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MORTGAGE ADVISERS SURVEY

January 2023

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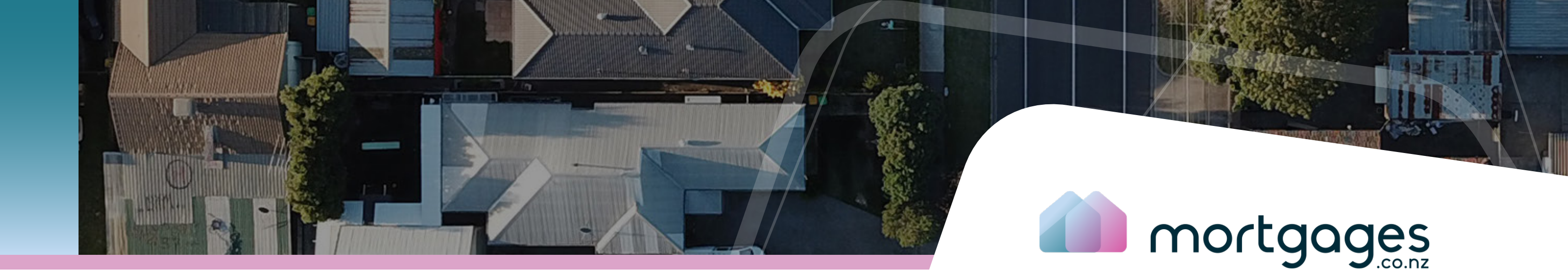


Buyer drought for summer persists

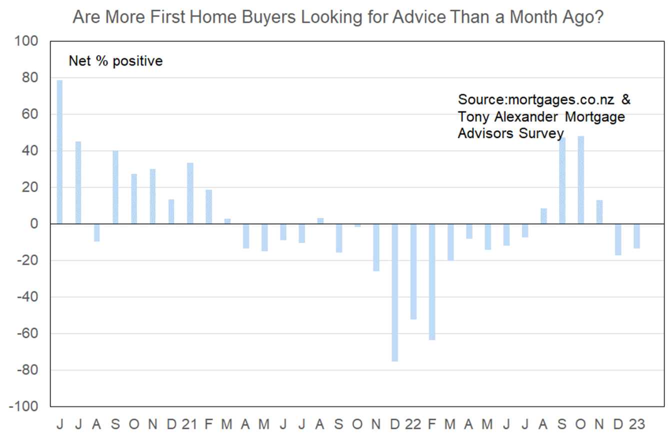
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 45 responses. This is lower than normal but understandable given the time of year.

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

- Buyers remain in the shadows be they first home buyers or investors.
- The strong preference remains for fixing two years.
- Banks are perceived to have tightened their lending rules slightly.

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

A net 13% of our survey respondents this month have reported that they are seeing fewer first home buyers coming forward for mortgage advice. This is the second negative month in a row and follows the Reserve Bank's November 23 raising of the official cash rate by 0.75% to 4.25%, predictions of further rises to 5.5%, and forecast that a recession will be needed to suppress inflation.

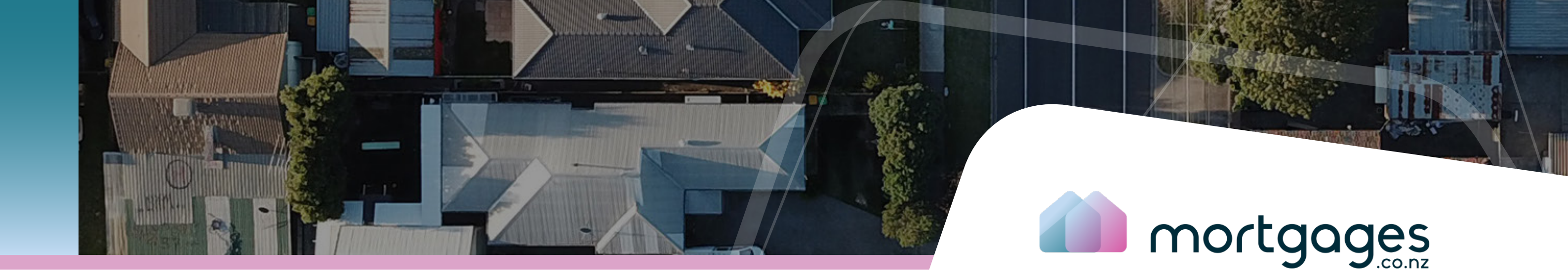


Comments on lending to first home buyers submitted by advisers include the following.

