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&

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MORTGAGE ADVISERS SURVEY

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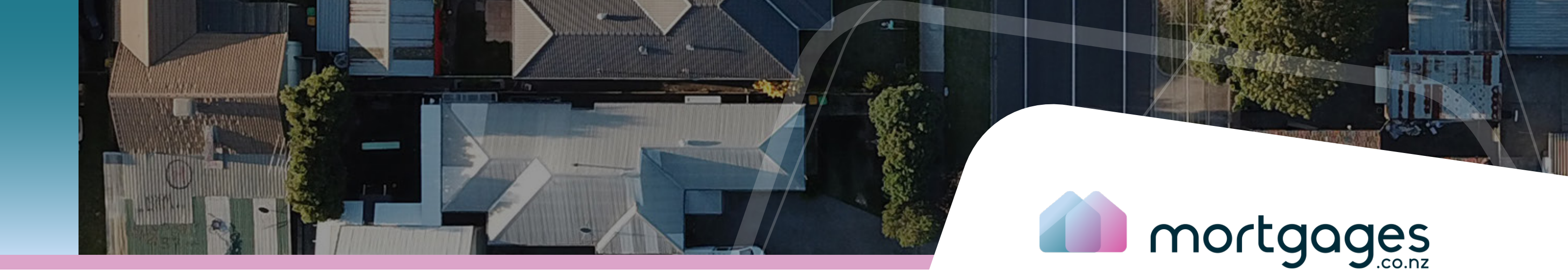


Buyers backing off

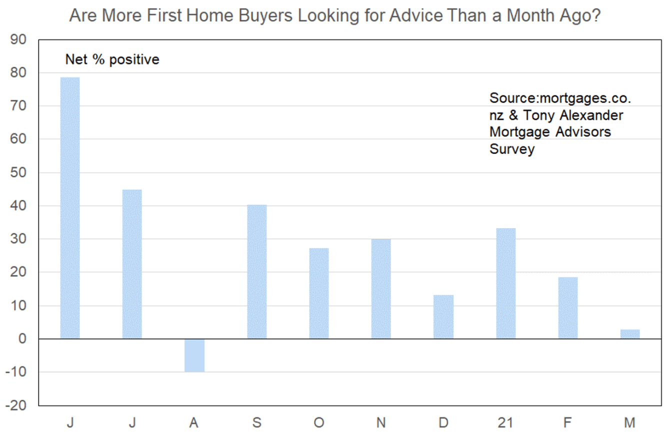
Each month since June last year we have surveyed a number of mortgage advisors throughout New Zealand asking them what they are seeing. The insights which these advisors can provide give us early insight into changes that are happening in buyer behaviour in particular, well before such changes show up 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 we can see in the results which 71 mortgage advisors have provided, that both investors and first home buyers have become more cautious in their approach to the housing market around the country.

FIRST HOME BUYERS LESS PRESENT

Back in January a net 33% of advisors said that they were seeing more first home buyers looking for advice. This fell to a net 19% in February. In March, with all results coming in after Tuesday's housing announcements, a net 3% of advisors said they are seeing more first home buyers.



This is the lowest result since June barring the -10% in August when Auckland went into its first solo lockdown.

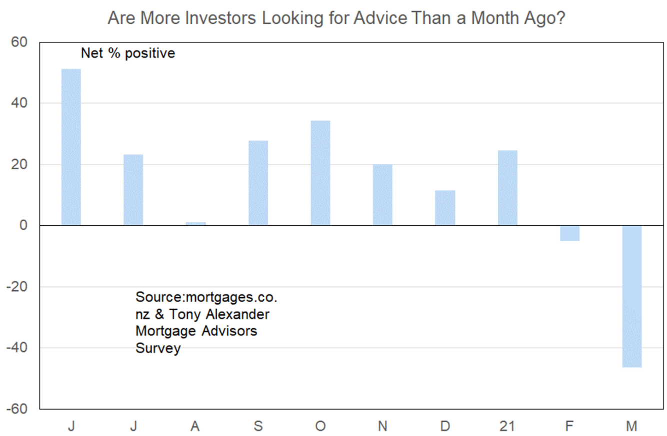
While a month ago we concluded from the data that it did not definitely allow a conclusion that first home buyers were backing off slightly, based on this latest result we can say that.

However, comments submitted by advisors indicate that a high degree of FOMO and angst still exists amongst young buyers as they seek to use finance pre-approvals to purchase something whilst watching prices move away from them.

