mortgages.co.nz

&

Tony Alexander

MORTGAGE ADVISERS SURVEY

September 2023

ISSN: 2744-5194

Investors return

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 85 responses.

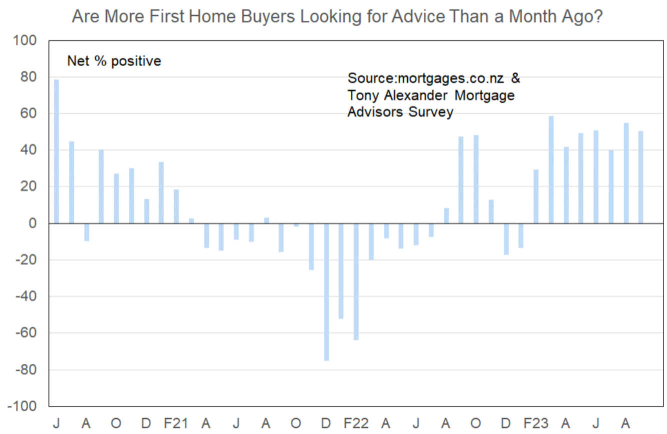
The main themes to come through from the statistical and anecdotal responses include these.

- The largest net proportion of brokers seeing investors in the market since January 2021 has been reported this month.
- First home buyers remain strongly active.
- Recent interest rate moves and worries have encouraged borrowers to more strongly favour fixing two years than one year.

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

A net 51% of advisers in our monthly survey have reported that they are seeing more first home buyers making contact about financing advice. As the graph here shows, this result is consistent with the other high outcomes since February this year.

Young buyers have been returning to the market in high numbers despite still rising mortgage rates, a rise in the unemployment rate from 3.2% to 3.6%, and high levels of household pessimism. They have been attracted by lower house prices, higher listings, better access to credit and growth in deposits over the past two and a half years.

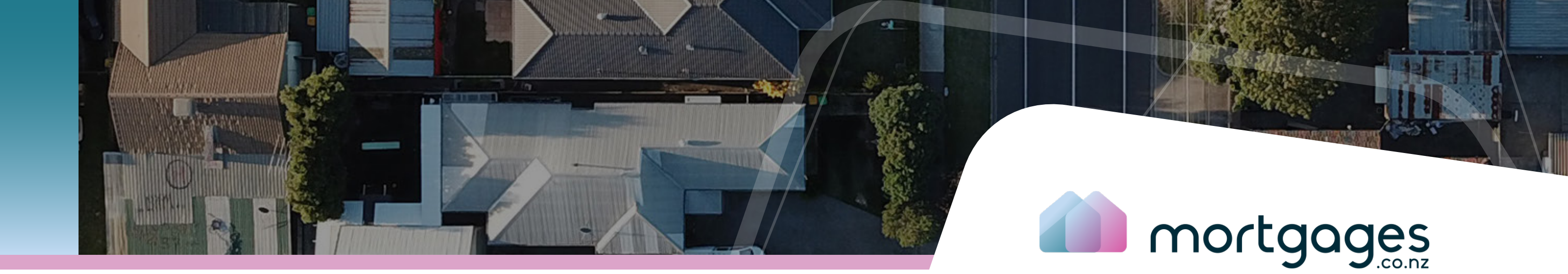


Comments on bank lending to first home buyers submitted by advisers include the following.

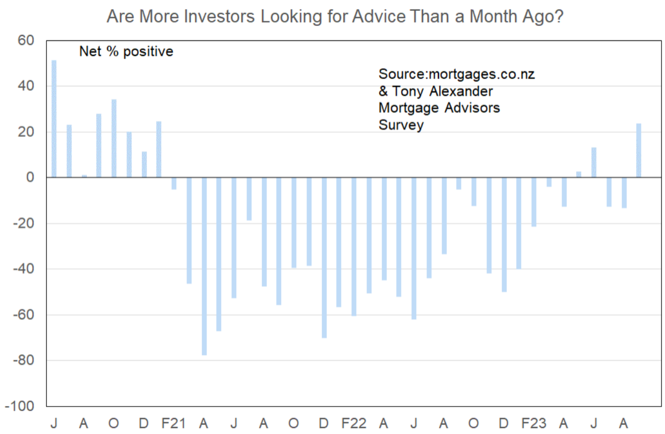
- Banks want to do more deals, but competition between banks is low. Not much movement on negotiating interest rates and cashback
- We are using the Kianga Ora Partnership scheme more & more.
- Banks are more relaxed on discretional expenditure items
- Activity is picking up - applications are taking longer to process to approval. Not quite so picky around expenses - increased reality.
- No real change although appears to be a little more availability in low equity space.
- No pre-approvals, only looking at existing clients, fussy with properties when only having 10% deposit - or lower valued properties

