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MORTGAGE ADVISERS SURVEY

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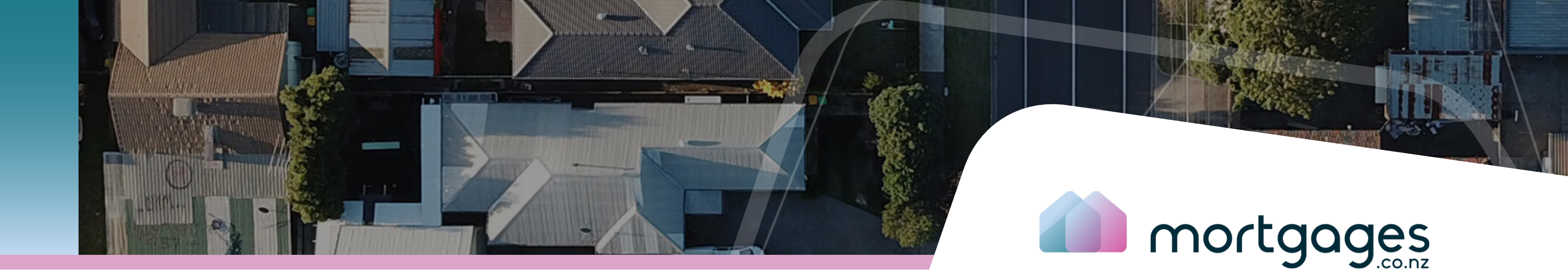


Signs of a bottoming out

Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 74 responses.

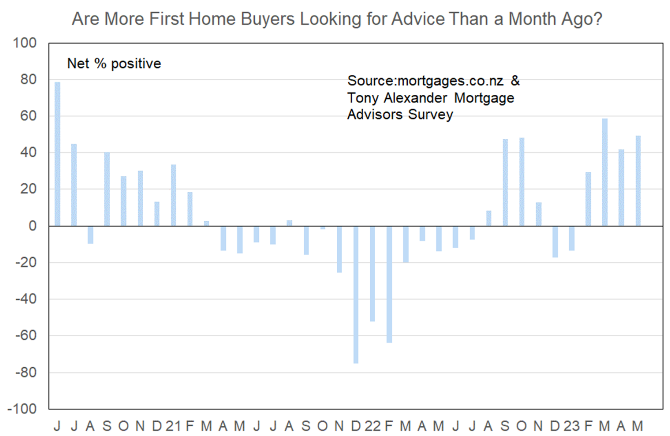
The main themes to come through from the statistical and anecdotal responses include these.

- More first home buyers are appearing.
- There are increasing signs that buyers feel we are at or almost at the bottom for prices.
- Some investors are returning but the interest level is still very low.
- Bank willingness to lend has increased further, assisted by CCCFA rule changes – plus anticipation of LVR changes from June 1.

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

In this month's survey a net 49% of responding mortgage advisers have said that they are seeing more first home buyers seeking advice. This is a result broadly consistent with 42% last month and 59% in March and consolidates the shift in first buyer presence seen from early this year.

Young buyers have seen house prices fall a long way. Their incomes have risen, rents are rising, and credit is slowly starting to become more available. High stress test interest rates remain a challenge for many, however.

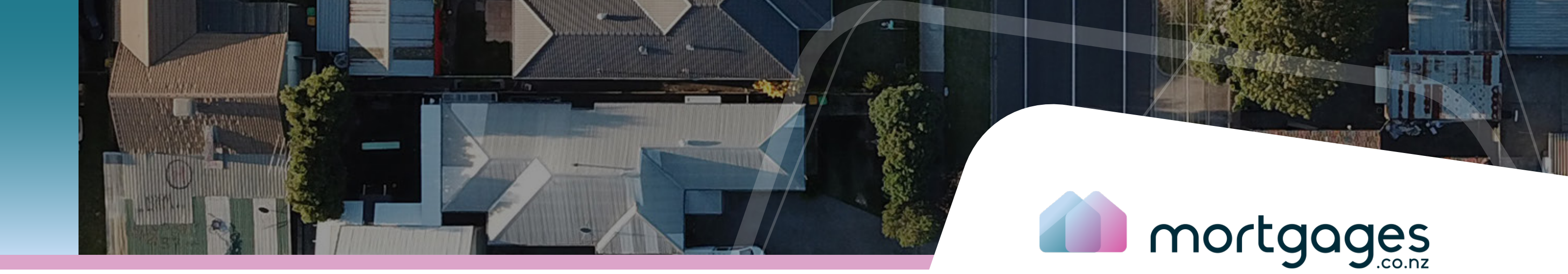


Comments on bank lending to first home buyers submitted by advisers include the following.