INVESTORS START CALLING TIME OUT

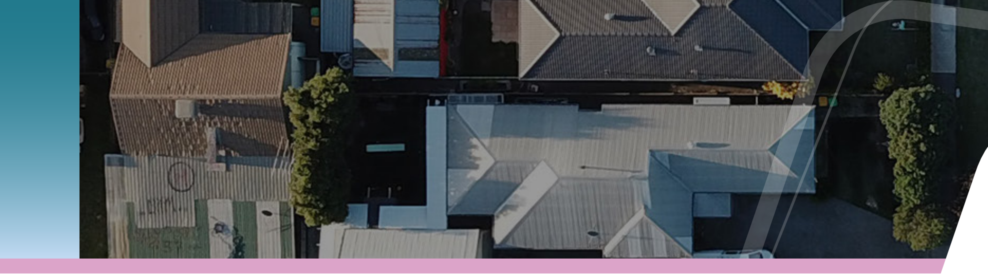
Whereas mortgage advisors at a pinch continue to report a small rise in the number of first home buyers looking for advice, this is not the case for investors.

A net 46% have reported that they are fielding fewer enquiries from property investors. This is the second month in a row of shrinkage following February's net 5% saying they are seeing fewer investors.
fewer investors in the market. That is, in net terms investors are starting to back away.



Had the Finance Minister had this result and a few others like it in hand perhaps from our other surveys, he may have been less inclined to take last week's step of removing tax deductions from rental property revenue. Then again, maybe not given the strong desire to enact a shift in the market towards owner occupiers and away from investors.

All of the results in this month's survey were received after the announcement of Tuesday 23. But



the strong number of responses on that day when advisors would have had only limited interaction with clients suggests that were we to run the survey again from this week, the outcome for investors would likely be more negative than shown.

Why would investors have been easing off in their demand ahead of the policy news? Some of their withdrawal would reflect a simple response to prices being at a high level. But a substantial factor is likely to have been the February 11 announcement regarding 40% minimum deposits for investors. Some of those who did not already have finance arranged are likely to have pulled out of the market for want of the necessary dollar amount as a deposit.

Those with pre-arranged finance would in many cases have been scrambling to secure a property to buy and settle on ahead of the May 1 deposit requirement coming into play for all investors. It is not entirely clear at this stage whether the group of investors who have scrambled to buy and potentially paid top dollar to secure a property will lose their tax deducibility straight away or be classified as existing owners from March 29.

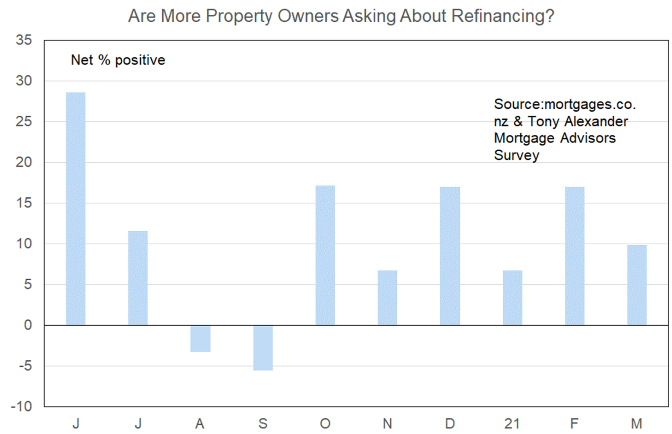
There is a risk of non-settlement of some purchases.

REFINANCING TRENDLESS

Each month we also ask mortgage advisors if they are seeing more people seeking to refinance their existing mortgage. This may happen because people wish to use some of their equity (borrow more money) to fund a purchase. Or they may be seeking to alter the term at which their mortgage interest rate is set.

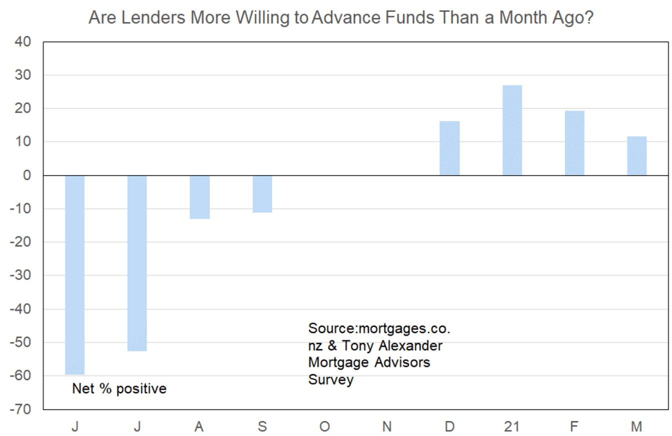
This month a net 10% of advisors have said that they are seeing more requests for refinancing information. This is down from a net 17% seeing more such refinancing requests in February.

