Investor Insight

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Crockers
PEOPLE & PROPERTY

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Property development interest is waning

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.

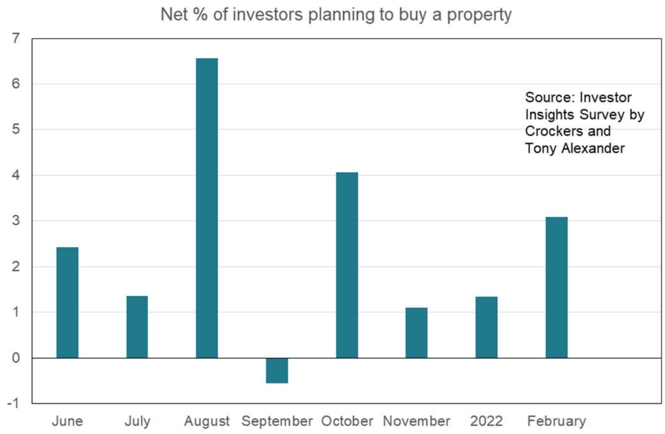
Key points of interest from this month's survey include the following.

- No upward trend in existing investors quitting the property sector is underway. A strong focus on holding for the long-term remains.
- Investor interest in undertaking their own property development is slowly waning.
- Borrowers are increasingly favouring a two year term for fixing their interest rate.
- Slightly more investors are showing concerns about house prices falling.
- Selling in order to purchase alternative investment assets is becoming more important to those investors who are selling.
- Those thinking of a purchase show greater inclination to undertake a development themselves outside of Auckland than in our biggest city.

In this month's survey we received 451 responses.

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

There has been very little shift in the intentions of existing property investors to alter their net holdings in recent months. A net 3% of our respondents have indicated they intend purchasing another property over the coming year. This results from just under 26% saying they intend to buy and just over 22% saying they intend to sell.



Our first graph above shows that there is no clear trend up or down in the net purchasing intentions of existing investors.

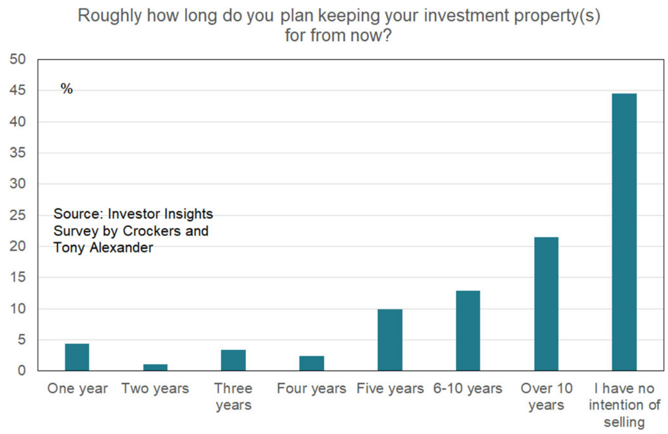
Can we reconcile this absence of change with the decline in property purchasing plans by investors seen in two of my other surveys covering real estate agents and mortgage advisers? Yes.

Those surveys cover people who are actively in the market or withdrawing from the market in the present as opposed to those thinking about actions up to 12 months out. Also, those two surveys reveal attitude changes at the very margin where new buyers can come and go very quickly. The Crockers survey covers those who have already bought, in most cases some years in the past.

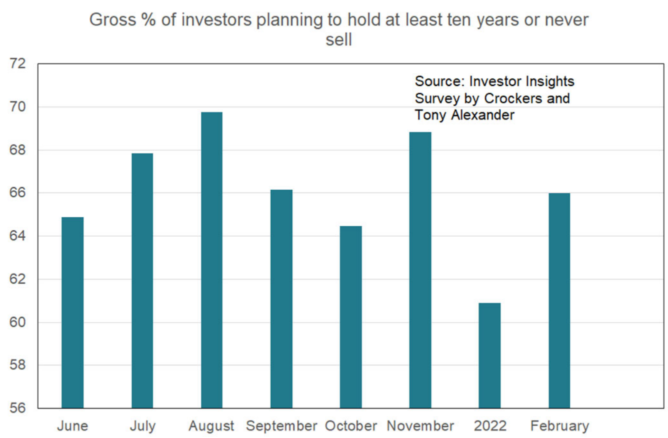
Therefore, while the other two surveys provide the best coalface insights into changing community-wide plans regarding property, this survey gets more to the heart of the matter for those who are already investors. The following section tells us these existing investors have a very long-term focus.

