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MORTGAGE ADVISERS SURVEY

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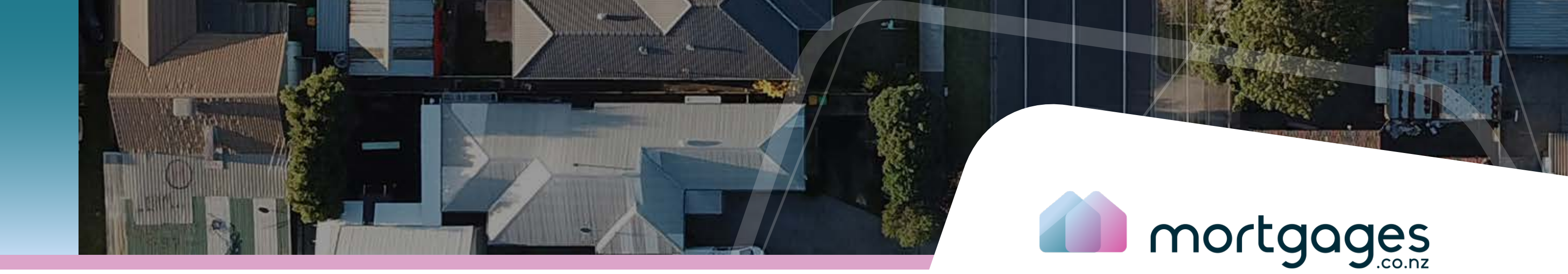

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First home buyers return

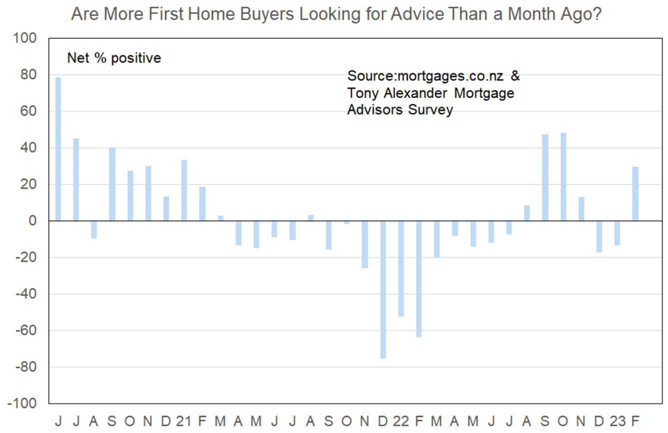
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 61 responses.

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

- First home buyers are rapidly returning to the market.
- Banks are becoming more willing to lend.
- Investors are less disinterested – but still largely on the side-lines.
- Borrowers increasingly prefer fixing their mortgage rate for only one year.

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

Just before the Reserve Bank raised the official cash rate a record 0.75% to 4.25% on November 23 a net 13% of mortgage advisers replying in our monthly survey said they were seeing more first home buyers in the market. That proportion fell immediately to -17% in early-December and as reported four weeks ago was still weak at -13% in January. But now the net percent has jumped to a well above average 30%.



This is not as strong as in September and October before we learnt about higher than expected 7.2% inflation. But it is a strong result which shows the improvements in similar gauges in my other surveys over the past three weeks are confirmed as strengthening. The young buyer's strike is over.

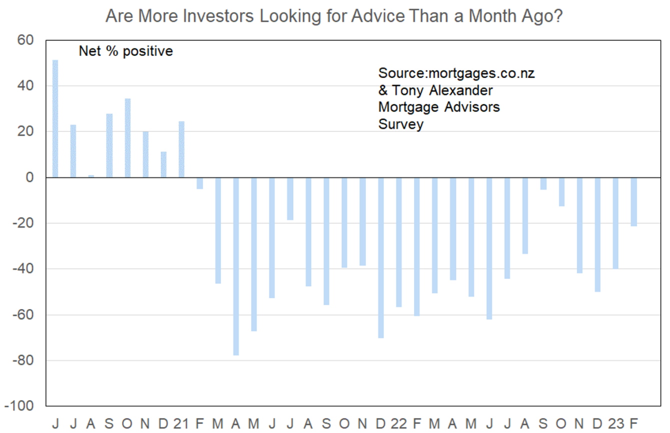
Comments on bank lending to first home buyers submitted by advisers include the following.

- Approval is provided more quickly and efficiently - likely a symptom of reduced bank volumes.
- CCCFA slight easing.
- Largely unchanged. Kainga Ora still a significant pathway into the market. 20% borrowers are highly attractive to the banks and these approvals seem to be quite easy to obtain.
- It has definitely gotten easier - allowing more boarder income is a good start.
- Limited funding is available. All I's and T's need to be crossed and they are checking everything (as they have more time to check things now).

