Investor Insight

May 2023

Crockers
PEOPLE & PROPERTY

Tony Alexander
Independent Economist

EST. 1971
crockers.co.nz

MANAGEMENT
BTR
BODY CORP

Tenants & credit easier to find

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.

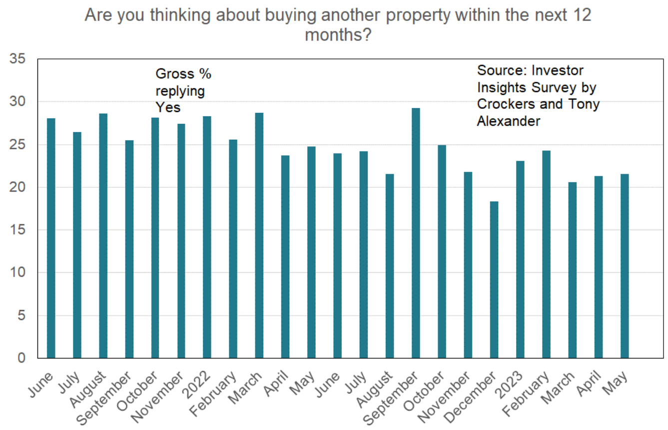
For instance, we will track changes in pressures on rents, points of particular concern, plans regarding property purchases and intentions to sell, and shifts in preferences for property types.

Key points of interest from this month's survey, which received 386 responses include the following.

- There has been a noticeable improvement in access to bank credit in recent months.
- Perhaps assisted by the migration boom landlords are increasingly finding it easy to secure good tenants.
- A rising proportion of investors selling say they are motivated by removal of interest expense deductibility.
- Investors are increasingly net sellers of property.
- The average term for which investors plan retaining their property is declining.
- Concerns about house prices falling are easing and fewer investors cite expectations of falling prices as a reason for selling.

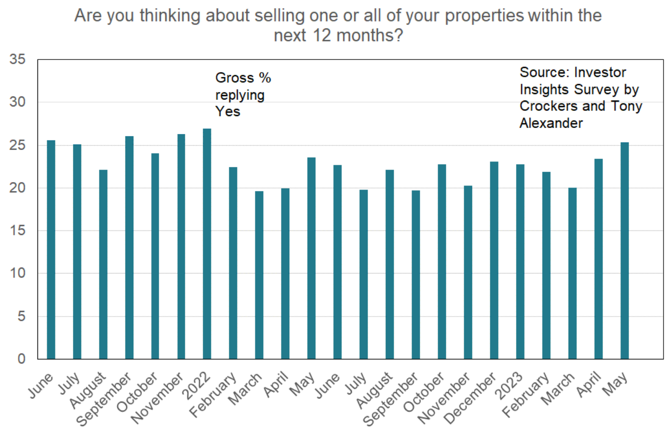
ARE YOU THINKING ABOUT BUYING ANOTHER PROPERTY WITHIN THE NEXT 12 MONTHS?

Over the past two months there has been a slight improvement in the proportion of investors who say that they are thinking about buying another property in the coming year.



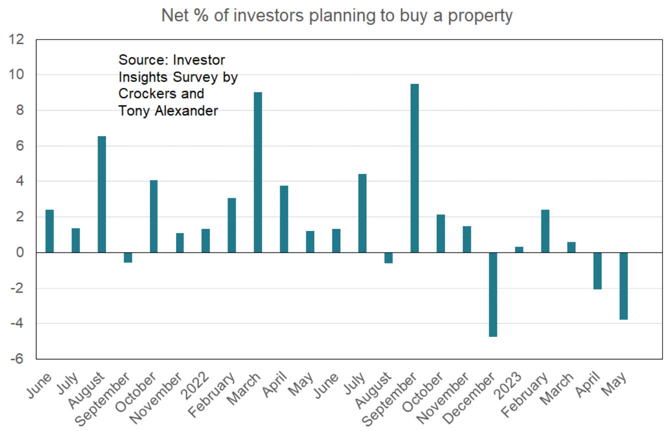
However, the 21.5% of investors expressing this intention ranks below the 25% average since our survey started in mid-2021 and it would not be accurate to say that investors are back in the market. Indicators from my other longer running surveys clearly show the strong downward impact on investor purchasing desires immediately following the March 2021 changes in tax rules applying to investors.

Buying property is only one part of the equation necessary for gauging the pressures which investors might be applying to the residential real estate market. The other part is their intention to sell, and these have also risen over the past two months. However, at 25.3% the proportion looking at selling in the coming year is above the average of 23.7%.



Putting the two measures together we can calculate net buying intentions, and this can give an indication as to whether price pressures are upward or downward from the people who already own residential property investments.

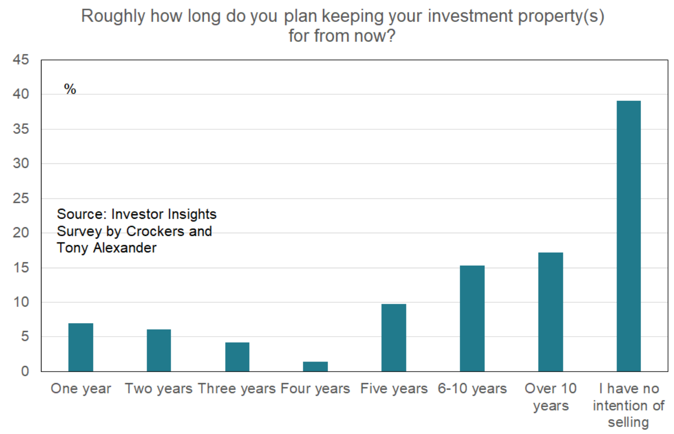
A net 4% of investors say they will sell in the coming year. As the following graph shows, this is the second weakest level of transaction intentions over the past two years.