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

66% of existing investors plan keeping their properties for at least ten years or not selling at all.



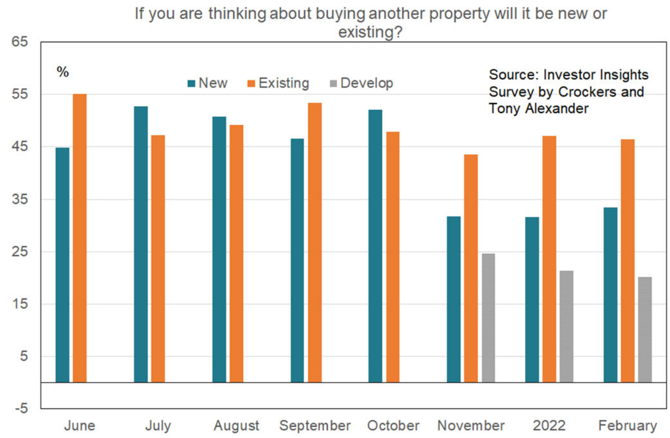
The proportion of investors with this long-term focus is showing no upward or downward trend. This reveals how the view in some quarters that investors are in for short-term profits is incorrect.



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

There is only one trend which seems to be underway with regard to the choice investors planning a purchase make between purchasing a new or existing property. Fewer are showing interest in undertaking their own development.

This is shown by the grey bar in the following graph. We only split "new" into existing new and doing one's own development three months ago.

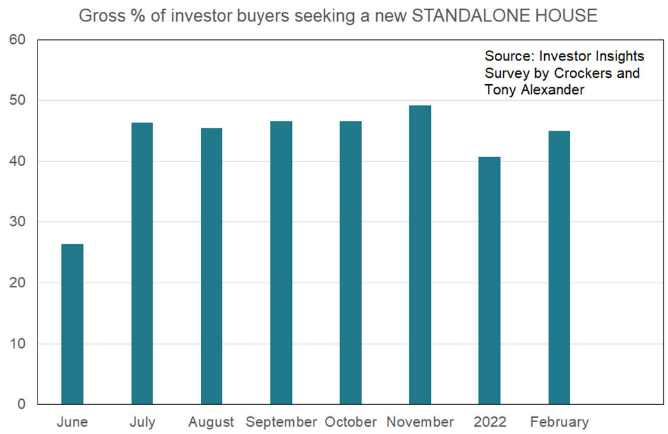


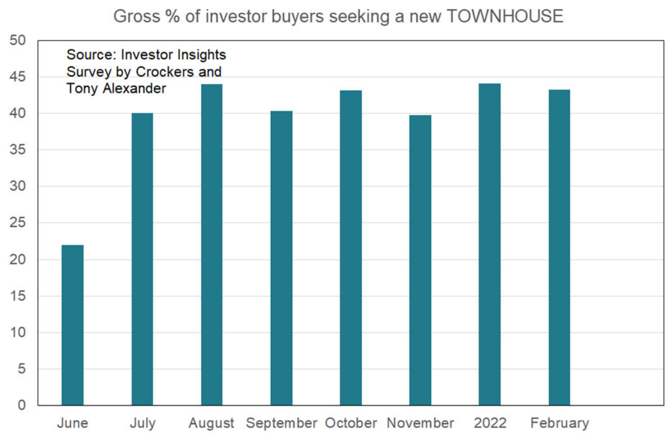
Why might this trend be underway? Reports indicate that banks are pulling back from financing new developments. Perhaps this is because a growing number of such developments are failing under the deepening pressures from rising costs, delays in critical materials arriving on site, and shortages of labour.