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

There has been an improvement in the net proportion of advisers seeing more investors in the market from -40% last month to -21% now. This is the least bad result since -13% just before the bad 7.2%

inflation outcome of October 18. Investors are still largely absent from the market. It will be interesting to see if they pick up on the return of first home buyers and follow.

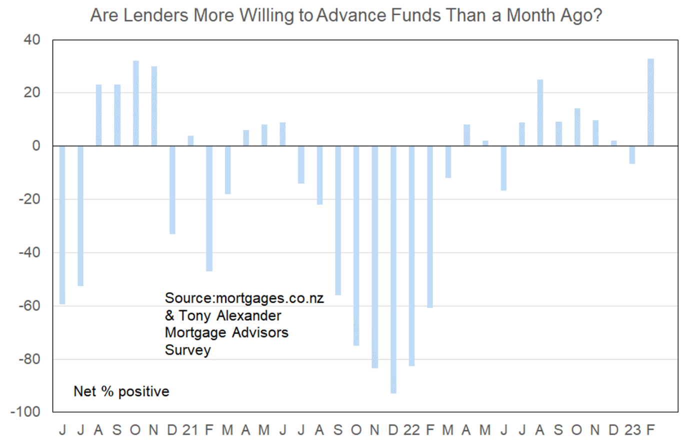


Comments made by advisers regarding bank lending to investors include the following.

- Very few investors in the market.
- Still difficult to meet servicing criteria with test rates and scaling of rent.
- Slowly, slowly softening of the scaling being applied to the rental income, but still very tough to make a rental property work from a servicing point of view.
- Still very driven by LVR rules. Investors buying the new builds are still being caught out on the LVR rules where they are able to borrow at 80% on a new build during the build or when it settles but as soon as they go back for more money the banks deem it existing and apply the 60% LVR rule which blows them out of the water again.

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

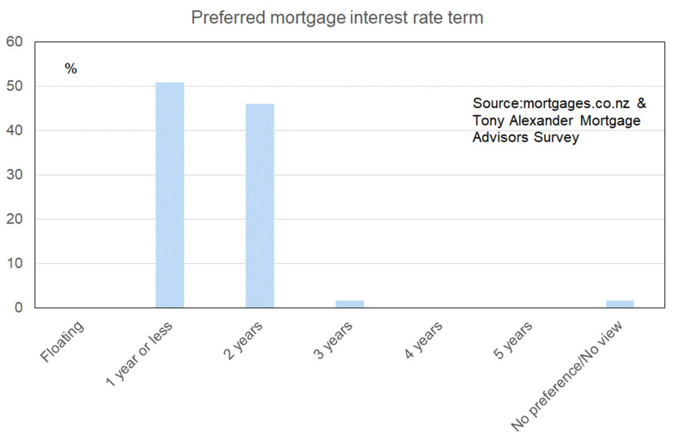
A net 33% of advisers have said that banks are becoming more willing to lend funds. This is a sharp improvement from a net 7% in January saying that funding was getting harder to achieve and is the strongest result on record.



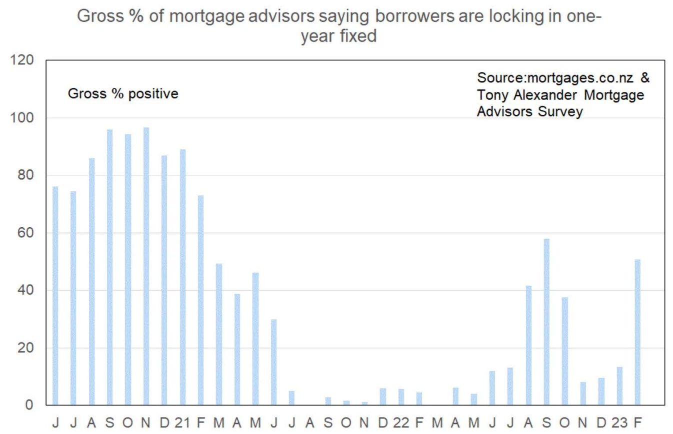
The many comments submitted by advisers make it clear that credit cannot be considered to be flowing strongly – just that banks are becoming more amenable to lending – perhaps encouraged by low lending volume growth as the real estate market has slowed down considerably.

