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MORTGAGE ADVISERS SURVEY

July 2021

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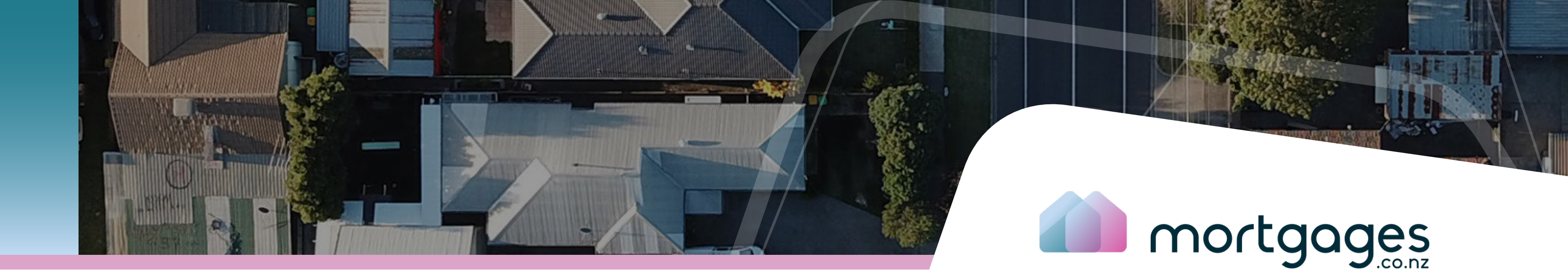


Investor withdrawal slowing

Each month since June last year we have surveyed mortgage advisors throughout New Zealand asking them what they are seeing. The responses which these advisors 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.

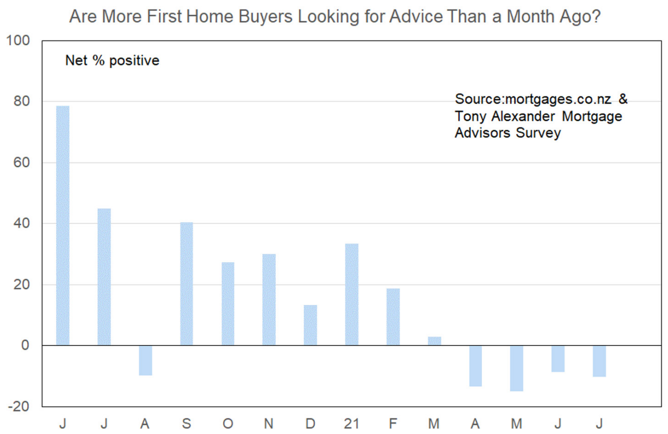
We also gain unique insight into changes in bank lending practices which are not available from any other outlet.

This month, the extent of pullback from investors has eased again and there has been a noticeable shift in the fixed rate terms preferred by borrowers.

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

For the fourth month in a row following the March 23 tax announcement, more mortgage advisors have reported that they are seeing fewer first home buyers looking for advice than are seeing more.

A net 10% of our 59 respondents from around the country have reported fewer first home buyer enquiries. This is statistically the same as the net 9% seeing fewer in our June survey and only marginally better than the net 15% of May.

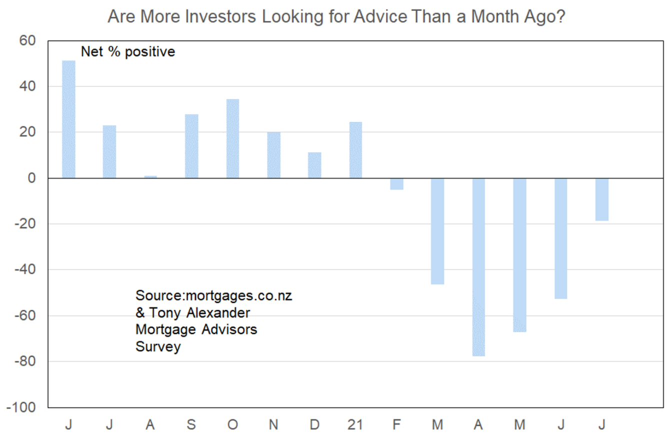


We can see from the graph that there has been a downward trend in enquiries from first home buyers to mortgage advisors for all of the past year, but that the extent of the decline has in fact plateaued in the past few months.

This still means young people are holding back from the market, but not in greater numbers. This then is a point of contrast with investors.