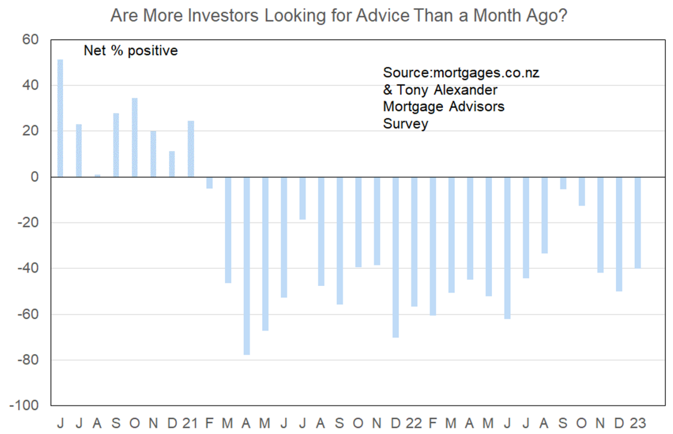
- Test rate is quite high and that is affecting the borrowing, there are a lot of people who are willing to purchase but do not want to buy something old and cheap and are happy to wait. Banks are very willing to lend if you can meet the servicing requirement and with Kainga Ora you can borrow up to 95% of the property price if you meet the criteria.
- Still a lack of funding if you have got less than 20% deposit.
- Too early in the year to say just yet.
- No change. Limited funding for FHB on existing properties is creating a hole in the market for sellers of "first home" properties. Investors won't buy and RBNZ limitations mean FHBs are being pointed to new build purchases.
- One bank backing out of new builds not completed.

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

A net 40% of our survey respondents have reported that fewer investors are coming forward for assistance with their financing requirements. Technically this is an improvement from the net 50% of the last survey. But realistically it still means that



interest from investors in residential property buying remains as bad as it has been since early-2021 when the tax rules changed.



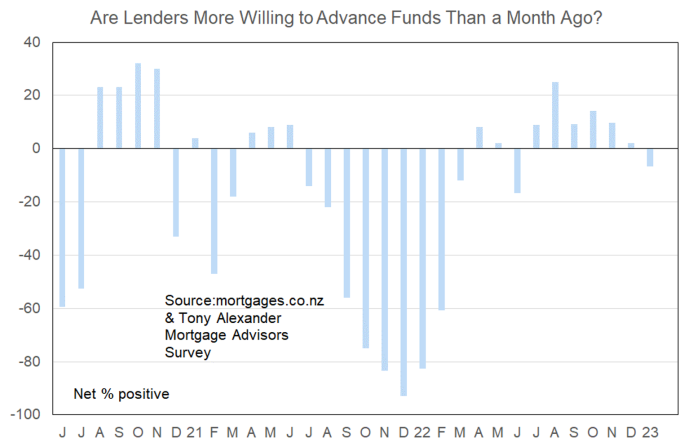
Comments made by advisers regarding bank lending to investors include the following.

- No recent changes: there are basically no investors in the market, people who are buying investments are very cashed up or buying for a family member etc. There is no activity in that space at all.
- Tightening up on current property values when looking at LVR.
- None that I notice - other than 1% cash contribution offered to OO and IP.
- Still limiting LVR to 60% on investment deals, plus banks are doubling up on proposed expenses by shading rental income to 70% and then adding rates and insurances for an investment property on top of this.
- Banks slowly easing up the lending criteria after the CCCFA changes but very slow.

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

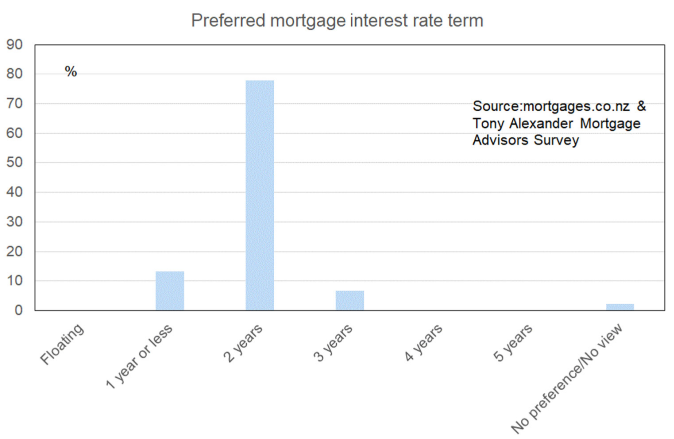
A net 7% of survey respondents this month have reported that banks have become less willing to advance mortgage money. This is a deterioration from net positive changes in the previous six months and may be driven by some bank concern about falling house prices going by one or two comments.

