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&

Tony Alexander

MORTGAGE ADVISERS SURVEY

June 2021

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Caution continues

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.

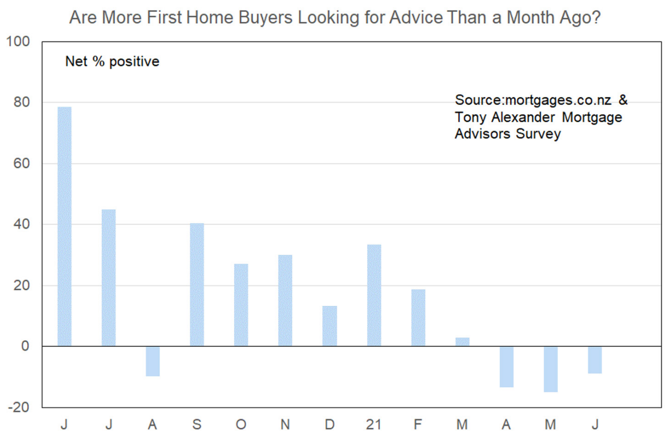
We also gain unique insight into changes in bank lending practices which are not available from any other outlet.

This month advisors have again noted that they are seeing fewer first home buyers and investors. But the intensity of the easing off in demand has reduced slightly for both groups, whilst the increasing discussion about interest rate changes may account for a lift in enquiries about refinancing.

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

For the third month in a row, and following the March 23 tax policy announcement, our survey has revealed a decrease in the number of first home buyers being seen by mortgage advisors.

A net 9% of our 57 respondents have said that they are receiving fewer requests for information from people buying a property for the first time. This is an improvement from a net 15% last month and 13% in April. But as the following graph shows, conditions remain weaker than at any time during 2020 except August.

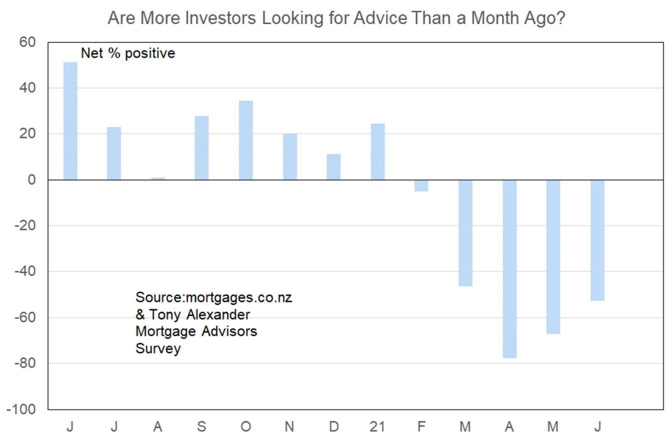


Taken in conjunction with the results for investors and feedback in other surveys, it is clear that people contemplating the biggest financial decision so far in their lives are feeling uneasy. However, data from CoreLogic tell us that in April there was a rise in the proportion of property sales going to first home buyers to 23% from 21% in March and 22% in February.

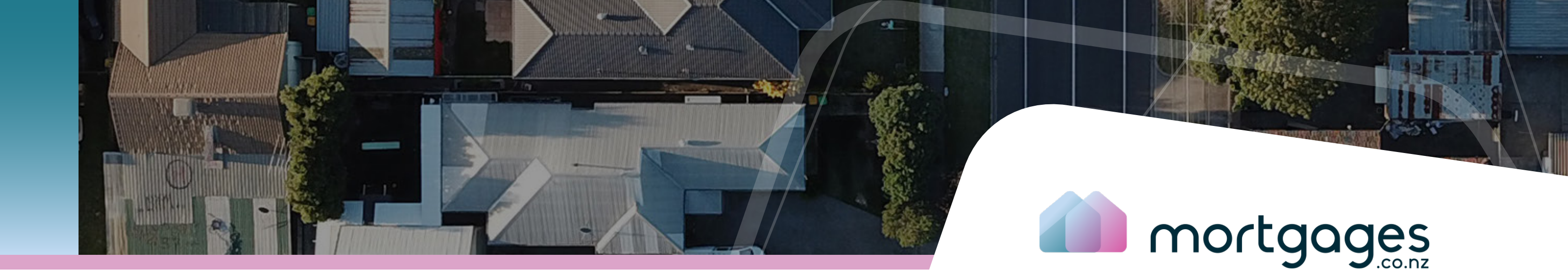
This change, in spite of first home buyer caution, arises because of the greater pullback in market presence of investors, discussed below.

