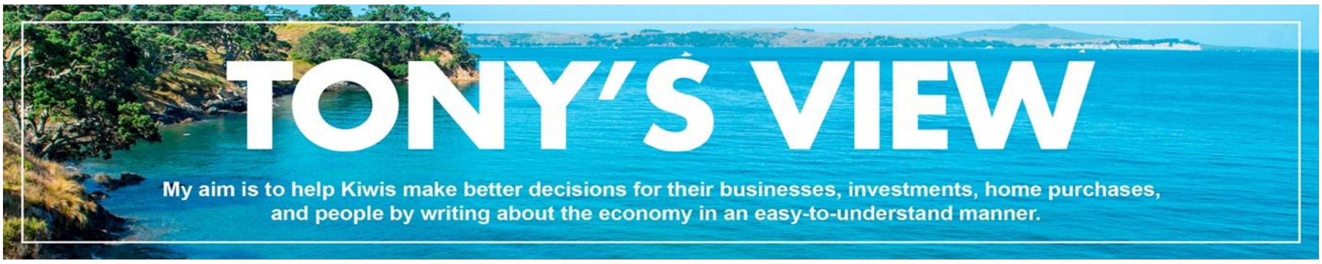

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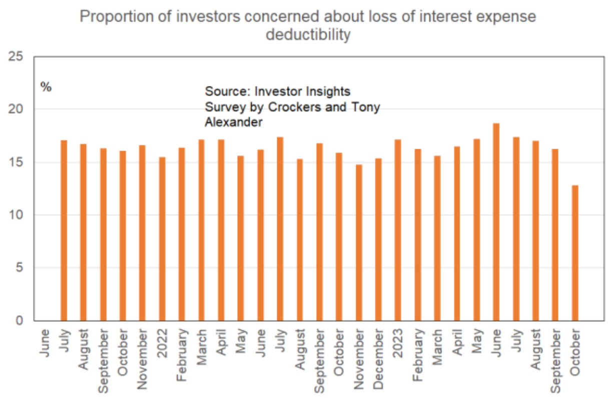
Property impact of the election

Has the outcome of the general election had any impact on property investors? You'll have seen some media commentary suggesting yes – along the lines of more people planning to purchase property. I have given my view in some interviews that while more investors will enter the market as buyers in the near future, there will also be more sellers.

The biggest impact in the short-term I've said may be on first home buyers realising that time is rapidly running out for them to make a purchase without facing a lot of competition in the tender process or in the auction rooms. The rise in the Core Logic buyer classification measure showing a record 28% of sales recently going to first home buyers suggests many have already been acting on that belief.

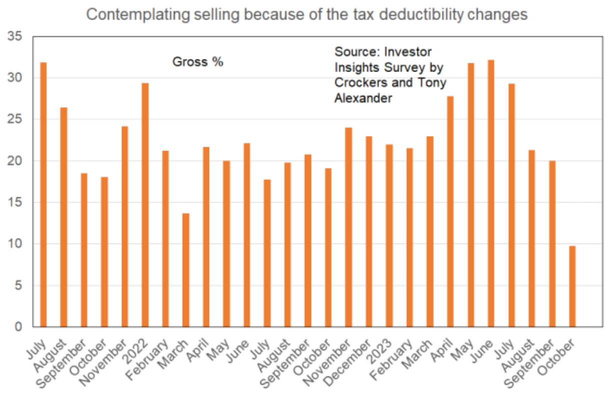
Last week I ran my monthly survey of residential property investors sponsored by Crockers Property Management. The full writeup will be out in a few days. But here are some results which I feel reflect the election outcome. National plan cutting the brightline test back from ten years to two years. Tenant legislation is to be tweaked to less favour tenants, and interest expense deductibility will be restored over a period of time which may stretch to mid-2026.

First, and for no particular reason, let's start with the question I ask about the things which concern investors. For a long time they have placed highest importance on the loss of interest expense deductibility. But now, the proportion rating that as a concern has just fallen to 13% from 16% last month. Not a big decline for sure, but a distinct move down, nonetheless.

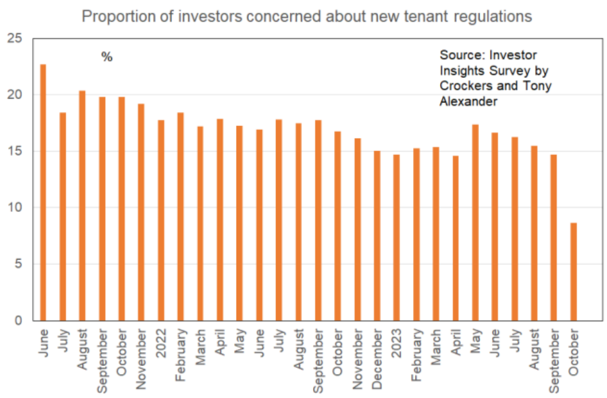


A bigger change can be seen with regard to the reason those looking to sell cite as driving their decision. The proportion saying loss of interest

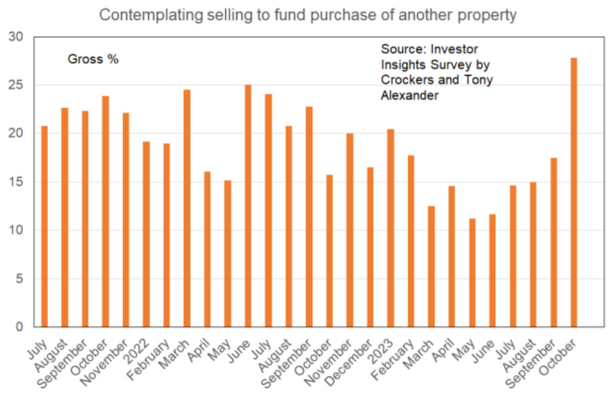
expense deductibility has just decreased to below 10% from 32% in the middle of this year.



