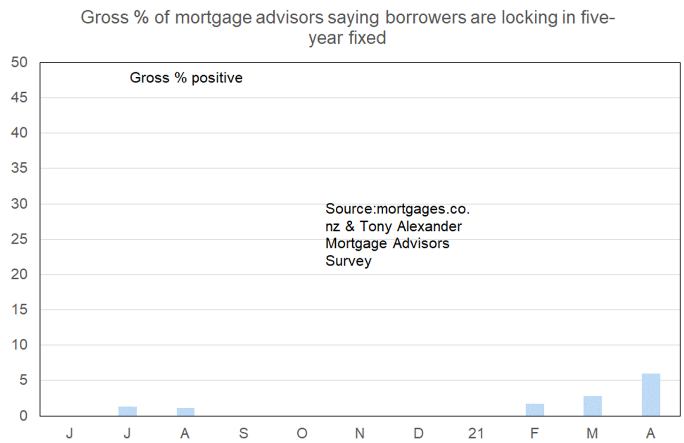
A gross 27% of advisers report that borrowers now prefer the two-year term. This is unchanged from the result in March.



A preference to fix for three years is reported by 12% of advisers, little changed from 15% in March.



Only 4% report the perennially lowly-favoured four-year term as preferred. But a gross 6% now say that the five-year term is most preferred. The graph below is scaled with the vertical axis ending at 50 simply to keep the extent of the switch to the five-year term in perspective with the one-year term in particular.



After results came in for this month's survey two bank increased rates for their home mortgage loans at fixed rates for three years and beyond. Given the publicity surrounding this change it is likely that in our next survey a far greater proportion of advisers will report a shift in borrower preference further out along the yield curve beyond the candy-like one-year rate.

Mortgage Adviser's Comments

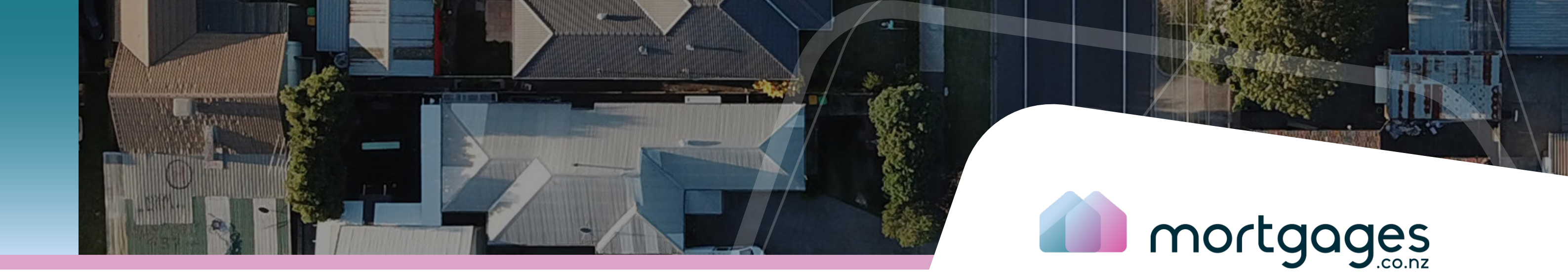
Following are the comments which mortgage advisers volunteered in this month's survey, grouped by the region in which the adviser primarily works. Enjoy. I always find these insights across my four monthly surveys to be very useful for placing flesh around the bones of the numerical indicators.

The key themes which I have picked up include these.

The overall level of buyer demand is still good, though quite a few investors are standing back for the moment to see how the market develops. There is some switching of investors towards new builds and commercial property.
Borrowers are switching towards longer terms.
Bank processing times have got better, but still remain poor.