But as has been the case since our survey started, there is no trend as yet apparent in this measure.



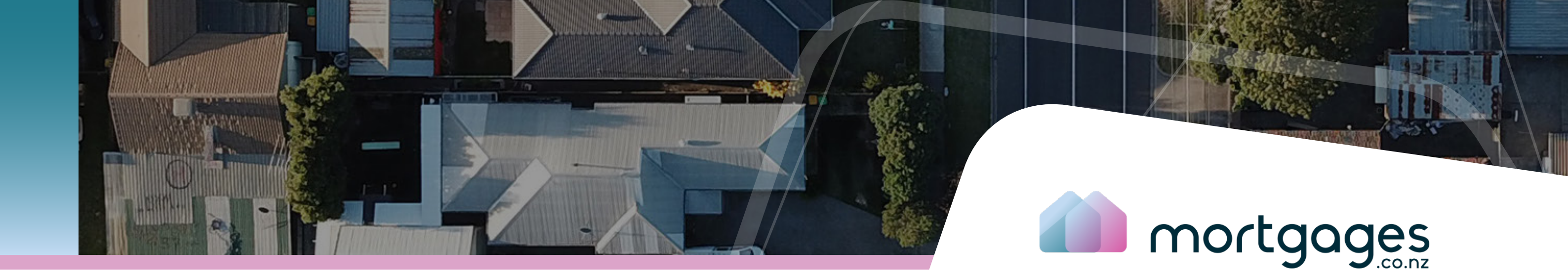
BANKS MORE WILLING TO LEND

When asked how they perceive the willingness of banks to lend for property purchases a net 12% of advisors this month have replied that they feel willingness has become better. But the extent of this gain has slowed over the past two months.



Given that investing in residential property has now been revealed as a riskier path than previously thought (heightened risk of unpredictable changes in regulations), it is likely that banks will tighten up their lending criteria for investors in coming months.

Our survey's timing has probably precluded the capture of such changes as yet, but it will be interesting to see the results for this question next month.

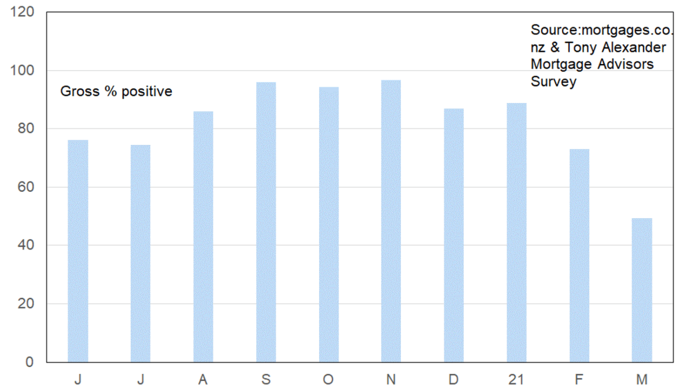


BORROWERS FIXING LONGER

We also ask mortgage advisors the time period over which borrowers are preferring to fix their loans. Last month there was a small movement away from the one-year term which has been very popular since our survey started. This month there has been a far more substantial shift.

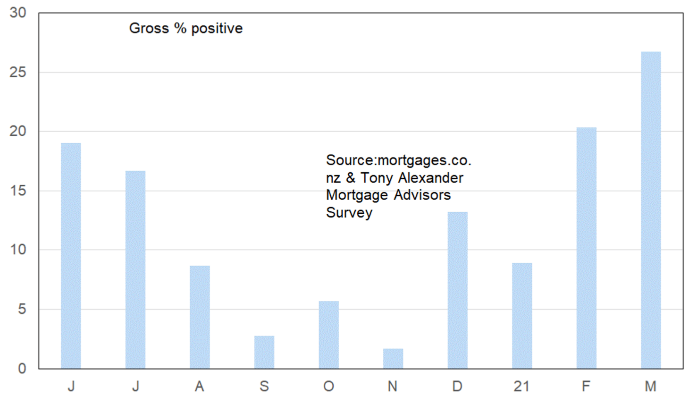
The gross percent of advisors reporting that their clients prefer the one-year term has fallen to 49% from 73% in February and 89% in January.

