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MORTGAGE ADVISERS SURVEY

August 2023

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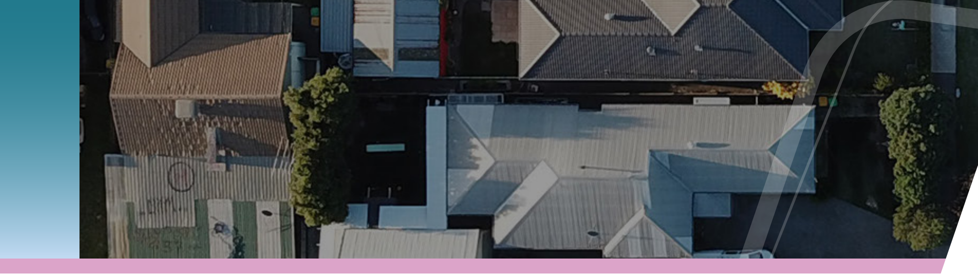


First home buyers dominant

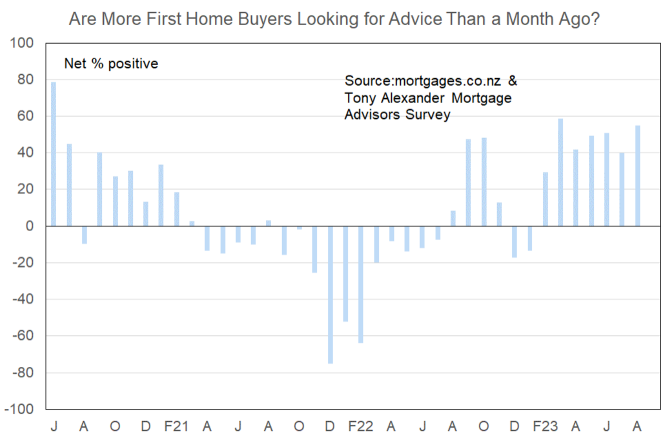
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 60 responses.

The main themes to come through from the statistical and anecdotal responses include these.

- First home buyers remain the main driving force behind improving activity levels.
- High test mortgage rates are preventing many potential buyers from being able to make a debt-funded purchase.
- The market overall is improving, but the upturn is only mild.

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

A net 55% of our 60 respondents this month have reported that they are seeing more first home buyers in the market. This reading is the third strongest for the past three years and continues a string of responses since February showing that young buyers have become a dominant force in the residential real estate market.



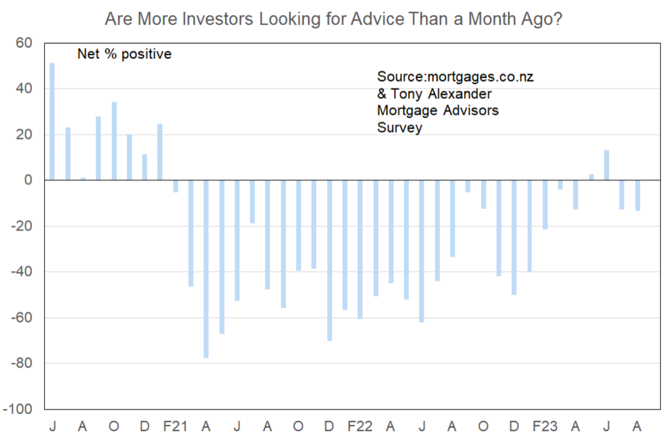
Comments on bank lending to first home buyers submitted by advisers include the following.

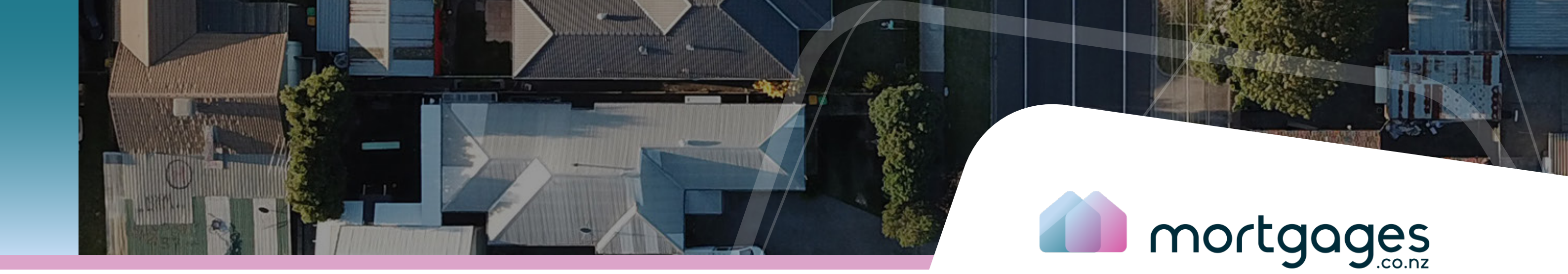
- Assessors being more reasonable with expenses
- Big one is that now most banks have a stress test rate now at 9% or over.
- Strong employment history is still top priority and minimal short term debt
- Very strict on First home buyers unless they meet the First Home loan criteria, making it hard to get those across the line due to high servicing and low equity margins.
- Higher test rates have meant loan amount is somewhat subdued.