The proportion saying that they are concerned about tenant legislation has just decreased to around 9% from 15% last month.



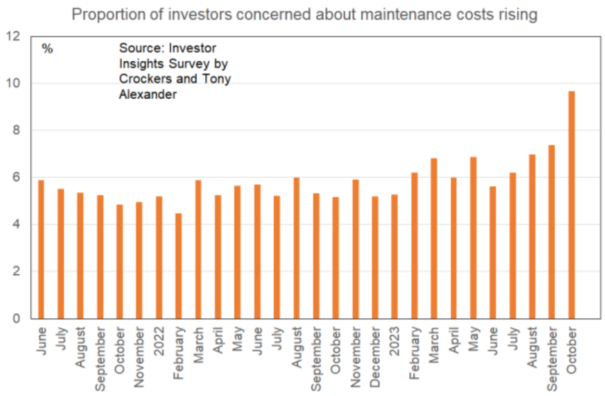
I think the general election outcome also explains this sharp jump in the proportion of investors looking to sell who say they are doing so in order to fund another purchase. This likely reflects the combination of the brightline test change and the interest expense deductibility restoration.



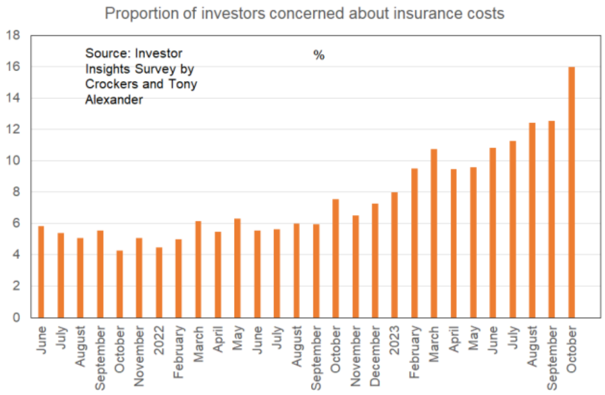
Beyond these impacts the other changes in the various things I track aren't so blindingly large. But there are some important things to note which I won't go into detail about and will save for the full report. But suffice to say, pressure for rents to go up has taken the proportion of investors planning to do so to a record high. Why when things are moving in their favour with regard to the upcoming deductibility change? Soaring costs.

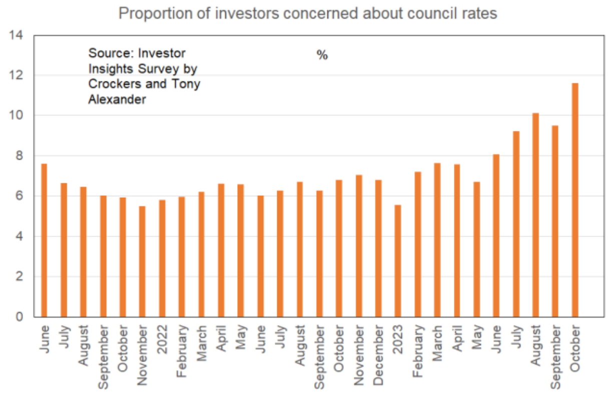
These final graphs show the upward trend and most recent jump in the proportions of investors

saying they are concerned about three things – maintenance costs, insurance, and council rates.



Add in booming population growth, rising tourist numbers, and decreasing new house construction, and the push factor for young people to make a property purchase is going to become more and more intense in the coming year.





In case you missed it

This week I released results of my pre-election monthly survey of businesses undertaken with Mint Design. Businesses reported deep concerns about the economy ranging from high interest rates to cost of living increases and especially the previous government now out of power. Many noted that their actions and prospects in their industries will depend a lot on who wins the election.

In that regard, with a change now confirmed, it will be interesting to see if businesses look through the immediate and prospective problems in their macroeconomic operating environment or retain a focus there but without as much pointing of blame at government.

[Mint Business Insights - October 2023 - Mint Design]

If I were a borrower, what would I do?

Wholesale interest rates this week have finished this morning about where they were a week ago. Volatility has picked up in concert with increasingly rapid changes in rates in the United States. Each data release is being devoured by investors for signs that either inflation is still comfortably tracking downward, or it is going to prove sticky.

An underlying view is that the longer it takes for things to be brought under control the greater the risk that the new levels at which interest rates are considered neutral will be higher than previously thought.

Of key interest here is the set of labour market statistics coming out from Statistics NZ next Wednesday. We will be looking closely for signs that the boom in immigrant worker numbers is causing a decent fall in the pace of wages growth.

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

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.