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



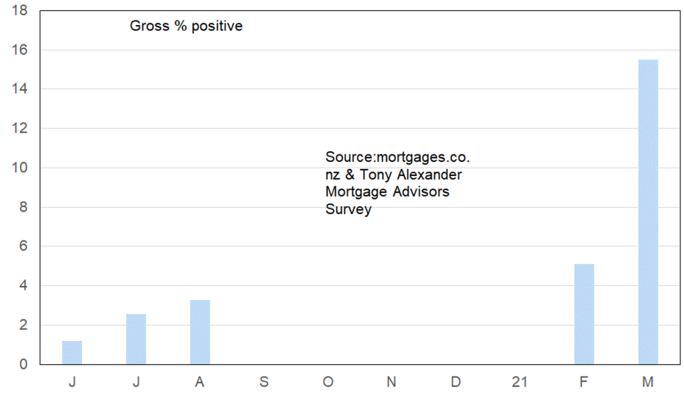
The gross proportion of advisors saying that their clients prefer the two-year term has risen to 27% from 20% in February and 9% in January.

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



The proportion saying their clients prefer the three-year term has risen to 15% from 5% in February and none in January.

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



Only 3% say their clients are preferring the five-year term.

Why have these term preferences shifted? Most likely because of

- the increasing discussion regarding rising global inflation,
- increases in bank medium to long-term funding costs bringing expectations of higher fixed mortgage rates, and
- rising concerns that the Reserve Bank might tighten monetary policy earlier than previously thought.

Ironically, at exactly the same time as these expectations have developed and term preferences have shifted, wholesale bank funding costs have in fact fallen slightly. This easing of their costs reflects expectations that house prices will not rise as previously expected because of the changes announced on March 23.

Reduced house price inflation can mean less consumer spending from paper wealth. However, given that the bulk of house price gains have only occurred since September, it is not likely that many people have in fact splurged on the basis of their perceived higher property valuation.

In addition, house prices are not measured in the Consumer Price Index, but rents are along with building materials.

To the extent that higher house construction is incentivised by the tax and brightline changes, it is likely that the pace of increase in building materials costs may accelerate (especially following this week's revelation of some timber shortages).

Therefore, while the coming month may bring an easing of the recent shift towards longer terms for fixing one's mortgage, the change could be temporary, especially in light of the increasing discussion offshore regarding global inflation.

Advisors Comments

Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. Enjoy. I always find these insights across my four monthly surveys to be very useful for placing flesh around the bones of the numerical indicators.

The key themes which I have picked up include these.

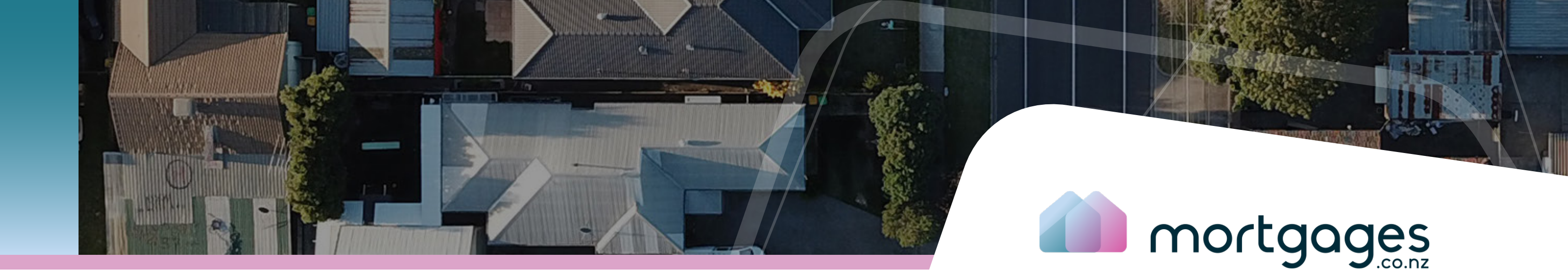
- Some investors are backing away because of housing policy changes.
- Margin pressures are encouraging banks to remove discounting of fixed mortgage rates beyond one-year.
- Banks are asking more questions about borrower incomes etc.
- Banks are still short of staff.
- Business shifting to non-banks.

NORTHLAND

- Still incredibly busy here in Whangarei/ Northland. All segments are busy - FHBs, investors and business/commercial lending inquiries still through the roof. Still supply & demand issues with many new subdivisions still months/years away before coming on stream. The 40% rule has been enforced by the main banks for several months already, it has stymied a few applications where clients have inquired about buying their first investment property, so it is likely having the desired affect of slowing down investors in the market. Very disappointed with the government's announcements regarding housing, changes in First Home Grant caps will have zero affect here. There are no properties for sale under $500k in Whangarei and there haven't been for some time either. The government owns plenty of land with a single dwelling on it, these need to be targeted for redevelopment and turned into multi dwelling properties asap.
- Just had an investor decline to proceed with purchase due to new rules. Existing investors not too bothered.