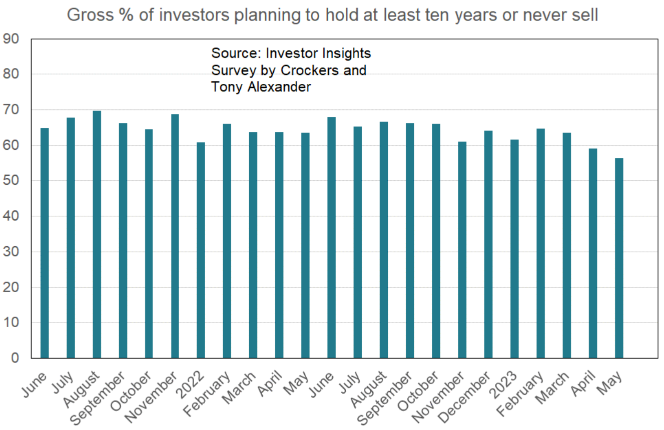
Why are we seeing a fresh deterioration in net investor purchasing intentions? Undoubtedly it is the combination of above average mortgage rates, many rolling off low rates near 3.5% to rates near 6.5%, and the passage of another year removing another 25% of interest expenses able to be deducted against rental income for tax purposes. The tax regime change turbo charges the effect of tightening monetary policy.

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

Most investors plan keeping their properties for a large number of years. Only 28% plan keeping their asset for five years or less.

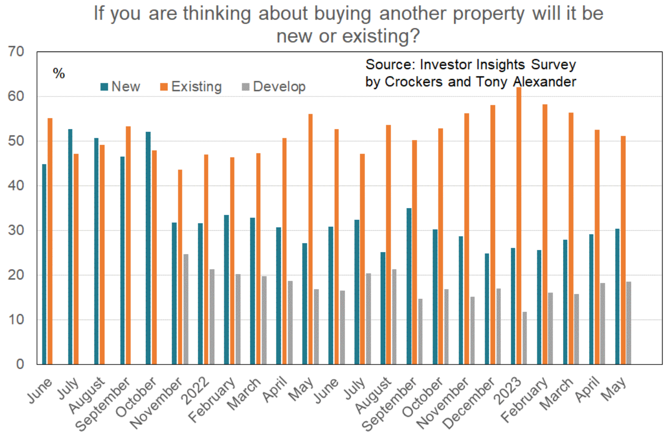


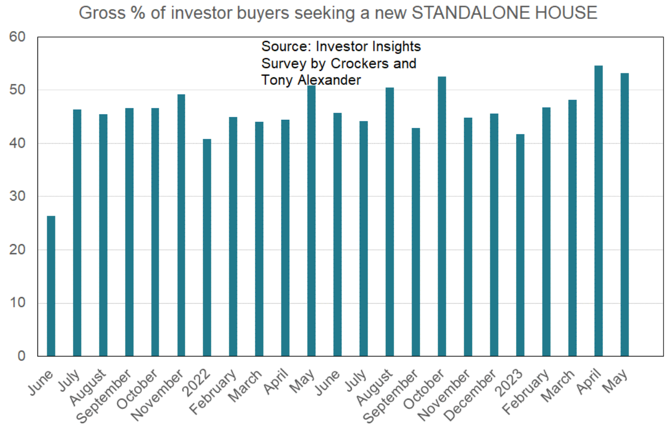
There is a new trend underway however in the proportion planning to keep their property for ten years or longer. This proportion has fallen to a record low of 56% from 59% last month and an average of 64%. Again, this may reflect the grinding effect of removal of the ability to deduct interest expenses.



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

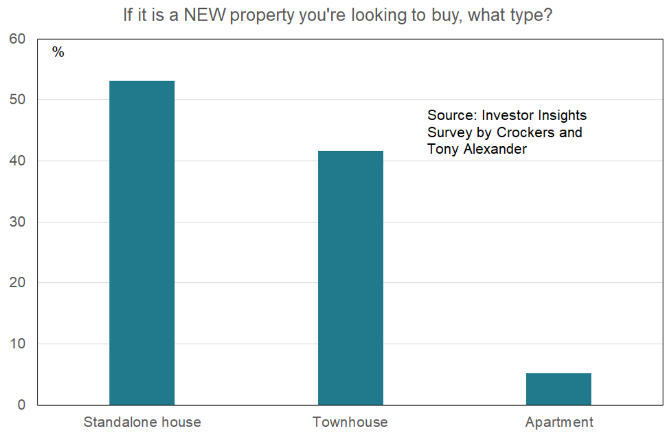
Of the investors who are thinking about making another property purchase in the coming 12 months, the proportion favouring a new dwelling has now been trending up for five months. The tax advantage of purchasing new over buying an existing property may account for this in an environment of high interest rates.





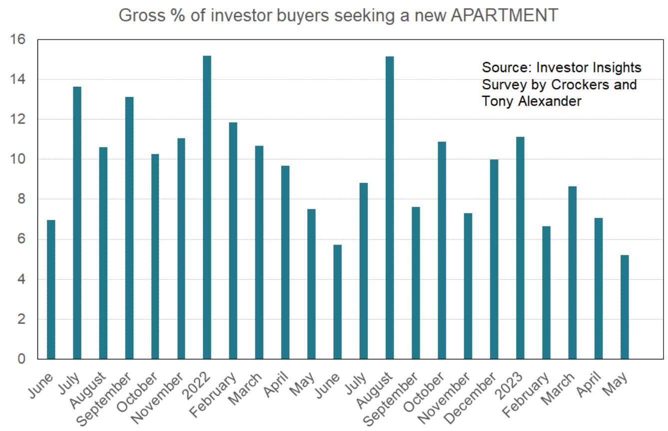
WHAT TYPE OF NEW PROPERTY IS PREFERRED?