AUCKLAND

- Domestic investors taking stock of the new rules so holding back. Kiwi and Australians overseas activity very strong, especially at over $2 million and over.
- My clients in Tauranga have secured properties through tender whereas two weeks ago this will have all been on auction. New builds: normally developers would be more flexible with FHBs that need an extension on finance or more flexibility this is no longer the case (is this because they have investors coming in), the other challenge is low deposit buyers 10-19% and banks needing these clients to be main bank to get a pre-approval. This can mean at times clients are not getting the best deal due to this limitation.
- A lot of investors are speaking to their accountants to check what dollar impact this will have on their portfolio before making any decisions. There have been more enquiries/ interest in new builds due to the Govt changes made for investors. Banks are still very slow to turnaround applications and even answer phones/emails.
- Still a lot of buyers out there - first homers finding less competition at auction and more buying post-auction with conditional offers, definitely seeing more properties passing in at auction but market is still as active for first home buyers.
- The turnaround times for banks is still an issue, however we have been able to get a very fast turnaround with a couple of lenders to assist existing clients with auctions and unconditional offers. This is encouraging.
- The heat has already come out of the property market as the reality of negative net yields sets in. We can talk about supply all day long (which is still an issue) but this particular bubble was built on positive net yields, no longer. Still a busy market but not crazy busy.
- Pre-approved investors are unwilling to make purchases. Most new builds that investors or first home buyers are considering are taking ages to complete - most turnkey completions now in 2022.
- Investors have taken a step back. Lenders are more cautious.
- Noticeable drop off in enquiry. Seems like the rule changes have not just affected the investor market but also killed the "FOMO" that was driving the recent bull run for all buyers. Hoping that it levels out and the owner occupiers bounce back once the market has settled. Banks haven't changed too much other than the servicing requirements for the over $180k earners due to the new tax ruling but there is a sense that they are tightening. Everything is being blamed on this tax ruling change for investors and bright line, but I think the new regulation across the industry has created a lot more work for advisers and taking some time to adjust. Let's just say I hope the drop in enquiry doesn't continue.
- Lending conditions remain fairly unchanged



other than a drop in enquiry.

- Some lenders have more capacity for 90% LVR loans as a result of volumes dropping. Two lenders indicated 1 week after the tax changes, volumes were down 25% approx. Auction numbers next to my office have dropped significantly, and I see xxx weekly South Auckland auctions have a clearing rate around 25-30%, which was around 100% for months. More listings now have a price attached, which is a strong sign of a market change. It could be a short-term adjustment, or it could be a game changer, too early yet we need about 4-6 months to see which way it will trend.
- I have learned from clients that the prices will come down due to the latest NZ housing policy. So, FHBs are expecting a bargain. Less auction interest is clearly in the market from FHB due to RV delays. Clients are showing interest on 2- and 3-years rate.
- Business has stabilised from a crazy level. Looking forward to more of our pre-approvals actually settling now!
- Seeing slow down in enquires for finance compared to the last month or so. Real estate agents reporting lower numbers at open homes. Fewer enquires about investment finance.
- Big drop off in new buyers, particularly investors. Some of this is seasonal but no question that some of it is due to market uncertainty created by government announcements. Investors taking a 'wait and see' approach. Lender responses still slow in general but improving.
- There is a tendency towards fixing for longer terms now as people want to protect against uncertainty and expect interest rates may rise. Banks are making it harder for advisers to get loans approved, still taking 6-10 days to even look at applications and are requesting more information; however, we hear all the time that the branches and bank staff can get approvals within 3-4 hours. Looks like they are purposefully making it harder for advisers. The recent Govt changes to price and income caps have not helped first home buyers. Yet to see if the changes to investors (not able to claim interest as an expense) will make much change to demand.
- The market looks like slowing down but the property prices are stable. There is still a lot of demand from the first home buyer although the investor is maintaining a wait & watch approach. The banks are still very restrictive towards the self-employed borrower.
- There are fewer people looking for rentals, so it is a great time to buy your first house as house prices have stabilised as they always do after a high, they won't drop though.
- Feel the FOMO in pre-approved customers reducing. This is a mix of being disheartened with all the missing out at auctions and wasting money preparing for them along with not rushing whilst they get an idea of how the investors changes will alter the market. I have preapproved investors that are waiting to see what happens now but others that are carrying on BAU. Hearing/seeing a few less auctions and houses being passed in, buyers may have higher expectations than people willing to pay.

BAY OF PLENTY

- Although I have outlined (in my responses) that I have fewer enquiries from FHB's and investors, in the last few days I have again started to get more enquiries from both. Anecdotally, also, I wonder whether more potential buyers are actually holding off now until Budget announcement/s next month at which point we may see even more measures introduced. I haven't had any of my younger investors freaking out - I think many of them have simply worked the numbers and see their investment property/s as compulsory super schemes for which they are paying very little toward growing the asset. i.e., it's as simple as that for many I reckon.
- Big swing to First Home Buyer enquiries, half of these aren't ready yet but plenty of enquiries. Most investors looking have downed tools, some still active, some are now pursuing Commercial Property.
- Getting more clients wanting to explore bridging finance, i.e., to buy their next property before selling, so that they know they have a home to move to. And they won't be homeless if they miss out on buying something. Interest rates - getting more requests for 5 years @ 2.99% with 1 years fixed at 2.29%. Get certainty in the long terms rate and get to ride the lows with the

1-year rate. Avoiding the 2–4-year rates. Think we have plateaued at 2.29% for 1 year, but the rate is likely to be low for next 6-18 months. I think the - & 5-year rate will be the next rates to move up, so best to lock in some low rates now. The 2- & 3-year rates have moved up slightly in the last couple of months. But fixing for 2/3 years will mean the uncertainty of where rate will be when they come up for renewal (as I suspect the rates will be higher by then).