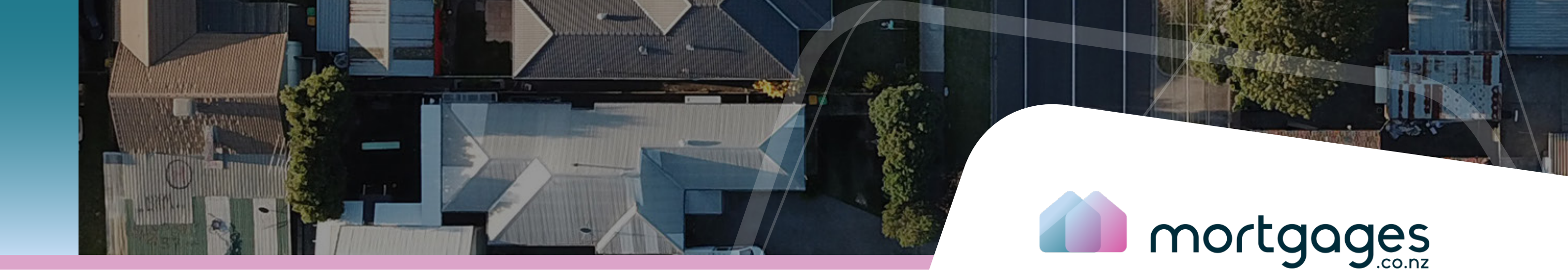
COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER INVESTORS LOOKING FOR MORTGAGE ADVICE?

A net 19% of mortgage advisors this month have reported that they are seeing fewer investors coming forward. This negative result is commensurate with overall caution in the country's residential real estate market. However, this net 19% negative result is the least weak outcome recorded for investors in five months, as seen clearly in the graph.



This tells us that the shock effects of the Loan to Value Ratio rules returning in February and the tax changes announced on March 23 are passing. Perhaps most noteworthy is that our survey fully encompasses a period when mortgage rates have been increased by lenders and when further rises are being commonly discussed and expected over the coming one to two years.

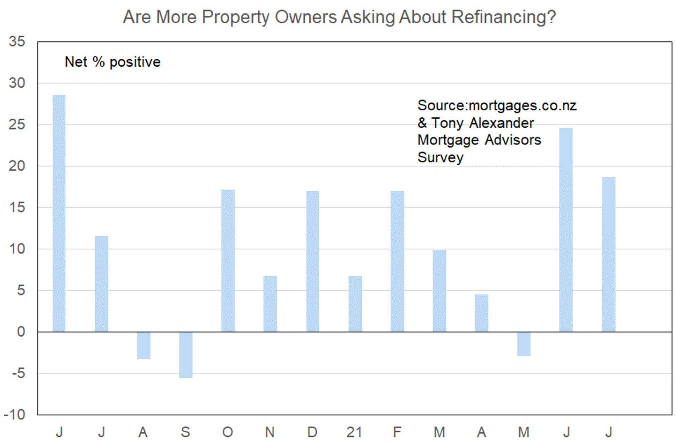
From this we can broadly conclude that expectations of borrowing cost increases are not having a noticeably negative impact on the willingness of investors to make a property purchase. This is the first indication from all of our surveys as to how rate rises may impact the



property market and it will be interesting to slot this preliminary result alongside the others to come in the next few weeks.

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

Last month we reported on a sizeable jump in the net proportion of mortgage advisors seeing more people stepping forward with enquiries about refinancing. This jump has been validated this month with only a small reduction in this measure to a net 19% from a net 25% last month.



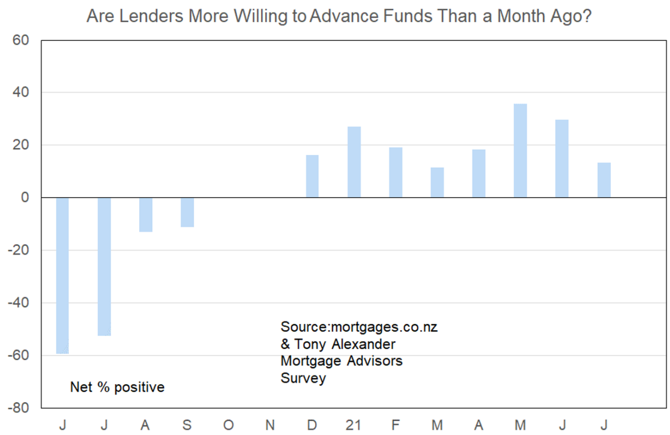
Some of the lift in mortgage refinancing enquiries will reflect a desire to spend from higher paper wealth resulting from the sharp jump in house prices over the past year. Some will reflect shifting around of debt in response to tax changes.