- One bank has opened up lending to people with less than 20% deposit for both existing and new to bank customers. Before, the only option was only if you're an existing customer with the bank that they can access those funds. Competition is heating back up.
- More willingness to support first home buyers by less stringent review of discretionary spending. CCCFA was amended last week. This will allow borrowers to increase their borrowing capacity as banks are no longer taking a deep dive into bank statements and including discretionary expenditure...about time logic prevailed.
- Banks starting to open up ahead of 1 Jun changes to RBNZ speed limits
- Easing up a bit on LVR. Also, great to see the Kainga Ora LIM is being reduced from 1% to .5 from 01 June.
- Construction loans - cost overruns were previously 15%, now cut back to 10% unless it's not a fixed contract, in which case it'll be 20%.

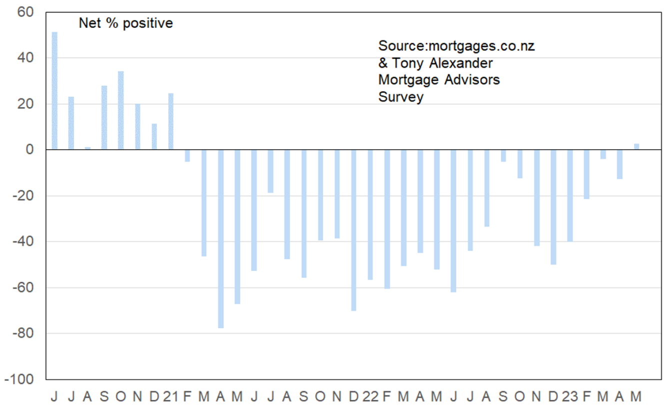
COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER INVESTORS LOOKING FOR MORTGAGE ADVICE?

For the first time in over two years there are more mortgage brokers saying they are seeing more investors seeking advice than the number saying



they are seeing fewer. This is the standout result in this month's survey but not entirely unexpected. The graph here shows that this measure has been getting less dire since the start of this year and was almost in net positive territory in September last year just before the extra high inflation number of 7.2% was revealed.

Are More Investors Looking for Advice Than a Month Ago?



A net 3% of brokers say they are seeing more investors. This is not a radical shift from a result of -13% in April and -4% in March and the comments about bank lending to investors and investor demand submitted by brokers in this month's survey show this.

My interpretation of this result is not that investors are back in the market, but rather than the flow out has stopped.

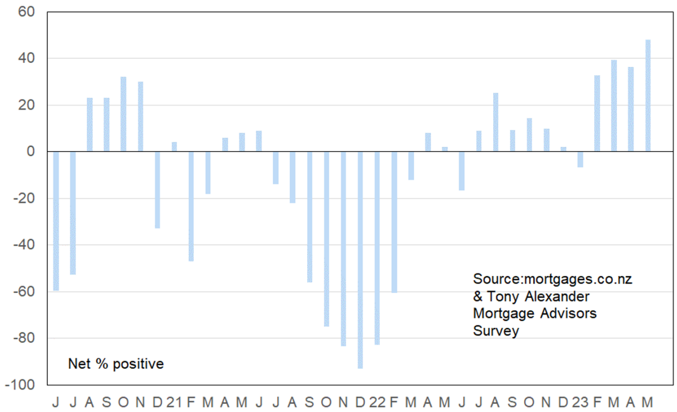
Comments made by advisers regarding bank lending to investors include the following.

- Test rates on existing lending hampering many, especially with rental scaling and full expenses assessment.
- Investor lending still tough but banks seem to be easing policy slightly.
- No change - waiting for 1st June for the LVR changes to come in.
- There is practically no new lending to investors apart from exempt loans to new apartments.