- My investors have all existed the market until they get clarity around what the changes look like and how they will apply to them. Long term they will be re-entering the market just with a different strategy. Anecdotally, I have had 3 first home buyers win auctions last week against the vendor. No other bidders. I think it will be a good time over the next 3 months for first home buyers to get into the market.
- A lot of 1st time developers floating to the surface..........using a benchmark of $100,000 per section development costs........and having a budget to make millions.........infrastructure and consent and compliance costs are now rising as well......lack of land is still providing some very profitable developments when well managed.
- Looking at a good spread of fixed rates currently. Huge change from 2 months ago. 5 year fixed as a portion of total lending very common. Bank assessors can be limited in their knowledge which is frustrating - trying to tick every box by the book, or negatively of their own invention - perhaps to defer assessment while getting through the applications, whereas branch look for ways around requirements to meet client requirements.

WAIKATO

- New builds for investors.
- Banks are ever so slightly improved in terms of service level but still a long way to go. Investors appear to be pausing for now but speaking with them, they tend to be waiting rather than changing. No mass sell-off but some people looking to clear the lower end stock for crazy prices and getting it. First Home Buyers dropped off a little with the disappointment of the underwhelming govt plan for first home buyers. Still, plenty of activity with Next Home Buyers really picking up.

HAWKES BAY

- Obvious drop in home loan enquires. People still struggling to buy due to increasing values and lack of homes on the market.
- Enquiry has dropped over the last few weeks. Investment enquiry has certainly dropped off, but just now first home buying enquiries seem to be picking up again. There is a feeling that the market is just taking a bit of a breather.
- I have seen a definite increase in successful offers from my existing clients, suggesting a little less competition, but certainly no reduction in price. Fewer investors in the market and existing investors pulling back on their purchase appetite. One investor with over 15 properties, looking to sell some to reduce overall lending. Less consistency in bank appetite with some surprise decisions - credit departments becoming ever more pedantic.

MANAWATU-WANGANUI

- Certainly, the odd client deciding not to proceed on investment properties. Unfortunately, the Palmerston North CAP didn't increase for Palmerston North, so it just doesn't work with our first home buyers here. The banks' servicing criteria are so strict that most first home buyers' pre-approvals are still not enough to give them a shot in this market. House prices are just too far out of reach. Personally, I think some work needs to be done with the banks on easing servicing criteria for first home buyers specifically if they want to really make it more achievable.

WELLINGTON

- School holidays, so typically from now until Spring, the market slows down. Bank turnaround times are slowly improving = fewer applications they are telling me. Read into that what you like. First time investors have hit the pause button. I only have very few seasoned investors looking to buy. Still low stock levels so first home buyers frustrated as they are seeing fewer people at Open Homes (so less competition) but cannot find suitable properties. Offers with conditions

are finally being accepted again. Have a feeling that the 'frenzy' is slowing down, and we are getting back to some kind of normality... Then it will take off again in Spring.

