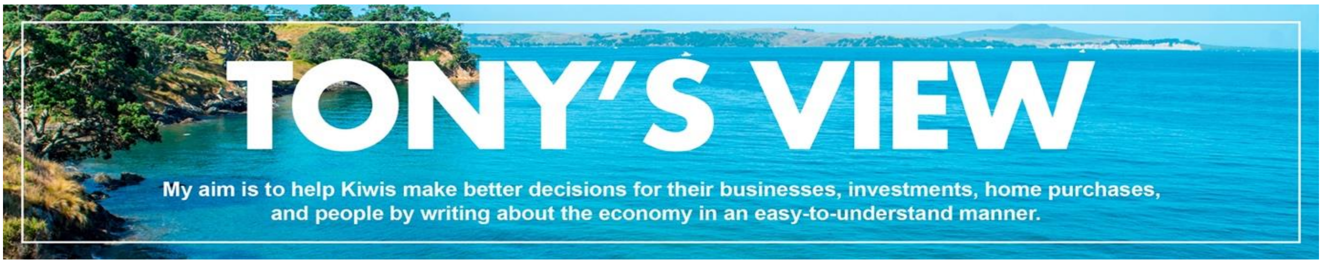

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ISSN: 2703-2825

25 May 2023

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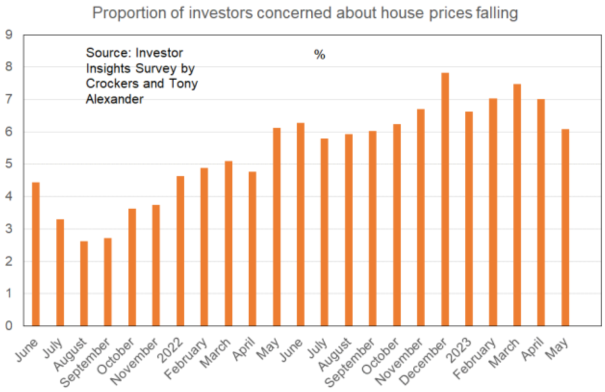
Investor concerns and plans are shifting

Each month in conjunction with Crockers Property Management I run a survey of residential property investors to get a feel for how their attitudes and plans might be changing. There are some changes underway which I discuss in this month's results which were released yesterday. For your guide, here are the main things I found interesting.

Investors are less worried about prices falling

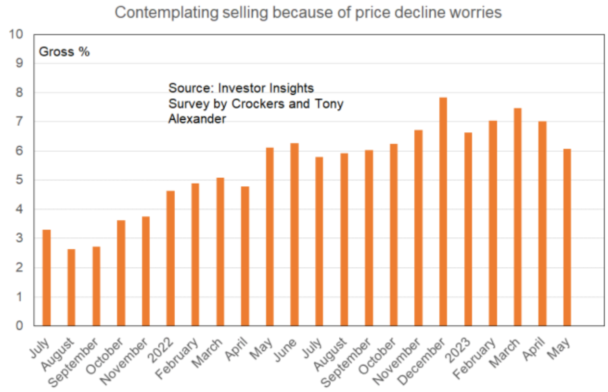
I ask investors what their main concerns are about their investment. As a rule, not that many express concerns that house prices will fall. The proportion who do peaked at 7.8% last December.



But since then, their worries have been slowly easing and this month 6.1% had such worries. This is still above the average recorded since I started the survey in the middle of 2021. But the trend is down.

Fewer selling to beat price falls

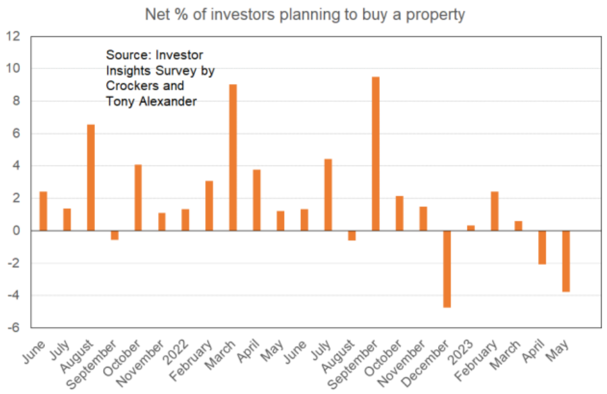
I like the result because it gels with a decline in the proportion of those looking at selling in the next 12 months who say they are doing so in order to get the deal done before prices fall away.



