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&

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MORTGAGE ADVISERS SURVEY

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Investors wait and see

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.

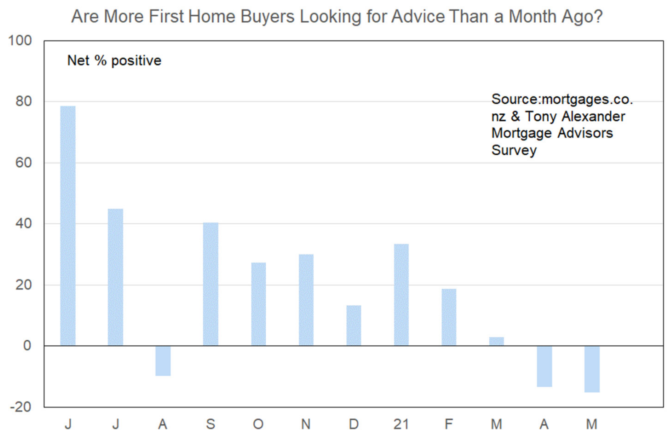
This month we can see that while investors are still stepping back from the market as they await policy details, fewer are seen as doing so than last month. However, more first home buyers are exercising caution than last month.

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

While the government's intention on March 23 was to dissuade investors from buying existing houses and therefore provide reduced competition for first home buyers, young buyers have also been scared away for now.

A net 15% of mortgage advisors have reported that they are seeing fewer first home buyers. This is a slight increase from April's result of a net 13% seeing fewer such buyers.

What's interesting is that although we can probably attribute the decrease in first buyer interest to uncertainties created by the March 23 policy changes, along with restoration of loan to value ratio rules from March 1, a downward trend in their market participation has been in place since July last year.



As noted previously in our report, first home buyers were the first group to move forcefully into the real estate market once the nationwide lockdown ended in May last year. They had grown their deposits during the seven-week period, LVRs had been removed, mortgage rates had been cut to record lows, and there were hopes of increased listings and decreased competition.

But as our graph above shows, the early rush of buyers eased off fairly quickly, then growth in new property seekers ceased in March.

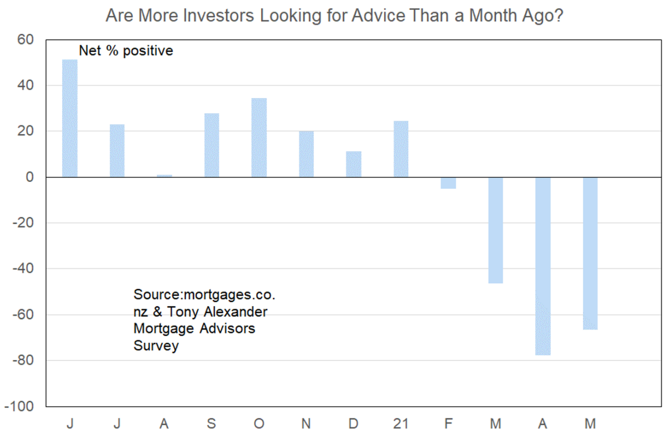
Given that the May 20 Budget contained no new measures which might boost home purchase ability for young people, improvement in their presence may not happen until at least the new rules are fully clarified.

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

The government is achieving some success in its desire to discourage Kiwis from investing in residential property. A net 67% of our 66 respondents this month have reported that they are seeing a decrease in the number of investors looking for advice.

This is an improvement from a net 78% seeing fewer investors in our last survey in April. This by no means suggests that investors are returning to the market. But the speed with which they are pulling back has diminished to a small degree.

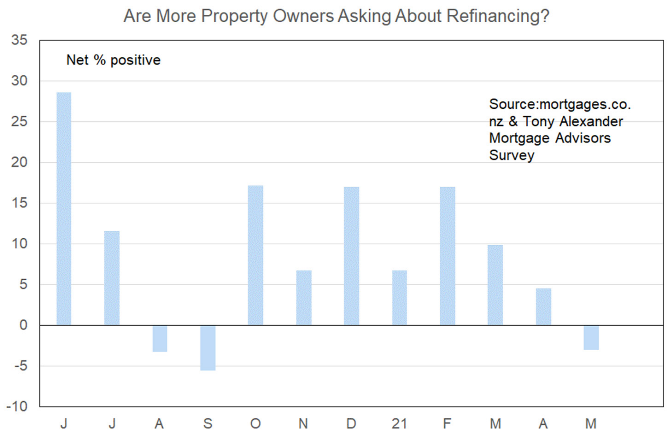
This does not allow one to conclude that the market is strengthening and that fresh price pressures are set to return. But it does hint that when rules are fully clarified surrounding new builds in particular, withdrawal of investors may peter out. We shall have to wait and see – and the comments submitted by mortgage advisors suggest waiting and seeing is exactly what many investors are doing for now.