AUCKLAND

- Media continues to highlight the top 10% of transactions showing excessive growth. But there are still pockets of good buying in the market, you just have to look harder, and consider multiple lending options to ensure buyers get what they want.
- Most clients choosing to refix for 1 year. Many investors now coming in for 5 year. Bank pressure on margins across 3 - 5-year rates noted as discounting on those are difficult at present.
- Interesting change in clients. Firstly, I am noticing that clients are starting to believe interest rates are going to shoot up. Lots of my first home buyers are sitting in the wings waiting for the PM announcement to see if they get a handout. Still, lots of struggle in the auction rooms and the ones that have been successful are normally backed by family gift money on top of their approval. I have never seen this many preapprovals in my pipeline. It is ridiculous but the increase in purchases is yet to flow through. Indicating to me that demand at these huge prices could be starting to taper, even if only a small amount.
- All banks seem to be trying to offer faster and better service to clients that come to them direct than through the broker channels. Rates are sometimes better direct than through the broker channels. Where the banks used to be faster and cheaper through brokers, they seemed to have all switched their focus.
- Lenders are cherry picking their over 80% deals. The 40% deposit rule has had an impact on investors as the enquiry level has dropped. Banks are still taking way to long to process applications which means we have to sent applications to multiple lenders and its potluck



who answers first.

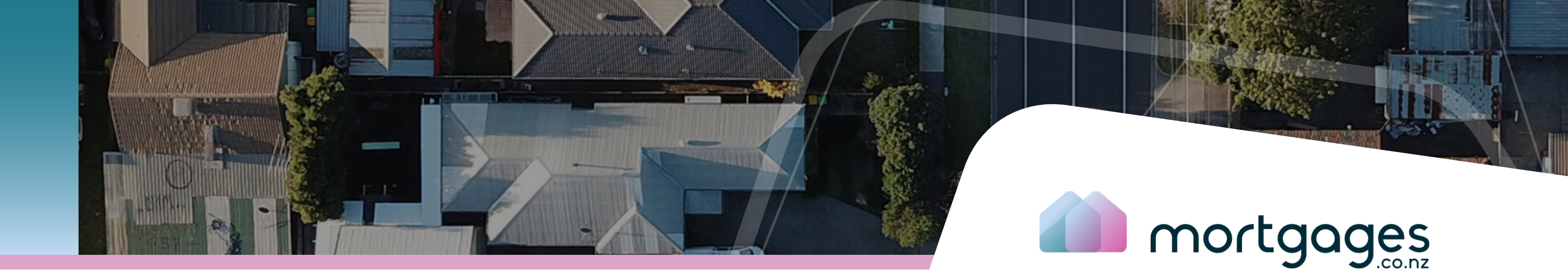
- Banks are becoming even slower with turn around times again and seem to have a significant number of inexperienced staff who lack general knowledge for assessing applications. Also bank credit policy is becoming increasingly adversely biased against self-employed people where an industry was impacted for 3 months for covid but has shown last 9 months of equal to or greater growth.
- Huge frustration around turnaround times. Agents pushing auctions causing issues. Still heaps of Kiwis overseas buying here. FOMO still rampant. Large numbers of off plan purchases with people risking deposits due to long lead in times for settlements as banks can't give unconditional approvals valid over 12 months. Large numbers of preapprovals sitting waiting for property.
- Banks are concerned with customers moving off covid 19 relief and how they will afford loans going forward.
- A big retail bank is pulling back on all fronts. Most lenders are closed for stand-alone commercial lending. Deals that were working no longer do due to LVR's etc. leaving brokers to rework with non-banks.
- Lenders are asking many more questions around incomes and sustainability of incomes.
- Still very busy, still very slow turn around times at banks and even seeing non-bank and finance companies starting to pick and choose deals. Staff leaving bank 3rd party units in droves as they are stressed to the max! The debt servicing tests and UMI calculations are still catching many borrowers off guard as they look to borrow more funds against the house for business or renovations. They have lots of equity but get very annoyed when you tell them they don't meet debt servicing. Lots of blame and disgust at the Labour govt at present by business owners for borders not being open. The mood out there is not good. The RLC needs reviewing as it should not apply to bridging loans when people trading down and have clear/confirmed exit strategy, but its being rigidly applied by banks and finance companies won't lend unless its to a company or trust for fear of breaching CCCFA rules. Its a joke. Another piece of ill thought through legislation by govt.
- The banks are overwhelmed with the level of applications and compliance, they are all running behind, some are worse than others but 2 weeks for a decision is average timeline at the moment.
- Seems to be a bit of a lull in new queries/applicants over the last 2 weeks. Existing pre-approvals still finding it hard to secure property at auction as they keep missing out.
- Many investors not happy about latest tax changes and bright line changes. Some need reminding that it does not apply to new builds and developers. Many are saying this Government does not recognise that it is a business and it should be able to claim interest the same as any other business asset.
- First home buyers still active. More buying off plans due to lack of stock. Investor enquiry has been down. I think this is due to price increases rather than 40% deposit required. It will only be quieter following recent government announcements.
- More first home buyers especially following the improvements to the home start grant. Banks still are very focused on servicing and scale bank any variable at risk income. Interest in fixed interest rates longer than 12 months is increasing, starting with 2 years and even 5 years, especially with xxx published 5-year rate now 3.99%, it makes the other lenders 2.99% more attractive.
- Bank turnaround times are at their worst, it will be interesting to see how the banks change their lending criteria for Investment lending with the new rules in place. There has been a mad frenzy in the real estate world with auctions being brought forward to 26th March with clear instructions as to avoid the impending changes from the 27th of March.
- 40% equity has made an impact on investors' ability to buy more than 2 properties.
- Too early yet, as the market has not yet responded fully to LVR changes, and with new tax rules, this will create further disruption for landlords who will evaluate their situation and possibly make changes. I suspect the banks will change their stance on how they calculate lending for investors (xxx have announced they are now reviewing this - under the RLA they have no option), as they will need to take