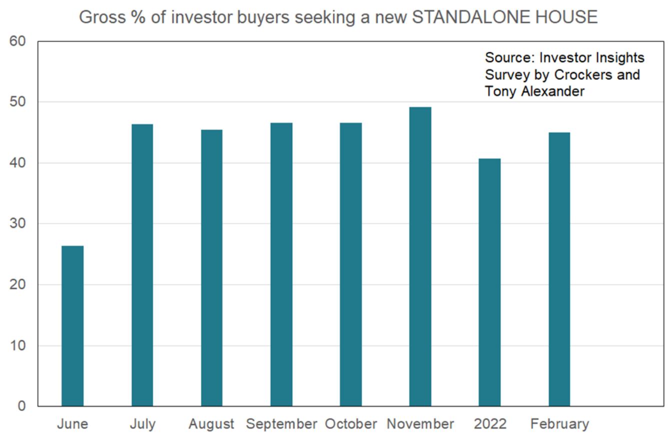
History tells us that booms in house construction are often followed by declines which lead to the failure of those who entered the boom late in the cycle and with insufficient capital and experience.

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

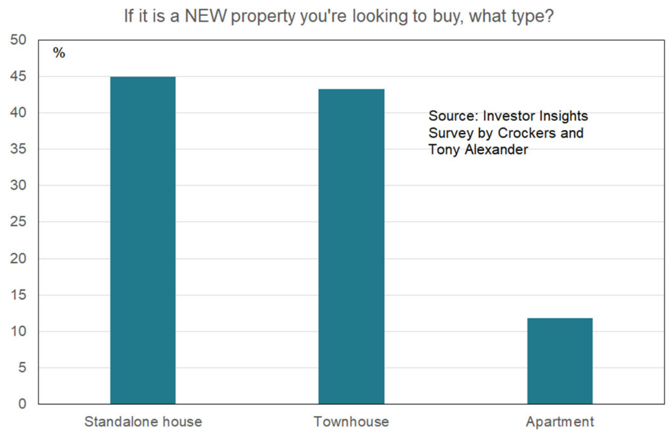
As yet there are no changes underway for the type of new properties which investors are considering buying. Standalone houses remain the most popular choice, followed by townhouses then apartments.



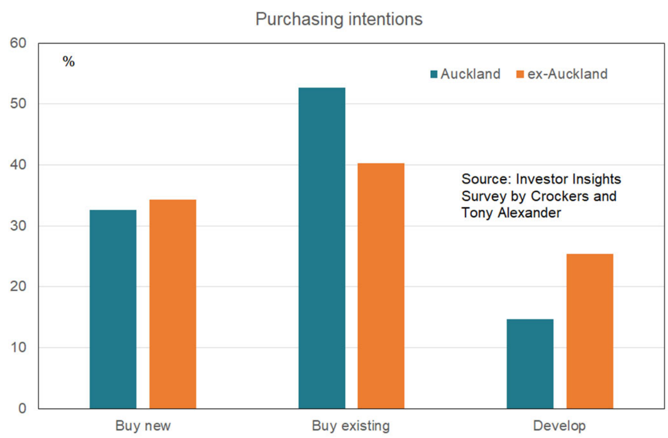




The housing surge we have seen is not one like some in the past where those looking at purchasing something new have concentrated on apartments – in Auckland at least.



However, there are some key differences between Auckland and the rest of the country. Looking at the 221 responses from property investors in Auckland versus the 230 elsewhere, we see that similar proportions would purchase a new property already erected or set to be built. But more investors in Auckland indicate a preference to purchase an existing property while fewer indicate they will undertake their own development.

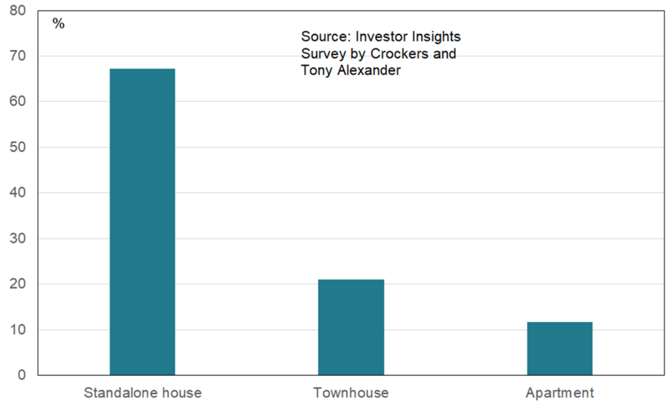


This difference may reflect the relative shortage of empty land in Auckland alongside the cost of that land.