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

A net 24% of mortgage advisers this month have reported that they are seeing more investors in the market. This is the strongest result since January 2021 and accords with growing anecdotal evidence that investors are tentatively returning to the market. They are encouraged by strong population growth in some locations courtesy of record net immigration, hopes that interest rates have peaked,



strong demand for rental property, now rising house prices in many locations, and political opinion polls suggesting a change in government and eventual return of interest expense deductibility.



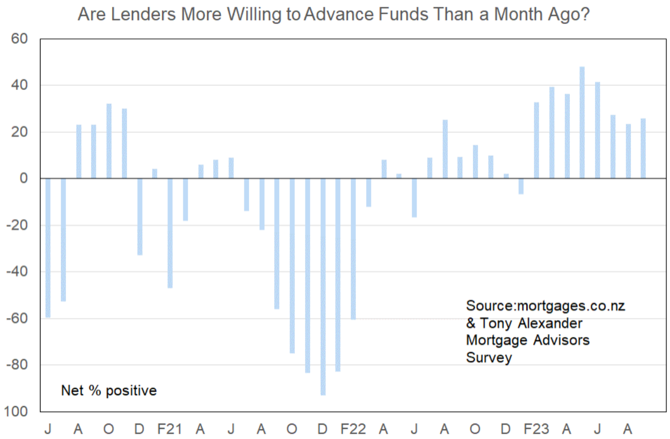
Comments made by advisers regarding bank lending to investors include the following.

- Servicing is key, at almost 9%, it is hard for a lot of people to borrow money to buy investment properties considering there are some lenders who are still using rates and insurances as a separate expense for rental properties.
- Still tough in this space, having to provide existing Rates and Insurance confirmations plus stress testing at 9% makes these deals really tough.
- Open for business, but not much business due to tax settings - except new builds.
- Affordability still proving to be the main issue for investors.
- Interest only term is harder for assessment and have to indicate you have spoken with the client around the implications of interest only.
- Bank dependent, but quite big shading on rental income happening

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

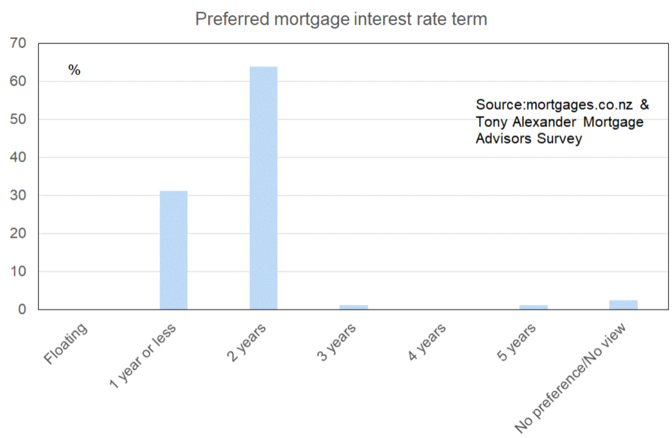
Early this year mortgage advisers reported a strong improvement in the willingness of banks to advance funds. That willingness has generally been maintained with a net 26% of brokers this month reporting that banks are becoming more willing to lend.

The graph here shows clearly the credit crunch late in 2021 which precipitated 18% average house price falls through to May this year.



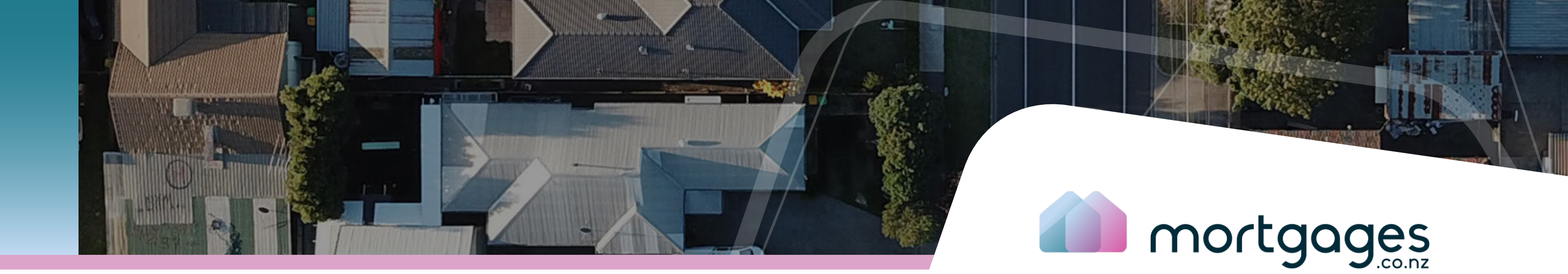
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

