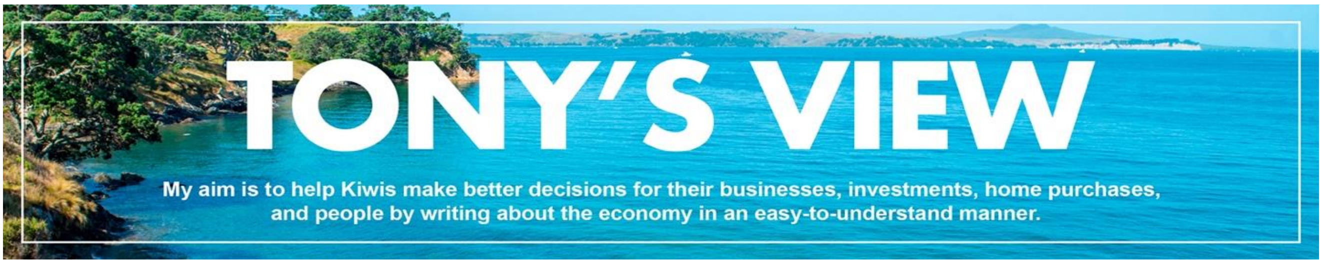

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Investors will return earlier

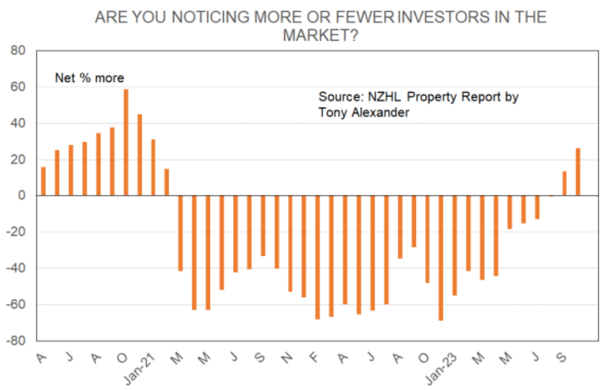
What will be the net impact on the housing market as a result of the new government finally being formed and policy details agreed on? Higher prices but maybe some improved supply of rental properties.

Higher prices will ensue because of an acceleration in a key factor already getting underway – the return of investors to the market.

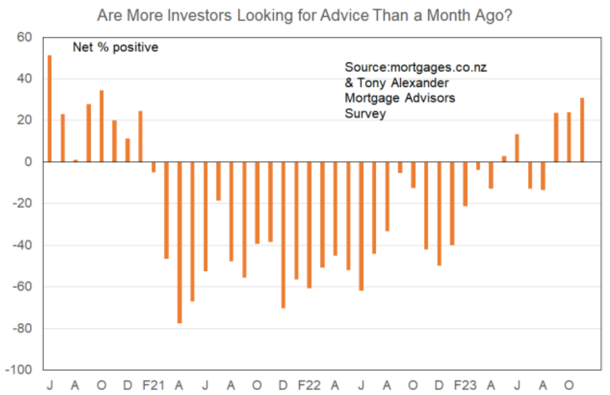
Since early this year I have referenced results from my monthly surveys of real estate agents and mortgage brokers to show how since February first home buyers have been jumping back into the market. They have been attracted by lower prices, higher deposits, better access to credit, high numbers of listings, and the absence of competition from investors.

My theme for the past few months has been that with a change in government looking likely investors would be on a path to returning and the window of opportunity for young people to buy without much competition was closing.

My most recent survey results have shown the partial return of investors. Four weeks ago my survey of real estate agents with NZHL revealed that a net 26% were seeing more investors in the market. This was the strongest result since January 2021.



