Investor Insight

November 2021

Crockers PEOPLE & PROPERTY

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No impact yet from rising interest rates

Welcome to the latest monthly Investor Insight survey compiled by Crockers Property Management and Tony Alexander. Each month we survey a selection of the many thousands of residential property investors on our databases with a view to gauging how things are changing over time across a wide range of indicators.

For instance, we will track changes in pressures on rents, points of particular concern, plans regarding property purchases and intentions to sell, and shifts in preferences for property types.

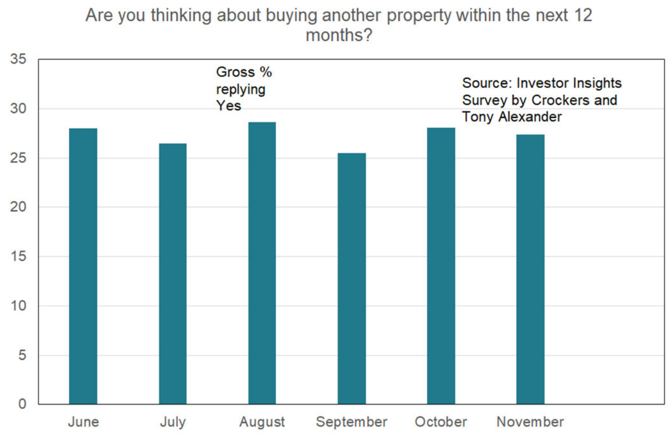
Key points of interest from this month's survey include the following.

- Rising mortgage rates have yet to alter buying and selling intentions, and debt repayment is not being accelerated.
- However, more investors are looking to fix their interest rates for longer periods.
- One-quarter of investors planning a purchase will develop a property(s) themselves.

In this month's survey we received 515 responses.

ARE YOU THINKING ABOUT BUYING ANOTHER PROPERTY WITHIN THE NEXT 12 MONTHS?

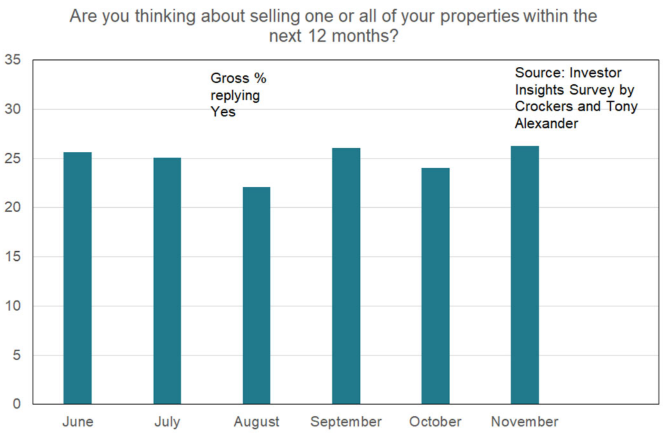
A gross 27% of property investors responding in this month's survey have indicated that they are thinking about buying a property over the coming year. This is a relatively strong result considering the tightening of bank lending criteria underway and the increase in mortgage interest rates in recent months of between 1.4% and 1.8%.



Various surveys continue to show that people's expectations for house price increases remain high. For instance, the Reserve Bank's just-released Household Inflation Expectations survey shows a net 71% of householders expect house prices to rise over the coming year. This is barely changed from 73% in the September quarter and up from 62% six months ago.

ARE YOU THINKING ABOUT SELLING ONE OR ALL OF YOUR PROPERTIES WITHIN THE NEXT 12 MONTHS?

These sorts of firm price gain expectations held by the general public may help explain also the absence as yet of any recent upward move in the proportion of investors planning to sell a property in the coming year. At 26% the proportion is little changed from results over the other five months during which our survey has been running.

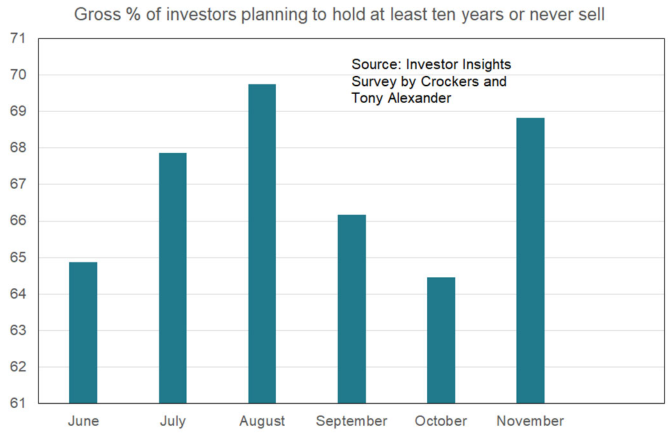


And if we bring our two results together to construct a net purchasing intentions measure, we find a still positive net proportion of property investors planning to make a purchase. Note the change however between the high net purchasing intentions in mid-August and the outcome for September which captures the imposition of lockdown from August 18. After that a rebound occurred and this renewed positivism helps explain the nationwide prices surge despite the new lockdown.