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

This month a record net 48% of brokers have said that they are seeing banks more willing to lend funds to borrowers. This continues a string of positive results since February and a number of factors are likely to be behind this shift.

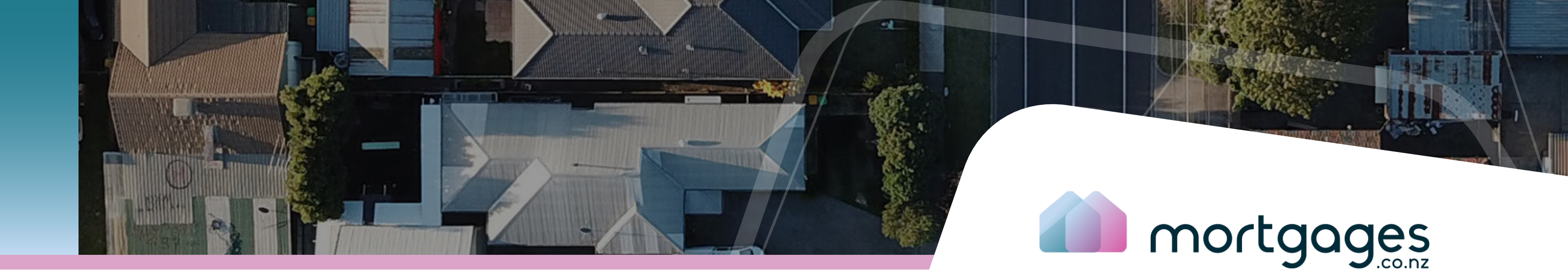
Are Lenders More Willing to Advance Funds Than a Month Ago?



Banks are failing to meet mortgage sales targets and that is leading to greater willingness to act more assertively to acquire business. The tactic of offering extra low special 1-2 year rates about three months ago has not been repeated and that is probably because the Reserve Bank called the bankers up to tell them to not do it.

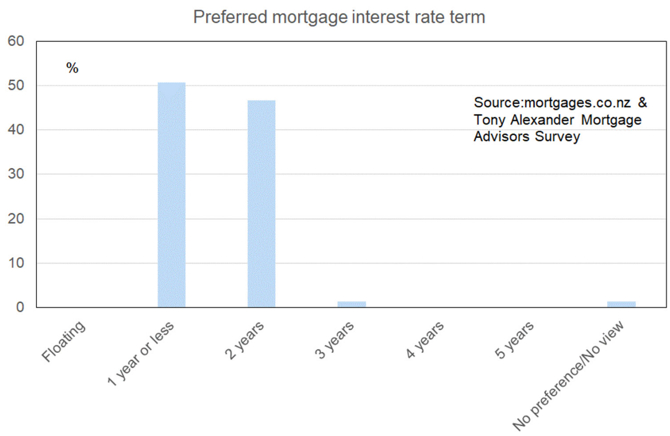
The response from banks appears to be greater targeting of market share through easing lending criteria rather than making very visible rate reductions.

Changes to application of CCCFA rules are helping willingness to lend and the ability of borrowers to qualify for a loan with further to come from June 1 when LVR rules are set to be eased slightly.