Overall, the comments submitted by mortgage advisers don't support the case that there is a particularly large tightening in lending criteria underway, and some have reported an improvement. The best interpretation is probably that not much is changing at the moment and sector participants are largely waiting for people to get back to work, stop thinking about holidays, and turn their attention once again to buying or selling a property.

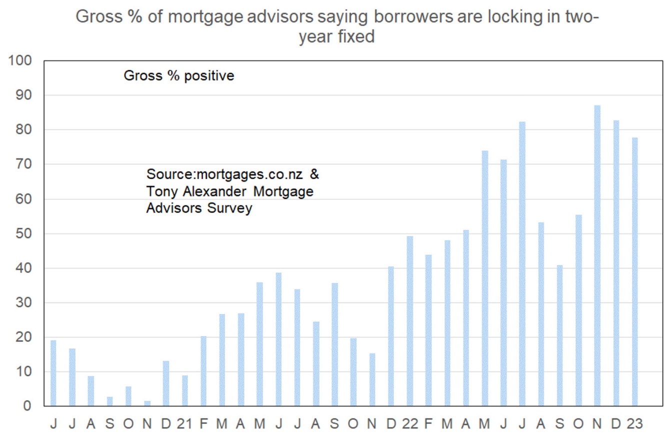


WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

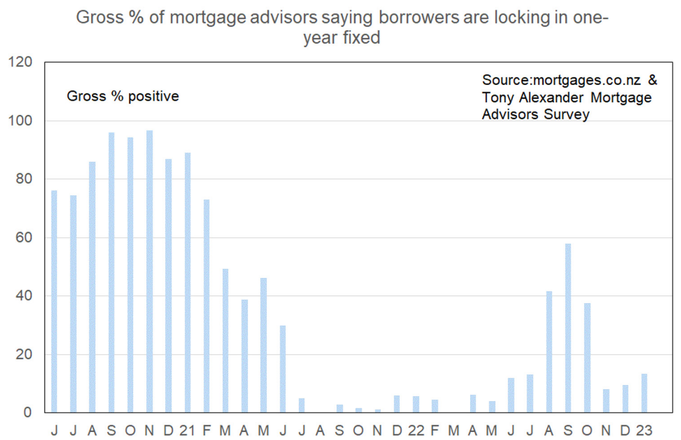
78% of advisers this month have reported that property buyers and those refinancing mortgages prefer the two year fixed rate term.



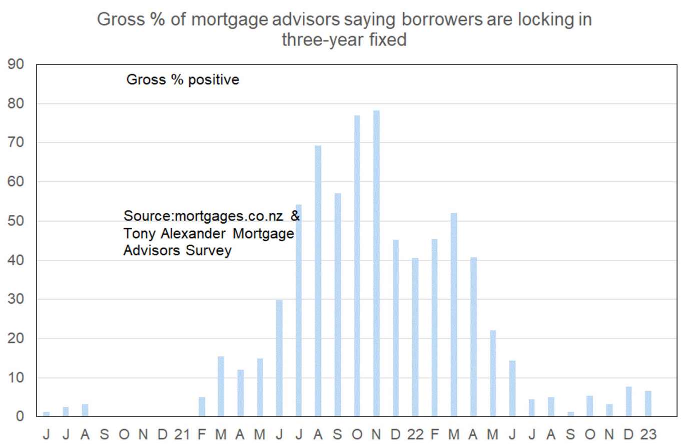
The preference for fixing two years has been on a strong upward path since the end of 2021 with just a brief interruption mid-year when there were hopes that inflation would be easily brought back under control.



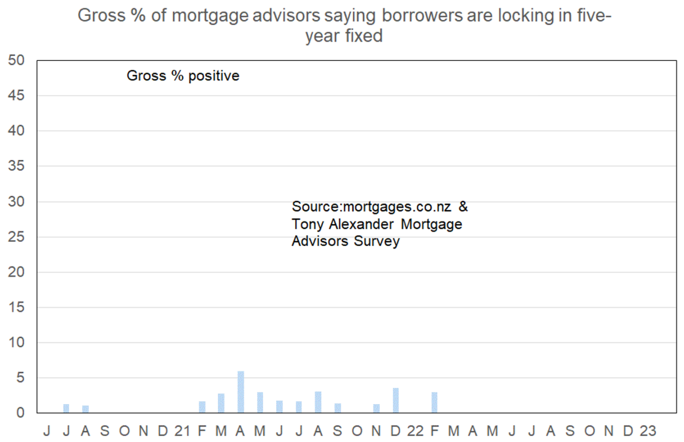
The preference for fixing one year remains very low.