ROUGHLY HOW LONG DO YOU PLAN KEEPING YOUR INVESTMENT PROPERTY(S) FROM NOW?

Our surveys consistently show an over-whelming majority of residential property investors plan holding their properties for the long-term.

In November almost 69% said they plan to hold for at least ten years or have no plans for ever selling.

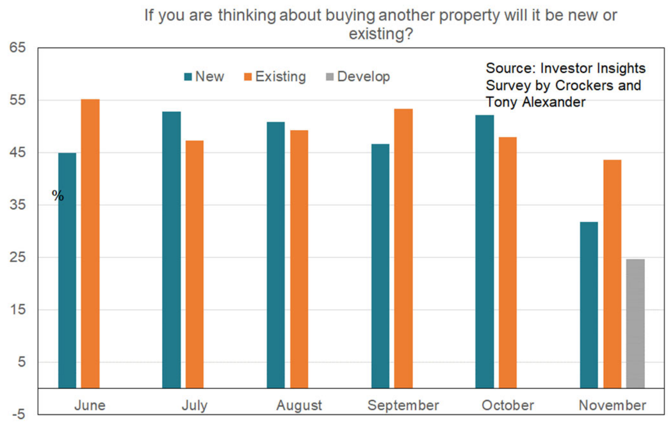


Note that while only 6% of respondents said they plan holding for less than a year, this cannot be interpreted as the proportion of investor owners who could be classified as "flippers". Many of those planning to sell within 12 months are likely to have held their property for a number of years and are simply adjusting their investment portfolio – perhaps switching from an existing property to the purchase of a new one.

IF YOU ARE THINKING ABOUT BUYING ANOTHER PROPERTY WILL IT BE NEW OR EXISTING?

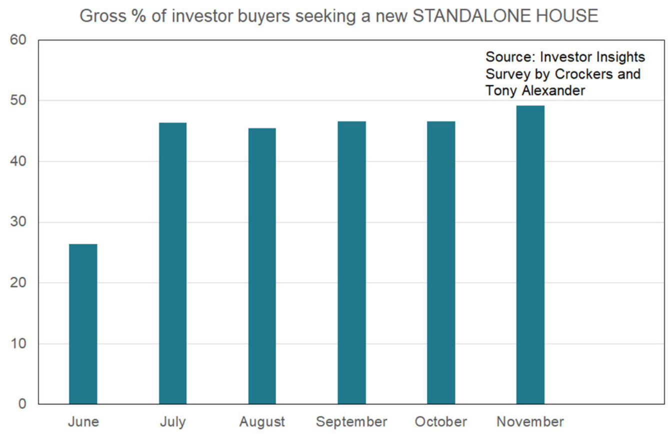
In fact, 32% of our respondents planning a purchase say they will make it a new dwelling and another 25% say they will undertake the development themselves. This is a new option for respondents to choose which was added this month.

So, in total 57% will purchase new, leaving 43% of those planning a purchase indicating they will buy an existing property. The interest in doing the development oneself is quite high.

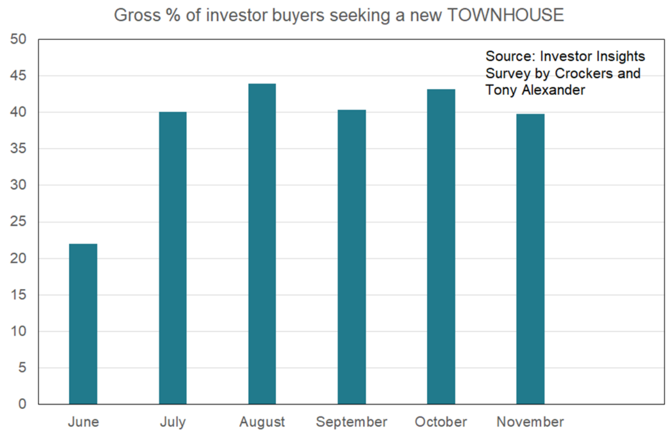


IF IT IS A NEW PROPERTY YOU'RE LOOKING TO BUY, WHAT TYPE?