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

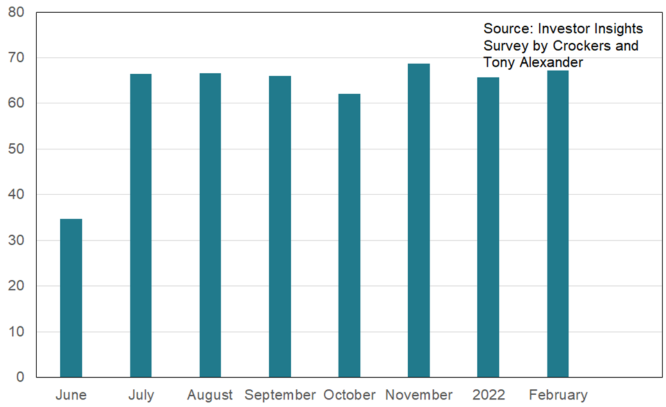
With regard to the 46% of investors who if buying will opt for an existing property, purchasing a standalone house is far more favoured over a townhouse than is the case for those contemplating purchasing a new build.

If it is an EXISTING property you're looking to buy, what type?



There is no diminution of this clear presence underway.

Gross % of investor buyers seeking an existing standalone HOUSE



However, if we again look at our results broken down by Auckland versus the rest of New Zealand we again see a difference. In Auckland there is a greater proportion of investors indicating they will buy an apartment than outside of our biggest city. The graph looks similar for those investors contemplating purchasing an existing property.

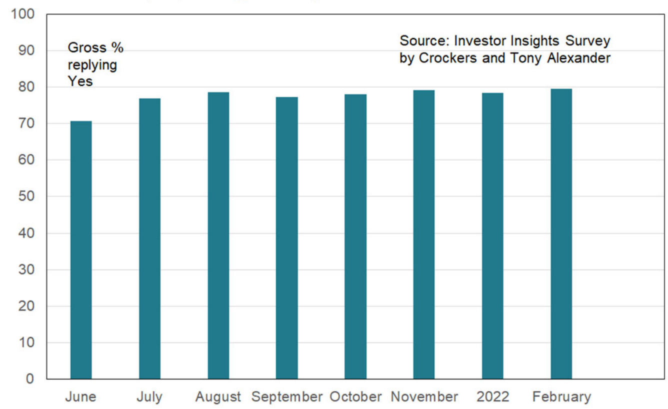
Type of new property desired

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.

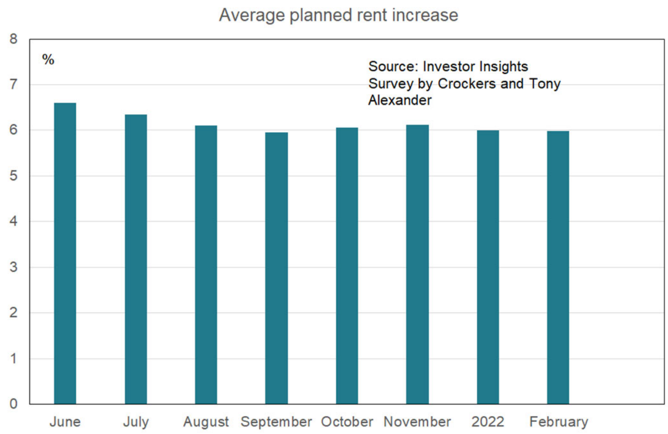
No trend is apparent in our gauge of rent rise intentions despite the many cash flow pressures facing landlords. These include falling ability to deduct interest expenses, rising costs for insurance and maintenance, and rising financing costs.

Are you planning to raise your rents in the next 6 months?



