



Investor Insight

May 2022

Crockers 
PEOPLE & PROPERTY

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Investors focused on the long-term

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.

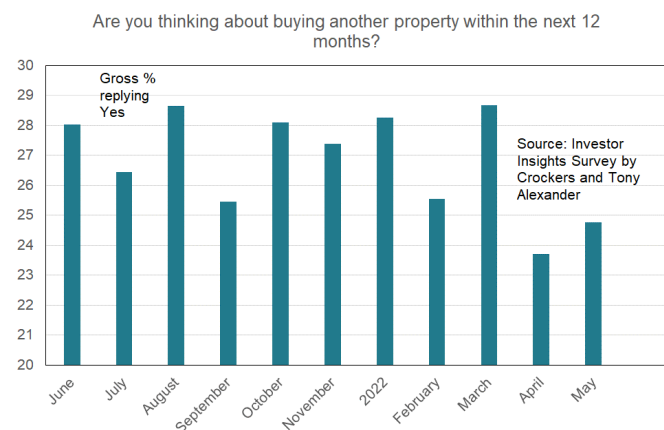
- There continues to be a decline in the proportion of investors looking for a new property who will undertake the development themselves.
- The ease with which investors can find good tenants is slowly falling away.
- Bank willingness to lend is becoming "less worse".
- Interest in purchasing existing townhouses remains low, but demand for new ones is strong.
- Despite rising interest rates there is no hastening move towards reducing debt levels.
- However, an increasing proportion of investors are reporting they have no mortgage.

In this month's survey we received 519 responses.

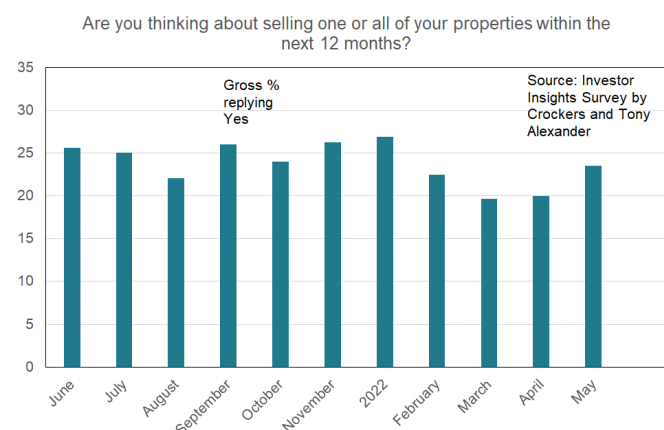
ARE YOU THINKING ABOUT BUYING ANOTHER PROPERTY WITHIN THE NEXT 12 MONTHS?

A gross 25% of our survey respondents this month have indicated that they are thinking about buying another property in the next 12 months. This is essentially unchanged from

April's result of 24% and February's 26%. No trend is evident, but it will be interesting to see what happens with this measure when we get beyond the current dominance of negative factors in the property market, and some turn their thoughts to counter-cyclical buying.



Buying intentions are not trending anywhere for now, and neither are plans for selling. Although the percent of respondents planning to sell has lifted this month to 24% from 20% in April and March, the graph below shows no true drift up or down.

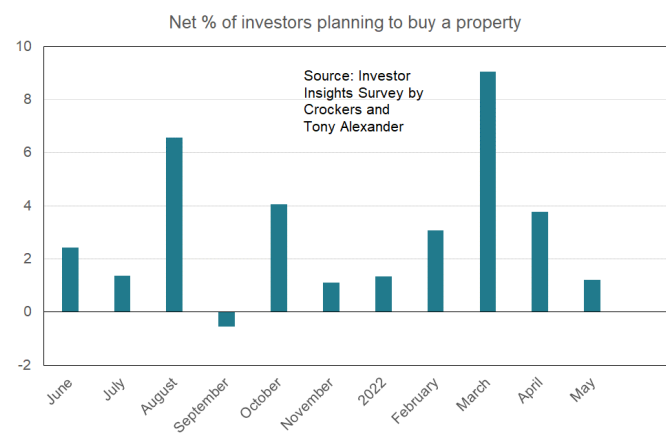


One of the defining features of our monthly survey which has now been running since June last year is that investors are in for the long haul and they don't radically change their plans.



Having said that, it seems reasonable to believe that intentions of buying a new property would have been higher before March 2021 when tax changes to the treatment of interest expenses were announced. Plus, there probably would have been less interest from those buying a property in purchasing a new one – again because of the tax changes.