Some will reflect anticipation of higher mortgage rates encouraging people to think about their mortgage structures. Had this measure not jumped to 25% in June we would have attributed this month's 19% result almost entirely to discussions about interest rates going up following the higher-than-expected inflation rate for the June quarter.

But this inflation and interest rates effect may not be all that large and that reinforces the result from the previous question showing fewer investors backing away from the property market.

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

This month there has been a noticeable change with regard to mortgage advisors' perceptions of how willing banks are to advance financing. Only a net 13% feel that things have improved, as compared with a net 30% in June, and 36% in May.



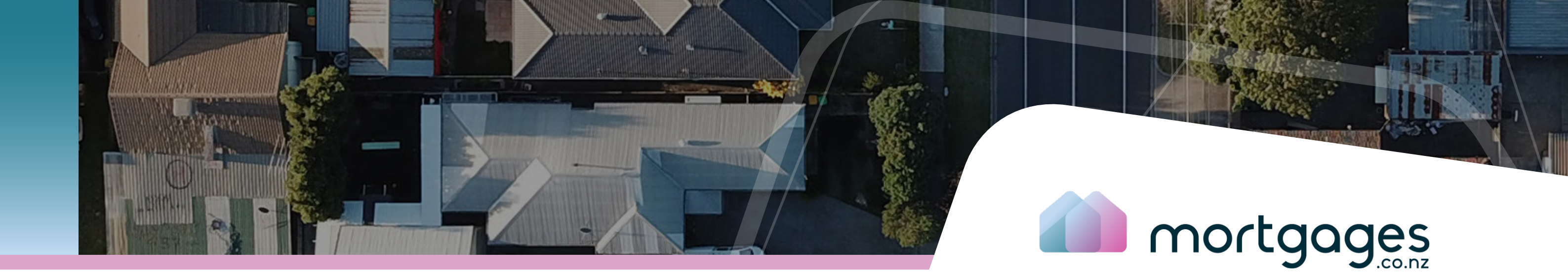
The improving state of the NZ economy is likely accounting for the positive reading overall which is given to the direction of change in bank willingness to lend that advisors are noting. But perhaps the extra emphasis on debt servicing associated with rising mortgage rates and increasing discussion and application by some banks of DTIs (debt to income ratios) is becoming more important.

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

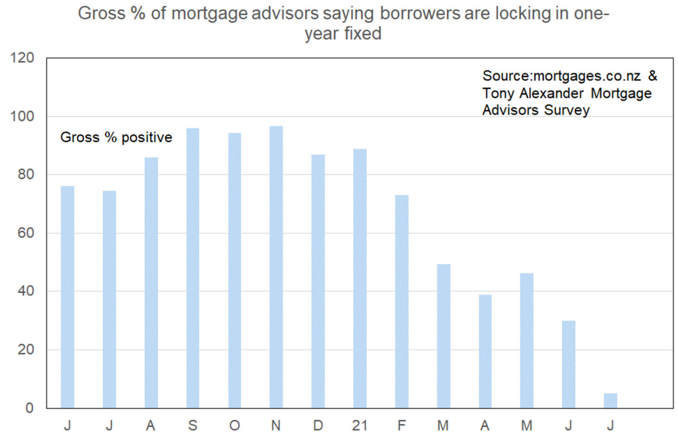
Two weeks ago the June quarter inflation outcome was revealed to be 0.5% higher than market expectations. Bank wholesale borrowing costs spiked higher as expectations for when the Reserve Bank would tighten monetary policy shifted from late this year to as early as next month.

A round of increases in fixed mortgage interest rates has occurred and we have seen a clear shift in people's term preference as they consider forecasts of rates going upward.