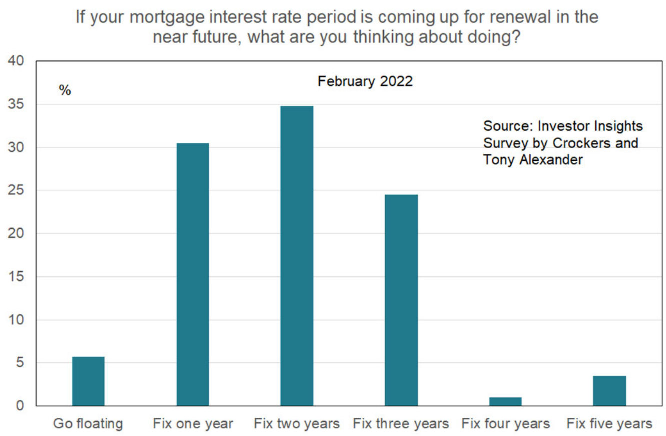
IF YOU PLAN RAISING YOUR RENTS, HOW MUCH BY?

Similarly, no obvious upward trend in the degree of rent increases planned is apparent.

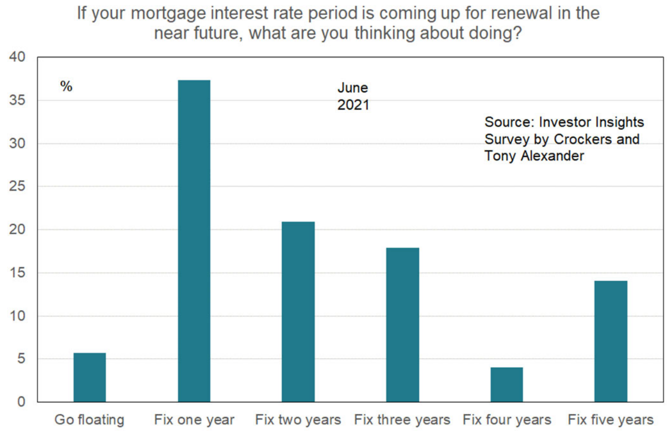


IF YOUR MORTGAGE RATE IS COMING UP FOR RENEWAL IN THE NEAR FUTURE, WHAT ARE YOU THINKING ABOUT DOING?

Almost 35% of those looking at a mortgage rate decision in the near future will opt to fix the rate for two years and 24% for three years.

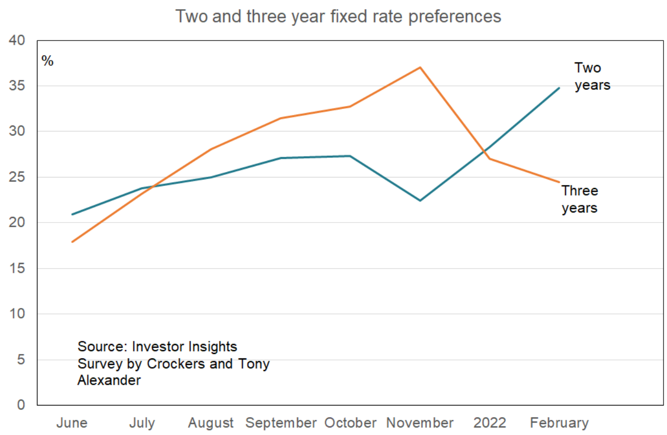


Contrast these preferences with those in June last year when the one year term was most heavily favoured.



Concerns about rising interest rates in response to rising inflation and monetary policy tightening which has already occurred is driving borrowers to seek greater protection against what the future might hold.

But the interesting development is the shift in preference since November from three years to two years. Investors increasingly view the three year term as either too expensive or too long.