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

A net 3% of mortgage advisors this month have reported that they are seeing fewer homeowners looking for advice on refinancing their debt.

The negative result for this measure is not unprecedented. However, the last time it happened – over the August to September period last year – Auckland had just experienced a fresh lockdown which dented confidence generally including for the housing market.

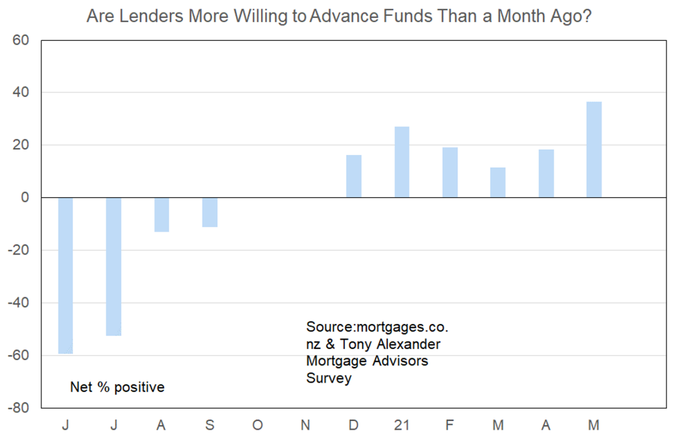


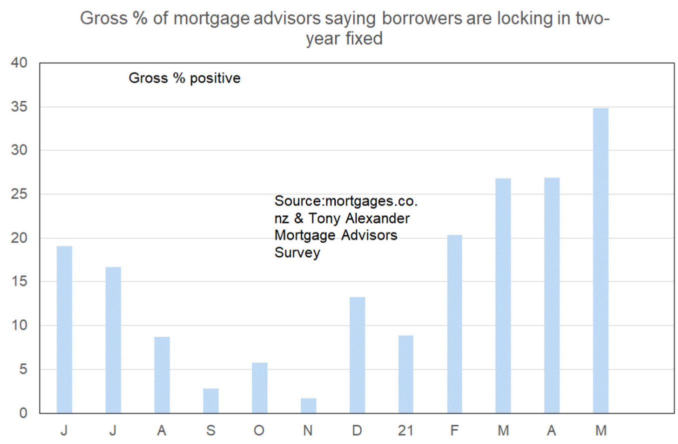
As a general rule we would associate a high level of refinancing enquiry with a strong residential real estate market. The decrease in enquiry now would suggest some reduction in the willingness of people to consider using home equity to finance general spending.

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

There is anecdotal feedback both of banks tightening their lending criteria and loosening at the same time. One large lender for instance has decreased the proportion of an investor's rental income which they will allow to be used for debt-servicing calculations.

Our survey shows that overall, mortgage advisors feel banks are becoming slowly more willing to advance funds for home purchase purposes. This may be an indication that much as various surveys are suggesting investors will sell properties, lenders are not of the opinion that a wave of price-depressing selling is imminent against which some bulwark in the form of tighter lending rules is required.





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

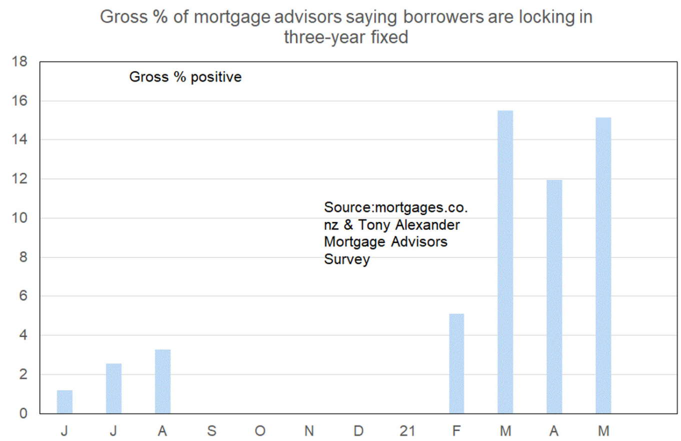
Around the world the most intensely debated topic in financial markets currently is the extent to which rising inflation is temporary and whether central banks might be thinking about pulling back from their promises to keep interest rates at current levels through into 2024.