We ask this question and the next to see if there are any trend changes in the preferences investors show for property type. A gross 49% will seek a standalone house, a result not yet suggesting any preference shift.

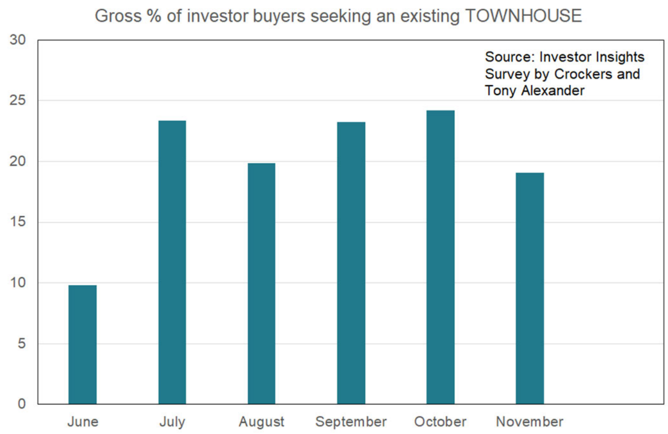


The same goes for townhouse preference for a new purchase with a gross 40% preference. The remaining 11% prefer an apartment.



IF IT IS AN EXISTING PROPERTY YOU'RE LOOKING TO BUY, WHAT TYPE?

We can do the same analysis for those looking at buying an existing property to see if their preferences are shifting at all. As previously noted, there is relatively low demand from investors for existing townhouses. Just 19% of those targeting an existing property favour townhouses, versus 40% for those purchasing new.

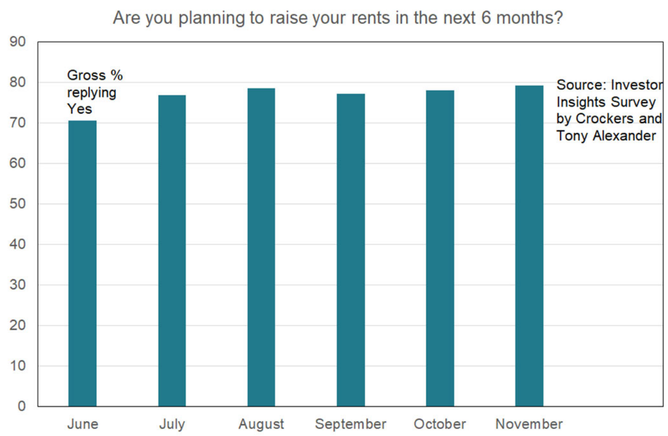


For first home buyers the purchase of an existing townhouse is likely to be more viable than the purchase of an existing standalone house given the relatively low interest from investors.

ARE YOU PLANNING TO RAISE YOUR RENTS IN THE NEXT 6 MONTHS?

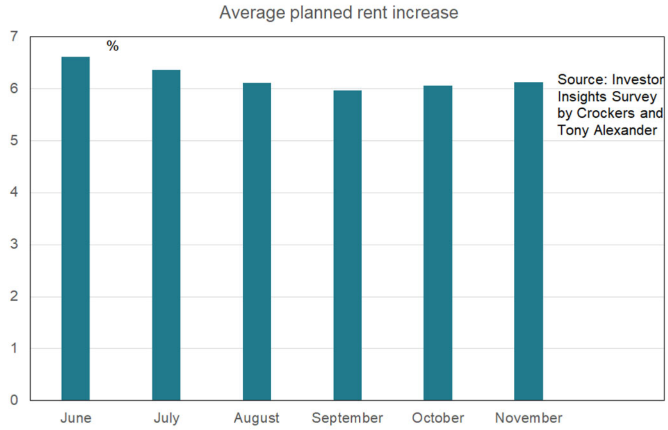
Rents are set with reference to the market and not just by desire of a property owner.

There is no upward trend in the proportion of investors saying they plan to raise their rents. This challenges the view that rising debt servicing costs will cause more owners to raise their rents. Having said that, it will take some months for fixed interest rates to roll over into the new much higher mortgage rates.