64% of brokers this month have reported that borrowers mainly prefer to fix their mortgage interest rate for two years, with 31% noting that one year is the preferred term. As has been the case since July last year, very few brokers are seeing people willing to fix for three years.



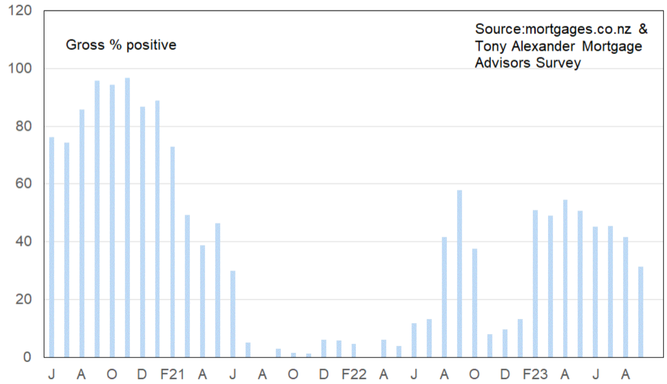
Some have reported that 18 months is the preferred term and from next month's survey that option will be included.

The preference for fixing one year has been declining this year, perhaps as continuing rises



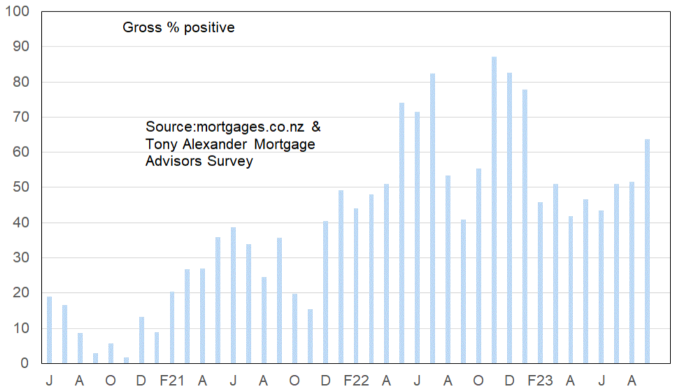
in bank lending rates despite no tightening of monetary policy have made people wary.

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



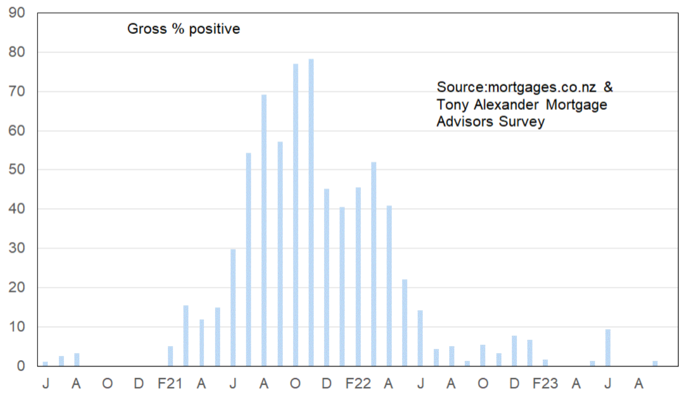
The most noticeable change this month has been a jump in the proportion of brokers saying people prefer to fix two years to 64% from 52% in August.