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

A net 53% of our respondents in this month's survey have reported a decrease in the number of investors coming forward for mortgage advice. This represents the second month in a row when this measure has improved. But at -53% it clearly signals substantial wariness on the part of investors, and the change from a peak period of weakness in April of a net 78% pulling back is not all that large.



The government has clarified the rules regarding new builds and things are in line with the broad outline announced on March 23 regarding loss of ability to deduct interest expenses and extension of the brightline test – both for investments in existing houses. Better understanding of the tax changes may see some further easing off in the intensity of investor withdrawal from the market. But



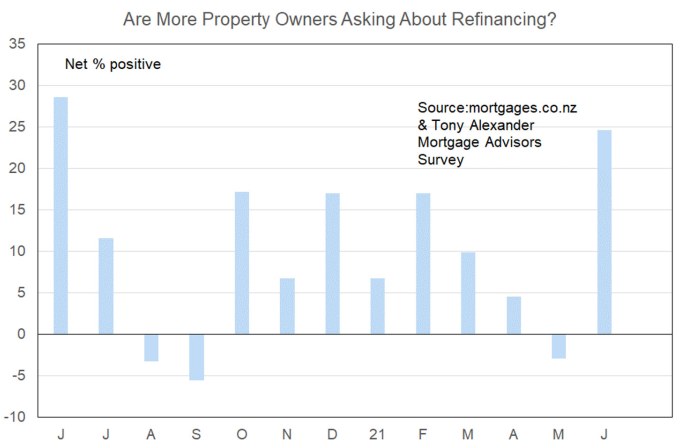
discussion about rising interest rates is growing and the Reserve Bank is to be given the ability to use debt to income (DTI) lending restrictions in future years. This implies a structural easing off of investor demand.

Experience tells us that when changes are made to markets of a long-term nature, such as the tax changes, the initial reaction of affected parties can easily exceed the long-term impact. That is probably the case for residential property investors currently, and feedback from various sources indicates that some of the easing off in their property demand is mainly because many are for the moment concentrating on selling some less desired properties to reduce debt.

Eventually a new equilibrium will be reached and we should be able to track its development using this particular measure.

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

There has been a sizeable jump this month in the net proportion of mortgage advisors reporting that they are receiving more enquiries about refinancing – to a net 25% from -3% last month.



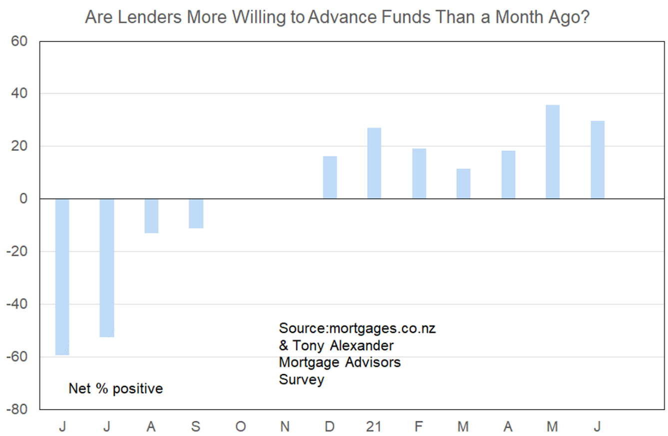
There are likely to be three factors behind this surge in such enquiry. First, there has been a sharp rise in general discussion about accelerating inflation and rising interest rates and it is natural to expect debtors to seek information on how to protect themselves against potential rate increases.

Second, as a result of the housing tax changes many investors are indicating they plan slimming down their portfolios to reduce debt. Some are shifting debt onto other assets where deductibility of interest expenses will continue.

Third, the economy is performing very strongly and the accompanying rise in consumer confidence seen in various surveys is likely to be encouraging people to think about using some of their accrued housing (paper) wealth to finance extra spending.