This third graph nets buying and selling intentions off against each other. March 2022 looks to have been an outlier month and was not the signal of a new determination to buy property.

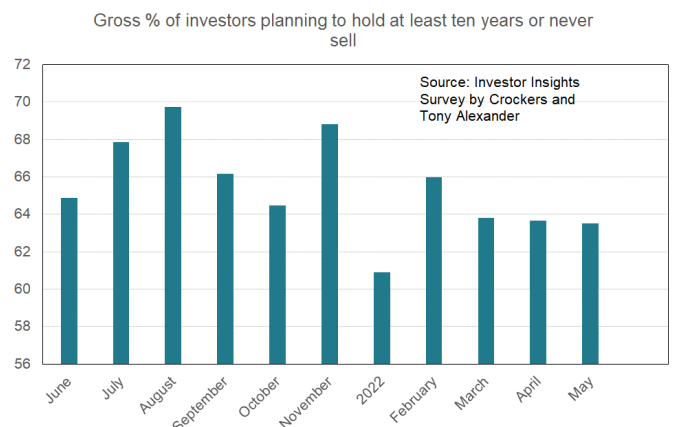
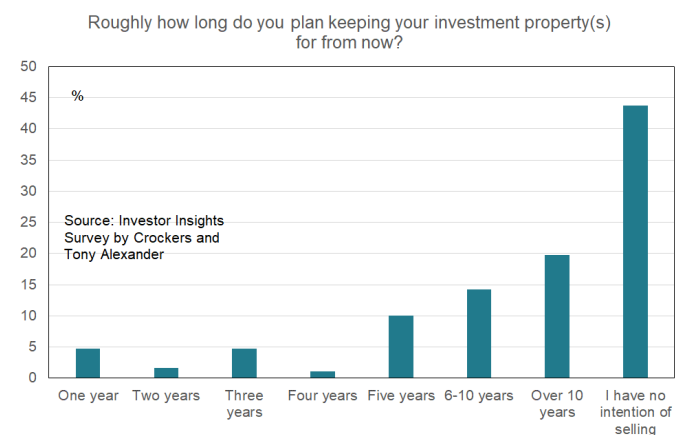


Helping to explain the lack of rising willingness to sell will be:

- the continuing upward movement in rents,
- the role of property as a hedge against inflation, the still low debt servicing costs for many on fixed terms,
- the comfortable ability to subsidise negative cash flows with employment income in a strong labour market,
- falling share prices, and
- negative real returns on fixed interest assets like bank deposits.

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

This question continually yields a result of about 65% of investors saying they are in it for the long haul. The popular image of investment in property being driven strongly by a desire to ride the price cycle or buy and flick is not backed up by the aims which investors express.

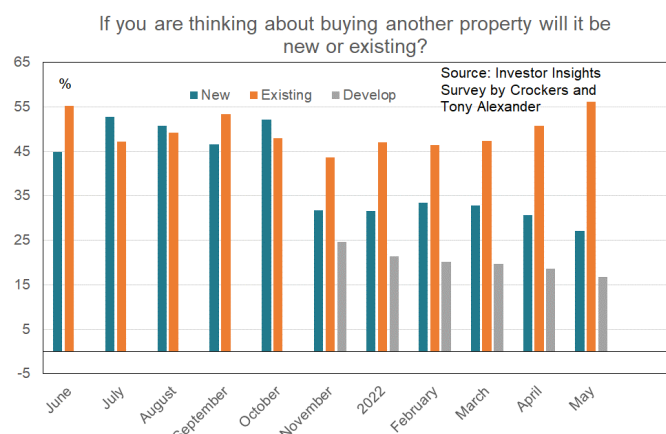


IF YOU ARE THINKING ABOUT BUYING ANOTHER PROPERTY WILL IT BE NEW OR EXISTING?

There is a shift underway in the level of interest which investors looking to buy have in a new build over an existing property. In this month's survey a record 56% of those looking to buy said



that they will opt for an existing dwelling. This is shown by the orange bars in the following graph and the upward trend from a low of 44% in November's survey is clear.