Both the United States Federal Reserve and Reserve Bank of Australia have recently stated their plans remain for low rates out to that time. The Bank of Canada has suggested late next year may present the conditions to warrant higher interest rates. But they are essentially on their own so far with that view.

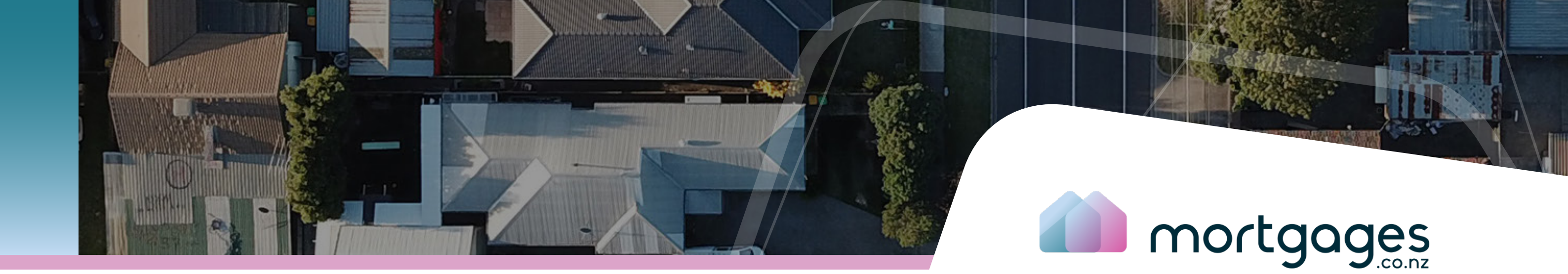
In the absence of any solid monetary policy predictions or moves upon which to base their commentaries, writers for now are struggling to paint a scary interest rates scenario here or offshore. That means the impetus felt by borrowers to shift away from short-term fixed rates to longer terms is still mild.

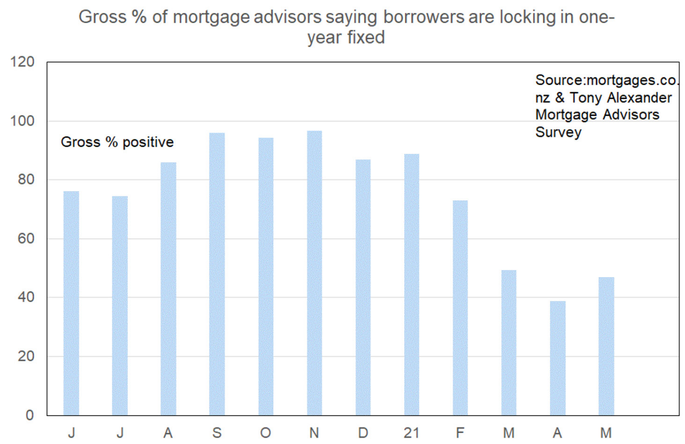
Nonetheless, our monthly survey of mortgage advisors has revealed that over the past few months there has been a rise in the proportion of borrowers showing a preference for the two-year term. That gross proportion now stands at 35% from 27% in April and March and just 9% at the start of the year.