For the 30% of the 22% of all investors who will buy a property which is new, the strongly favoured option as ever is a standalone dwelling.

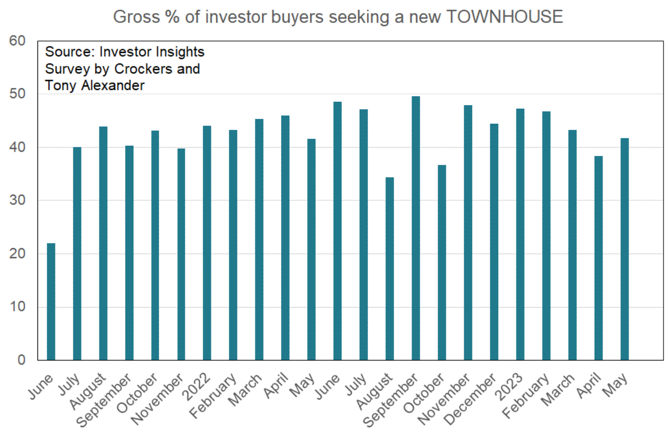


There is a broad upward trend in this measure which has paused only slightly in this month's survey.

Interest in purchasing a new apartment has declined to a record low.

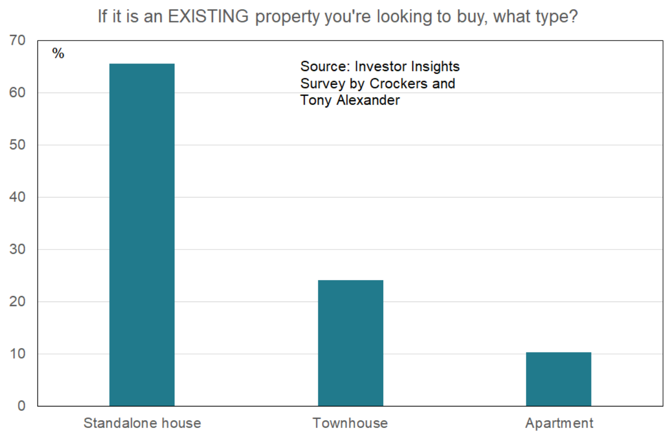


Interest in purchasing a new townhouse is showing no trend up or down.

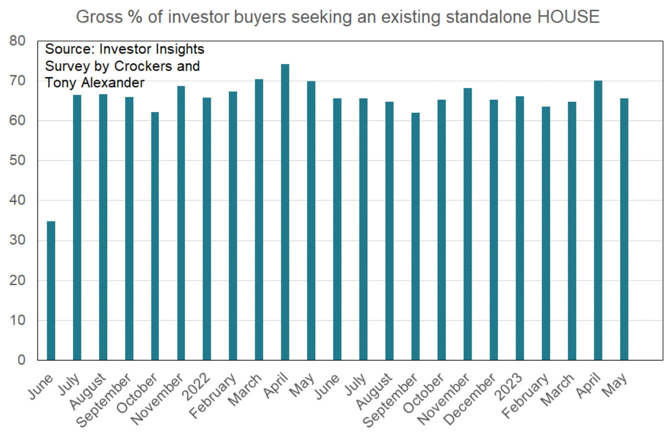


WHAT TYPE OF EXISTING PROPERTY IS PREFERRED?

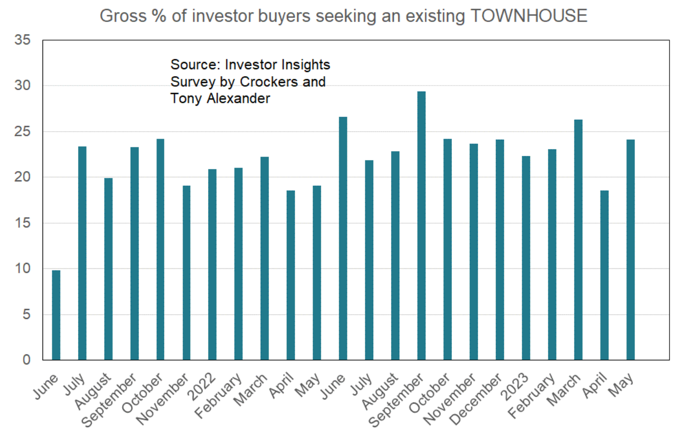
If it is an existing property which is preferred then the preference for a standalone house is even stronger than for purchasing new at 66% versus 53% for those buying new.



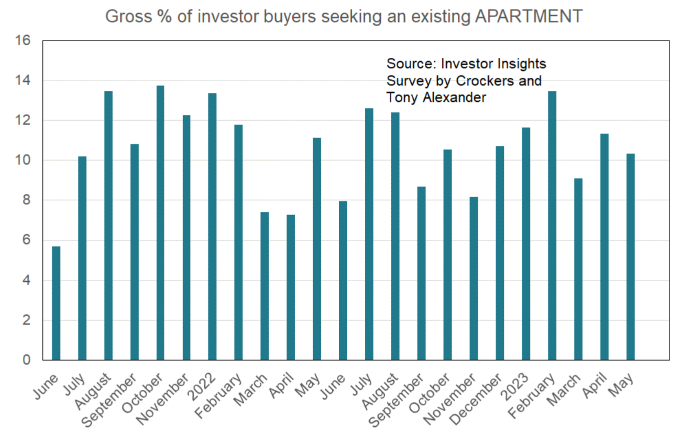
There is however no rise underway in this preference as there is for buying new.