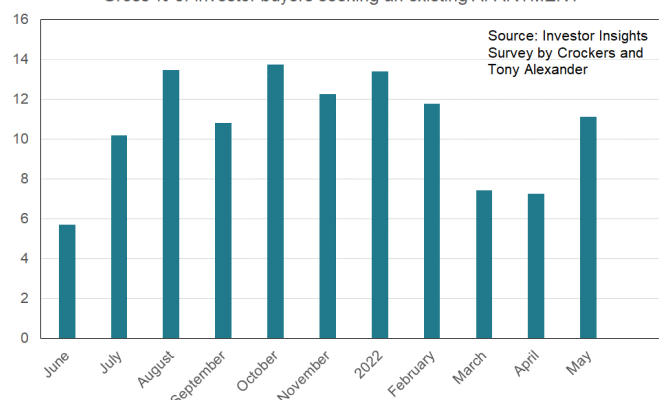


What is also clear is the gradual decline in interest in undertaking one's own development. Franky, in light of the worsening availability of key building materials such as plasterboard, rising costs, and staffing issues, it is perhaps surprising 17% of investors still show a self-construction preference.

Interest in purchasing new properties built by others dropped in November perhaps in response to tightened rules on bank lending.

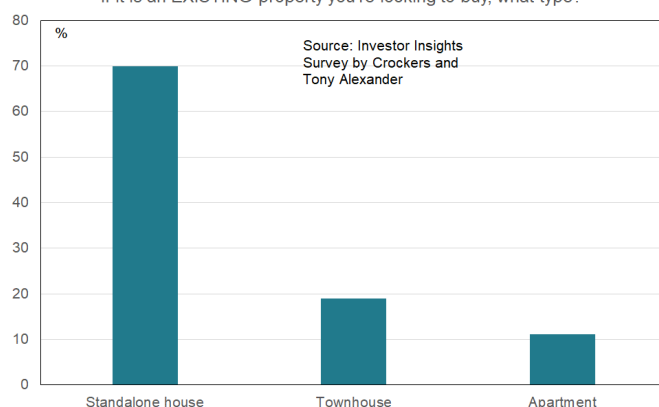
An interesting development amongst the rising proportion of willing buyers looking to purchase an existing dwelling is a rise in demand for apartments. Maybe this is being driven by expectations of returning tourists and students – at least for Auckland's CBD. Then again, maybe this graph is simply telling us that March and April were outlying weak months.

Gross % of investor buyers seeking an existing APARTMENT



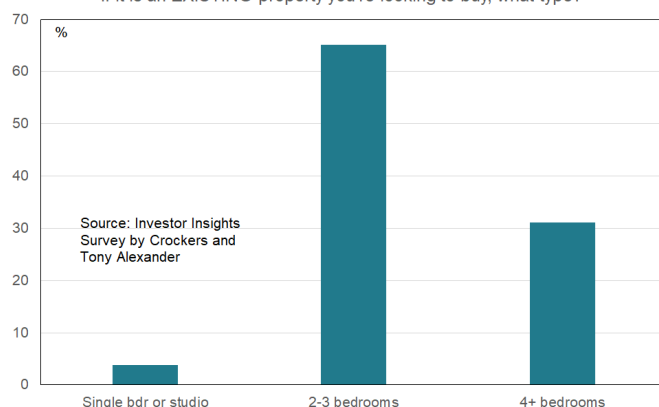
The strong preference for those looking at an existing property remains a standalone dwelling.

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



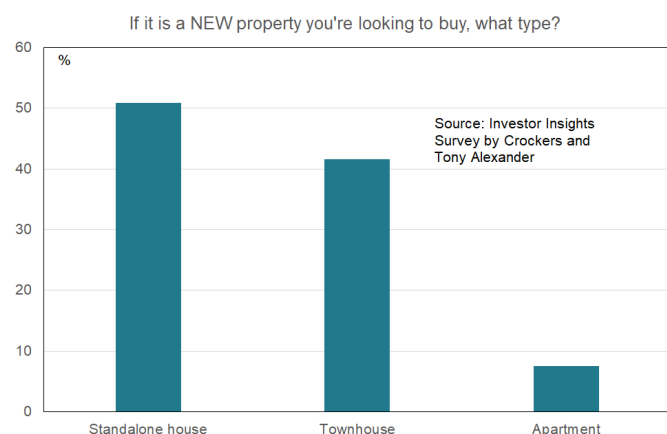
One which has 2-3 bedrooms.

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

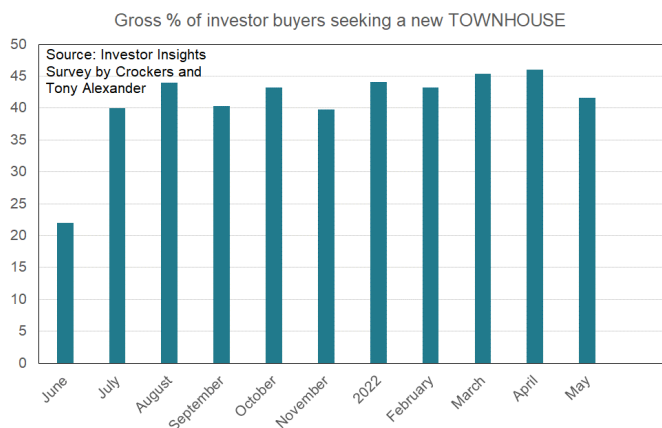




Looking now at the 27% of those looking to make a purchase who prefer a new dwelling, the strong preference remains for a detached house or townhouse. Interest in new apartments is small.