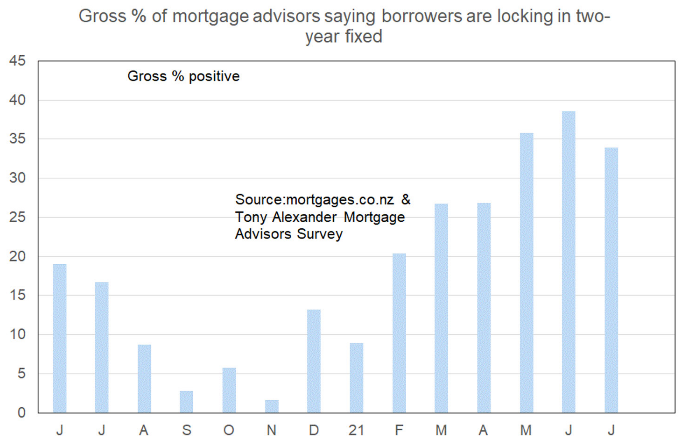
In February 73% of mortgage advisors said that buyers preferred the one-year rate. Come April that proportion fell to 39%, last month it was 30%, and



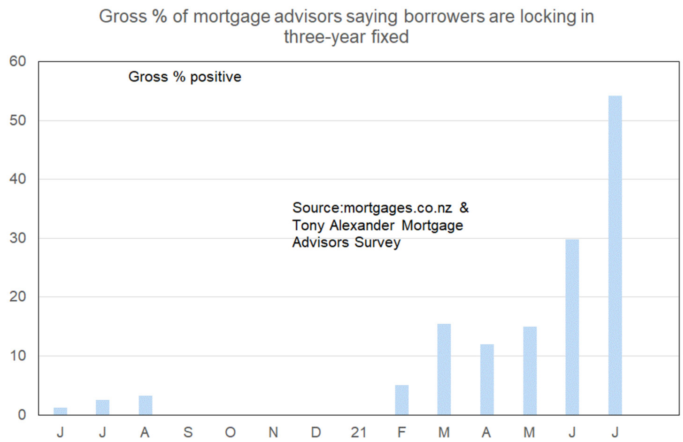
this month only 5% of agents rated the one-year term as most preferred.



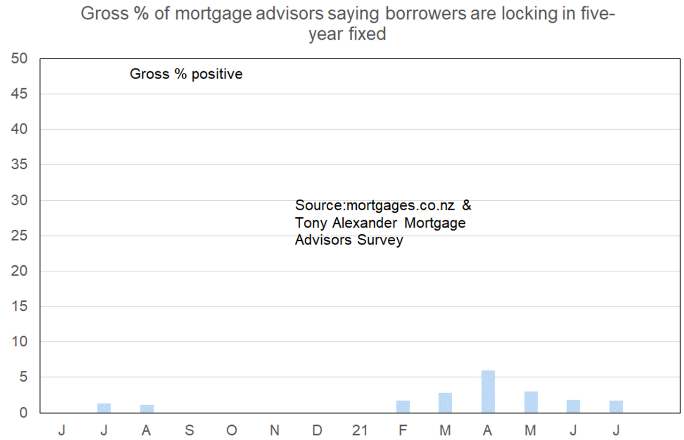
In recent months as people have moved away from fixing one-year there has been a firm shift towards the two-year term. But this month that preference has declined slightly.



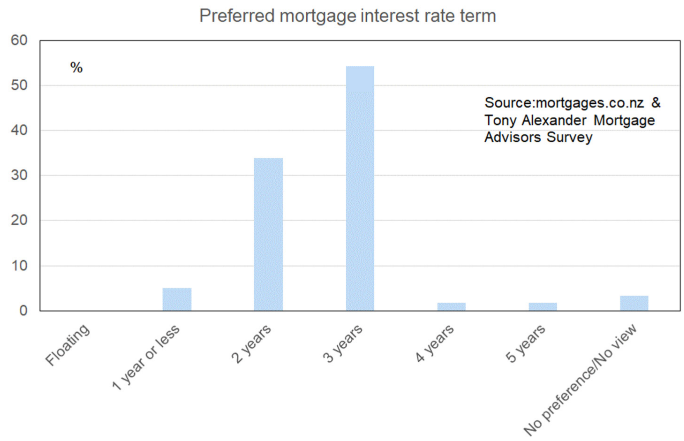
The most preferred term now for borrowers is three years, cited by 54% of mortgage advisors.