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

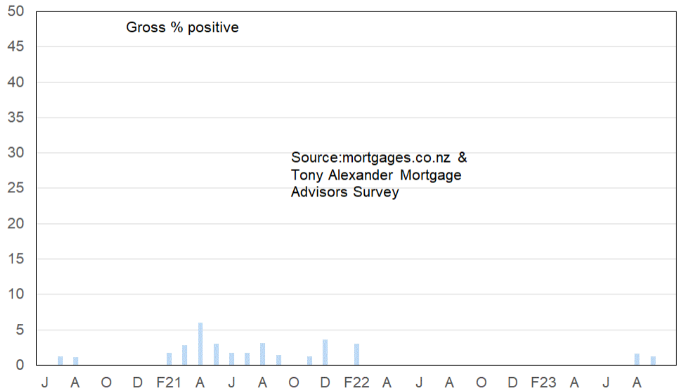


Preference for fixing longer than two years is virtually non-existent.

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



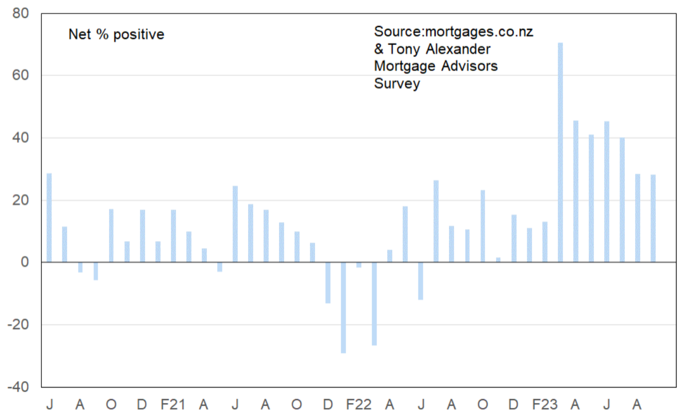
Gross % of mortgage advisors saying borrowers are locking in five-year fixed

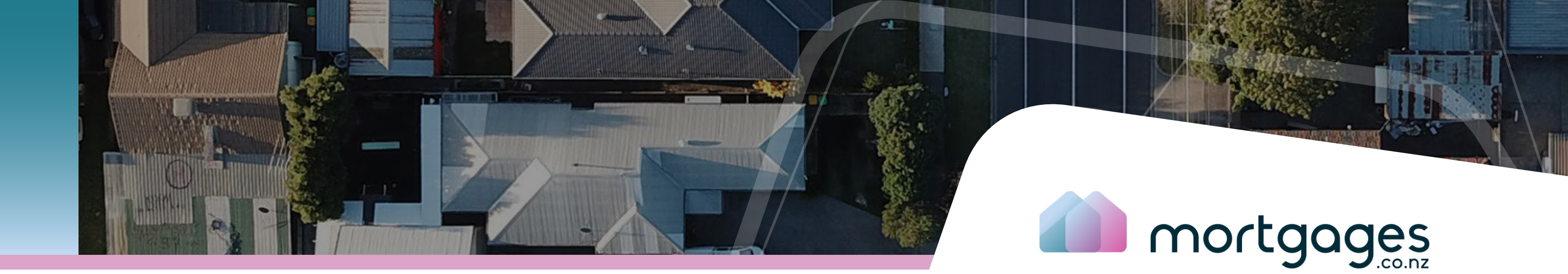


ARE MORE PROPERTY OWNERS ASKING ABOUT REFINANCING?

Since early this year a high net proportion of mortgage advisers have reported that people are coming forward making enquiries about refinancing their existing mortgage.

Are More Property Owners Asking About Refinancing?





Mortgage Adviser's Comments

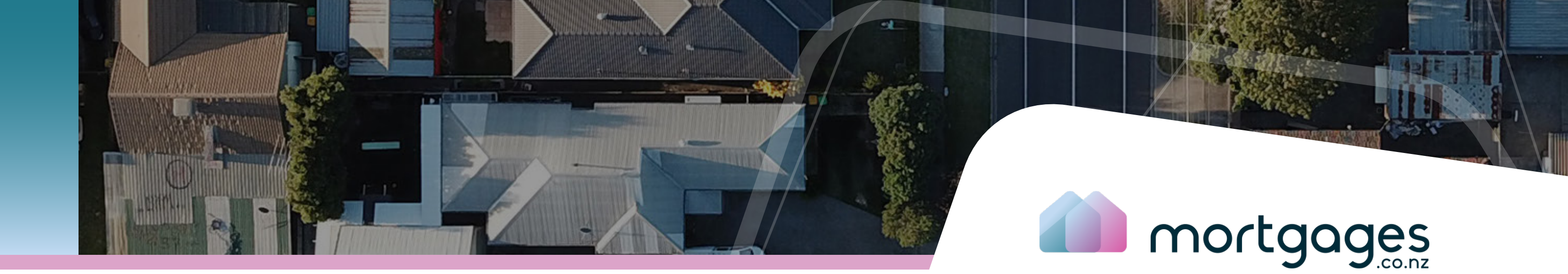
Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. These insights can be very useful for placing flesh around the bones of the numerical indicators.