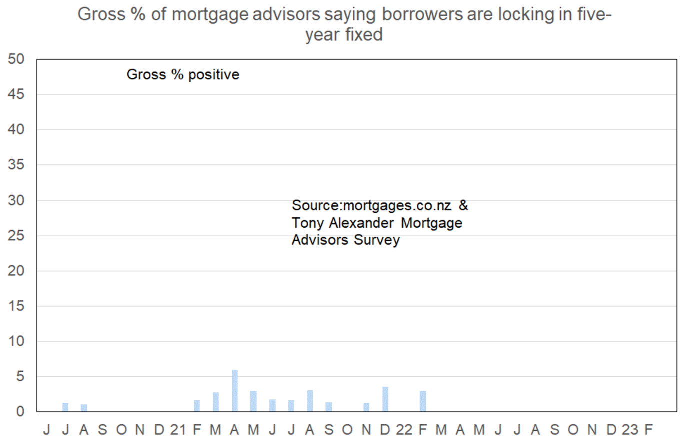
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

This month there has been a substantial shift of fixed rate term preference towards one year and away from two years. 51% of advisers say that their customers prefer fixing one year, up from only 13% saying this in January and 10% in December.

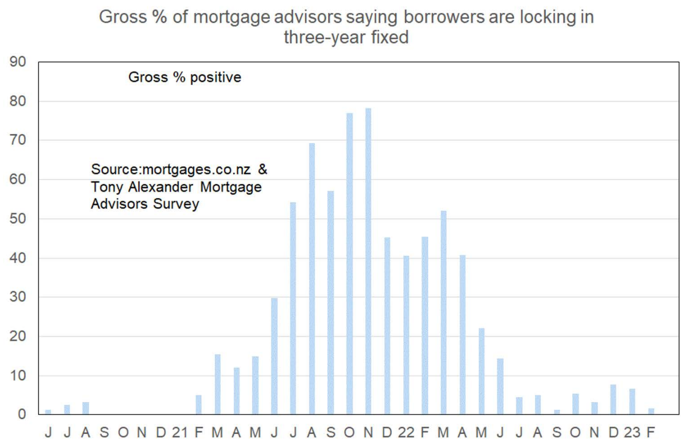


In contrast this month 46% of advisers say the two year term is preferred, down from 78% last month and the lowest result since September.





As has been the case since the middle of last year very few people are wanting to fix three years.



Interest in fixing five years has been zero since March last year and remains so.

Mortgage Adviser's Comments

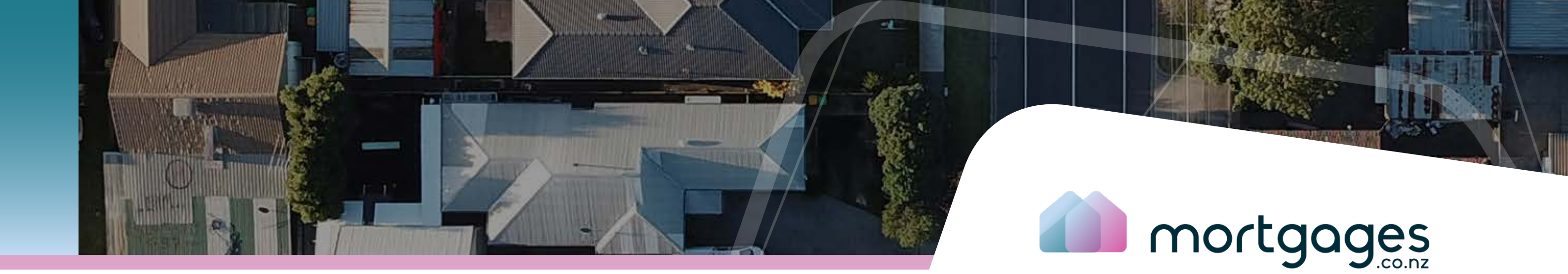
Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. These insights can be very useful for placing flesh around the bones of the numerical indicators.

NORTHLAND

- Confidence seems to have returned a bit this year - we have had an increase in enquiries. Property asking prices are now being seen more which is allowing more of our clients to make offers that are accepted - the preapprovals we are doing are quickly turning into live deals rather than the long lasting preapprovals of 2021 which seemed to drag on without clients committing to a property purchase.

AUCKLAND

- Market still remains subdued, but have noticed a slight uptick in first home buyer enquiry again over the long weekend periods. A few articles talking about peak rates may be filtering through into the mindset.
- No change just a quiet time overall.
- Feels like banks are loosening on some lending easier and quicker to turn around applications.
- Still a disconnect between seller and buyer expectations, but gap is closing. Some clients



reporting Real Estate Agents getting pushy for them to put pen to paper. Clients that have been holding off waiting for prices to fall are starting to get a bit more proactive in actually looking to purchase over the next few months.