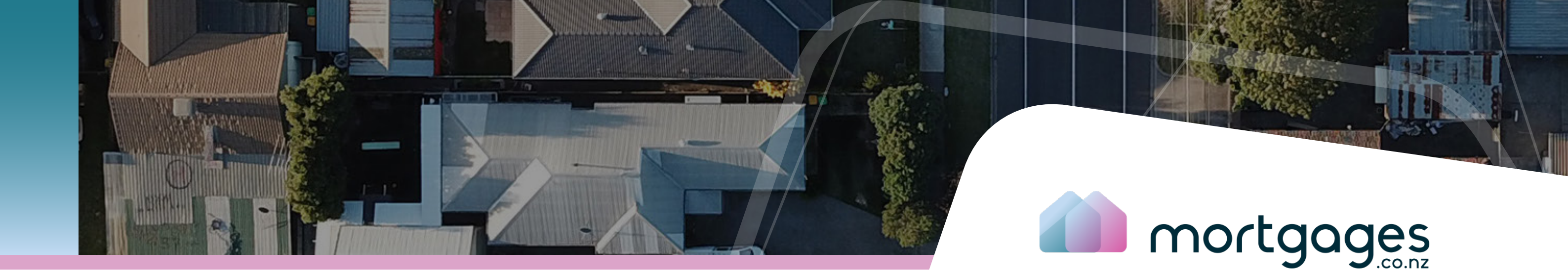


The five-year term is still not popular. Only 2% of advisors saw this as the most preferred term. This proportion is lower than 6% in April, probably because of the rise in the common five-year rate from 2.99% to now as high as 4.39%.



For July, the term preferences are shown here.





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.

Key themes this month include the following.

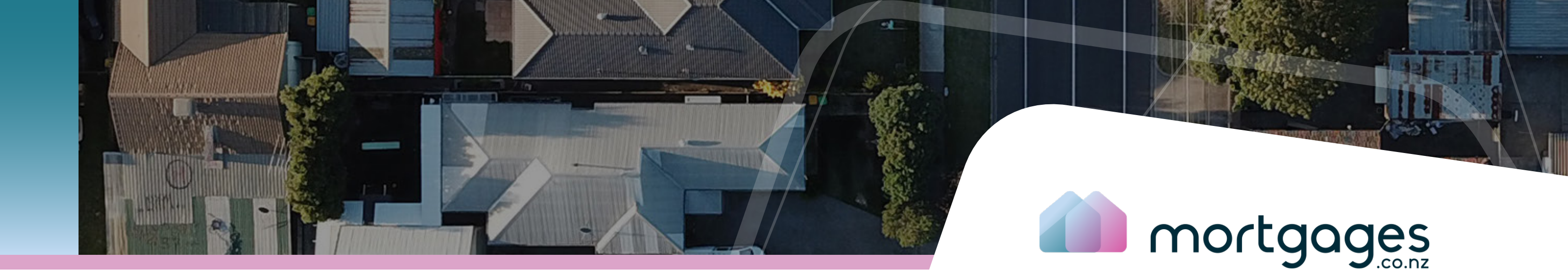
- A mild easing in activity levels underway
- Improvements in some areas of bank servicing but not all.
- Investors buying new-builds and switching towards property development.
- First home buyers still struggling with affordability and auctions especially.
- Listings still in low supply.

NORTHLAND

- Banks offering deals for new builds. Over 80% lending some banks are nervous about level of debt-to-income ratios and are applying tougher criteria without making it policy.
- Seems like we are finally coming off an extremely busy period which is a relief; still good steady inquiry from across the board. Banks seem to be more open to business lending now so some good things happening there. The closing of the refinery has had an effect on the Whangarei region with some high-income earners moving to other parts of the country which is disappointing. However there has been a noticeable increase in new businesses springing up around town which is great for all.