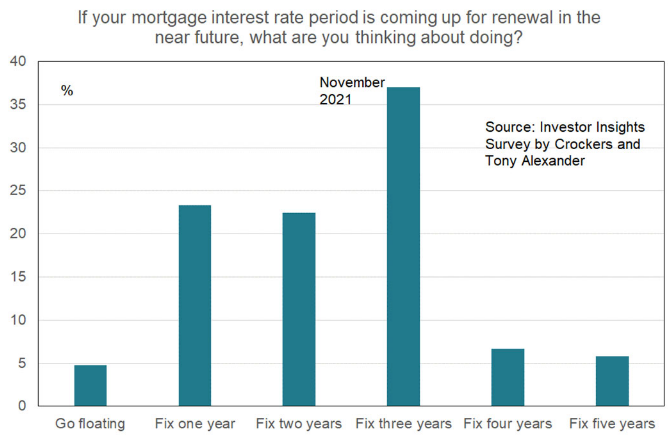
IF YOU PLAN RAISING YOUR RENTS, HOW MUCH BY?

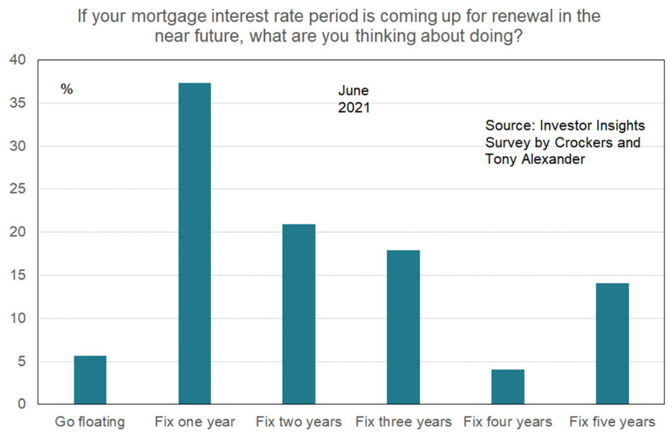
For those landlords intending to raise their rents, the most commonly cited increases remain in the ranges of 1-5% and 5-10%. The average is about 6% and this average has shown no trend change since our survey started.



IF YOUR MORTGAGE RATE IS COMING UP FOR RENEWAL IN THE NEAR FUTURE, WHAT ARE YOU THINKING ABOUT DOING?

37% of investors plan fixing for a three-year term when their mortgage rate comes up for renewal. Five months ago, in June this proportion was just 18%.





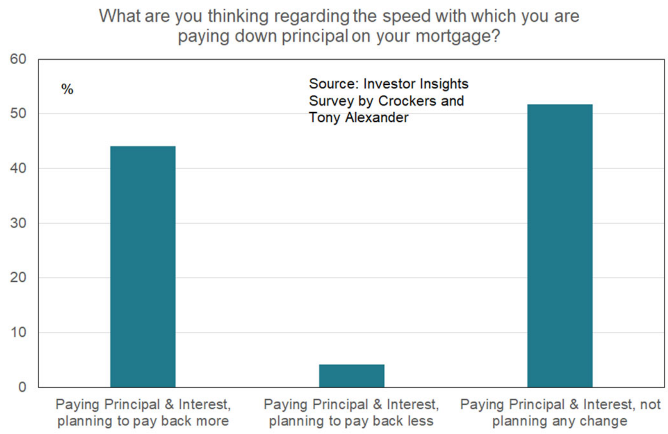
Note that to allow for the possibility of splitting one's fixed rate across a number of time periods, respondents are allowed to choose more than one fixed term option.

WHAT ARE YOU THINKING REGARDING THE SPEED WITH WHICH YOU ARE PAYING DOWN PRINCIPAL ON YOUR MORTGAGE?

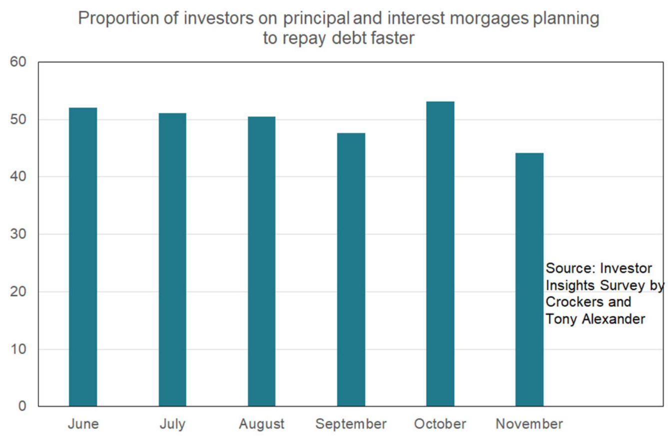
Mortgage rates have risen strongly over the past five months and our survey will allow us to see if investors are moving to accelerate the pace with which they pay down their debt. However, the impact of rate rises will be combined with the impact from reducing ability to deduct interest expenses for calculating taxable income.