- As an Auckland based mortgage adviser living in an area significantly affected by recent weather events, I am hearing from agents about property transactions falling over due to flood damage. This applies whether the property in question was damaged or buyers reluctance to look at a property in a area which had significant damage even if the said property was not impacted directly from the flooding/slips.
- Major issues in construction, banks limiting lending with contingencies, then won't assist when contingency comes to fruition? Banks making up volume with margin.
- The inquiries have increased since last year going into the new year for restructuring of mortgages and refinancing due to customers existing rates coming up for renewal. Everyone is trying to save money and also are attracted with the 1% Cash back offer from most banks.
- Preapproved buyers are picking up good deals as finance conditions are more favourable.
- General RE market remains flat with activity, better areas (One Tree Hill/Royal Oak low turnover, mainly up and down sizing for normal reason. Not a lot of newbies buying at present.
- This is fairly typical of this time of year, children barely back at school, two long weekends in a row for most of North Is. Weather events make possible listing or open homes difficult. That said, ease in fixed rates - media quieter about housing/interest rates as have other 'louder' events to report on, enable people to cautiously make moves to buy/trade up or look at possible (mostly new build) investments.
- I received an email from one of the large banks, wanting to know the criteria other banks were applying to loan assessments - this was a group email sent to a number of advisers - pretty cheeky, clearly looking for an edge in the market.

BAY OF PLENTY

- Just starting to see a little bit of an uplift in enquiries - but its only 1 week of anecdotes and a feeling and could just be that I have only just returned from leave and there were a few waiting to chat.
- Still need very strong income stream to get anything approved regardless of the deposit %
- Like last month, there seems to still be a divide between what purchasers are prepared to pay vs what vendors are willing to accept. I have noted that vendors are more willing to reduce than purchasers are willing to increase so contracts are falling over on not being able to find a middle ground. Purchasers are very aware that there are bargains to be had (currently at least) and prepared to wait until they snap one up. Cheeky offers are becoming the norm for first home buyers and even with 20% deposits purchasers seem to be less attracted to auction properties.
- Interest rates are still a very large talking point and clients are concerned about the 'recession' that the media doesn't seem to want to stop talking about. With interest rates starting to even reduce there is still a lot of uncertainty around what will happen this year which seems to be making people a little more fearful of making that big decision.
- Buyer's market so a lot of strategy offered by myself as a mortgage adviser. Real estate agents are taking offers and holding onto them trying to get another potential buyer, as a form to provide completion. Some times this can go on for days, so now my buyers are all putting in a expiry date on the offer.

WAIKATO

- First home buyers have come out of the woodworks with leads heavily increasing in the new year, perhaps new year resolutions?
- Expenses continue to go up and servicing continues to get harder. CCCFA still an absolute disgrace. Incredibly hard to get a Home Loan.
- First home buyers are slowly coming back to the market on the basis of better affordability. The challenge being getting them across the line. Banks are friendlier, all fighting for a share of the market but still some inconsistency on policy and some changes needed.
- Construction sector from developers and borrowers trying to do a new build house and

land package are being absolutely slammed by the banks who continue to focus on last years construction inflation and not what is happening right now.

HAWKE'S BAY

- Good to see one provider allowing boarder income for over 80%, which helps servicing. Way more enquiries for first homes relative to the end of last year. Quite a few enquiries from singles, and it's difficult for them in this environment.

MANAWATU-WANGANUI

- Pre-approvals for over 80% LVR would be great - it saves having to go down the Kaianga Ora home loan scheme which is very long winded.

WELLINGTON

- Customers I've seen over the past couple of years - and have been waiting, have all leapt back into the market over the past couple of weeks. They all say they're trying to beat the expected house price lift which may be near i.e., get in while there is housing stock and less buyers competing for those houses.
- Clean deals with surplus demonstrated will get an approval every time
- Turnaround times starting to take longer so the banks are busy.
- Banks know that the 20% deposit rules and high servicing calculators are killing a lot of deals.
- Some investors worried that the removal of the interest deductibility is here to stay so thinking of buying and not waiting for a change of govt.
- Not a lot of change in the last month other than short term interest rates inching up and longer term rates coming down.

TOP OF THE SOUTH ISLAND

- No change to the lack of buyers or investors looking for finance still very quiet.. I think people are trying a wait and see now up until the election even though its a long way off. The media keep hammering recession fears which is putting off buyers
- Have people who are motivated to buy, happy to lend. Prefer the cheaper homes and are not worried about rates.

CANTERBURY

- No change, however, affordability is tough with banks assessing affordability at 8.60%
- First Home Buyers are realising that now is a good time to buy, as they have seen the interest rates increase, and want to be off the rental merry-go-round gaining some control over their own destiny - want to lock in rates as soon as possible and ride out this next 12 - 24 months.
- Still strong activity with developers and first home buyers
- Noticing a slight easing in policy to get things across the line from most lenders. Assessors seem to be more willing to find a way across the line which is great.

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This publication is written by Tony Alexander, independent economist.
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