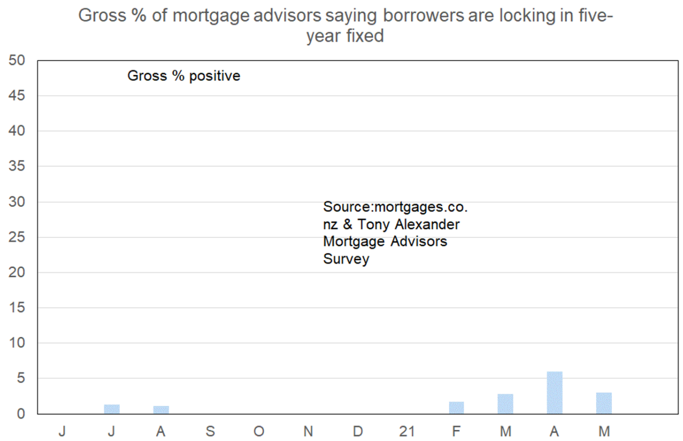
There has also been a slight rise in preference for the three-year term.



But the majority of borrowers are still seen as preferring to fix at a term which has yielded the lowest cost of mortgage financing in the post-GFC period – one year. At 47% this proportion is actually up slightly from 39% in April. Therefore, one cannot conclude that any particular new interest rate fears are moving through the housing market in New Zealand.







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.

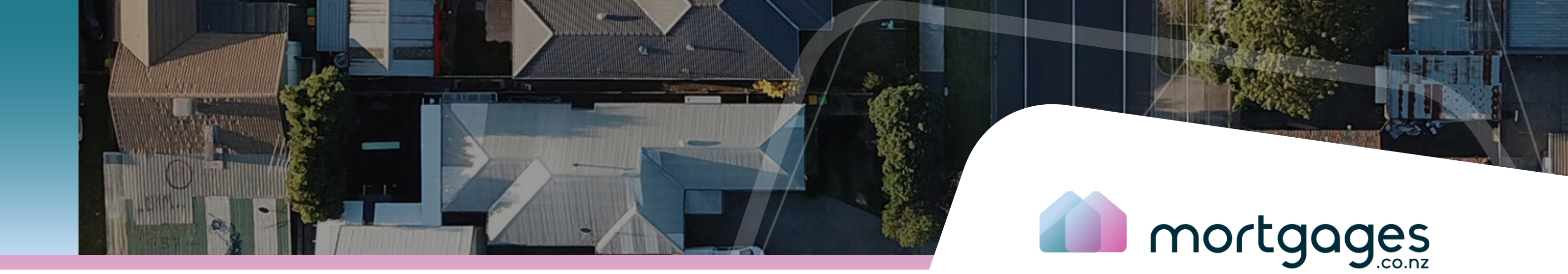
- Investor demand has dropped off but with a shift towards new builds.
- Many investors are however just on hold as they await final policy details.
- Prices are holding up, but the pace of increase has slowed.
- Turnaround times from banks have improved only slightly.
- There is strong interest in ASB's new 1.79% interest rate for new builds.
- Banks have slightly eased lending criteria.

NORTHLAND

- Bank's turnaround times seem faster and have to tell people early in the conversation if they can afford the loan or not. Single incomes or 2 lower incomes simply don't have a chance to buy - its very hard.
- Still very busy here, it seems to be that a lot of landlords are dumping older properties which is creating opportunity for FHB's. The new offer from xxx has re-awoken my investor clients who are looking at build options now, additionally FHBs are looking to build where possible too. Key issue we still have is a lack of supply of land to build on, infilling of existing properties is still very expensive and complex with no indications from the councils that they will make this easier.
- It does appear that house prices may be starting to level out finally, however that could just be the winter blues having an effect. Turn around times at the banks is much improved apart from one bank, I know that at least two of the main banks have invested heavily in new staff for their broker units which is great news.

AUCKLAND

- Interesting turn of events from the banks. They have noticeably increased there "forensic" checking of loan applications. Lots of questions come back around things that would not have been a problem a year ago are now things they want explained in great detail. On the flipside they have lowered the gate in terms of Uncommitted monthly income required to get an approval, so we are seeing borrowing capacity increase a little. Expecting a busy run now with xxx dropping there new Back my Build rate of 1.79%. Big play from them and already the phone has started ringing.
- Activity levels have dropped for new enquiries for sure, and advertising on Google ad words has doubled recently, my agency has advised, so definitely quietening down. More 1st home buyers are buying with less or no competition. Number of auctions and attendees has dropped big time, but property values remain the same or



rising still. I am located in Royal Oak/ One Tree Hill area, so I see actual sales data as I lease an office inside xxx.