NORTHLAND

- 80% lends with good UMIs are getting through
- Banks just want good mitigation noted against age of buyers - a good story around downsizing at 65 is usually enough- box ticking for responsible lending.

AUCKLAND

- The CCCFA changes may have helped reduce the household expense calculations to something more reasonable, but it is the assessment rates that are still failing applications that are otherwise strong. It is more than squeezing a balloon in terms of expenses.
- Increasing pre-approvals may signal FOMO creeping back.
- People are buying, market definitely on the uptick, sentiment on prices is stable and FOMO seems to be coming back for many FHB. Investors might jump on the bandwagon given how the polls are with Labour/Greens.
- Who turned off the tap? Very quiet in last 2 weeks for actual applications, busy with calls re interest rates, and possible changes to interest deductibility for investment properties. General chats on LVR's and possible additional lending for investment when/if change of Govt and rules change. Once the election over expect that enquiries and actual applications will pick up again. Marked increase in those needing 2nd Tier options.
- Some enquiries about moving lending out of HSBC as they look to move away from retail banking. The fact that the book is going to be sold does not seem to sway people to stay.
- Investors are looking for value-add properties (typically via a cosmetic renovation), in the regions where values are lower and rental yields are typically higher. Also looking at areas where CHP's will take older housing stock to gain the interest deductibility as CHP's tend to only want newly constructed stock in most areas now.
- FHB'S are more active.
- Have seen a lot of first home buyers come out enquiring for home loans, especially under the Kainga Ora Scheme. In general, activity has increased, not too many properties in the market, a lot of them are coming in auctions and are being sold which is a good sign.
- Valuations are starting to lag behind the market. This compromises low deposit borrowers who are required to get a registered valuation.
- More enquiry from investors convinced there will be a change in government. Usually numbers still don't add up on current interest rates. However low LVR borrowers with a long term view are more active.
- The market is starting to run hot. For First Home Buyers, there is zero FOOP and a muted but emerging FOMO - i.e. now is the time to buy my first home as prices have bottomed, and the interest payments can only get better from here. KiwiSaver is still the rump of deposits.
- Finance enquiries are increasing with buyers now open to purchasing as they feel house prices are stablishing and showing signs of increasing
- Mainly one bank doesn't want business and aren't pricing in the market. Buyers are very price driven.
- Seeing some general hesitancy as interest rates continue to increase over the last month when many borrowers believed they had reached there peak - this has made some nervous.
- While the banks have relaxed their servicing criteria by way of acknowledging that discretionary expenses are just that, it's remains very tough to get a lot of applications across the line. Stress test rates at around 9% are the biggest issue
- Confidence is building, seems to be mainly the 'vibe' around a new govt coming, good news with CBD vacancy down and demand for rentals up, will help revitalise the city, and add to uplift in economy with optimistic outlooks by general public.
- Lenders are aggressive to retain/grow market



share, however, are now more reluctant to look after their existing client base. For example, xxx were providing strong cash backs for clients refixing during May-July which is no longer as present. yyy's fixed rates are the highest out of all the banks with little room to match other banks carded rates. This is always a point in time fixture so they may change their stance once their market share starts slipping.

- Market seems to be turning - have FHBs chasing at auctions now, as opposed to a few months ago when they could take their time and grind vendors down.
- Most borrowers are now very focused on Interest Rates and Cash Contributions. This often makes obtaining the appropriate more difficult. There is now often the need to obtain several lender approvals so rates can be negotiated to show the borrower the adviser is doing all they can to obtain them the best rate. Lenders are now much more reluctant to match or reduce interest rates and often loose existing business over very small amounts.
- FHB's who bought off the plan in 2021 are going through some pain with getting their finance across the line. RVs are coming in well short of what they signed up for (by 90-100K in some cases), and unless they have cash set aside, I'll having to workshop different ways to make the deal work with the main lenders they got their pre-approval from, and even consider 2nd tier lenders.
- The bulk of my pre-approvals are for existing owners trading up. Another client was one of seven in a recent multi offer, and a real agent noted two home staging companies they work with are fully booked, from day after the election until Christmas.