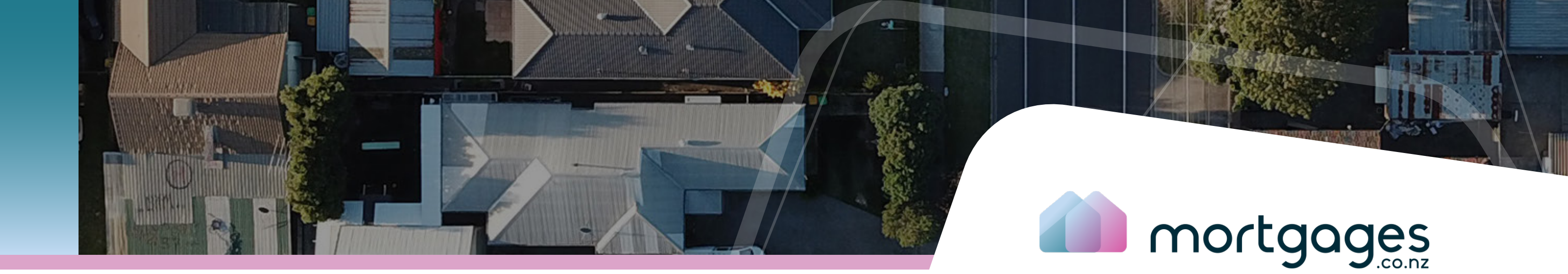
COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

A net 30% of our survey respondents have reported that they feel banks have become more willing to lend. This is not much changed from the net 36% of May but does appear to continue a broad upward trend which started back in April.



As house prices rise bankers can naturally feel reduced concerns about net losses should borrowers default. But at the same time, if rises have been exceptionally strong as they have been for the past year, concerns about the ability of prices to hold up can arise.

On the face of it that latter effect should probably be dominant at the moment and generating increased lender caution. But it looks like it is being outweighed by the strong resurgence of growth in the New Zealand economy and such growth generally causes a cyclical rise in the willingness of financiers to lend money.



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

Back in January, a gross 89% of mortgage advisors reported that the fixed rate term most favoured by their clients was one-year. That proportion eased to 79% in February as discussion started to appear regarding interest rates going up. Come April the proportion was 39% but it rose to 49% in May perhaps as some rate worries eased off amidst signs of slowing real estate market activity.

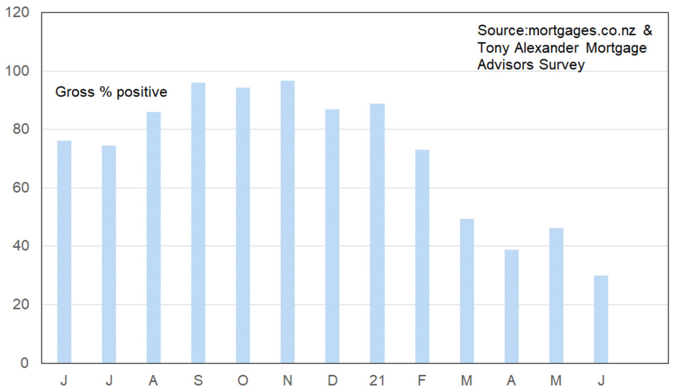
But in the past month general media discussion about strong economic growth, rising inflation, and the growing need for higher interest rates, has bloomed. Just a few days ago the Federal Reserve in the United States indicated they would start raising interest rates in 2023 rather than their previously very firmly stated 2024 time period.

Our own central bank on May 26 published a set of interest rate predictions for the first time since February 2020 and revealed an expectation of their official cash rate rising 1.5% from the September quarter of next year.

A few days ago, NZ's economy was revealed to have grown by 1.6% during the March quarter, rather than rising 0.5% as analysts had predicted, or shrinking 0.6% as the Reserve Bank had estimated four weeks ago.

Now, our survey reveals that just a gross 30% of advisors say that the one-year term is the favourite of borrowers – and that despite banks slightly reducing that rate.

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

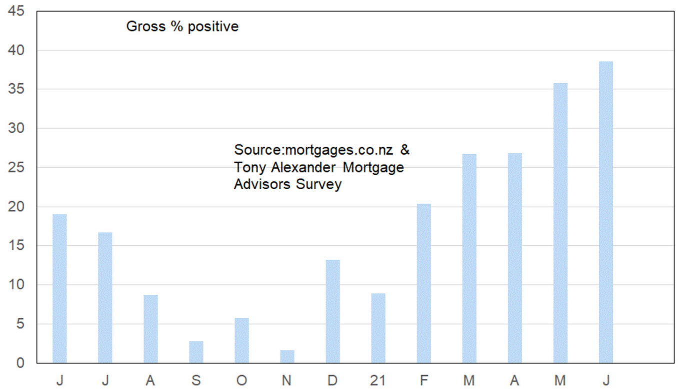


Why have banks been cutting their one-year rates when there has been no easing of monetary policy? Probably because borrowers have started shifting to longer term rates and the margins for those time periods of two years and beyond have been well below average. Hence, banks have been raising their medium to long-term mortgage rates.