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

There is still no sustained indication from our monthly survey of mortgage advisers that investors are returning to the market to follow the first home buyers.

A net 13% of brokers have said that they are seeing fewer investors looking for financing advice. This is unchanged from July's result.





Comments made by advisers regarding bank lending to investors include the following.

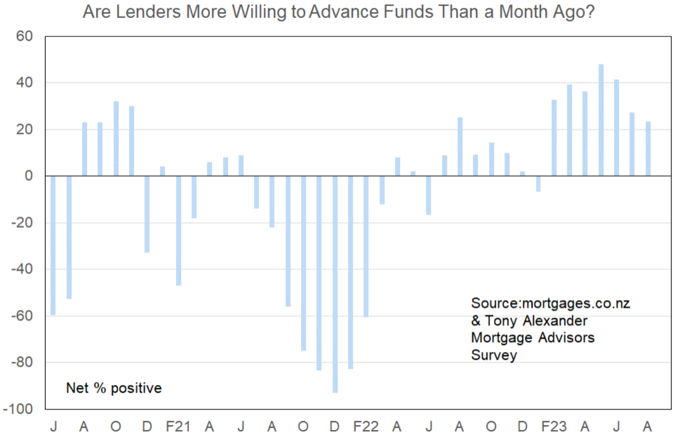
- Some minor loosening of policy from (a bank) this week. Very marginal but not shading rental income by as much as previous.
- Affordability is still a struggle for investors. The banks are willing to lend and the increase to 65% is good, if only they could afford to.
- Not really done much investor funding - 65% LVR has created a little enquiry, but same issue is the cash to service is not there.
- It's so long since I had an investor enquiry, I have no idea how the banks are approaching them

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

In this month's survey a net 23% of respondents have reported that banks have become more willing to advance funds. This continues a seven month run of indications that bank financing is becoming more readily available. This easing in lending criteria may reflect banks pulling back from trying to attract business through discounted interest rates.

But feedback from mortgage advisers shows that credit conditions cannot be considered to be easy – just slightly less tight. Many borrowers cannot meet debt servicing requirements with test interest rates near 9% and assessment of expenses and spare income requirements remain relatively tight – though easing bit by bit each month.

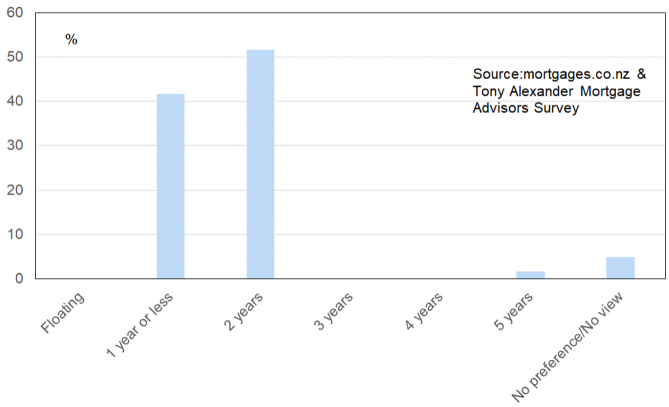
Are Lenders More Willing to Advance Funds Than a Month Ago?



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

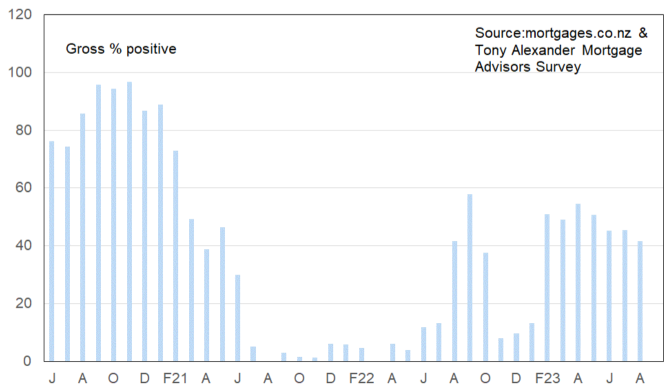
The time period most preferred by borrowers for fixing their mortgage interest rate is two years according to mortgage advisers. Few people favour fixing three years or longer. The 18 month term is quite popular.