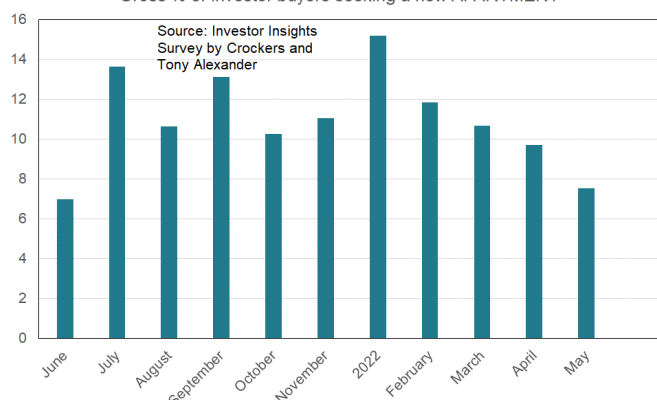


Perhaps of comfort to the many developers of townhouses, in Auckland in particular, will be the continuing firm interest in such from investors.



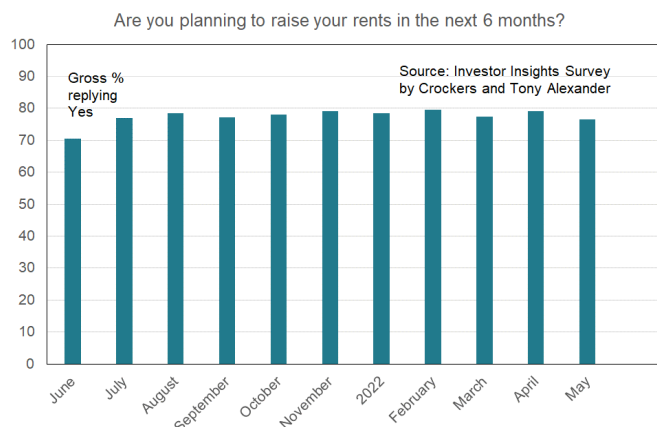
Not so for apartment developers necessarily. But these things depend very heavily on the location of apartments and the amenities on offer along with quality of construction – same for townhouses.

Gross % of investor buyers seeking a new APARTMENT



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

As a rule, it would be surprising if we ever saw much of a change in this measure. But if it ever does undergo a decent change that will be worthy of examination and explanation. The proportion of investors planning to raise their rents never deviates much from 77%. And of course, intention and ability to increase rents is always market dependent.

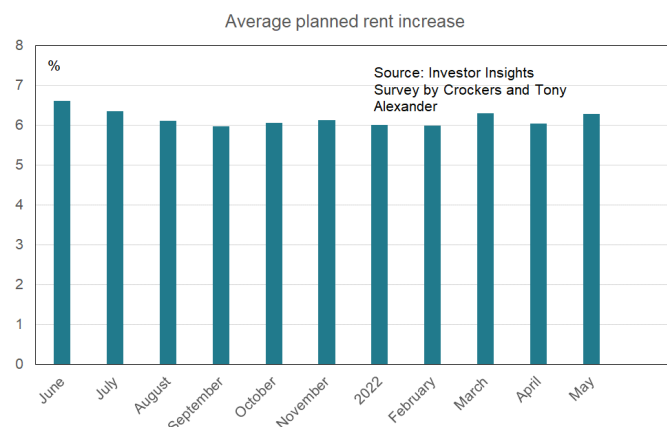


IF YOU PLAN RAISING YOUR RENTS, HOW MUCH BY?