Few borrowers want to fix for three years.



The preference for five years is as non-existent as ever.



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.

AUCKLAND

- Slow start to 2023 as expected
- Some vendors still holding out pricewise expecting their home is still worth what it was in the peak. High interest rates starting to bite some homeowners with more looking to go Interest Only. Seeing some investors sell off a property or 2 to clear the decks and reduce exposure as the high rates bite and returns drop.
- The big banks, although at times take longer than the titanic to turn, appear to be taking on board feedback to ease credit criteria to make lending easier for borrowers. Examples include some banks increasing the maximum they will allow for weekly border income and starting to talk more about removing the double scaling effect of both scaling investment property income and also deducting rates and insurance on top of this (e.g., scaling rental income by for example 30% and subtracting rates and insurance on top of this), and credit functions appearing more open to using additional

discretion to support application than say 6 or even 3 months ago. Competition and lack of relative mortgage demand is driving this.
- No change. Limited funding for FHB on existing properties is creating a whole in the market for sellers of "first home" properties. Investors won't buy and RBNZ limitations mean FHB are being pointed to new build purchases.
- The market is extremely quiet.
- The banks are quieter and therefore turning around assessments quickly. Some are proactively calling and seeing where the purchaser is at. I get the feeling that the banks in general are trying to get approvals over the line.
- Large number of Kiwis overseas looking to buy back home and staying overseas.
- Banks managing margin now that they don't have volume.
- Very quiet time of the year. Increase in people making lump sum payments to bring loan balance down.

BAY OF PLENTY

- Buyers are nervous about rising interest rates and want to wait longer to see if housing markets will lower purchase price. More buyers on standby looking.
- There seems to be a bit of a chasm growing between what vendors are willing to accept and buyers willing to pay, Although this seems to be narrowing somewhat, most purchasers now are very confident to put in a cheeky offer, with the expectation that it will be considered seriously. I get a sense that there are an awful lot of purchasers and awful lot of stock, so the two can easily be joined with both sides being prepared to enter into more robust negotiations. It seems that vendors' expectations are starting to be more realistic, but at the same time I wonder if the purchasers are now the ones that are becoming more unrealistic with them wanting to snap up reduced prices on the basis that they anticipate the house price falling, and not being willing to be 'todays' price. Add to this that some purchasers and venders don't have a great understanding of the relationship between interest rates and house prices and feeling the 2 are mutually exclusive.
- Very quiet on the coal face currently, very few enquiries but that can sometimes be due to holiday period rather than lack of wishing to buy
- Servicing test rates are making it hard for borrowers to achieve the lending they need.

WAIKATO

- Lots of lending still happening. Big shift in clients seeking out Advisers rather than dealing with the bank directly. Last month was our biggest ever month for settlements. So, plenty of business out there. Lots more refinances happening with people needing guidance and assistance and more options particularly around the sheer size of the repayments.

WELLINGTON

- Its dead in Wellington
- Because of the building delays, council delays, seeing a huge pause on people purchasing off plans as the process has recently been so long and interest rates so high especially if they are also paying rent while building.
- It's tough, people are doing nothing in case they do the wrong thing, fear of rising rates in 2023, good time for first home buyers or investors or downsizers. Bare Land seems to be holding its value.
- Customers very cautious. They know they can't pick the bottom of the market but not prepared to commit in case the market drops, or the interest rates continue to climb.

TOP OF THE SOUTH ISLAND

- Strong enquiry to start the year with FHBs seemingly not put off by the increased rates. Most feel it's a buyer's market and they want to take advantage of that.
- Fast turn-around times and 1% cash deals are widespread.

CANTERBURY

- People are scared to buy and lose equity whilst paying high interest rates.
- Servicing is becoming a real issue and clients don't seem to have a grasp on what their spending actually is. It's always understated meaning we as Advisers have to make them

face up to a harsh reality of cutting back or not proceeding with an application as they can't afford it.

- Many clients have given no thought to being mortgage free at retirement which is a big concern.
- I'm seeing more clients wanting advice on re-fixes. I'm generally advising to select a 1-year rate or split over 1 and 2 years.
- Overall mortgage lending is down as rising interest rates have scared people away.
- Some buyers more patient, happy to wait. Some seeing the opportunity of less competition and wanting to buy now. More motivated vendors wanting to move on. People are still upsizing, downsizing etc. More new builds on the market in some areas leading to good opportunities for first home buyers wanting a smaller new build.

QUEENSTOWN LAKES

- Too early to tell but investors have gone from nowhere to plenty of enquiry past 2 weeks. Are they preparing to re-enter the market?

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