BAY OF PLENTY

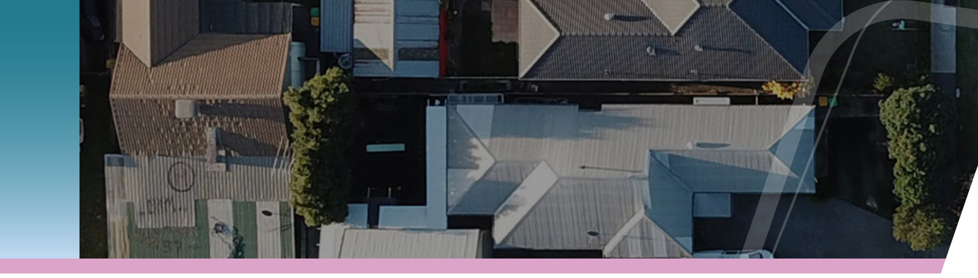
- The Kianga Ora Partnership scheme is becoming very popular but only 2 banks are letting Advisers/Brokers be involved - the other 2 are cutting us out. Guess which ones are going to grow their business fastest.
- • I'm seeing more existing homeowners looking to upgrade to a larger home and increase borrowing. Older customer - 55yo+ Still looking for 30 year loan terms, but realistic about needing to downgrade during retirement to clear debt when they stop working. I'm seeing more older clients looking for financial advice for retirement, and considering whether purchasing an investment property vs other investments strategies would suit. People more willing to pay financial advice fees - bonus when trying to make this professional service business rather than commission basis for remuneration
- Has gone a bit quiet as we lead into election - I have noted over the years it always does even thought there is no reason for it, then post-election picks up again.
- Market had slowed but has a spring growth spurt.

WAIKATO

- Willingness to adapt budgets, some are wanting to go onto interest only with changes in their families such as having children. Most of my clients are well prepared with good structures such as two or three lending splits, so current interest rate changes are not affecting their whole mortgage. Investors are interesting at the moment, some are speculating on a new government, some investors are buying new to fit within tax incentive,
- Some first home buyers I have are cashed up, after being suppressed for some time while waiting for the market to cool and these clients some I have had for 18 months are now pouncing on opportunities.
- Its almost like the spring rush has started, I'm a sole advisor and have never been busier.
- Servicing is still the biggest barrier for most people. They want to borrow more; feel they can afford more but the banks calculators won't allow them to borrow anymore.
- Lots of first home buyers entering the market. I suspect house prices will start lifting immediately in the First home buyers' range if not already.

HAWKE'S BAY

- Banks recent rate increases spooked some FHB's.
- Affordability is key, Lenders are looking for borrowers to have considerable income to meet their cost of living and debt commitments.



Reducing debt and keeping expenses to a minimum is desirable but the recent changes in banks policies around expenditure have at least eased up a little on borrowers.

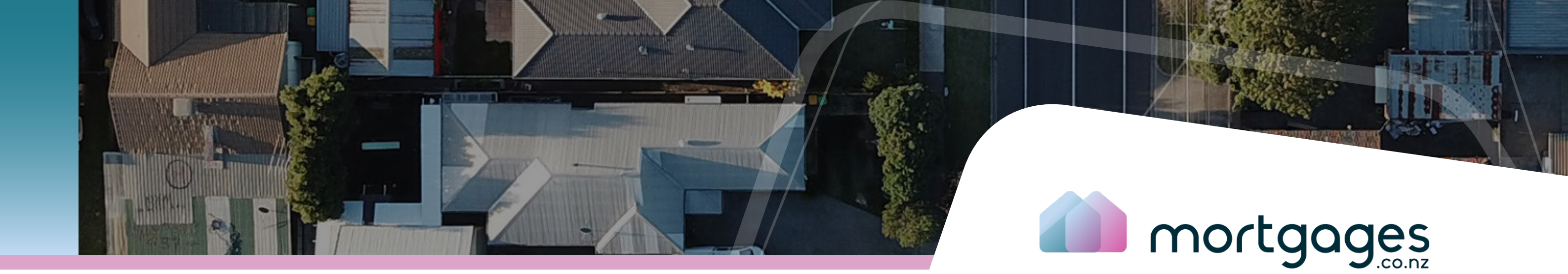
- Seeing a lot more hurt out there with borrowers coming off low rates and looking at higher ones. Lenders have lifted test rates and so what a prospective buyer could borrow 6-12mths ago is a lot lower today.
- Investors are generally holding back to see what happens with the election. It is still predominantly a first home buyers market. The partnership loan could prove to be a game changer for a lot of purchasers - as long as Kianga Ora aren't too prescriptive
- Lack of housing stock is starting to push up prices, the next few months will be very interesting.
- A lot more FHBs are getting wary of circling investors, especially the ones cashed up and ready to roll. This is making the FHBs push harder to get in ASAP, driving up more multi-offer situations. Feels like I'm about to hit the no-sleep cycle for a Mortgage Adviser.