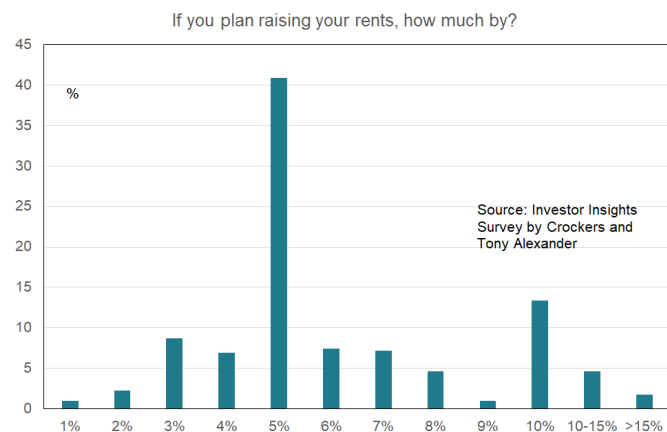
More and more investors leave decisions on rent rises to property managers rather than their own desires, and property managers know that rent rises will inevitably reflect market conditions.



Keeping that in mind, the individual investors responding in our monthly survey on average “plan” raising their rents over the coming year by 6.3%. There is no trend up or down in this measure, meaning the recent cost of living shock is not leading to greater rent rises being sought by landlords.

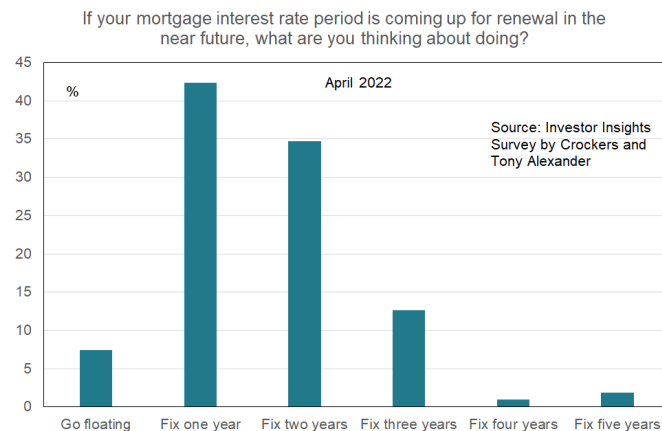


The most common rent rise being contemplated is 5%.

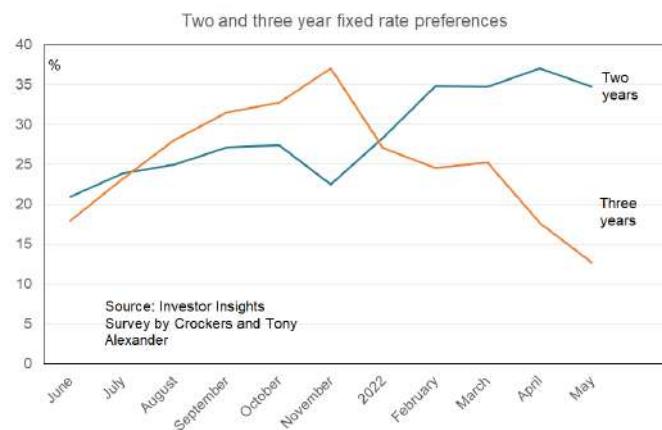


IF YOUR MORTGAGE RATE IS COMING UP FOR RENEWAL IN THE NEAR FUTURE, WHAT ARE YOU THINKING ABOUT DOING?

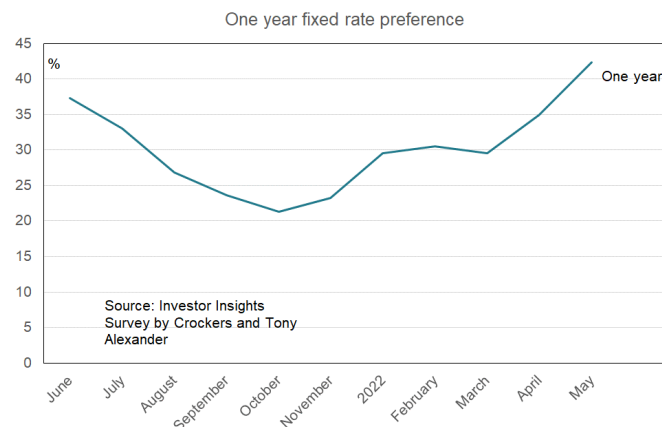
Most investors are looking at fixing for either one or two years.



Interest in fixing for three years is now held by only 13% of respondents.



But note the recovery in the proportion of people opting for one year.