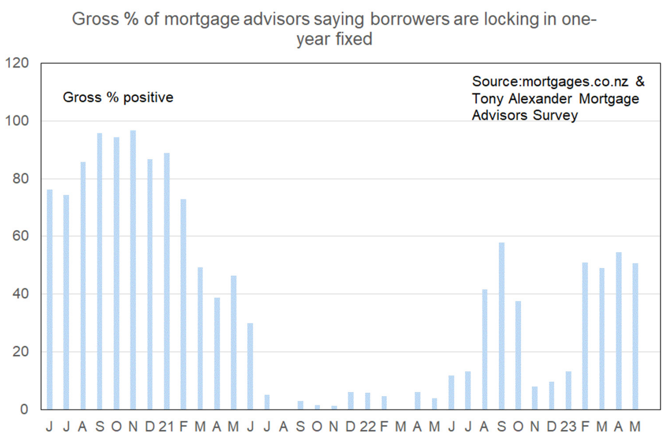


WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

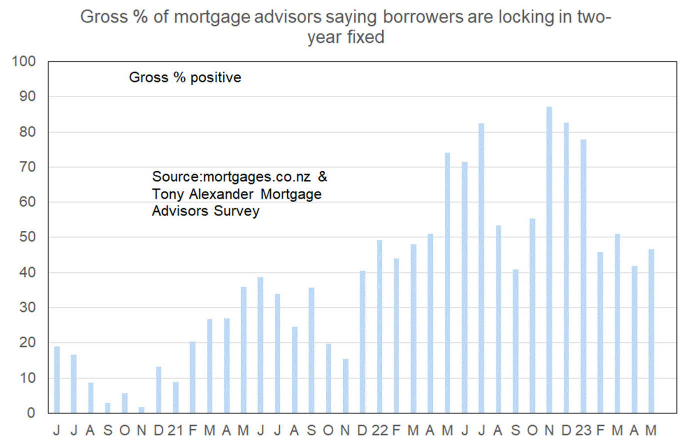
People overwhelmingly favour fixing one year (51%) or two years (47%) although if the tick box of 18 months were offered quite a few would likely indicate that term as being most attractive to borrowers.



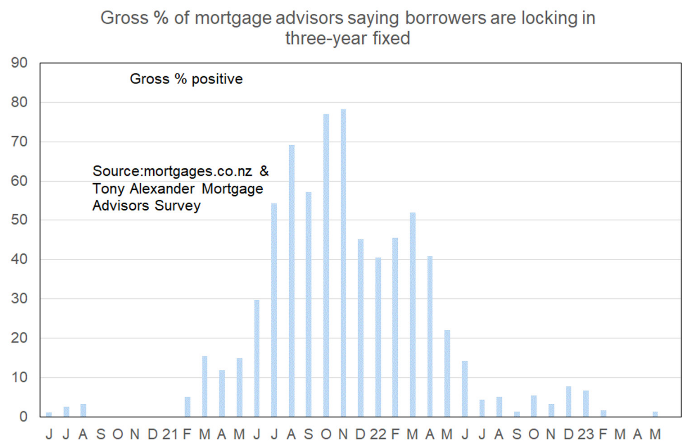
The one year term preference remains strong..



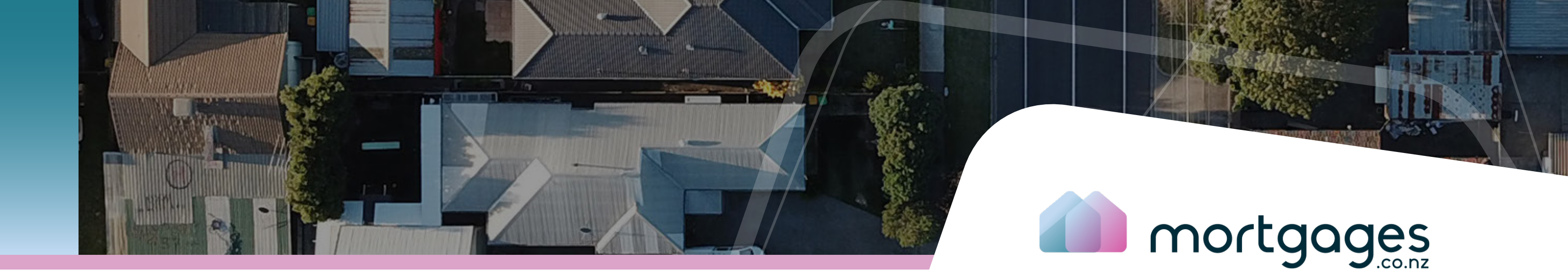
The two year preference slipped somewhat in February but has not fallen further out of favour since then.



Preference for fixing three years remains almost zero.



Even when the five year rate was 2.99% over the second half of 2020 and first half of 2021 hardly anyone touched in.



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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.