Two months ago, one could easily borrow at a fixed rate of 2.99% for five years from a number of lenders. Now the typical rate is 3.69%.

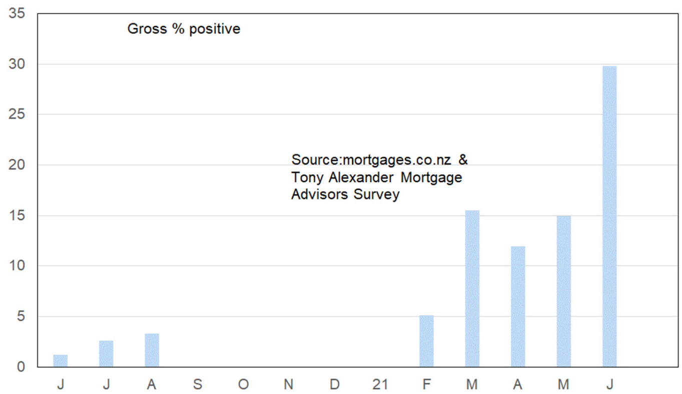
Our survey shows that the two-year term is now more popular than the one-year term.

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

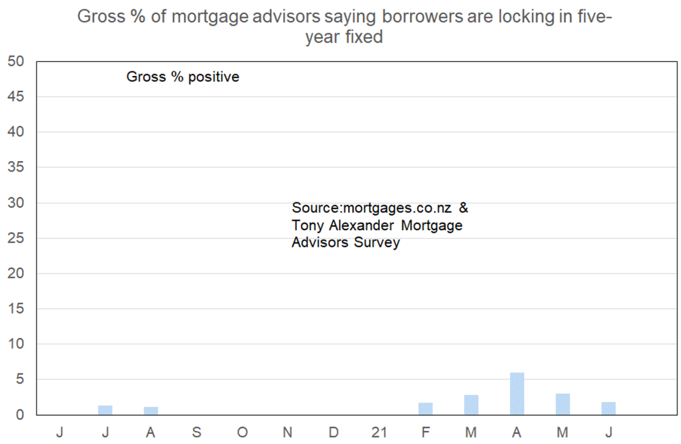


The three-year term is the favourite according to a gross 30% of our responding mortgage advisors – making it as popular as the one-year term.

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



The five-year term still remains favoured by very few, and now that the rate for this time period is so far above that for the one-year term, such lack of preference is likely to continue.



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.

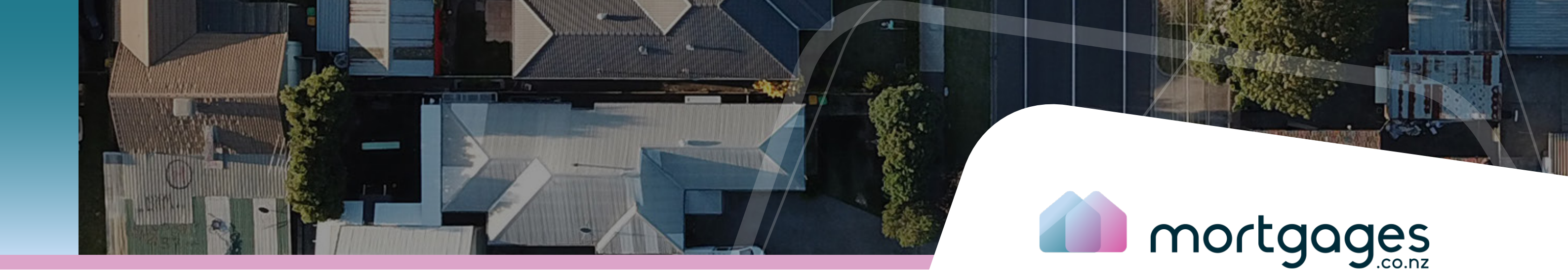
- Listings remain in short supply.
- Investors are shifting towards new builds, but sections and builders are hard to find.
- A number of advisors have noted a new surge in demand in recent days following the lull period.