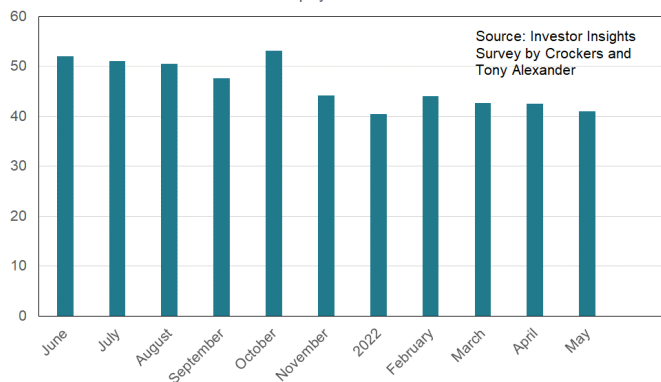




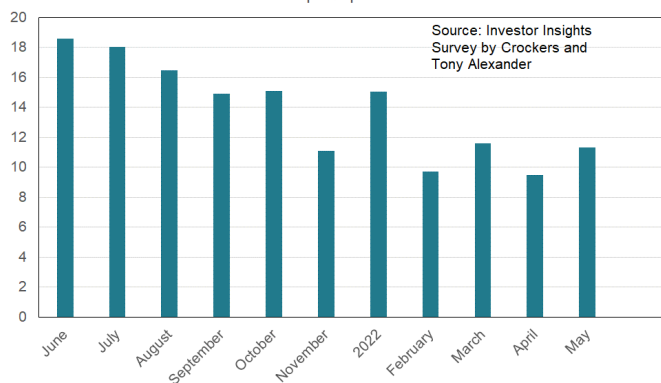
WHAT ARE YOU THINKING REGARDING THE SPEED WITH WHICH YOU ARE PAYING DOWN PRINCIPAL ON YOUR MORTGAGE?

Interest rates have risen, and they have a bit further to go this cycle. Are the rises large enough that investors are looking to accelerate repayment of their debt? No. This might change in a year when the proportion of interest expense which can be deducted against income falls from this financial year's 50% to 25%.

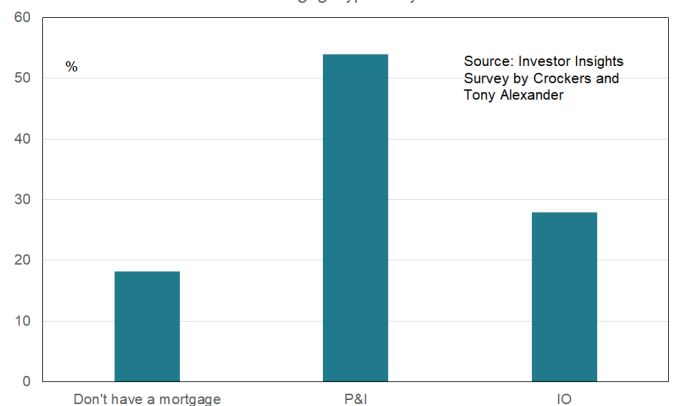
Proportion of investors on principal and interest mortgages planning to repay debt faster



Proportion of investors on interest-only planning to start repaying principal

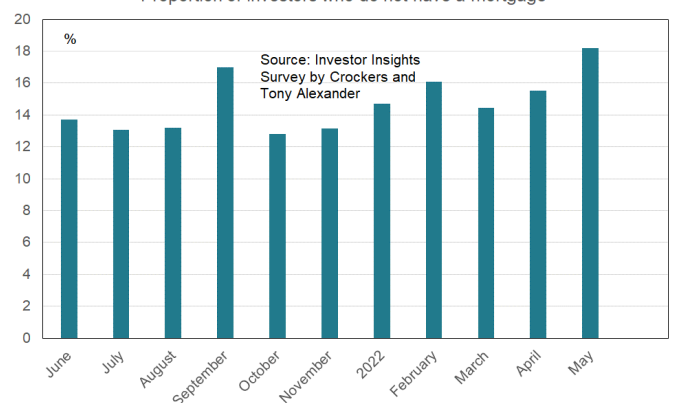


What mortgage type are you on?



Note that there appears to be an increase underway in the proportion of investors who report that they have no mortgage.

Proportion of investors who do not have a mortgage



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

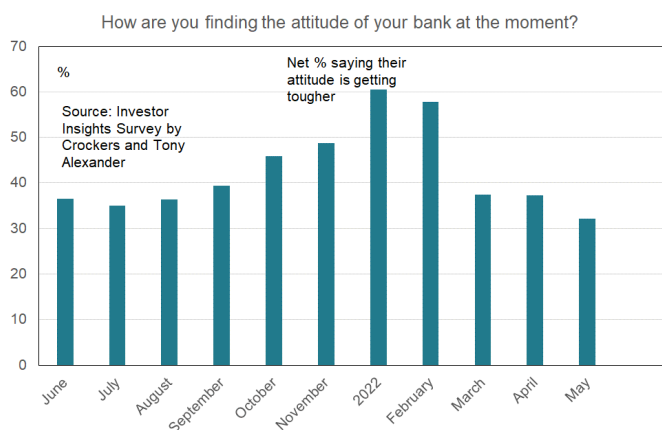
Respondents to this question can choose amongst three options.