into account the effect of paying tax on every property they lend on, as to whether the owner can afford this or not. As for most landlords with a mortgage, I would say most properties now will end up generating a taxable profit, regardless of if in reality it is an operating loss still. I also think some landlords will just leave the properties empty, as they are happy to just pay the mortgage and not be bothered with tenants for now, and if no income, then no tax!

- Still long wait times on banks processing applications to get an approval. Some banks only dealing with existing customers via the broker channels.
- The xxx DTI ratio is affecting current xxx customers wanting to borrow more. The banks are being totally pedantic about everything - the smallest detail - asking endless questions. The 40% LVR for investors rule is making it more challenging for some investors. However, with the recent prices rises many clients have more equity than they had expected they could extract within the new 40% rule. The banks are defaulting to require RV's which is creating a significant backlog in the pipeline and delaying some settlements and not allowing some first home buyers to bid at auction as they can't get an RV done in time. Often the properties sell for way over the RV. Isn't the value of a property what a person is prepared to pay for it?
- I've been busiest over the past few weeks with refixes from a year or so ago, when a lot of people made changes as rates fell or co-incidentally had a refix due and they fixed in for a year. More people are looking at the 2-year rate (at around 2.45%) and some at the 3-year rate, depending on what the lender was offering. New enquiry has slowed (which I am not upset about, it's been too busy) - especially from first home buyers - but it often slows at this time of year anyway - coming up to Easter and school holidays. Even those first home buyers with pre-approval seem to have given up, or lost confidence that they will be able to buy, the way house prices have been going up so dramatically. Hopefully this week's 23rd March announcement will take away some of that buying frenzy and bring a bit of stability into the market and restore confidence for first home buyers.
- I have had only one client decide to put investment purchase on hold - the others are all still going ahead - moaning of course and talking of rent increases.
- 40% equity has made an impact on investors ability to buy more than 2 properties.
- Huge frustration around turnaround times. Agents pushing auctions causing issues. Still heaps of Kiwis overseas buying here. FOMO still rampant. Large numbers of off plan purchases with people risking deposits due to long lead in times for settlements as banks can't give unconditional approvals valid over 12 months. Large numbers of pre-approvals sitting waiting for property.