Preferred mortgage interest rate term

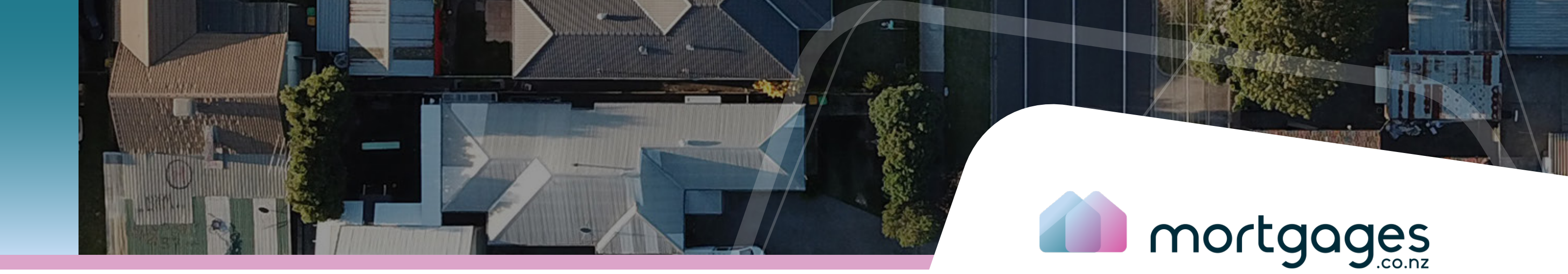


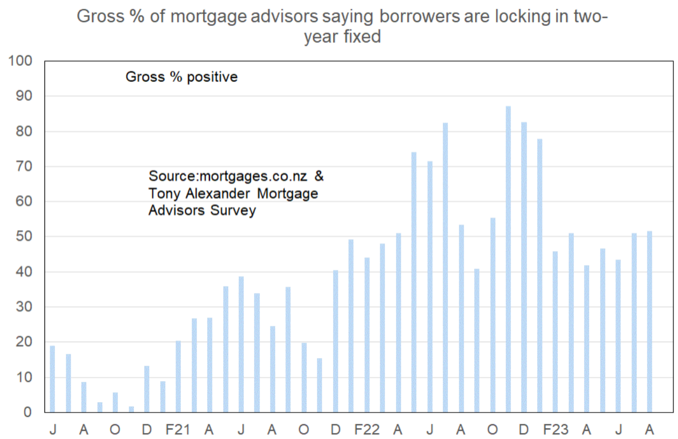
In recent months there has been a slight decline in preference for the one year term..

Gross % of mortgage advisors saying borrowers are locking in one-year fixed

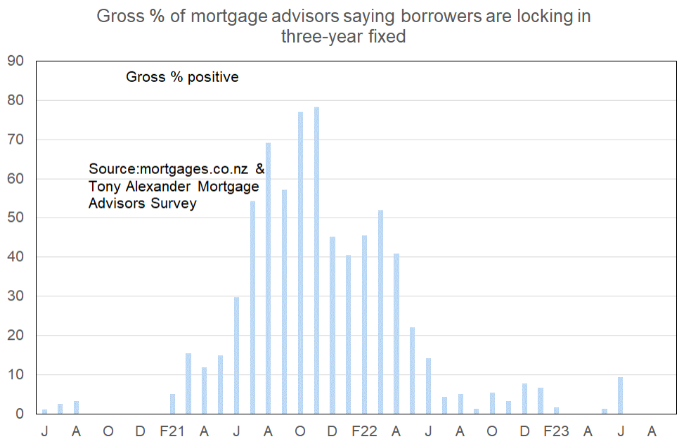


In contrast, preference for two years has risen slightly as interest rates have crept slightly higher and perhaps as doubts persist about how rapidly interest rates will fall when declines commence next year.