NORTHLAND

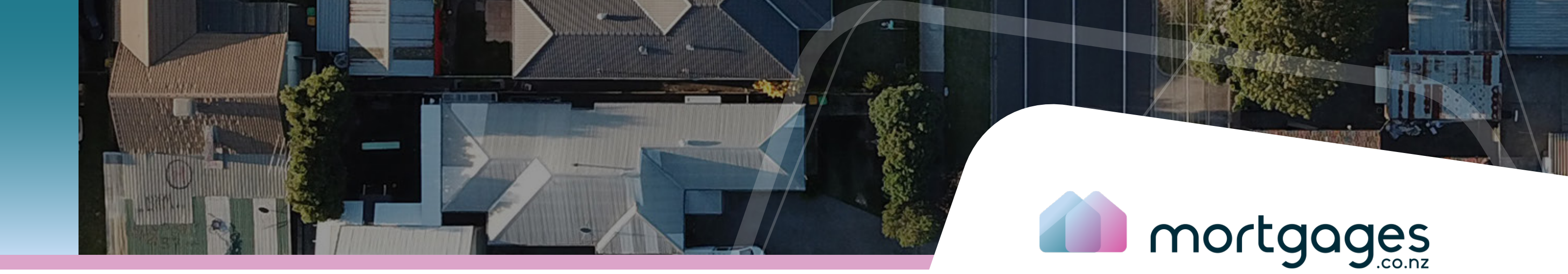
- General trends are there is more enquiry from first home buyers, investors and existing homeowners shopping for best deals and cashback. Any advantage they can get to reduce their interest costs and get easy cash.

AUCKLAND

- Seeing an uptake of conversations around potential financial hardship and the impact of this. Spending more time on mortgage reviews especially around managing higher repayments in the short term.
- Most activity I've seen since late 2021, first home buyers, owner-occupiers, borrowers looking to refinance and even some investors are coming back into the market. Bit of a mix which is ideal. Cannot speak for other regions but things are definitely turning a corner in Auckland.
- Sensible lending is still some time away, P&I to IO transfers require a financial difficulty case or full loan app
- Buyers - definitely more enquiry from FHB's but still a sense of caution and most don't seem to be in any rush to buy, preferring to take their time and find the right property. We do a lot of work with first time investors in the new build space and there is definite nervousness here.
- A general slow move to optimism based on rates topping out, bottom of the property curve, relaxation in CCCFA and LVR's plus the huge increase in positive population growth.
- Some clients happy with 5.99% FX36
- Still a lot of interest from first home buyers and next home buyers. have not seen Investors
- We have been busier in the last 3 weeks than in the last 3 months, its great, buyer confidence is increasing but then again, the lending criteria easing has a lot to do with buyer confidence. The announcement of the LVR changes have probably triggered this too.
- The RBNZ increase of Low deposit lending from 10 to 15% of total lending has freed up space to allow banks to look at pre-approvals and new to bank customers buying existing property stock with a low deposit.
- CCCFA amendments means the banks are less worried about the discretionary spending habits of home loan applicants, so this is a positive change.
- Some First Home Buyers are missing out to other FHBs. This is motivating them to put in stronger offers for good housing stock. Most FHBs can't afford to renovate so when something tidy shows up, they all jump on it.
- Banks are willing to lend if an application is strong in all aspects
- Banks no longer looking as hard at discretionary expenditure, willing to accept customer's proposed living expenses rather than actual current expenses in debt servicing calcs. Doesn't mean people can borrow 'more' (rising interest rates have taken care of that) but does mean borrowers aren't be penalised as hard for expenditure that is within their control.
- Buyers don't have high enough incomes to meet servicing criteria due to high test rates

BAY OF PLENTY

- It is very hard out there at present
- New enquiry is starting to ramp up again. I think clients are starting to think rates have peaked and property values are nearing the bottom.
- Most banks have now changed their polices around discretionary spending, strongly in favour of applicants. Most discretionary spending now calculated as the amount clients would be unwilling to forgo should the get into hardship. This results in our ability to create an application that makes sense moving forward and clients dont need to 'prepare' for 3 months of reduced spending prior to application. This is a really positive shift and one that makes total sense.



WAIKATO

- A slight easing of criteria but the interest rates and repayments are the biggest hold up for clients.