- 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.

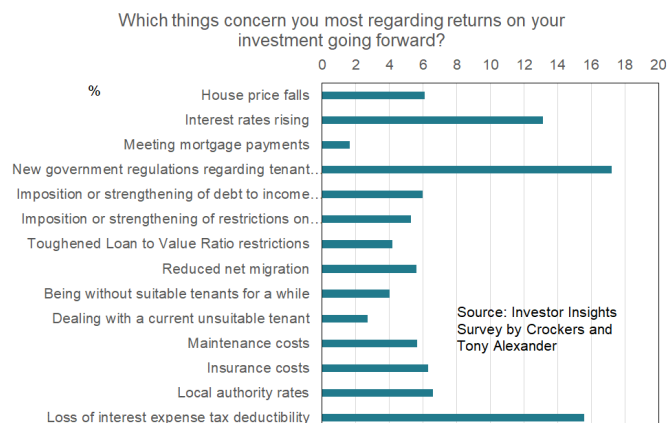
Investors report that the attitude of their bankers regarding debt levels was at its worst back in January. But since then, things have been improving and now “only” a net 32% report that their bank’s attitude is negative.



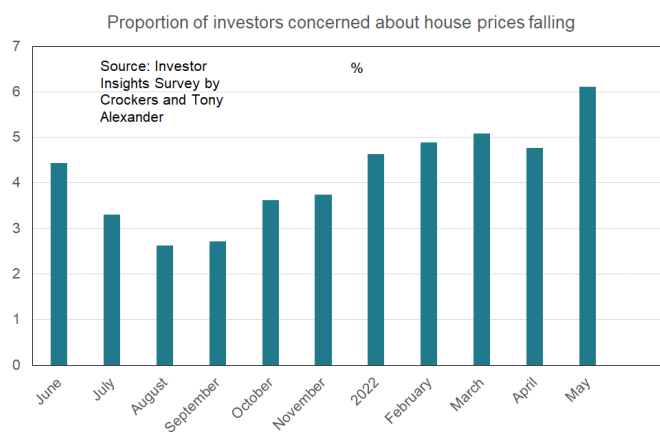
WHICH THINGS CONCERN YOU MOST REGARDING RETURNS ON YOUR INVESTMENT GOING FORWARD?

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

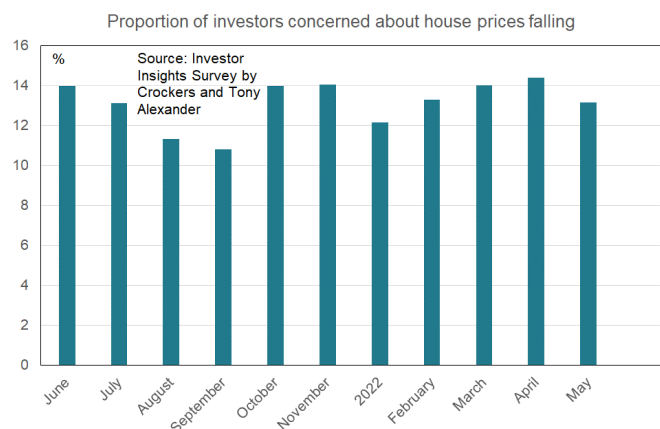
The biggest concern investors have regarding their properties is new rules from the government on managing tenants, followed by loss of interest expense deductibility and then rising interest rates.



The proportion who are concerned about house prices falling is trending up

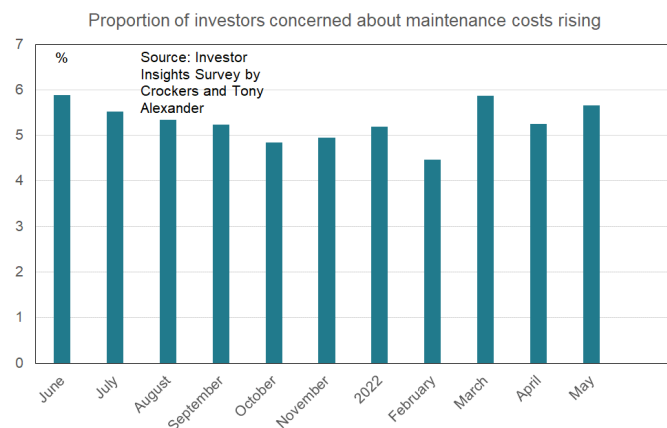


But there is no increase underway in worries about interest rates rising.