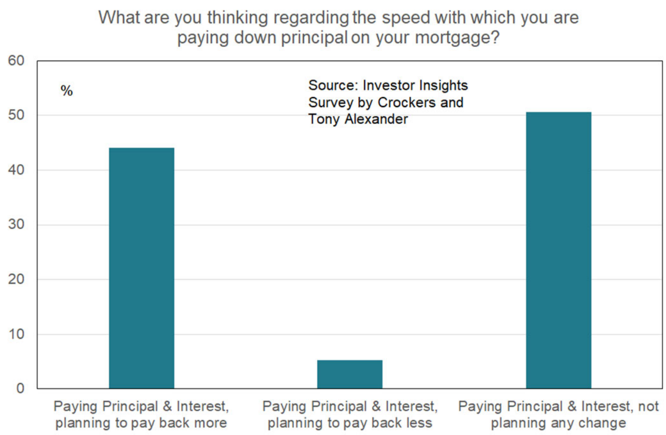


Note that to allow for the possibility of splitting one's fixed rate across a number of time periods, respondents are allowed to choose more than one fixed term option.

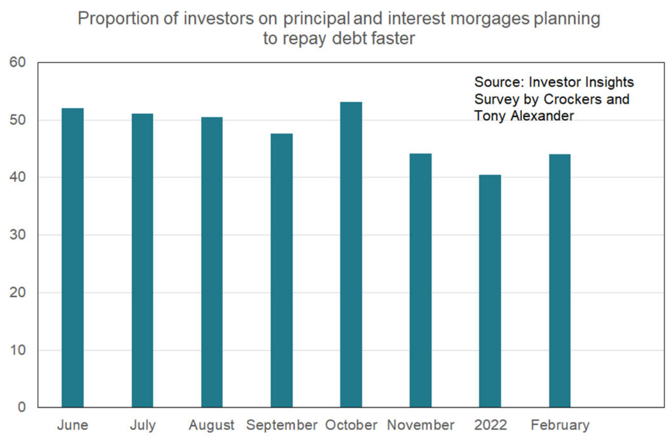
WHAT ARE YOU THINKING REGARDING THE SPEED WITH WHICH YOU ARE PAYING DOWN PRINCIPAL ON YOUR MORTGAGE?

Through this question we are looking to see if existing residential property investors may be getting concerned about debt levels and acting to reduce them.

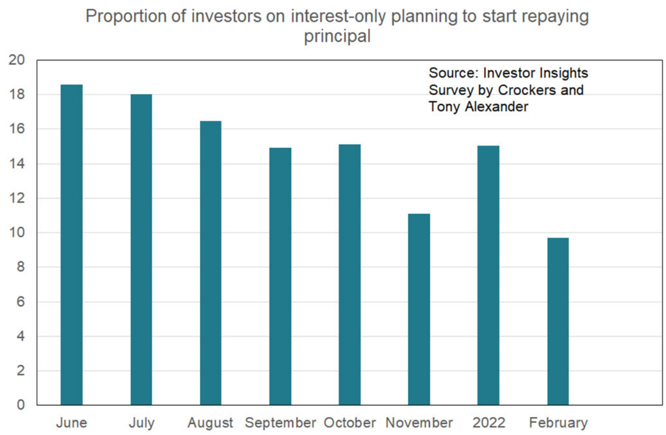
43% of investors on a principal and interest mortgage are planning to increase their debt repayments.



But there is no clear upward trend as yet in this proportion. Debt worries are not growing.



There is clear feedback from investors that banks are pressuring and requiring them to switch from interest-only mortgages towards interest and principal repayment. But there is no voluntary move by investors to do so.



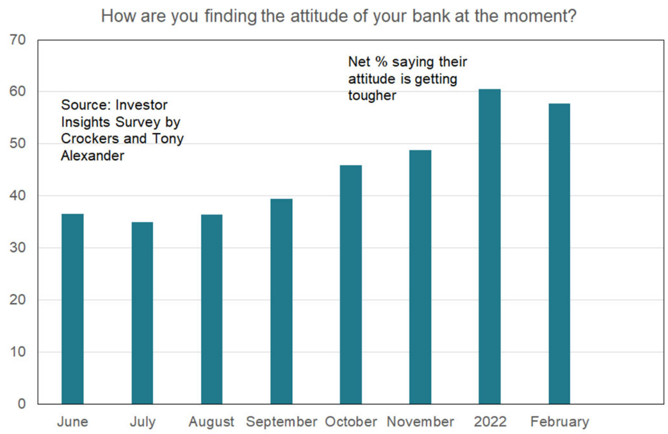
HOW ARE YOU FINDING THE ATTITUDE OF YOUR BANK AT THE MOMENT?