HAWKE'S BAY

- Definitely seeing an increase in activity. More enquiry and more successful offers.
- Real Estate agents have reported pre-approved clients being declined finance, but this isn't something I have experienced.
- Hawkes Bay is certainly feeling a lot more buoyant than previous months

WELLINGTON

- A lot of turnkey purchases off the plan deals are failing to settle due to the decrease in value and banks reducing the lending approval amounts due to this. Some banks will honour the original purchase price which could be 18 to 24 months old now, but I think this puts the buyer in automatic negative equity and could be risky for lenders.
- Less activity in the market, following the usual winter trend. Election year usually sees a 6 month pre election stagnation in Wellington, and I see no reason why this year will be no different. Banks using cash to entice new business applications. Interest rate spread quite different across lenders with xxx noticeably higher than the others (and less willing to discount).
- One major lender has just released a new debt servicing calculator which has made lending to investors significantly worse. Close to 80% of the lending done with this lender in the last 3 months would now not meet their debt servicing criteria.
- Some lenders have adjusted their debt servicing calculations to take into account the recent CCCFA changes, but it will not make a significant difference.
- Borrowers have no urgency in the market, you can have pre-approvals in place however they are taking their time and possibly hoping for lower prices
- People that have purchased properties off the plans (12-18 months ago) are struggling to get funding due to the increased costs of living, rising interest rates. factoring in that the value of the properties have generally fallen since they entered into the original contract, they are struggling to get the required deposit.
- Best 3 month period I have had in 18 months with new lending. FHB are re-emerging but they are also missing out on properties, getting the second or third property they try for. Market is changing again back to a normal market. The lack of building will start to hit shortly as buyers enter the market and the unrealistic seller puts their home into the rental pool or stays put.
- Lenders are being more flexible in terms of process, supporting documentation. Buyers feel we see close to bottom of market
- What is becoming more evident is a lot of mum and dad investors have not planned for the double whammy of higher rates and less of a tax deduction. It is common to be told 6.50 % I can't pay that and I owe IRD $ 10,000. This will only get worse as more come up to refix . It is sad that they didn't seek professional advice sooner and prepare for this.
- It is steady with plenty of activity, and enquiries continuing to come in.
- First-home buyers are active.
- Banks seem a little busier taking a bit longer to come back although it may have something to do with the recent three short weeks.
- I am now spending a lot of time with experienced investors who have finally realized the impact of the tax changes on interest deductibility and its impact on their cashflows. Most are caught in a perfect storm of high interest rates, and increasing expenses including their tax commitments. Selling isn't an option as the market for multi flat rentals is dreadful. I can't begin to imagine what's happening to those investors who believed in buying a property every year and have vast portfolios and vast debt with low yield properties. And yet, there are many who still don't know what's coming. The best analogy I have come up with is the Frog in the Pot of water on the stove, the water is slowly coming to the boil and they don't take any action because they don't realize what's happening

TOP OF THE SOUTH ISLAND

- Its a wait and see approach by buyers - will prices continue to fall or will a get a better property if I wait. Very few cash buyers or first home buyers have slowed the market.
- Seem to be a lot of clients needing to sell due to relationship break ups and can't move forward until they sell. Splitting their affairs and reducing to one income, then reduces their future spending powers or stop them from being able to purchase and move into rental market.

CANTERBURY

- I was very busy for the first 4 months of this year but it's slowing down a bit now.
- More investors wanting to chat, getting their ducks in a row for any bargains over the next few months. Not necessarily taking action right now but checking their borrowing capacity. Many are sitting on large equity gains over the last 2-3 years and are starting to see some more upside potential in the market with a more positive outlook from here e.g., lower interest rates coming, higher rents, price appreciation. If interest deductibility also gets added to this list with a change in government looking likely over the next few months many will start to take action.
- 1% cashback offers continue to incentivise people to refinance after 3-4 years with their current lender. One bank is specifically targeting refinancers and promising mortgage advisers a turnaround time of 1-2 days for their refinance applications. Lending standards in aggregate seem to be slowly loosening (notwithstanding higher test rates when determining affordability) with banks hungry for new business
- Clients applying under First Home loan are experiencing big delays as some banks are struggling with having staff get over the line with their Level 5's - this has put huge stress on their qualified staff and causing huge backlogs with applications. Other banks are reaching out for applications as their staff are not at full capacity at present.
- Everyone still seems cautious with this higher interest rate and rising living costs

QUEENSTOWN LAKES

- Has been movement from clients who dont want to miss the bottom of the market - and are seeing that its close if not already been.

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