BAY OF PLENTY

- For me, getting any home loan approved is becoming more and more challenging. Banks are super-tight on servicing and how much they will lend compared to your income. Plenty of first home buyers still enquiring but these are very hard to get over the line with current criteria from banks and Kainga Ora. Disappointing to see the announcement this morning with little to no change to the house value caps for FHL and adding to the disappointment was the fact that they are increasing the wage caps, which is good, but this will only increase demand further... we need serious supply.
- Well established clients with good equity are still looking to buy rentals..........First home buyers who have been smashed by rising house prices have recognised reality and are finding ways to fund house purchases. The banks are still slow, but approvals rates are high.
- Noticed a slow down in inquiry 2-3 weeks ago. It's still strong but not at those unmanageable levels in previous months. Suspect we may be through the peak.
- FHL price caps increases for existing won't make a difference, $500k to $525k. Mum and Dad buying another property and keeping existing as rental - delaying decision making until more certainty. Had a couple of $1m plus FHB holding off buying now, and causing uncertainty, thinking the markets may reduce (hmm we were there a years ago with Covid)



WAIKATO

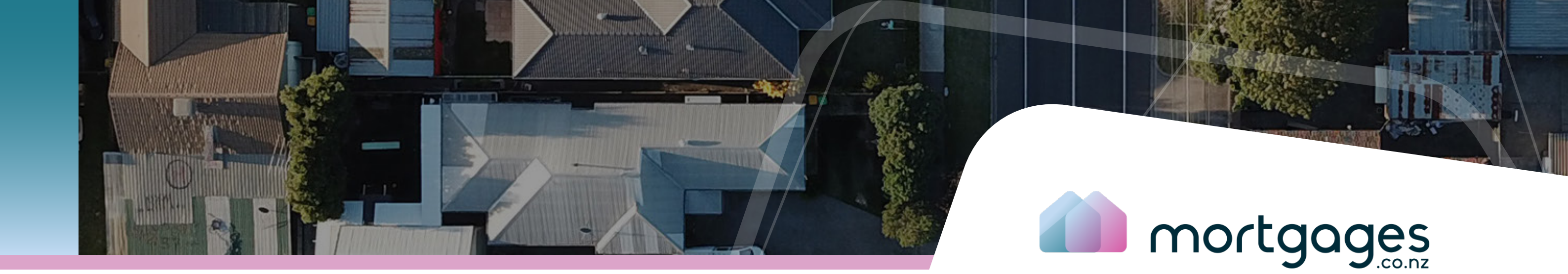
- New products are appearing in the market from some lenders in an attempt to provide better opportunities for first home buyers due to the ridiculous lending/price limits imposed on them by the government "first home grant" policy (particularly from mortgage brokers) - no impact from the 40% deposit rule yet but we do believe the investor market may become quietened slightly now the brightline test is extended to 10 years from 5.
- Slow turn-around from banks and with no sale incentives there appears to be less motivation to do more than the bare minimum.
- First Home Buyers are certainly more active than investors now. The investors seem to have seen the writing on the wall from the govt and are being cautious. Still very active market. On a brighter note, the banks seem to be a little more willing to lend which is great.

HAWKES BAY

- Whilst most fix their loans for 12 months, I am advising clients to split their loan. More clients are opting for longer rates than a month ago. Definitely seeing a panic response from a lot of investors post the announcement. First home buyers are happy in Hawkes Bay with the property cap increase of $125k.

WELLINGTON

- Bank turn around times are still very slow with most taking between 10-15 working days to assess an application. There seems to be no appetite from any lender to bring these times down. Feedback from new clients is that it is very difficult to deal with banks direct or even find someone to talk to. As a result, they are contacting advisers rather than deal with the bank direct. Investors moving more towards new exempt properties rather than existing as they can buy twice as much property for the same deposit.
- With first homeowners essentially having missed the boat, I have been lucky to have more substantial customers with multiple properties and businesses who are unable to get advice or satisfaction from their banks. That has become the bread and butter for the present. Tony, your article about that we might start thinking longer term rates and perhaps split the terms at refix has made me more cautious about steering people into 12m fixed willy nilly. I am now investing a bit more time into these discussions. There is a lot of speculation and hearsay out there, but I take special note of your comment.
- Still multiple customers going to the same tenders or auctions. Yesterday I had three separate clients go to the same tender on a property in Stokes Valley @ around $1,100,000 to $1,200,000, all three missed out as it sold closer to $1,300,000. There is a lot of work involved getting clients into a cash position to be able to bid as cash buyers at tenders. Yes, some customers are upset that all the backs have adopted the 60% LVR max lend for rentals straight away as this is impacting on some "'turnkey " build deals that are yet to settle and were previously approved at a higher LVR like 70 % or 80%. With the settlement dates still not confirmed on these, these customers have to now find more equity or cash to complete the transaction. On new build scenarios like this the banks will only approve finance for 90 days at a time, so finance is not guaranteed under the same conditions it was first approved on.
- Banks are still very slow. Buyers struggling to buy.
- The current enquiries are about urgency, both from FHBs and investors. No matter what boat they are in, they are worried about missing out. The 40% deposit rule has had little impact. The recent government announcements will be seen as good news for FHBs. Some Mum & Dad investors will pause for thought or completely dismiss the purchase of a rental property.
- The banks are still in chaos with volumes, poor turn around times, admin back log and so on.... very stressful for the clients and we spend so much time managing a client expectation as the banks are underperforming in this area. However, in answer to your question, yes Investors has cooled a bit, but many do have plenty of equity still. The bank will still lend to good applications that stack up.
- Finally, things are slowing down. First Home Buyers are exhausted by going to Open