Interest in buying an existing townhouse has recovered above an unusual blip down in April.

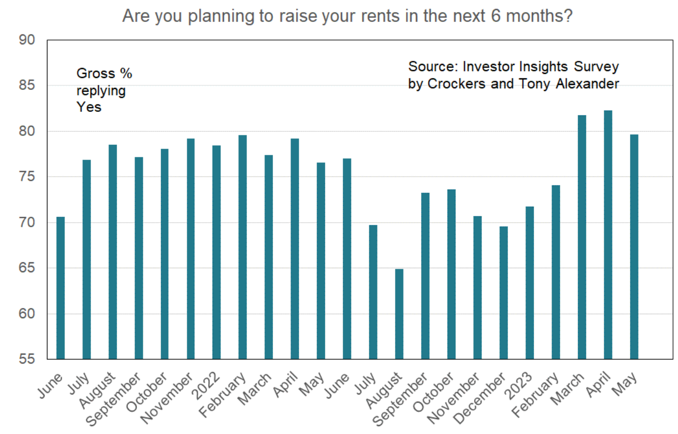


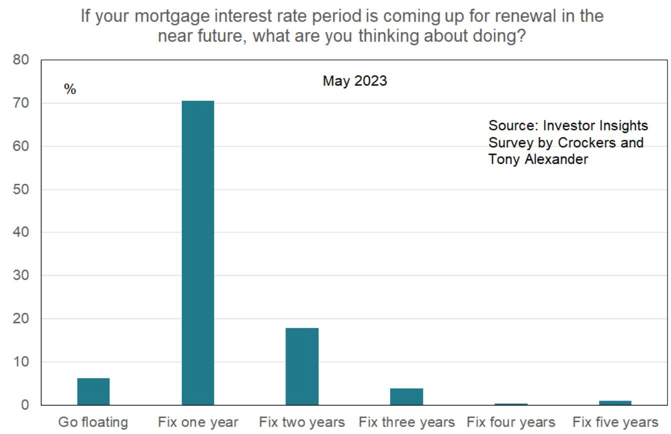
Interest in buying an existing apartment is expressed by just 10% of those looking to buy an existing property.



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

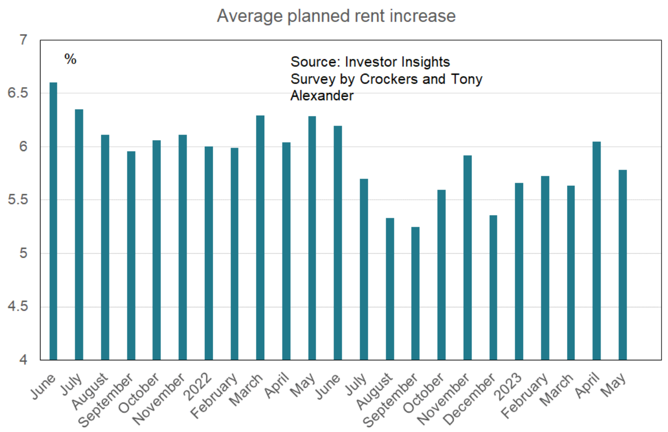
This month there has been a small pullback in the gross proportion of investors planning to raise their rents. But the decline to 80% from 82% still leaves this proportion above the 76% average.





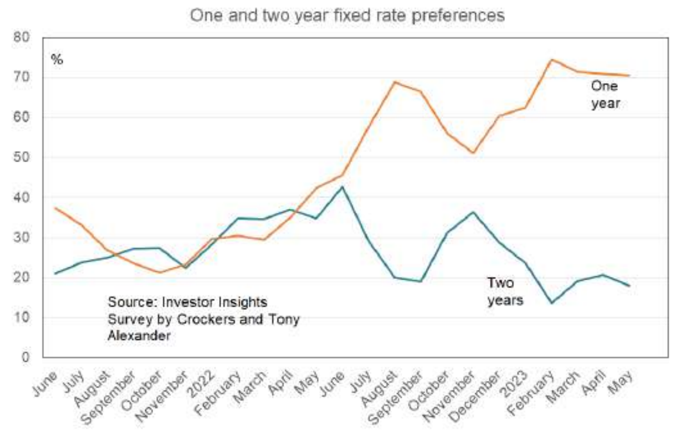
IF YOU PLAN RAISING YOUR RENTS, HOW MUCH BY?

The average rent increase planned by investors if the market will bear it is 5.7% which is down slightly from 6% last month. The trend still appears to be slightly up from the lows of the September quarter last year.

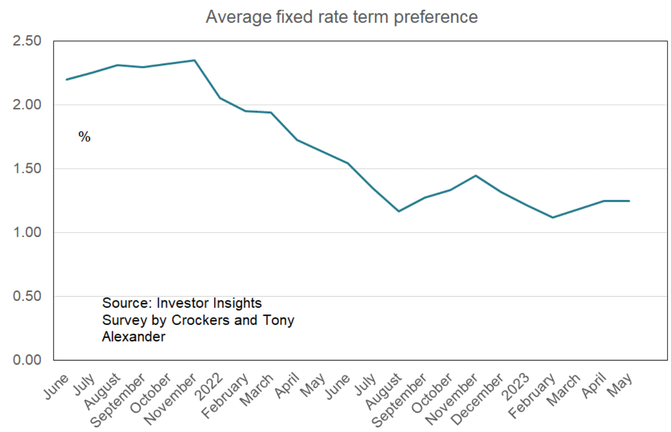


IF YOUR MORTGAGE RATE IS COMING UP FOR RENEWAL IN THE NEAR FUTURE, WHAT ARE YOU THINKING ABOUT DOING?