Therefore, we won't be able to strictly attribute any upcoming repayment changes to either factor. But we would expect a shift towards higher principal repayment. Is this happening yet?

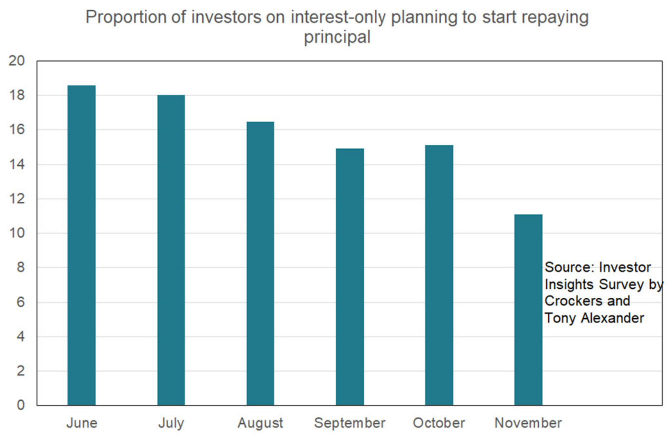
44% of borrowers already repaying principal say they will accelerate their repayments.



But this proportion is decreasing, not rising.



Similarly, there is a decrease in the proportion of investors on interest-only mortgages planning to shift to principal repayment.



Rising mortgage rates and loss of interest expense deductibility are not leading to an accelerating in debt repayment. Could this be because spare cashflow able to do so is tight?

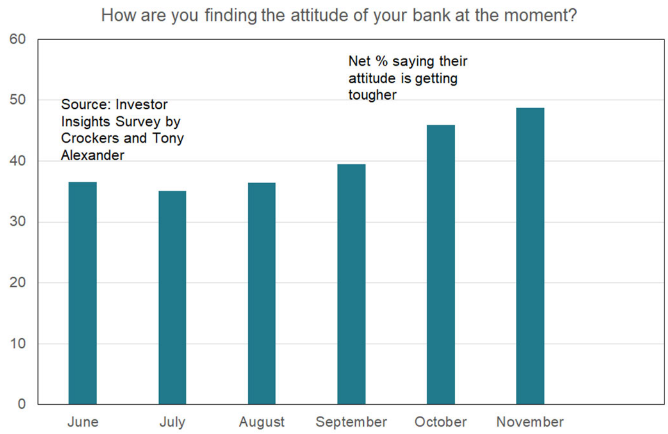
HOW ARE YOU FINDING THE ATTITUDE OF YOUR BANK AT THE MOMENT?

Respondents to this question can choose amongst three options.

- Getting tougher
- Getting more relaxed
- No change, nothing apparent.

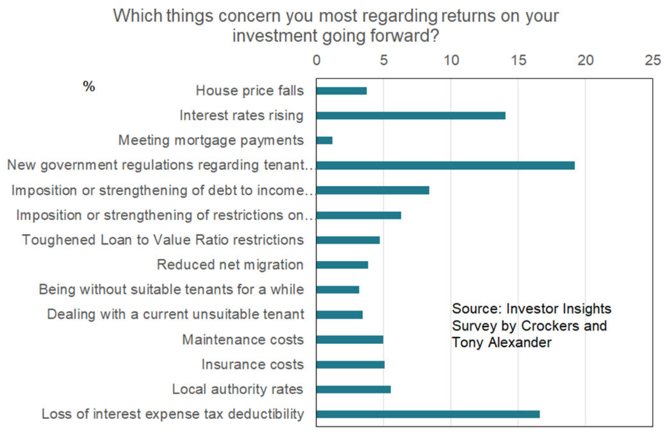
We can calculate the net proportion feeling that things are getting tougher and show the result in the following graph.

Consistent with results in other surveys, investors are finding their banks to be getting tougher. This is likely to partly reflect rising interest rates, but mainly will be due to much tougher assessment criteria around expenses and deposit size.