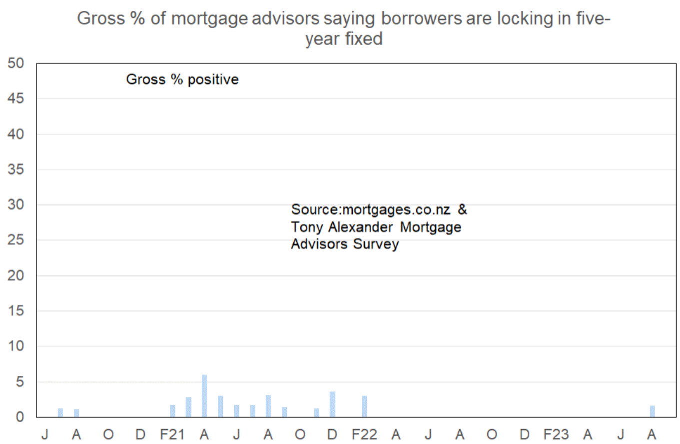




The days of fixing three years ended a long time ago.



Even when the five year rates were below 3% in the second half of 2020 and first half of 2021 few people chose to fix for that term.



Mortgage Adviser's Comments

Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. These insights can be very useful for placing flesh around the bones of the numerical indicators.

NORTHLAND

- Some banks still offering 1% cash back.

AUCKLAND

- Enquiry is a little down this month, but I believe it is just the usual winter slowdown and rhythm of the property market that has been missing the last few years. Buyers still out there and with lower stock have seen a strengthening in sale prices and properties being sold in auction. Seeds are being sown for a bit of a spring lift as more buyers come to market...
- Higher test rates really biting us now. Any change to CCCFA has been wiped out by the test rate change which impacts loan approval amounts. It could be having an impact on prices at the lower end of the market as vendors and agents realise purchasers cannot lend as much.
- Some banks taking margin, not discounting.
- Starting to see more Sell/Buy applications as an indication some feel market is at the bottom. More 2nd tier lending coming enquiry. Whilst still relatively quiet, some good solid business coming through. I have noticed more and more assessors are leaving due to internal pressures put on them by the banks.
- Smaller lenders trying to be more flexible
- FHBs are nervous but prepared to speak to parents to increase deposit levels to get a 20%+ deposit. They start off trying to do it alone but realise there are fewer options available in their price range. I have been impressed with the savings level of the most recent FHBs but in Auckland they are going for the FH Grant and asking parents for modest gifts.

- Clients are starting to look at getting back into the investment market. Getting a lot more enquiries in this space.

BAY OF PLENTY

- A big pick up in activity.

WAIKATO

- Buyers are convinced the property market has bottomed out and rates have topped out. Banks are keen to make applications work as their volumes have been low. They are starting to get busier.
- I have seen more sales completed recently, the number of houses on the market has decreased so it looks like we've reached the bottom but as usual it's only the good houses that have sold and people have taken houses off market as they can't sell them, so I think there's a bit to go yet

HAWKE'S BAY

- With high interest rates, cost of living increasing and lack of pace in incomes rising borrowing is harder to get for most.

WELLINGTON

- Wellington has hit election season and winter with lower activity. Buyers look at fewer houses now so some competition but nothing like it was 18 months ago. Its so patchy with business there is a definite lack of confidence out there.
- Feel like buyers that are seeking pre-approval are moving quickly - good conversion rates for approved to property secured. The nervous ones are still holding back and just waiting for the market to drop further...think there is more cuts to come.
- Test/servicing rates have increased. Finding banks slow to respond in all areas. Enquiries are slow although ticking along.
- 18-month fixed rates are popular.
- All sitting on the fence to wait to transact
- More buyers looking with less houses on the market means more multi offers being received on houses while stocks are low. Real Estate agents encouraging vendors to list pre spring as an opportunity to capitalise on the current low stock sales but increase in buyers. People seem to have realised rates are still lower than pre-covid and that life goes on, so they are back in the market.
- "More time explaining the difference in the OCR and what the banks actual rates are! The stress test rates are really supressing the amount people want to borrow. A lot of frustrated potential buyers with a deposit between 10%-20% deposit: the demand is still there! You wait until we can get pre-approvals again for these people, the market will take off!
- Investors are waiting on the election.
- Investors are still hiding. The 65% LVR didn't move the needle - just as I suspected. The fall in property values has made refinancing unlikely for anyone who has purchased a first home in the last 3 years.

CANTERBURY

- Meeting servicing is increasingly difficult. Cash incentives have reduced.

QUEENSTOWN LAKES

- First home buyers always looking to get into the market, house price is an issue to find anything affordable, along with not a lot of stock.

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This publication is written by Tony Alexander, independent economist.
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