- Definitely more enquiries from investors regarding new builds and wanting to take advantage of xxx's super low Back My Build rate of 1.79%. I'm seeing a number of young families wanting to sell current home and buy larger properties. The banks are very supportive of clients wanting to transfer and increase their mortgages. There is hesitancy from First Home Buyers - but once they know what's required and decide to find a home, they generally manage to get one. My pre-approval pipeline has definitely seen a lot of settlements of late.
- Banks are still keen, UMI is down a bit, but Kiwis are paying off their mortgages more than ever and mortgage books are decreasing at great rates, so they need more lending. I've had lots of people buy houses with less competition. Pre-approvals down by 30% but good candidates.
- After a kneejerk negative reaction from investors, we are finding levels back to near normal with overseas Kiwi's running very strong, especially in the over $2 million bracket for Auckland.
- Market has definitely slowed down, and lenders are taking forever to assess applications and looking for reasons to decline pretty much every application.
- Business has slowed down a bit but still steady. People who haven't purchased in last 12 months are still looking to purchase. This includes first home buyers, people buying and selling, changing home and investors. Bank processes are still slow which is always challenging.
- xxx click bait marketing shouldn't fool anyone. Everything is pointing to new builds but no land, no builders and no confirmation from Labour on the new build exemptions until Oct. Where is the 1.79% floating offer for builders/developers?
- Investors have left the market and the sentiment from first home buyers and those looking to upscale is that prices may slow so can chase a bargain. Turn around times at banks still slow causing customers to lose interest waiting for approvals and putting search on hold.
- Buyers and lenders are holding back.
- Clients tending to split loan fixes over different time frames. Initially a number of pre-approvals for investors did not proceed - but there are a few more cautious investors out still looking. I see the darker days/colder weekend making a difference in people looking at homes - nonbank offering 80% for investment loans are having a 13 workday turn around for live deals only which is interesting - rates near comparable to main banks. I've personally bought an IP in Chch - agents commenting investors not in the market.
- Some of the second-tier lenders are cherry picking deals and declining applications for the same reasons mainstream lenders decline them. (i.e., client not in job long enough, poor credit)
- I'm in Auckland and seeing more investors seeking finance approval based more on yield for cheaper properties in small towns as main centres are out of reach for most, especially with servicing calculation changes. More and more first home buyers are looking at cheaper builds as keep getting outbid at auctions, and with less than 20% deposit the cost of doing due diligence is drastically reducing available deposit funds. Self employed clients are getting increasingly frustrated as some lenders are making it almost impossible to get finance with the amount of additional paperwork/financial reports required. Banks are using COVID as an excuse not to lend money and yet NZ keeps trucking along nicely.
- More new build enquiry from homeowners and investors. Lenders are giving declines or lower borrowing capacity without workshopping the deals with advisers to get more clarity, only to then approve lending or increase borrowing again from a phone call (which they should have done while assessing before making a decision). So frustrating.
- Definite flattening of the market and more people buying post auction allowing high LVR first home buyers some opportunities.
- A great market disrupter this week with 1.79% floating rate offer from one bank. Let's hope there are more like this as it appears banks are moving back to actually wanting more business.
- Less urgency from buyers. I've noticed an increase in buyers negotiating conditional contracts allowing them more time to do their due diligence rather than auction where you are unconditional on the drop of the hammer. Banks' appetite to lend largely the same. One bank

has tightened up criteria on new investment properties, but I am finding this a moot point with few people interested in buying investment property.