Now, before anyone starts thinking that these decreasing worries about prices falling further mean that investors are about to come back into the market – think again. No, they are not.

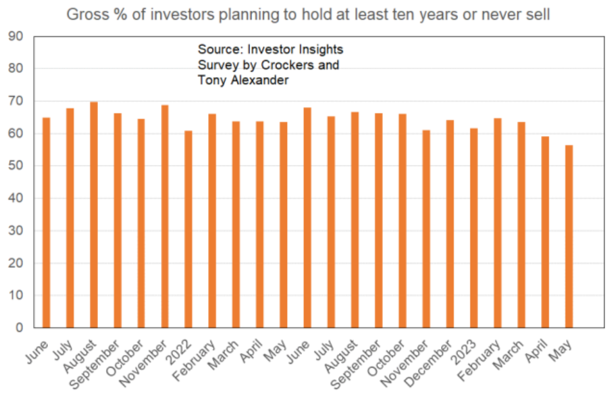
But net buying plans are falling away

I can net off the proportion who say they are looking to buy again in the next 12 months against the proportion who are looking to sell. The level of net purchasing intentions has fallen to the second lowest level on record at -4%.



The holding period is shortening

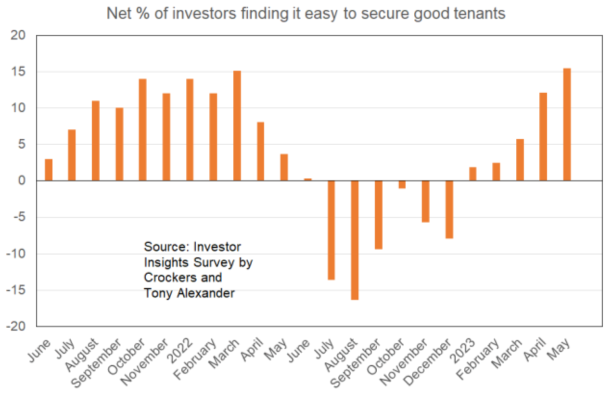
There is also something else going on. The proportion of investors who say that they intend holding their property for at least ten years or never selling it is tracking down and reached 56% this month from 64% at the end of 2022 and 69% at the end of 2021.



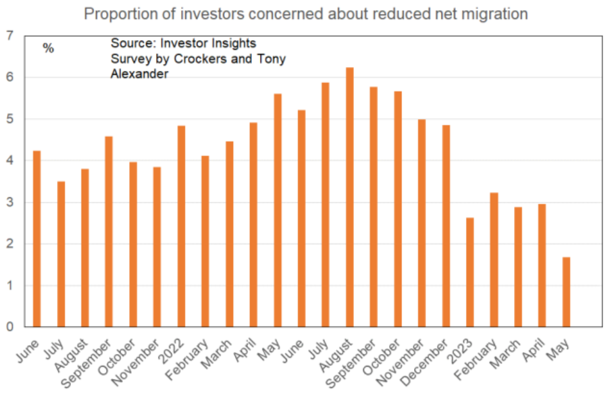
Why, when good tenants proliferate?

Are they looking to sell because it is a struggle to find good tenants? No, the opposite in fact.

A net 15% have reported that good tenants are easy to find. This is a record high up from a net 8% having difficulties at the end of last year and 12% finding things easy at the end of 2021. The improving trend in this measure since the second half of last year is clear and it correlates with the boom in net immigration into New Zealand.



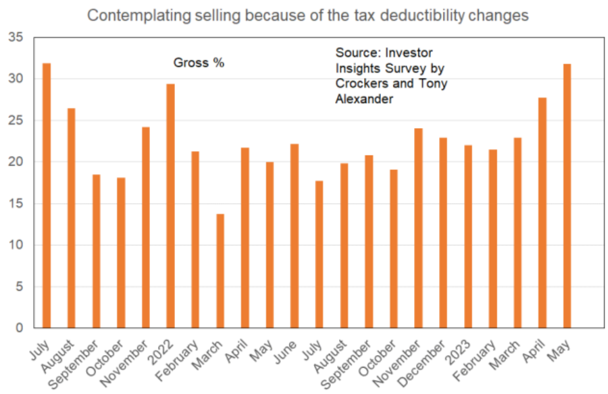
In fact, we can see that investors feel there is a new boom underway with a decreasing proportion expressing concern about falling net migration.