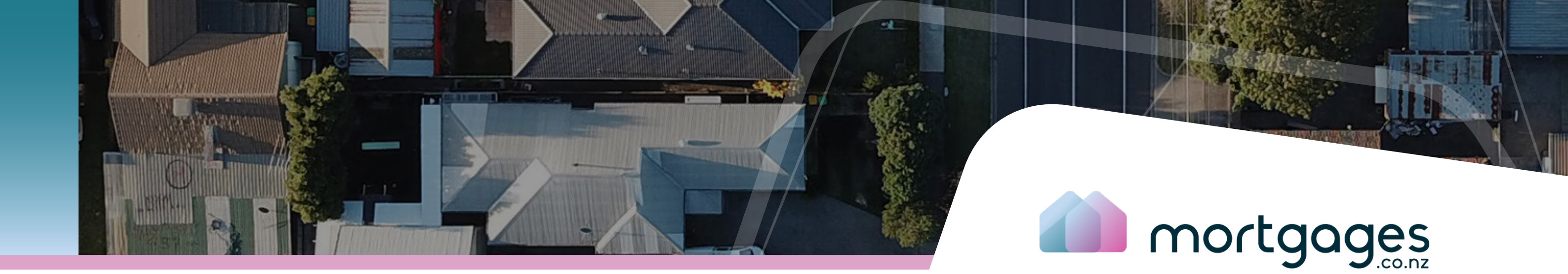
- Existing property investors definitely not happy with the changes in tax treatment for interest. Have had many calls about this. Also, lots of speculation about what the definition of a "new property" is and some investors holding off until this is defined. Bank turnaround times for assessing applications still terrible and show no signs of getting any better. The process of actually accepting a loan and getting it drawn down is also now an issue with big delays and documents regularly being sent on the day before or on the day of settlement.
- Banks' turnaround times seem to be getting better, however, they are looking at more reasons as to why they can't approve a deal that they would have approved last month. First Home Buyers are getting frustrated/stressed by the process of missing out, plus having to pay for reports especially registered valuations and then being told that the valuers are unable to turnaround the reports in time.
- Not seeing any investors which by default means seeing a greater proportion of buyers. Developers have bought up big in the Hutt Valley paying way more for development sites than Joe & Jo Average could afford as first home. Which means the homes the averages get to buy are new(er) with postage stamp sections & the next-door neighbours can hear you yell at the kids. I just wish the developers would remember there are colours other than grey.
- There appears to be a little more buoyancy in the market for first home buyers. I am also finding more FHB's looking at building and existing clients looking at building for the purposes of a rental. The activity has not slowed down and add to the new compliance requirements makes for a busy day.
- Banks are excruciatingly slow in turnarounds! 1st home buyers are feeling a lot more positive though, and investors have in some cases gone looking for other ways of investing. Still high interest though in new builds.
- Investors have pulled back. While still busy its not frantic. House supply is still short. Banks are still taking their time with approvals and to generally communicate.
- Starting to see fewer investors seeking finance for new purchases. Some of those with pre-approvals or applications in progress are no longer looking at another rental. Some increases in first home buyers and refinances though so overall little change as yet.
- Estate agents are speaking to me again whereas for a while they have been too busy to work with buyers & advisers to make things happen. My interpretation is that buyers were ten-a-penny whereas now they count for something. That is a nice change, more balance coming back into the relationship between buyers and sellers.

NELSON/TASMAN/MARLBOROUGH

- Properties in Nelson/Tasman region are in high demand with new listings coming onto market and selling quickly with multiple offers being received on most - it is tough to get the banks conditional approvals through in a timely fashion for when offers are being taken to get clients into a favourable position but hoping that the banks' turnaround time frames will improve if investor lending is cooling off - well fingers crossed anyway!

CANTERBURY

- The major issue right now is supply. Most clients have missed out on multiple properties, therefore become frustrated and pay the higher amount due to competition. Some that are restricted by bank criteria resign to the fact they need to purchase a smaller property. Recent announcements from Govt have not made any difference here as the majority of my clients appear to be up against other owner-occupiers (I have attended a few auctions with clients to get a feel of the market/competition too).
- Seeing young investors selling their one and only rental in growing numbers. Such a shame for them but they can't afford to hold without interest deductibility. All on modest incomes.
- The income cap being raised for First Home Loan scheme borrowers has meant more of my clients have qualified for this scheme which has been heartening.



- I’ve had several First Home buyers go quiet and not sure why this is but they’re clearly not comfortable with committing to a purchase at this stage. Investors are definitely looking at their options and are very unhappy with the Labour Government’s March announcement around non deductibility of mortgage interest.
- Good activity but numbers a lot lighter. Feels like the market is having a slight correction albeit small.
- First Home Buyers finding it very difficult to find a home to suit their budget $500k for existing and $550k for new. Lenders still taking far too much time to respond.

OTAGO EXCL. QUEENSTOWN AREA

- Not seeing the same urgency from first home buyers, still a shortage of listings but more buyers willing to take their time now. Slight improvement from some lenders in approval times, but still a long wait from borrowers’ point of view. Some valuations coming up short, and not all sellers prepared to reduce prices. Not sure if that's a sign of valuers not keeping up with the market or buyers getting ahead of the market. I suspect 50/50 on both sides. Investors now looking carefully at the numbers, which for some they never understood in the first place.

ISSN: 2744-5194

This publication is written by Tony Alexander, independent economist.
Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA
To enquire about having me in as a speaker or for a webinar contact me at tony@tonyalexander.nz
Back issues at www.tonyalexander.nz

Tony's Aim
To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Feel free to pass on to friends and clients wanting independent economic commentary.