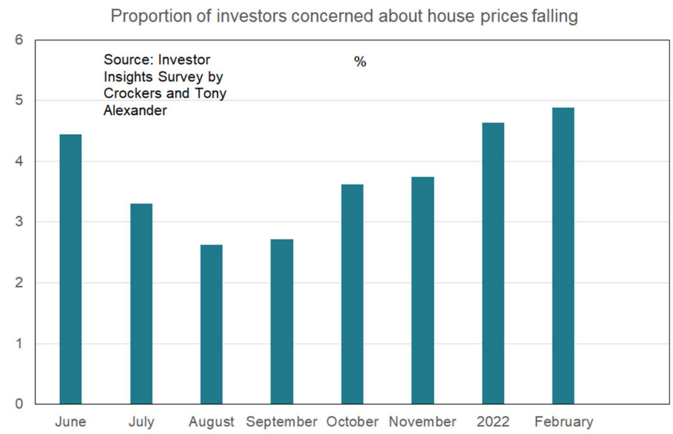
Respondents to this question can choose amongst three options.

- 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.

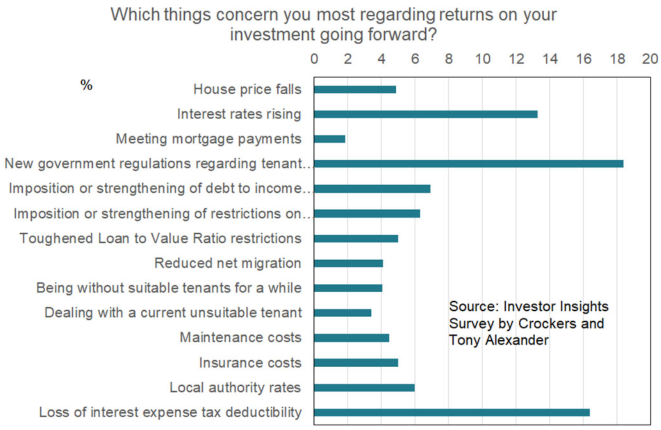
There is an increasing tendency for investors to report that banks are becoming less willing to advance additional finance. However, this month the proportion saying so has edged down ever so slightly. Perhaps the best way to interpret this is that banks have become less willing to fund investors, but the degree of that unwillingness is not intensifying.





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

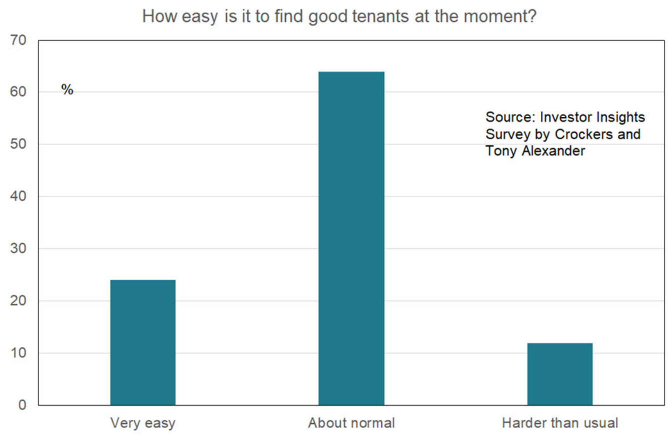
Respondents are able to choose more than one response to this question and results for all choices are shown in the following graph.



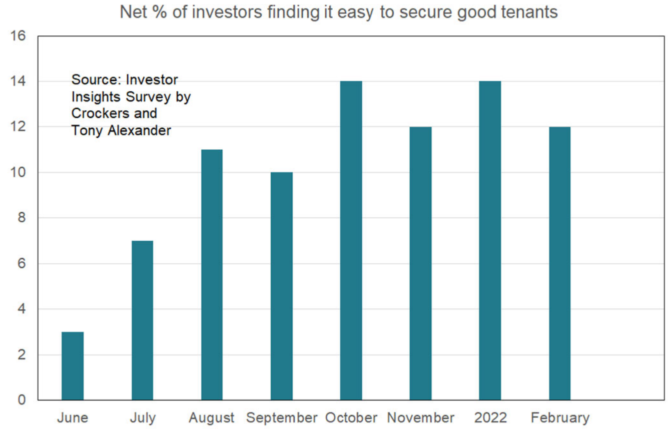
Are any trend changes underway in key areas of concern? No concerns are changing to any substantial degree. However, there is a small upward trend in the proportion worried about house prices falling – but only from 4.4% in our first survey in June last year to 4.9% now.