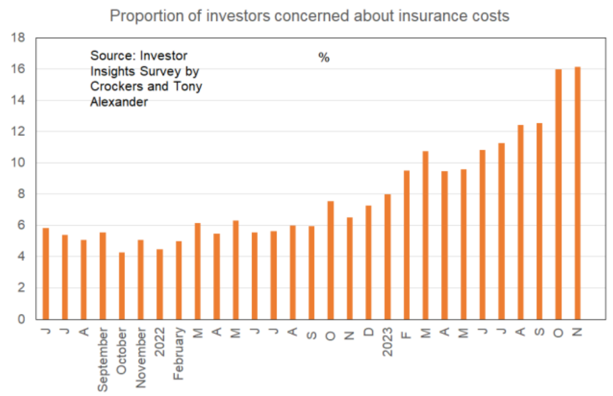
My latest survey of mortgage brokers with mortgages.co.nz showed three weeks ago that a net 31% were seeing more investors. This was the strongest result since October 2020.



I have ventured the opinion that the window of opportunity for first home buyers to make a good purchase would be closed within six months. The timeframe may now be shorter because the return of ability to deduct interest expense against rental income will now happen faster than previously thought. Investors will get a chunky 80% deduction ability starting from April 1 2024. That's close enough to the 100% effective a year later to render the missing 20% of little importance.

The two graphs above clearly show the impact on investor property demand when the new tax came in from March 2021. We have to anticipate the opposite happening now. But will there be a feeding frenzy? No.

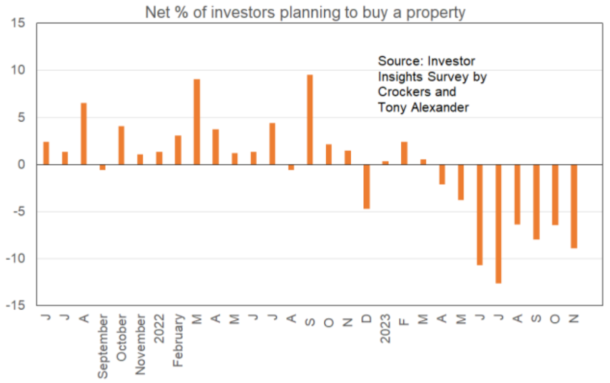
My monthly survey of existing property investors with Crockers Property Management shows strongly rising worries about the costs of investing in property going up – principally rates, insurance, and maintenance. Here is the graph for insurance worries. The other two are similar.



But there is a caveat to my downplaying the potential for a frenzy. Our kids are heading off to Australia because they are told by the media that New Zealand is stuffed and everything is in crisis. They have no idea what Aussie tax rates are, what the cost of living is, what rents are, what the availability of rental property is, and how Aussie attitudes are different from us PC woke offend no-one soft Kiwis.

The people in my Crockers survey are existing investors, not new ones. They are like Aussies, already knowing what the place is like and feel that with costs rising so much they are not really much interested in buying another place. Their net

purchase intentions shown here remain firmly negative.



But my surveys of real estate agents and mortgage brokers probably predominantly capture observations of new investors. These people are the Kiwis determined to go to Australia – not knowing the details of what they are planning to do.

The surveys suggest they are going to jump in boots and all and perhaps the only serious restraint is getting finance from the bank and meeting interest payments. They are likely to do their best to get around these problems because they want to get on the house bandwagon now that it is moving forward again. The existing investors are already there with large, accrued gains which weaken their feeling of dire need to get a property.

Therefore, much as I play the politically correct game of not scaring the kiddies and saying that the entry of investors will be cautious and the upturn in the market mild, if I were a person looking to make a purchase I'd be out and about this weekend looking to lock something up. But this would be on the basis of a reasoned view of what lies ahead rather than FOMO.

One further thing of note, we have just seen a bank make some small cuts to fixed mortgage interest rates. If others join in the fear factor of interest rate levels in the coming 1-2 years is going to dissipate quite quickly. People will think that current credit cost pain will disappear not too far down the track.

But this is not what the Reserve Bank wants to see. So, if a ball of falling interest rate expectations gets rolling, I'd expect the Reserve Bank to take a measure to stop it dead.