For those investors who have a mortgage interest rate coming up for renewal, the most favoured term for fixing is one year at 70%. Only 18% favour fixing two years and very few have any interest in other terms.



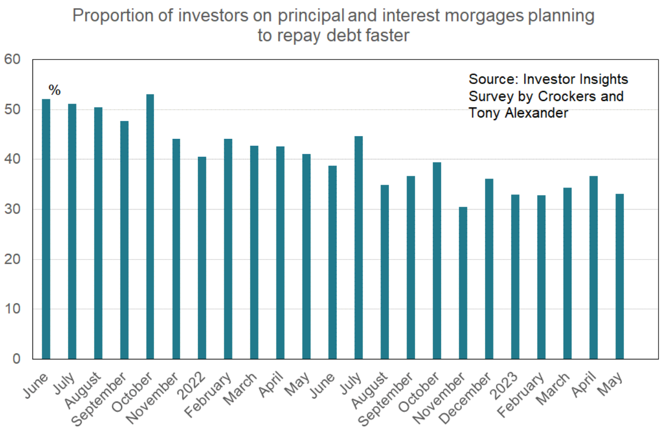
The average term preferred for fixing has been fairly steady near 1.2% for three quarters of a year now.



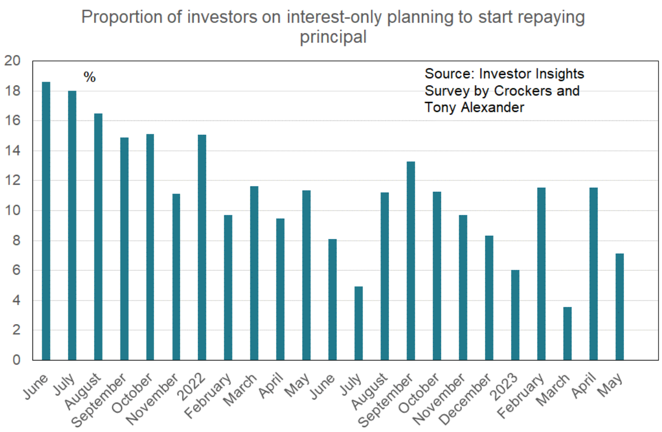
WHAT ARE YOU THINKING REGARDING THE SPEED WITH WHICH YOU ARE PAYING DOWN PRINCIPAL ON YOUR MORTGAGE?

We ask investors if they are looking at speeding up repayment of their mortgage. Our hope is to get a feel for how concerned they may be about their debt levels, especially in light of the 2021 tax changes. However, this measure may be distorted by the fact that many investors may simply not be able to accelerate their debt repayment due to cash flow restrictions.

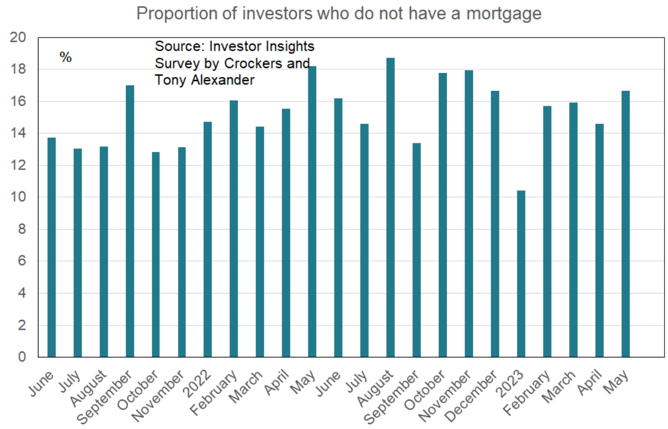
Nonetheless, what we see from the graph of results for this question is no upward trend and no clear pattern in fact for the past six months.



The situation is even less clear for those on interest-only debt facilities when asked if they intend switching to principal repayment.



The proportion of our investors who do not in fact have a mortgage shows no trend up or down.



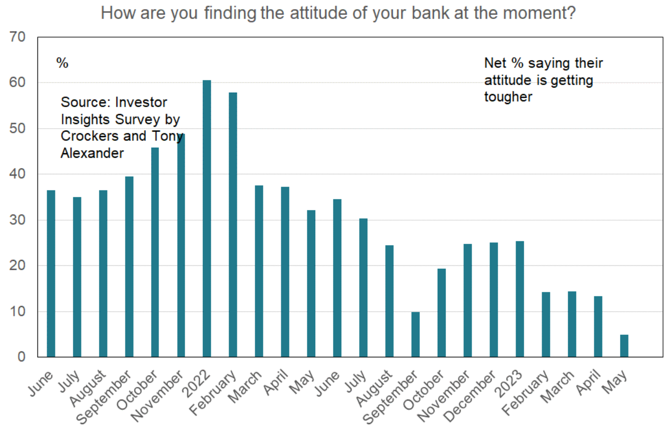
HOW ARE YOU FINDING THE ATTITUDE OF YOUR BANK AT THE MOMENT?