NORTHLAND

- Bank turnaround times are reducing.
- Things seem to have reignited after a small period of respite. There appears to be more opportunities for FHBs with investors dumping older properties from their portfolio's, I have done a number of applications lately where the tenants have purchased directly off their landlords. Huge amount of pressure on build companies to get land available and also get materials to complete builds. There is a common theme of delays in getting cladding through to site - not ideal for this time of year. The banks seem to be more open to being flexible with their lending criteria, particularly for FHB's.

AUCKLAND

- Still plenty of 1st home buyers, or family home "upgraders" seeking finance. More are looking to fix on longer terms (3 to 5 years).
- Lender land is tight, first home buyers particularly affected with the lottery of over 80% borrowing. Investors at banks now 60% and only two non-banks at 80%, rates for those on the up as the lenders struggle to keep pace with applications. New builds off the planet with Turnkeys causing concern as many are over the 12-month limit for approvals.
- I personally see that the banks have sped up their turnaround times but only if loan applications are extremely accurate and all documentation is provided in order and upfront. This is understandable as they do require a lot more info these days than years gone by. Self employed clients are generally disappointed with what is required around financials and the questions we have to ask about their businesses when we do get financials. I actually preface my convo with self-employed people with the fact that we have to deep dive into the business to explain all little details to get an approval. Basically, warn them upfront that it can seem like an arduous process on the back of a lockdown year. Otherwise, another bank has seemingly jumped into the "New Build" space which is great for business. Have definitely had people "scared" of rates going up and looking at the longer-term ones now.
- Buyers still keen to buy. Lenders still keen to lend.
- xxx have been starting to apply DTI implications to lending practices.
- As an investor I'm hearing from so many more real estate agents every week trying to entice me to sell to developers. They are paying huge money for modest properties for development pushing the average prices up in many areas. Investors usually want to buy at a discount. Developers will pay whatever it takes to secure the land.
- Seeing a lot more first home buyers in the



market, a lot more turnkey purchases.

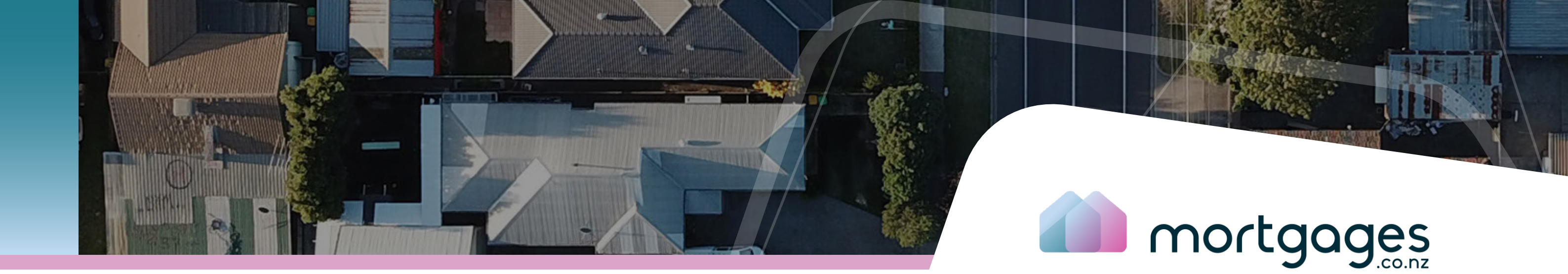
- The market's definitely gotten quieter which isn't great as I've only just finally hired an amazing PA who costs a lot!
- Investors disappeared when tax changes announced and haven't come back. Home buyers were spooked and took a wait and see approach, now they are back. Investors with existing properties pre-tax changes are not selling. End result less supply, more demand, prices up. Not as crazy as last year.
- Some second-tier lenders tightening up documentation requirements as auditing requirements are stepped up internally. First home buyers looking towards a build as they are sick of being outbid at auctions. Investors looking to the regions to fit under 40% LVR cap and some lenders DTI's. Finally turn around times are reducing. Clients not heard from for 2-5 years looking to add value to their property, and 50/50 split between staying at current lender or moving lender to get a new cash contribution. Cost of registered valuations has gone through the roof. These costs need to be looked at at a higher level as the difference between a client ordering a valuation direct, and a valuation ordered through the portals can have a cost discrepancy of as much as 40% higher if ordered through the portal as per bank requirements.
- Still busy for this time of the year. Seems to be more first home buyers and existing homeowners looking for pre-approval. Tough to get first home buyers large enough approvals to buy. I had my doubts that investors were driving prices up. The government theory that removing investors from the market would mean that first home buyers would be able to set the price at a lower level doesn't seem to hold up so far. I think one of the reasons investors were buying up is because they are quick to act. First home buyers visit the house a few times, imagine themselves living there, also the bank probably needs a valuation. This all takes time. Investors need a rental appraisal then they can work out the yield and they are done. Of course, once first home buyers miss out a few times they either take short cuts and jump in without proper due diligence or they just give up.
- First home buyers still unable to secure properties due to limited stock and deposit issues. Low numbers of investors in market and more enquires around structure of existing facilities with potential rate movements coming.
- I am still finding a lot of wait and watch but there is a natural shift from the investors towards the new builds and the FHBs will find it harder to get into turnkeys and new builds.