AUCKLAND

- Banks are picking at expenses a bit more than normal and bonuses and overtime have been difficult to use as income.
- Seeing a number of current non-bank borrowers trying to move back towards the banks and meet their loan/serving requirements. This is to protect against rising rates which will start to affect non-banks at some point in the medium term.
- Buyers are a bit more hesitant than before.
- Confidence of investors and homeowners dropping and fear setting in, wanting to fix for longer even with much higher rates.
- Kiwi's overseas still strong, usually 50% LVR and mainly going to nonbanks as banks have little or no appetite.
- Developers are distorting the prices being paid in South Auckland, pushing First Home Buyers out of the market and restricting options for investors. Agents have told me there are NO first home buyers in Mangere, Manurewa and Otara as prices are off the scale with original houses being sold to developers - many $1mill+. Maybe what is being built will be affordable. We will need to wait and see.
- 1st home buyers are still keen to try and find a property, but many keep missing out/get out bid at the auction. Most banks don't seem interested in new business and turn around/assessment times with all banks is much longer than if clients went directly to the bank, with no attempt to resolve.
- Overall the inquiries are still there and there is a general belief that properties are still a very good investment in lieu of other limited options. The cruncher is record low listings for buyers to buy in.
- Investors waiting for Government to finalise new tax rules. Consultation paper raised more questions than answers meanwhile supply reduced more than demand therefore prices up.
- Some lending criteria tightening with zzz for construction loans.
- I am noticing the First Home Buyers active in the market have the FOMO and are naively wanting to pay whatever they need to in order to secure a property. I know that this happens periodically but First Home Buyers with million-dollar mortgages is not a recommendation I would make. Lenders are still providing slow turnaround times and seem to be having staff on leave a lot.
- The banks' timeframes remain the biggest issue. They are still telling advisers it will take 6-10 days but at the branch they can approve within a few hours. They have said they like well presented applications, but they give no priority to these. Feels like the banks (some at least) are anti-adviser and put up as many roadblocks as



possible for the adviser channel, whereas for their own staff things seem a lot easier.
- Interesting average price off new build properties around regions has risen so a lot of government first home buyer grants or schemes no longer apply.
- Some lenders' processing times have gone backwards. More and more clients requesting "crystal ball" conversations re where the interest rates will go, and for how long.
- Some banks are taking up to a month for an answer - especially for self employed investors. Others are getting tied up in knots about photo ID for existing clients and other smaller admin items that slow the process down before settlement.
- Everything is going well. Still having enquiry to the point that myself and my 3 staff are all busy. The FOMO has completely gone so I feel like I am back to working on my business fundamentals. The issue I feel, is that we all knew interest rates were going to rise again. That on its own (or just simply the narrative of rate increases) has taken the steam out.
- As most property in Auckland is sold by Auction, it becomes prohibitive for first home buyers to purchase their first home as they are constantly being outbid. Purchasing new builds is easier, but then locality becomes an issue as they require longer commuting times to where the properties are being built, usually furthest from central Auckland/Work.
- Concern over rising rates (albeit still very low), I'm finding a concerning lack of awareness over impact of changes in interest cost deductibility for especially newer investors. People keen to trade up in owner occupied property, but reluctant to sell and want to buy in case they cannot find what they are after. Increasing acceptance of nonbank space offering very good solutions for reasonable cost.
- I'm tired. Constantly getting fruit salad deals, not too many easy vanilla deals! Whether it's self-employed people with less than 2yrs evidence (due to covid, so started new business mid last year so main banks don't like this, so need to take them to non-bank with higher rates until 2yrs income clear to refinance them).
- More and more people trying to understand how to buy property together. Assumption being buy together then grow equity and buy in own right. The issue is more prevalent in major centres. Christchurch is receiving massive interest from out of towners willing to buy sight unseen (owner occupiers) who can work remotely. Secret is out.

BAY OF PLENTY

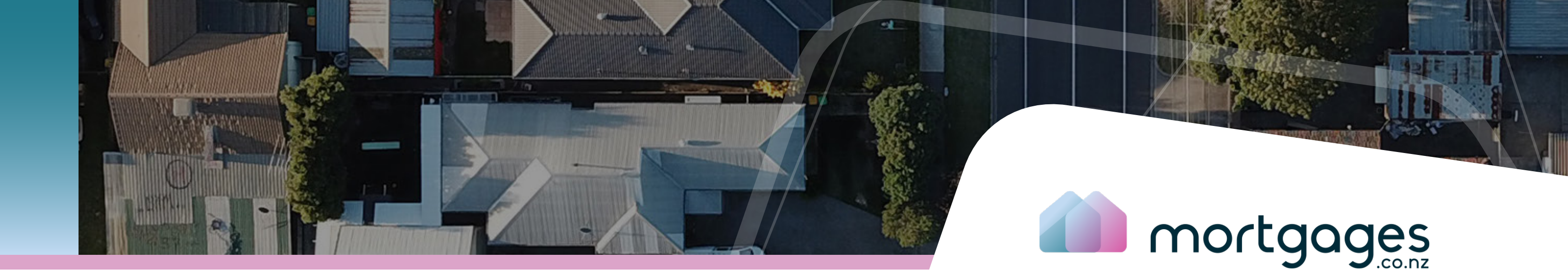
- Inquiry level is still double of 12 months ago and we are definitely earning our pay. Fixed interest rises made the phones run red hot for a few days.
- Still a shortage of listings.........buy well