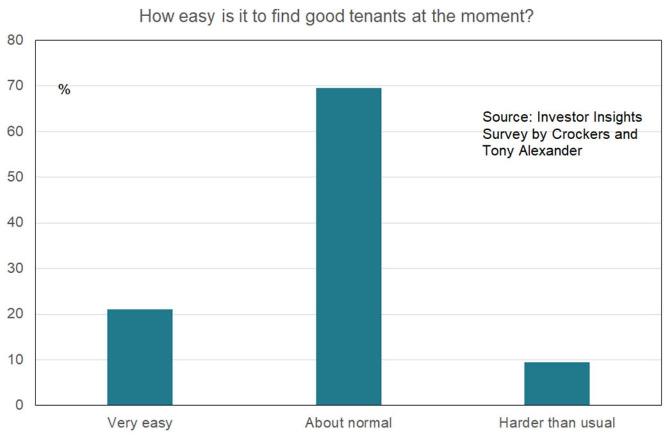
WHICH THINGS CONCERN YOU MOST REGARDING RETURNS ON YOUR INVESTMENT GOING FORWARD?

Respondents are able to choose more than one response to this question. A gross 19% remain concerned most about new tenancy regulations and 17% rate loss of interest expense deductibility as their greatest concern. These two top concerns are not trending up or down.



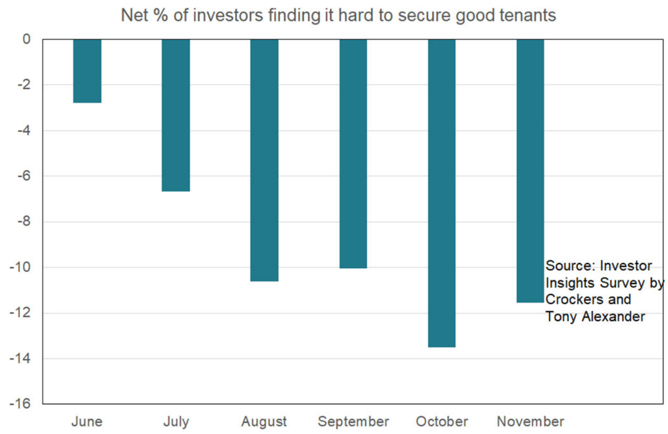
HOW EASY IS IT TO FIND GOOD TENANTS AT THE MOMENT?

Most landlords say that things are about normal with regard to finding good tenants.



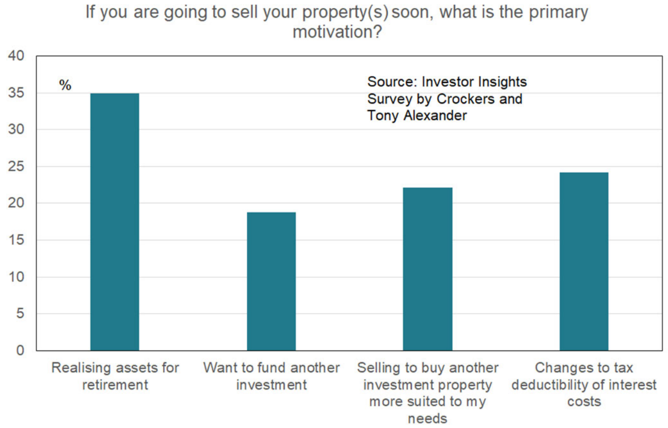
We can work out the net proportion of landlords saying they are finding it hard to secure good

tenants. The results are presented in the following graph, and they tell us that overall it is easy to get good tenants and there is no trend of improvement or deterioration underway.



IF YOU ARE GOING TO SELL YOUR PROPERTY(S) SOON, WHAT IS THE PRIMARY MOTIVATION?

35% of investors contemplating selling say they are doing so for reasons of retirement. There is as yet no up or down trend in this proportion nor for any of the other reasons investors can select.



There were 515 responses received in this month’s survey, with respondents located as follows.

Region	%
Northland	2.7
Auckland	39.4
Bay of Plenty	5.7
Waikato	10.1
Gisborne	0.2
Hawke's Bay	3.8
Taranaki	1.7
Manawatu-Wanganui	3.2
Wellington	11.6
Nelson, Tas., Marl	3.1
West Coast	0.1
Canterbury	13.1
Dunedin City	3.4
Queenstown Lakes	1.7
Southland	0.4

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