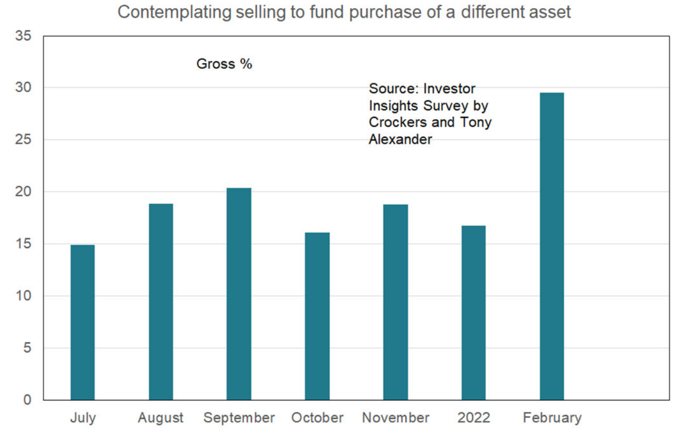
HOW EASY IS IT TO FIND GOOD TENANTS AT THE MOMENT?

Far more landlords report that it is easy to find good tenants than report it to be hard.



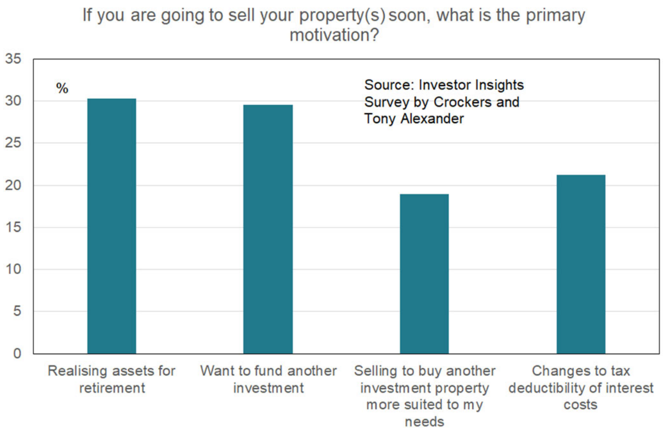
We can offset the two results to get a feel for changes in this ease of finding good people at the margin. The graph tells us that things got easier over the second half of last year but no change is now underway. There is a good chance that this calculation down the track will yield insights into the impact which the rising supply of dwellings may have in conjunction with low population growth.





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

Responses to this question are shown in the following graph. They tell us that the main reason for selling remains realising assets for retirement followed by the loss of interest rate deductibility.



But here, right at the very end of this month's commentary, we reach the most interesting result from this month's survey. The proportion of investors contemplating selling who say they are doing so in order to fund an alternative investment has jumped to 30% from 17% a month ago.

This gels with the logic of investor portfolios becoming somewhat unbalanced following the surge in property prices over the past two years. People will be seeking to perhaps restore asset exposures back to where they were two years back. In addition, the tax status of residential property investment has changed, financing costs along with compliance requirements are rising, and house prices have peaked.

There were 451 responses received in this month's survey, with respondents located as follows.

Region	%
Northland	2.6
Auckland	48.7
Bay of Plenty	6.1
Waikato	6.9
Gisborne	0.1
Hawke's Bay	3.0
Taranaki	1.7
Manawatu-Wanganui	1.7
Wellington	10.0
Nelson, Tas., Marl	1.9
West Coast	0.1
Canterbury	11.3
Dunedin City	4.3
Queenstown Lakes	1.7
Southland	0.1

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