WAIKATO

- Since the removal of bank sales incentives, there has been a noticeable reduction in staff going over and above for customers. Staff are typically no longer prepared to work overtime to get it done and there is less hesitation to say no when they get their salary, regardless of whether applications are approved or not.
- Investors are pulling back as there are too many unknowns out there and some brain washing around not wanting to be bad guys. Banks are fairly willing to lend.
- Far too many homes that are ideal for first home buyers are going to auction which often precludes that large group of buyers as they do not have the full 20% deposit.
- Lenders are looking hard at affordability with first time buyers and investors, they're not looking hard at refinances.

MANAWATU-WANGANUI

- Whilst we seem to be having fewer leads come through, I have found that a number of my first home buyers have been able to secure homes over the last few weeks. I am about to have a couple of record months of settlements personally for that reason. 12 this month alone compared with my usual 4-5, however my pipeline isn't filling up as quickly on the other end. It will be interesting to see how the next few months play out.



WELLINGTON

- A lot of existing customers applying for top up loans averaging from 30k to 100k.
- Lenders are finally reducing the need to still comment on the effects of Covid last year. Obviously if clients are in an industry that is still impacted that is fine to still require but most clients have well & truly returned to "normal" & many had no clue on whether their employer received the wage subsidy.
- Lack of properties on the market continues to mean purchasers need to offer their top dollar.
- Lack of Listings: Biggest concern for buyers as the quality of the few properties on the market are depressing. New Builds in Wellington: This is like gold, FHB and Investors looking for them. Some of the sunset clauses, are, well … I just tell clients to get legal advice. Interest Rates: Discussions I am having with people is fixing a rate that suits them: Age & Stage of life, relocation plans to upsize or downsize, return to work of a partner. So many reasons But the one-year rate is no longer the flavour of the month.
- It's been very hectic since the banks have increased their interest rates. The majority of the major banks have honoured the lower interest rates that they gave out prior to their increases. However, one bank sent an email with the increased rates, which was received after their 12pm deadline on Friday. They are not honouring the interest rates. I don't expect them to honour the interest rate days later, but within 1/2 hour would be great. This is very disappointing as our industry is all about customer's best interest first and that doesn't seem to be the case here.
- Buyers who are culturally obsessed about interest rates are even more acutely aware that some rates have risen so rate is now the first topic of conversation.
- The turn around times for applications to get assessed at the banks are getting better with the average now around 5-7 working days. This is significantly better than the 2-3 weeks it was a couple of months ago. Buyers looking to purchase existing investment properties have reduced significantly. Most buyers are looking to buy new investment properties due to the expected tax benefits. Also seeing some investors offload existing properties and replace with new.
- Nothing changes here depending on the assessor you get at the bank as to the ease of the application.
- Caution from investors with a definite swing to building new.

NELSON/TASMAN

- Still plenty of applications and approvals but a shortage of stock means the pre-approval pipeline is growing whilst settlements decrease. FHB seem to be winning from the changes to tax deductibility with less competition from investors.

CANTERBURY

- Banks' service levels continue to be very poor. It's gone on for so long now. One wonders how long they can continue to get away with this without some censure. This issue is that if you go out on a limb and complain you feel like you (and your clients) may be penalised even further!
- Less FOMO from buyers - they have seemingly adjusted to/accepted the new norm in terms of pricing and we are increasing pre-approvals more in line with the higher market. More interest in refinancing, less bank loyalty from customers, lots of debt consolidation onto the mortgage off the back of higher asset values. Lenders - large inconsistency bank to bank, and also lender to lender within the banks. Banks are being overly conservative around approval figures. Many still requiring COVID commentary and still caution around income levels for business owners.
- Lenders attitudes to service have dropped - they are still very busy and timeframes for auction property approvals etc. have dropped - perhaps with multiple people attending auctions and a high miss rate and re-work required banks are less enthusiastic now. Certainly looking for the easy deals and anything tricky is taking longer to obtain approvals for.

OTAGO EXCLUDING QUEENSTOWN LAKES

- Could be school holidays but last 2-3 weeks have seen a dramatic drop off in enquiry, not helped by very few available listings and options to consider.

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