BAY OF PLENTY

- Less FOMO, still plenty of activity. Open-ended bridging is being pushed to non-banks.
- I work in both BOP & Waikato and FHBs are not even bothering to apply for First home Grants. Even the new caps are way too low on property values. New enquiries in this last week have doubled on recent weeks and are for all types of buyers FHB, investors & selling and upgrading homes. Many investors looking to Commercial property purchases rather than residential.
- Fixing int rates either 1 year or 5 years or combo of the 2. Easier to get older owners to fix for 5 years at 3.7%, as they know rates were over 9%, pre GFC. Harder for FHB when 1 yr rates 1.5% lower at 2.2%. That's a big difference in repayments. Some banks allowing boarder income above & below 80%, which is good, but limit the income to max $150pw but then scale it. Another bank using FLP funding to offer 1.79% Floating rate for new builds = cheapest floating rate in town. Some lenders have reduced their UMI minimums for over 80% lending which means more FHB can service the loans, with their smaller deposits. Starting to get more clients buying an IP for the first time, not concerned about loss of interest deductibility, as they haven't had it before. Buying to use 100% leverage in home and use high incomes to service debt and then have 2 properties going up in value. Still not as busy as Sept to March.

WAIKATO

- Strong market with not many listings. A lot more investors looking at builds but a lack of sections available means we are supply constrained. A lot more clients are looking at refinancing as they are fed up with their existing bank. Overall, the banks are being difficult to deal with for



both client and Adviser but this is leading to more business for advisers. Banks need to come into the current decade with their systems as everything is manual and slow and double worked.

- Lots of people taking a 1 and 3 year split on their loans, not many 4- and 5-years fixes being taken as they have jumped >3.2% now. I could count on one hand the amount of 4–5-year fixes taken over the last 12 months when the rate was 2.99% so a lot of my clients missed the lows on those and took the candy that was the lower 1-year rate. Banks seem to be more willing to approve now vs say 3 months ago and turn arounds time while still frustrating are still improving.

HAWKES BAY

- After a couple of quieter weeks activity is picking up again with new enquiries. Clients are missing out on multi offers although some of the lower end stock is proving to be slightly less popula

MANAWATU-WANGANUI

- One thing we have noticed is a number of valuations are coming in under the clients purchase prices. This hasn't been that common, but we have had about 4-5 in the last few weeks alone. A couple of banks have just loosened servicing criteria for low equity applications also which is a good sign for first home buyers.
- Increased regulations result in more paperwork from the front line and therefore I'm less able to get out and about to see clients. This will result in a drop in my business, and we are also about to start tertiary study for the Level 5 advisor papers. Not overly happy about it - especially when the governing body doesn't seem to know what the standard required for the new regulations actually are.