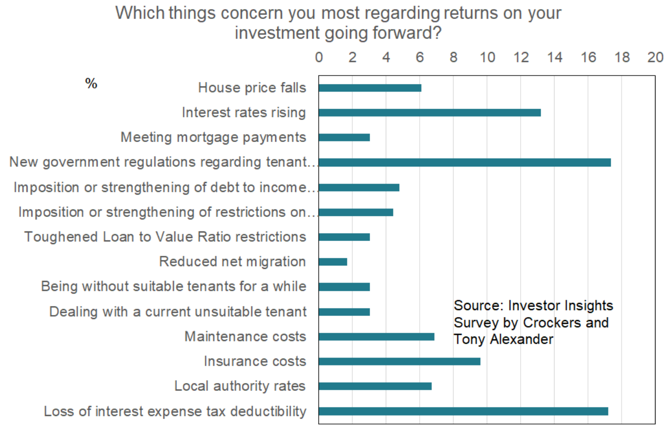
Respondents to this question can choose amongst three options.

- 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.

Perhaps the most notable result in our survey this month is that investors report banks becoming far less unwilling to advance funds than has been the case for the entirety of our survey apart from the blip of September last year.





Banks are failing to meet their lending targets and it is notable that there has been no repeat of the deep discounting of some short-term rates offered 3-4 months ago. It is likely that the Reserve Bank contacted the banks and noted how unhelpful such low-priced deals were as they raise rates in order to fight inflation.

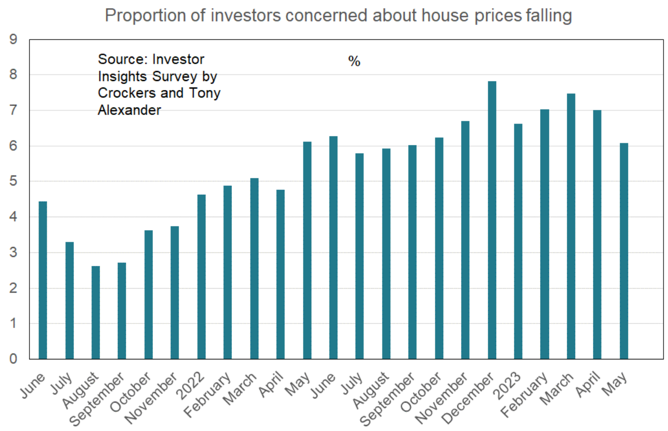
The response of banks has been to shelve their high profile discounts and shift to less obvious improvements in eligibility criteria in order to win market share.

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

Respondents are able to choose more than one response to this question and results for all choices are shown in the following graph.

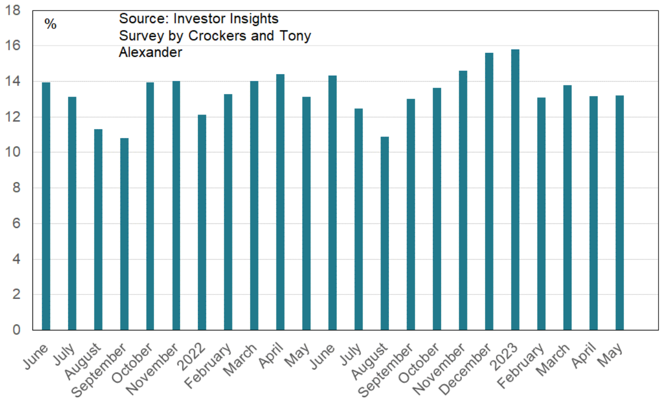
As ever, the biggest concerns of investors are interest rates going higher, government regulations, and loss of interest expense deductibility.

Concerns about house prices falling have noticeably eased, perhaps assisted by the recent reporting of essentially flat prices in seasonally adjusted terms over March and April.



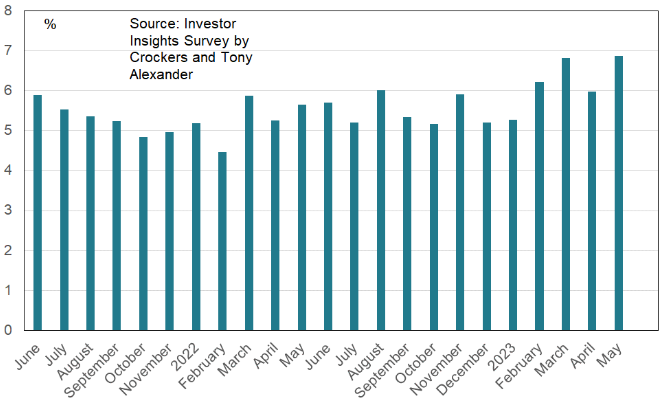
Worries about interest rates rising remain firm and one wonders if our survey were run again this week whether discussion of the fiscal stimulus included in the Budget and the extra inflation expected as a result would have increased concerns about further interest rate increases.

Proportion of investors concerned about interest rates rising



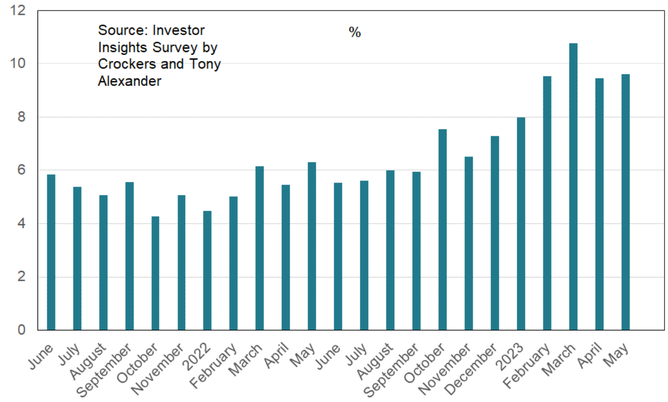
There is a reasonably firm upward trend underway in concerns about the cost of maintenance.