Homes every Sunday with a good property in Wgtn going for $1.1-$1.2m. Only those with good deposits and servicing are sticking at it. However, the lack of listing is making it hard for many to find a suitable property to put an offer on. Have done very few new mortgage applications for people wanting to buy an investment property and with the announcement today, “Can no longer expense/deduct the interest” that will pause those looking to buy an investment property. Regardless of the detail, this headline alone will impact potential Investors and have them running to their Accountants. Bank response times are finally improving. Maybe things are returning to normal.

- Will be interesting to see if the banks scale back rental income further with the new rules. If clients unable to offset interest costs tax will be higher, therefore less rent income will be available to service the debt.
- Lenders are being a right pain & taking the Responsible Lending excuse too far in my opinion.
- I have 1 lender who we have requested to release 1 property as security (still have 4 - LVR & Servicing absolutely no problem - in fact could make more than 1 property freehold) who will only do so on the proviso that if clients EVER use that property as security anywhere else in the future, they have to seek permission from the original lender. Another lender where parent (has existing lending with them) & child are purchasing - they will only do a 10-year loan even though daughter is only 42. We want the daughter to actually contribute significantly to the mortgage as Mum is providing all the deposit. By having a 10-year term they want it fully paid off before Mum retires so not only does Mum provide the deposit, but she also has to make most of the payments too. The plan was to accelerate payments when the pension comes in to get it down to a level that the daughter would meet servicing guidelines by herself so Mum could retire earlier - we had already worked out what we needed to get debt down to in due course. She won’t be able to now (with existing lender) as initial payments are so much higher from day 1. I will get it done elsewhere but it is silly to have to take client away when they were happy with the existing lender. Will mean changing Banks etc which I see as unnecessary.
- The 40% deposit rule didn’t really have an impact for us, however, since the announcement on 23rd it has now had the impact as investors are not keen to purchase properties due to the fact that they are no longer able to have the mortgage interest as an expense. It’s going to be very interesting to see how much rents will rise to help factor in the costs for landlords/investors. First Home Buyers are still in today’s market unable to use the FHB’s grant due to the housing caps not being high enough. Kapiti Coast has a medium price of $860,000 against a cap for an existing property of $550,000 (from the 1st of April). So, governments announcement on 23rd is still not helping First Home Buyers into the market.
- No reaction to the 40% deposit rule but I expect investor enthusiasm to wane fairly quickly. It will be interesting to hear the reaction of real estate agents. My customers continue to appreciate the advice I give them about structure, having a plan & reviewing it regularly. I have become aware of the eyewatering prices developers are paying for poor quality homes in the Hutt Valley as redevelopment sites. But it’s always easier to build on flat land rather than hillsides where earthworks can cost large sums.

CANTERBURY

- Banks are still taking an eternity to process applications. Minimum 8-10 working days to start processing applications. The 40% rule is causing a few issues with investors which is steering many towards building new. Essentially the majority of credit policies remain the same, but banks are scrutinizing applications thoroughly, especially for low equity first home buyer deals. Business finance is very tough to get. The banks have a very low appetite for even moderate risk.
- First Home Buyers in Canterbury are needing to adjust their expectations. I am advising that a 2-bedroom home is good to begin with as it’s about getting into the market. Some clients have adopted this strategy and have found good properties. Lenders’ timeframes seem to have got better in the last couple of weeks which is brilliant. Long may it stay that way! Still lots of

competition pushing up the price of houses in the under $500k category.

- The announcements today have had an impact already - more first home buyers jumping on the first home loan grant link today.
- Everyone I have spoken to here in Christchurch is absolutely gobsmacked that we had no rise in the property caps in this region. People I have pre-approved for $500K are struggling to find a property.
- I think it's a little short sighted. On a positive note, bank turnaround times seem to be speeding up a bit. And getting some good approvals coming through.

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