WELLINGTON

- Lots of people considering new builds for both owner occupied and rental properties since recent tax changes and also as an RBNZ LVR restriction exemption.
- Saw a 90 square meter property sell in Newlands with no sun, that had a GV of $780,000 recently sell over $1,500,000.
- Volumes have reduced slowly, but bank turn around times are not showing improvement overall. Banks (in general) are reluctant to take on new to bank, high LVR business - even if it's very good business.
- Winter slow down for all enquires across the board, first home buyers, new home buyers, refinancing, investors quietened down noticeably in the last 3 weeks. I put this down to a winter cyclical slowdown. Wellington listings still low, interest rates still low, banks willing and able to lend. Turn arounds (apart from one main bank) remain poor and unacceptable.
- More people wanting to buy an I/P. Think that after they have visited their accountant for their 31 March 21 financials and they see that the fundamentals of owning an I/P have not changed and in fact, they fear that prices will rise again when Spring/Summer comes.
- We have a lot of pre-approvals out there and these customers are really struggling to get their offers accepted. They are strong buyers and motivated but there is so much competition. If I depended solely on first home buyers I would have a problem.
- Banks still keen to lend - its all about supply of stock (still).
- Turn around times to assess applications still slow with some banks. 10-15 working days still the norm for these banks. Enquiries to purchase existing investment properties has fallen off a cliff. All enquiries are now for new investment properties that meet the Reserve Bank exemptions.
- Response times and answers from the bank are extremely varied. It totally depends on the assessor at the bank as there is a huge difference in competency between assessors. This is the biggest frustration. There is still plenty of enquires coming in from customers.
- Banks are making it harder for first home buyers as they are using their current UMI and assessment margins plus a DTI. They are also taking a little longer on turnaround times.
- 1.79% floating back my build has keen interest.

CANTERBURY

- Most lenders have updated their calculators and servicing minimums. FHB over 80% are limited in choices now, some lenders adding LEP for over 90% LVR. Banks are shutting down to over 80% LVR's and new to bank clients. Preapproval assessment times are stretching out.
- This is re first home buyers - lenders seem to take every opportunity to make it difficult to get loan approvals quickly. Their timeframes continue to be embarrassing.
- Stock is absolutely at a low level, and hence lower turnover, but biggest shift is with people selling and buying again with a view to move into their forever home is huge. They are paying an absolutely premium price to get in as they don't want to wait and then miss out. I have a lot of clients that are selling and upgrading with a view to stay in the new home as a forever home. First Home Buyers are struggling as every property is going to auction and most FHB's have less than 20% deposit and hence fulfilling banks requirement prior to auction cost around $1500 which is always hard for an fhb.
- Doing a lot of small top ups for cars, renovations, paying off consumer debt (using the growing equity in the home as a cashflow card.) still frustration for buyers with limited houses available; first home buyers in Chch basically foregoing the first homeowners grant because they can't find anything under 500k.
- xxx incredibly slow at the moment and very nit-picky. yyy seems to have tightened up using DTI to decline a loan that serviced for investor building own home. Still very frustrating.
- Have been dealing with an almighty stuff up by a bank this last week. The bank gave incorrect advice and made a deal unconditional and loan docs were issued. On settlement the money was not advanced as error was picked up. Huge penalties for the client. This is all due to lack of processes being followed. Internal errors - this bank is in disarray as fielding applications out to branches and the staff are not trained adequately - especially in construction. Banks not coping with the workloads. They need to put more staff on and train properly.
- Market seems to be softening - those FHBs that were pretty committed to getting a home but missed out in the Feb-Apr high prices are now settling for okay homes for the same if not slightly cheaper prices and market seems a tiny bit less competitive in some price ranges.
- Lenders still seem to be under the pump with heavy queues - under pressure, some commentary and information is being missed or overlooked, which is causing further delays while clarification is sought. First Home buyers hoping for a bargain are now being more realistic on what they might have to spend to purchase a good home. Encouraging them to really do their homework around the neighbourhood they hope to buy in.
- Overall, the issue is still supply of housing. We currently are working with double the amount of first home buyers compared to 'normal levels'... The issue is they all are fighting over the same properties, so a number of purchasers are missing out time and time again (some give up, but new clients take their place) .... Good quality homes are hard to find, and developers only have so much land to sell right now (with a 12+ month wait on those titles!). Need more housing ASAP!

OTAGO EXCLUDING QUEENSTOWN LAKES

- Last 3/4 weeks have been much quieter, but interesting that this week has seen a new surge, mainly first home buyers. Lack of listings is the big issue and probably the main problem facing buyers who have little choice. Agents looking at having no listings to sell other than those problem properties that have been sitting for months waiting for the market to come up to their inflated price or a buyer cashed up who doesn't need to borrow against a dilapidated or problem site that banks are reluctant to take on board.

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