Proportion of investors concerned about maintenance costs rising



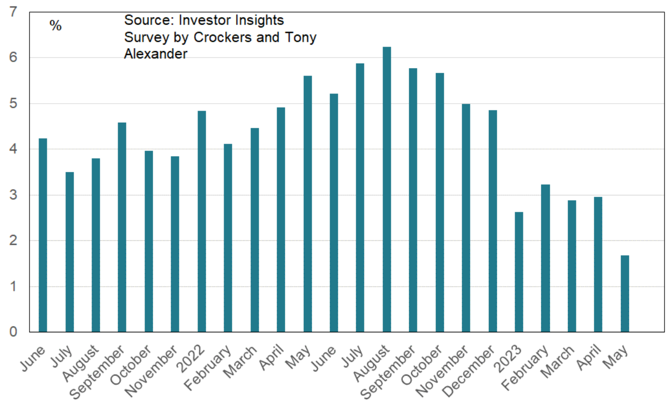
The level of concern about insurance costs has been trending upward since before the flooding events which started late in January.

Proportion of investors concerned about insurance costs



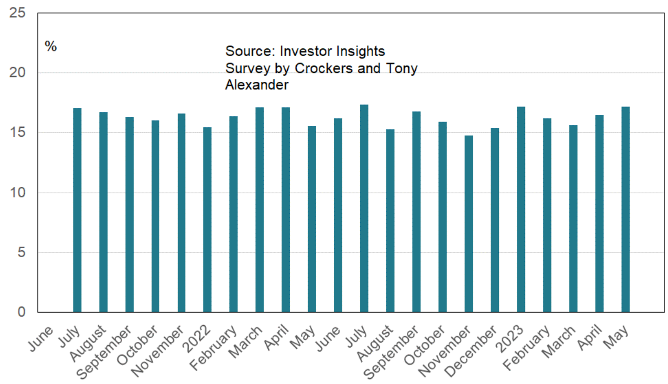
Concerns about weak net migration (population growth) are falling away very rapidly in the face of data showing numbers are in fact booming.

Proportion of investors concerned about reduced net migration

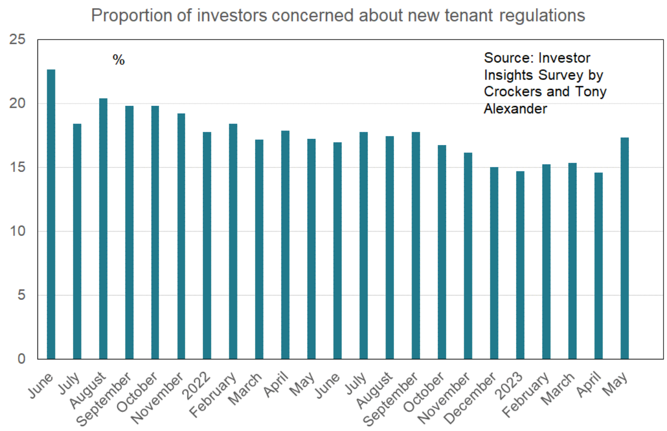


Worries about the loss of interest deductibility are up just slightly for two months in a row now.

Proportion of investors concerned about loss of interest expense deductibility

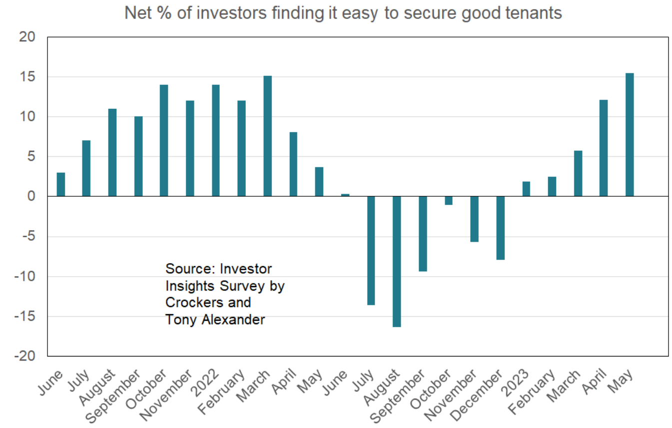


There has been an unusually strong rise in concerns about tenant legislation. This may or may not be a statistical blip. We shall have to wait and see.



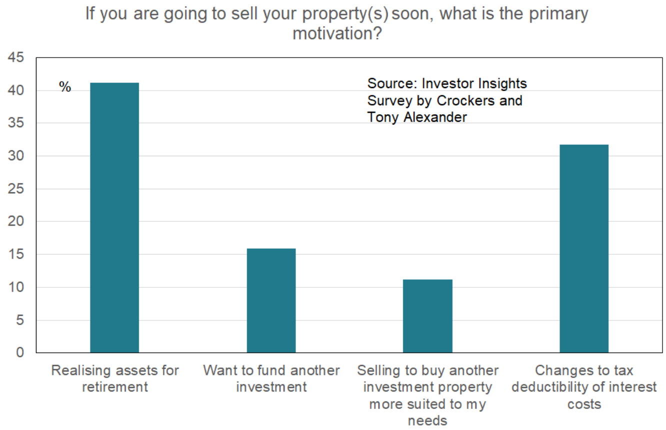
HOW EASY IS IT TO FIND GOOD TENANTS AT THE MOMENT?