WELLINGTON

- Ko FHP could be the biggest non event which has happened. But it's got a lot of mortgage brokers excited since they allowed existing properties to come into play.
- Buyers till holding for price drops - or rates drops. Then there are others that are just going in guns blazing. Agents seem to be getting multi offers on properties again. Limited listings but seeing a small increase in some areas. Agents tell me they have good pipelines. Lenders are busy - turnarounds for some are extending. Maybe need to bring back staff they may have moved elsewhere when things went quiet.
- Enquiries have picked up significantly over the last 2 weeks, especially from First Home buyers.
- More FHB coming forward. I think it will be very busy after the election and summer. However, lack of listing becoming an issue so the good homes are now going for a premium again.
- Bank times slowly increasing and will get worse as we head into the school holidays in a few weeks - showing more applications are being submitted.
- In the Wellington region the biggest problem is one of supply. Very few decent houses for purchasers to look at. This is seeing multiple offers, some taking that as an upturn in the market, but I'm not convinced.
- Overall there seems to be a lift in inquiry generally but given the low supply of houses we are now seeing buyers miss out more.
- As we are getting closer to the election, I'm starting to see some mum and dad investors wanting to get preapproved in readiness for changes to the interest being offset again.
- Complete removal of comfort from main banks to fund spec builders. Will typically only fund existing builders but even then, hard to get funding. No comfort taken from builder's track record.
- Starting to see more investors come back into the market as they believe prices have stabilised and will now start to rise.
- Definitely quieter leading up to the election
- Interest rates have crept up again. One bank has reduced the surplus required for >80% LVR that do not meet the RBNZ LVR exemption criteria. Volumes are down so banks are tweaking credit policy to try and get more deals to work, along with increasing rates to maintain profitability IMO.
- Wellington has limited stock on the market and quality properties are still getting multi offers coming in on tender dates.

NELSON/TASMAN/MARLBOROUGH

- Increased enquiry has been evident over recent weeks - predominantly First Home Buyers.
- A few more enquiries for the First Home Partner Scheme as it becomes better known.
- Most banks now willing to lend up to 90% for live deals and turn-around times are shorter.
- Buyers are looking to make purchases but quickly fall away once they realise the requirements involved in the process, and then the real costs once P&I repayments are needed to meet the market. Expectations remain higher than reality for a lot. Education and preparation remain wanting.



CANTERBURY

- I’m seeing a lot more 2-3 year fixed rates now rather than earlier in the year people fixing 6-12 months with hopes of rates coming down into 2024.
- Lenders are making positive changes to their policies with almost all updates which is making it a little easier to get loans across the line but also with test rates going up it almost counteracts the benefit!
- Increase in matrimonial cases, and low deposit customers unable to get preapproval - i.e. cannot buy at auction - needing a live agreement to apply for finance.
- Buyers are still hoping to get a good deal on a home, but are missing out frequently as other buyers are a little more savvy or have done their research a little better.
- Lenders are taking a long time to pick up deals even when they are live - meaning I am having to put a deal to more than one bank which clogs up the queues even more - but the borrower is my client and I need to ensure they are getting best service.
- Fielding more enquiries about shared equity/ ownership arrangements like KO's first home partner scheme.

QUEENSTOWN LAKES

- A bit tough out there for self-employed people - xxx has started averaging the last three years of business and banks seem to be picky about certain business types, or businesses that have experienced recent growth. Often this recent income is not being used or scaled to account for more risk in the business environment?

ISSN: 2744-5194

This publication is written by Tony Alexander, independent economist.
Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA
To enquire about having me in as a speaker or for a webinar contact me at tony@tonyalexander.nz
Back issues at www.tonyalexander.nz

Tony's Aim
To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Feel free to pass on to friends and clients wanting independent economic commentary.