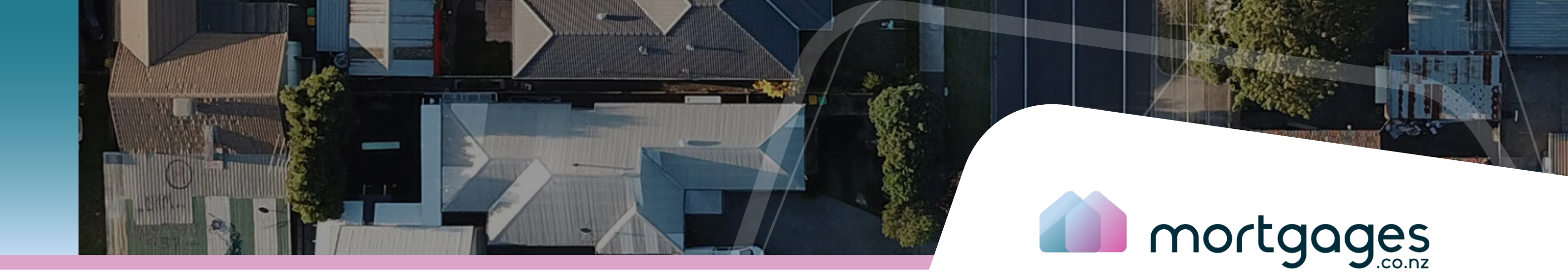
- Banks still doing deals direct for clients that they won't do for advisors. I suspect that the mobile managers are struggling to meet targets so are doing deals with less information and bending the rules to get them done. It seems they can get applications approved that advisors can't and in much quicker time frames. Advisors are telling clients it will take 8-12 working days to get approvals whereas direct they can turn them around in 24 hours. Is this being done on purpose? Some reports this week of when clients ring up to get a kiwi saver first home withdrawal letter, banks are passing details onto mortgage managers to try and cut advisors out of the process. Clients in general are loyal to advisors and tell us, in one case the bank said there was an application already in the system and wanted a letter from client to withdraw application. Client never lodged an application with bank and is making a complaint as they only ever wanted to deal with advisor. its still the wild wild west. More and more applications going to nonbank due to tough lending criteria by banks, is the government putting pressure on to not lend? It seems so.
- Still miserable turnarounds with the lenders, resistance with stupid red tape too. Delays from council for issuance of CCC's and titles is leading to delays in scheduled settlements as well.

BAY OF PLENTY

- Volume of enquiries is slightly down on previous weeks which could just be normal winter slowdown.
- I am finding that I am getting more conversion vs months ago. Still busy but people are winning auctions, so we are not having to hold clients on the books for extended periods of time. Banks also seem to have better turn around times but still seem to lack the ability to think outside the square.
- Been fixing clients for 1 & 5 years for their loans, before the 5-year rate moved up from 2.99%. Investors mostly disappeared, awaiting the outcome of the interest deductibility clarifications; but some are still buying as they want the income in retirement (and would have paid the loan off by then), plus capital gain. Couple of banks eased UMI limits for >80% lending - help approve more clients. One bank allows 2 boarders regardless of LVR limit - so beneficial. Another bank has employed another 22 staff in the broker team, so help bring turnaround times down. Not as many enquiries coming through.
- More clients looking at mid-longer-term rates - i.e., 2/3 years. Still solid level of new enquiries from first home but more second home/re-entering the market (i.e., previous homeowners now looking to get back in now that things are settling a little). Auction rooms still busy and clearance rates still high. Considerable nervousness around the Government and concerns re: any additional moves. Considerable anger across wide range of traditional open-minded people re: this government and very strong sentiments around the way that those taking risk/trying to better themselves are being punished in favour of helping everyone (but then the irony that they aren't helping anyone).
- xxx altered the above 80% LVR servicing requirements which is a good development for first home buyers. However really just aligning to other banks. Would be good to see banks servicing requirements ease so they are the same as under 80%. Just to put the first home buyer on the same footing.

WAIKATO

- There have now been a few auctions which have been passed on which indicates that the market may either be slowing, or buyers are shying away from auctions due to the risk of over-paying. Still having first home buyers have trouble securing houses with lengthy requirements for finance. This is commonly due to the timeframes of registered valuers in the area who are running on 2 weeks+ to get the report completed.
- Banks are finally looking to lend money with xxx launching a very appealing build loan and yyy also lowering their servicing requirements. A return to slightly closer to pre-covid levels which



is great. Clients starting to look at further out interest rates. Also, a lot of flux with clients who bought only a year or so ago looking to upgrade their homes or sell after separations etc. A lot of people making significant life changes which means mortgage changes. Overall, I'm very happy with how things look currently for the mortgage adviser space.