One obvious expected impact of an acceleration in the pace of population growth – courtesy of the net migration boom – is a greater number of people looking for accommodation. We can see this explicitly in the net proportion of investors saying it is easy to find good tenants rising to a record 15% from 12% last month. Note that as recently as December there were more landlords finding it hard to secure good tenants than were finding it easy. There are rent and then later house price implications from this development.

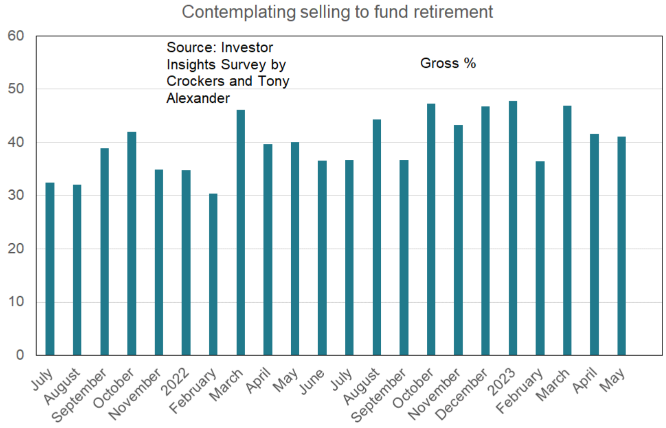


IF YOU ARE GOING TO SELL YOUR PROPERTY(S) SOON, WHAT IS THE PRIMARY MOTIVATION?

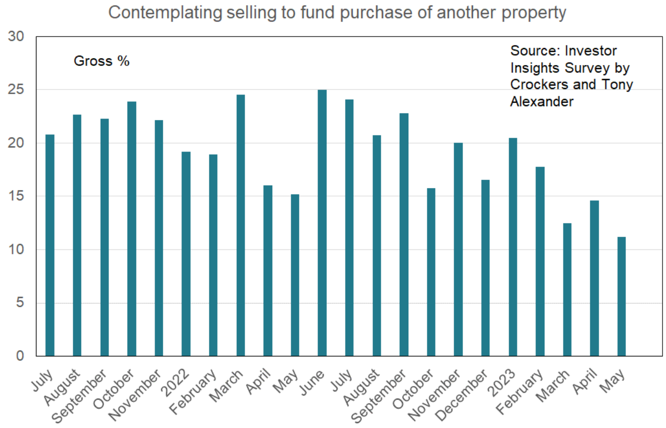
More of the investors looking to sell cite retirement as reason for doing so than any other factor.



This proportion has eased over the past two months to 41% but remains above the 40% average.

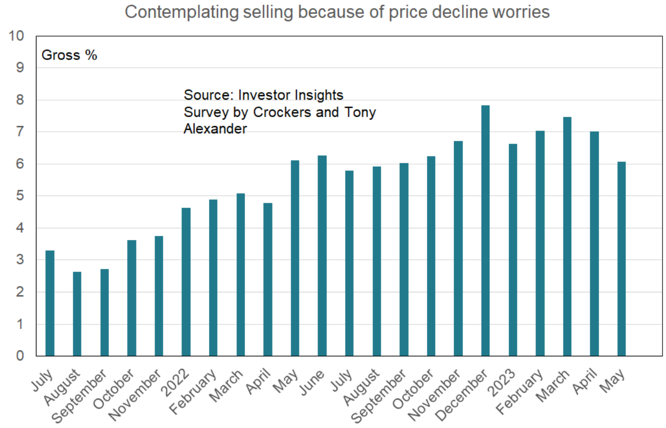


However, the proportion selling in order to buy another property is declining. The implication of this is a tightening up of the availability of rental accommodation at the same time as demand for it is rising.



A fairly rapid rise is underway now in the proportion of investors selling who cite the loss of interest expense deductibility. This is good news for those looking to buy a house to live in, but bad news for those who rent.

Fewer investors are looking to sell in order to get in before prices go lower.



There were 332 responses received in this month’s survey, with respondents located as follows.

Region	%
Northland	1.7
Auckland	41.4
Bay of Plenty	7.5
Waikato	8.1
Gisborne	0.3
Hawke's Bay	4.3
Taranaki	1.2
Manawatu-Wanganui	2.9
Wellington	12.2
Nelson, Tas., Marl	2.9
West Coast	0.1
Canterbury	10.4
Dunedin City	5.5
Queenstown Lakes	0.9
Southland	0.6

YOUR PROPERTY, PROPERLY MANAGED

Get in touch to learn about our wrap around services for management, body corporate and BTR needs for your properties and complexes.

MANAGEMENT: pm@crockers.co.nz

- Request a free rental appraisal
- Enquire about stress-free property management for your residential or commercial property

BODY CORP: bc@crockers.co.nz

- Request a free proposal for your Body Corporate
- Find out how Crockers can assist your Residential Society

BUILD-TO-RENT: btr@crockers.co.nz

- Request a free Build-to-Rent proposal
- We assist BTR developers and owners in the design, development and management of their complexes

CROCKERS PROPERTY GROUP
F 0800 CROCKERS (2762 5377)
E property@crockers.co.nz

2 Onslow Avenue, Epsom, Auckland 1023
PO Box 74054, Greenlane, Auckland 1546

Crockers Property Management Ltd
Crockers Body Corporate Management Ltd

MANAGEMENT
BTR
BODY CORP

EST.1971
crockers.co.nz

Crockers
PEOPLE & PROPERTY