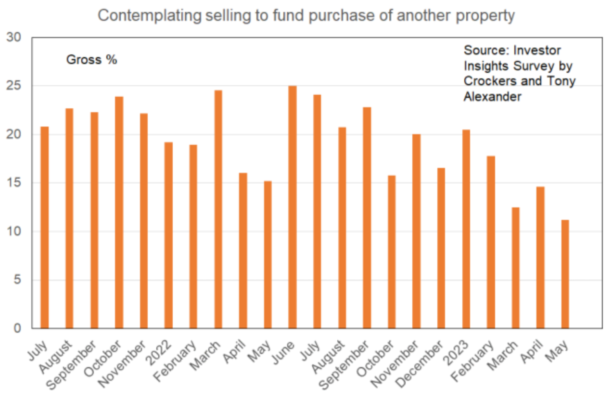
There are more people looking for a property and they are doing so at a time when the tax changes have incentivised people to sell.

Why are some investors exiting?

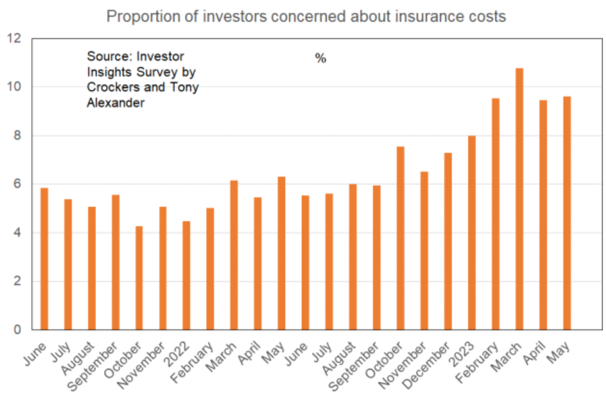
That is something which comes through clearly in the response investors have to the question of what is motivating them to sell. There is a firm rise underway in the proportion blaming loss of interest expense deductibility.



There is a downward trend in the proportion saying they are selling in order to purchase a different property.



Also, note that investors are feeling pressed by rising insurance costs.

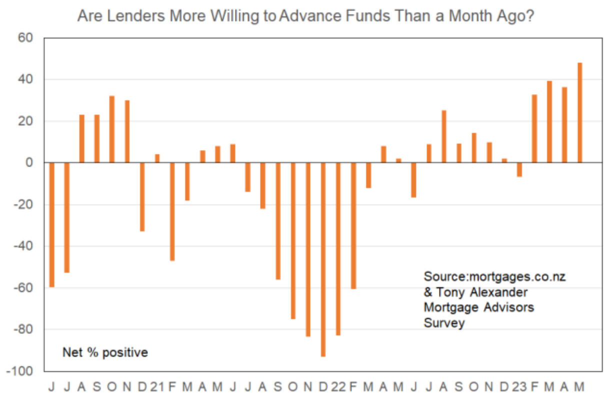


Falling supply vs. rising demand

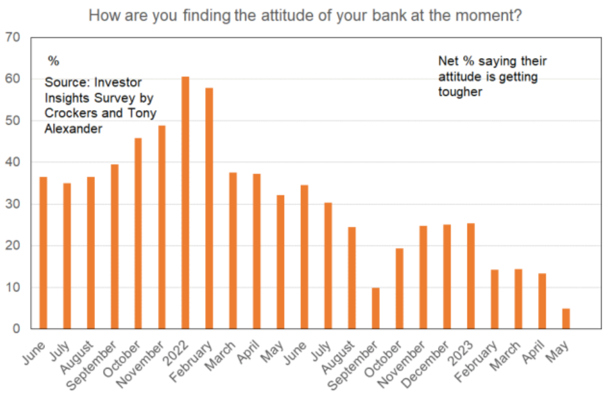
What are the implications of investors slowly quitting the sector at a time of rising tenant demand? Rising rents, increasing difficulties for people in finding suitable accommodation, and eventually new upward pressure on house prices as more renters shift their preference towards buying.