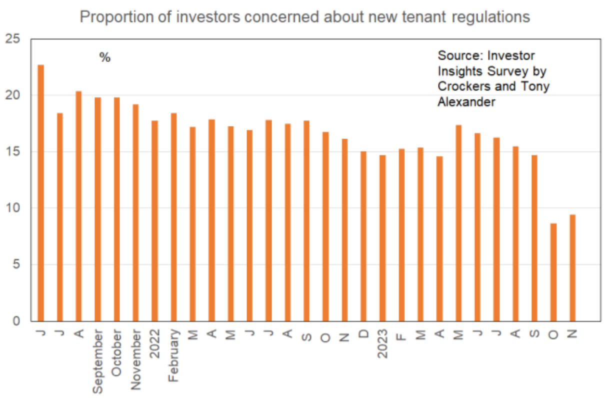
Other relevant policies to be noted from the two coalition agreements include agreement to make councils choose whether or not to implement housing intensification through the Medium Density Residential Standards. This implies less growth in new house supply though by how much is impossible to say.

However, the RMA is to be restored and reformed to make land development easier. The net impact on housing supply is unclear. The same comment applies when we take into account potential for sharing GST on new residential developments with councils and financial incentives to councils to get more houses built.

The Credit Contracts and Consumer Finance Act will be rewritten to leave protection for vulnerability consumers in place but remove the ridiculous restrictions imposed by the previous government on all other borrowers. The unwinding of the credit crunch from December 1 2021 will have a positive impact on credit access and demand for housing. But we don't know when and to what degree.

Immigration rules will be tweaked with the outcome being more people able to come into the country by the looks of it. This will add to demand for housing. Timeframe and magnitude are unknown.

Tenant legislation will be altered so that landlords once again can end a tenancy with 90 days notice without giving a reason, or 42 days if the property is to be sold. Many investors have expressed concern about the previous changes worsening landlord rights so presumably the change back will keep some willing to hold onto their property or buy another one.



In case you missed it

On Monday I released the results of my latest Business Survey with Mint Design.

The results show a decrease in concerns about politics and regulations following last month's general election, decreasing plans for raising prices, but still negative plans for capital spending on new equipment etc.

[Mint Business Insights - November 2023 - Mint Design]

If I were a borrower, what would I do?

This week started with downward movement in NZ wholesale interest rates on the back of falls in the United States. The ten year bond yield there for instance has declined now to around 4.27% from 4.4% last week and a peak of just over 5% a month ago.

But the Reserve Bank's review of the official cash rate yesterday was a more hawkish document than expected. They slightly lifted their projected track for the OCR so one further rise next year looks possible.

They noted they discussed raising the cash rate now but would await more data – the same sort of sentiment expressed for some time by the Federal Reserve in the US. They noted that the domestic economy this year has been stronger than expected and one reason is booming net immigration which is placing new upward pressure on housing costs.

They noted that the currency is tracking slightly lower than expected. But right now the NZD is above their assumed level and therefore placing some extra downward pressure on inflation.

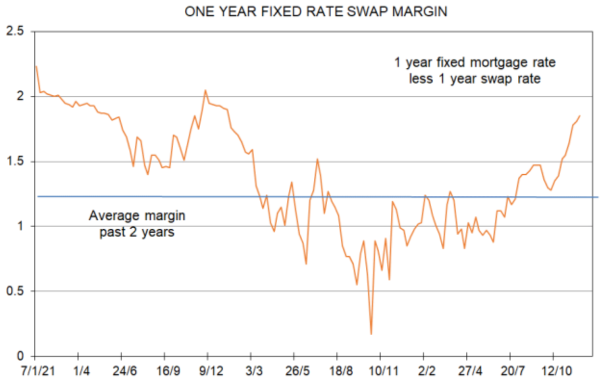
They have assumed no negative economic impact from El Nino, no tightening of fiscal policy by the new government, and downplayed the restraining impact on wages growth of a rapidly easing labour market.

In a nutshell, they seem to have structured the cash rate review to deliver a message that the markets are a bit ahead of themselves in expecting 2-3 rate cuts next year. And they have done so because at 5.6% the current rate of inflation is too high to allow any mistakes to be made.

The chances remain good that the first easing of the cash rate will come in the second half of next year rather than mid-2025 as they have pencilled in. The markets have generally adopted this view and that is why swap rates banks pay to borrow fixed have ended this week not much changed from a week ago.

If I were borrowing at the moment, I'd probably fix 12-18 months.

Note how the following graph shows banks are now creaming it on one year fixed rate lending.



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