- Mum and Dad investors wanting to retain their existing house as a rental and upgrade to a new home are feeling the brunt of the new housing LVR rules. Because their expectation around the equity they have in their existing home is quashed with the 60% LVR rule they are instead being forced to put the existing on the market to release the equity they need for the upgrade. This might help the housing stock shortage. The Govt and RBNZ rules for what is deemed a new build is out of sync to how the banks view the policy. Investors are leveraging equity to complete a new build investor at 80% and then they come back in the door to leverage equity again for their next new build but as soon as the property they have just constructed is finished the Banks immediately apply the 60% existing LVR rules. Does not encourage investors to continue doing new builds as one step forward and 2 back when it comes to the next investment build opportunity.

HAWKES BAY

- Definite shift to splitting mortgages 2&3 years although 1 year still popular. Mid range competition still seems high. Definite slow down in applications although increase in enquiries from FHB's not in a position to purchase, hopeful to get on the market.
- Banks getting tougher in discretionary income being factored into debt servicing with testing rates on average 6.45% but actual rates 2.25 - 3.50% and UMI needing to be around $700 on average.

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

- There has definitely been a drop off in new investors wanting to purchase as there is still a lot of uncertainty about Government policy. New investors are waiting to see what the new policies will be before making a decision. There has also been a big shift with investors now looking to purchase new properties rather than existing. Bank turn around times still really bad with 10 working days the norm to assess an application. Some are still over 15 working days. Also, still big issues getting loan documents out to solicitors with massive delays causing stress for everyone. The norm now seems to be loans documents being sent 1-2 days before settlement.
- Property listings very low. However, perhaps you need a new set of questions. I cannot recall ever being this busy with renovation and new build financing. Its normally something I occasionally do, but currently quite busy with construction funding.
- Fortunately, I have as customers many who originate from Cambodia, Vietnam and India. They are not precious about the change in the rules and for them it is business as usual. That may be instructive for all of us.
- There was a welcome slow down in business after March 23, in the last few weeks it has got busy again. The banks are still slow, depending on who assesses the application at the bank can be incredibly slow and difficult.
- Customers are still looking to leverage recent equity gains to either upsize by selling and buying or buying a rental using existing equity as long as cash flow is positive which it is in the

Wellington regions currently.
- Investor inquiries have dried up.
- More enquires from FHBs. They know that now is their time to buy while there is less competition in the market. Frustration with some clients as they want more lending to buy at these new record prices, but I cannot make servicing work, making them feel that they are locked out of buying a property that they want, note the word want. Lack of listings also a big frustration for FHB as when they do the numbers, it's too expensive to buy a land and build package - those prices have gone up a lot! Most clients still opting to lock in a 1-year rate, feel that the 4–5-year rates are too long to lock in for amongst all this uncertainty.

NELSON/TASMAN/MARLBOROUGH

- I've seen a steady stream of First Home Buyers who have been looking for months and are now focused on building new and prepared to wait 12-18 months for titles to be released. There is a segment who are sitting and waiting to see if house prices fall. Recent changes to bank UMI surplus requirements has increased some clients borrowing power enough to get them in the game now.

CANTERBURY

- First home buyers are becoming more and more frustrated with the lack of supply/listings in Christchurch. Currently I am working with almost twice as many buyers as I would normally be seeing, however they are all struggling to get property under contract. Overall, my profit is lower than last year which is surprising with how busy I am! Supply of land available or existing property is the main issue I see. I have also seen more and more young Aucklanders move south due to the affordability here.
- FHBs are finding it harder to meet lender/ Kainga Ora conditions (they seem to be more heavily enforced now than before) - servicing requirements/allowances by lenders seem to have tightened or are being strictly enforced now. FH Buyers are finding it increasingly harder and harder to find acceptable properties within the FHB cap of $400k.
- I'm still finding lenders are taking an unreasonable amount of time to assess loan applications. They are not reading submissions properly and missing information that has been supplied which further delays an outcome and asking for more information than their credit policy dictates. It is hard to justify this to a client when they have provided everything upfront.
- First home buyer activity and owner occupiers buying and selling still very busy. Lots of open bridging requests due to clients wanting to buy before selling due to risk of being locked out of the market if they sell first. Very difficult in most cases to get open bridging finance approved unless its via a non-bank lender at high costs. Some bank turn around times have improved. Construction lending as a % of the business I write has increased this year so far. Providing advice on what structure to take given the difficulties of rate predictions remains a challenge!
- Wait and see mentality from most...I'm only dealing with first home buyers so not in the development market though.

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