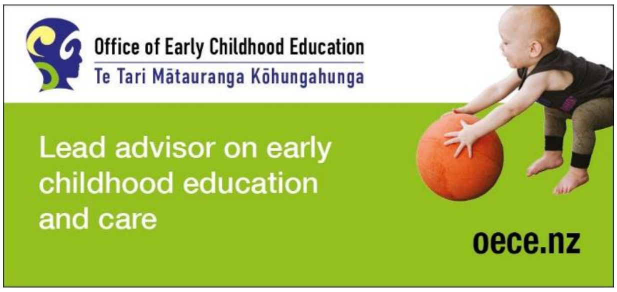
Banks want you to borrow

After all, house prices have fallen 24% from their peaks in Wellington and 23% in Auckland, and banks are competing for market share in an environment of weak real estate turnover. I can see the greater availability of credit from my survey of mortgage brokers with mortgages.co.nz (graph here).



We can also see this improving access to credit in my survey with Crockers. There is a firm decline underway in the net proportion reporting that banks are getting tougher.





In the near future there is a good chance that talk of extra monetary policy tightening because of the Finance Minister's election year easing of fiscal policy (surprise, surprise!) will inject some new caution about house prices. But sometimes you've got to really step back to see the big picture and not just what one factor is doing.

1. There is a two year queue of people who have held off buying and they are going to be getting antsy as talk grows of prices bottoming out.
2. There is a migration boom underway.
3. Talk of recession is disappearing.
4. There is a fairly sharp decline in new house construction only just starting but looming like it will run for 2-3 years.
5. The stock of listings is falling.

Throw in the results from my property investor survey suggesting a decrease in the availability of rental accommodation and as I have written strongly here in recent weeks, the house price implications become very clear.

It gives many people a nice feeling to say that house prices may be close to bottoming out on average but they're not going to jump up by much in the next three years and things will be quite settled. No, they won't. And imagine what will happen to the big queue of buyers when the Reserve Bank eventually signals that it will be accepting of interest rates going down.

I can't really pick the timing – but it's just a matter of time before the price cycle kicks firmly back up again.

In case you missed it

On Monday I released the results of this month's Business Survey undertaken with sponsorship from Mint Design. This month businesses reported continuing shortages of staff but some shift towards a focus on customer retention as the weakening economy hits revenues. Attention to potential cyber threats has increased. But despite recent weather events plans for spending more on climate change mitigation measures have eased. Business plans for raising their selling prices have eased slightly over the past two months. Mint-Business-Insights_May23.pdf (mintdesign.co.nz)

On Wednesday I released results from my monthly survey of residential property investors with Crockers Property Management. Key results include landlords finding it easier to secure good tenants, rising worries about maintenance and insurance costs, and increasing propensity to sell because of the tax changes from 2021. Property Insights | Auckland Housing Market | Crockers

If I were a borrower, what would I do?

I've just released the last time I actually wrote what I would do as a borrower was back on May 4. To whit…

"If I were borrowing, I would grit my teeth and pay the one or two year rate (only the latter if the deal was sweet) and not touch the 3-5 year rates with a bargepole."

I'd still do the same now, especially after yesterday's monetary policy decision. The Reserve Bank raised the cash rate 0.25% as expected. But they kept the predicted peak at the 5.50% the rate is now at and spent time emphasising how the economy and inflation are weaker than they expected, and things are tracking in the right direction.

The comments were dovish, wholesale interest rates have rallied, and our attention now shifts to when rates start falling and how quickly they go down. Don't get too optimistic. There is a lot of water to go under the bridge yet. The Reserve Bank pick their first cut late in 2024 and the rate reaching 3.25% come mid-2026 – three years from now.

The speed of decline is highly likely to be faster than that and the first cut probably will come early next year.

The important thing is that people will start getting less worried about interest rates now and in conjunction with other things going on this will start activating the two-year backlog of property buyers to re-enter the market. If you're wondering what those other things are just read one of my Tony's View issues from the past few months. I reckon I've hammered the points to death and when the market starts rising again in earnest – let's say Spring – you can't say you weren't warned. The payoff from holding off hoping for a lower price is now decidedly slim in the cities. In the regions things are slightly different with over-building and less boost from migration flows.

I discuss rates a lot more in Tview Premium with lots of useful graphs to help your decision-making process.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.