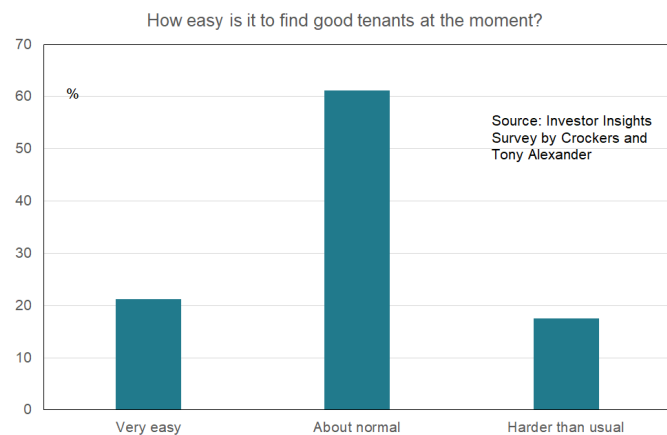


And although costs for virtually everything are rising firmly, rising maintenance costs are not causing lost sleep for investors.



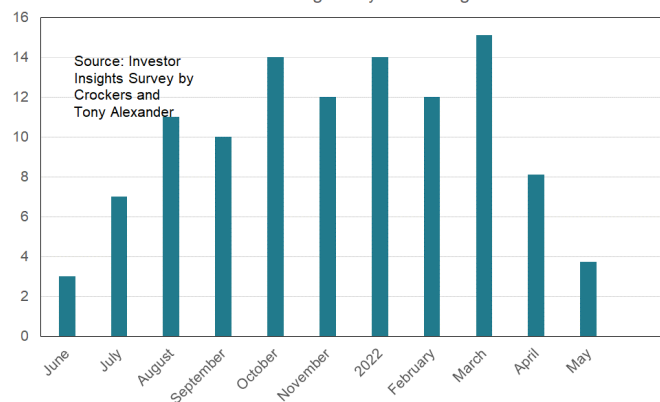
HOW EASY IS IT TO FIND GOOD TENANTS AT THE MOMENT?

61% of landlords say that things are about normal when it comes to finding good tenants.



But there is a downward trend in the proportion saying that it is easy to find good tenants.

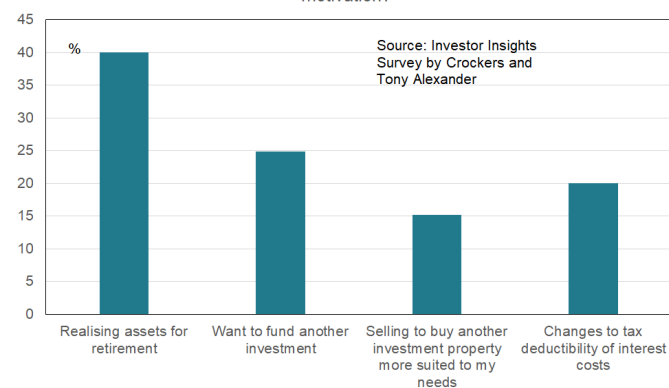
Net % of investors finding it easy to secure good tenants



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

Reflecting the fact that people have historically invested in residential property for the long term, the most common reason cited for selling by those offloading is funding retirement.

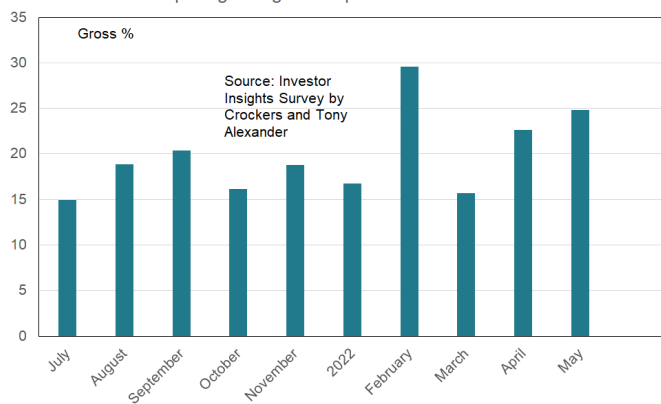
If you are going to sell your property(s) soon, what is the primary motivation?



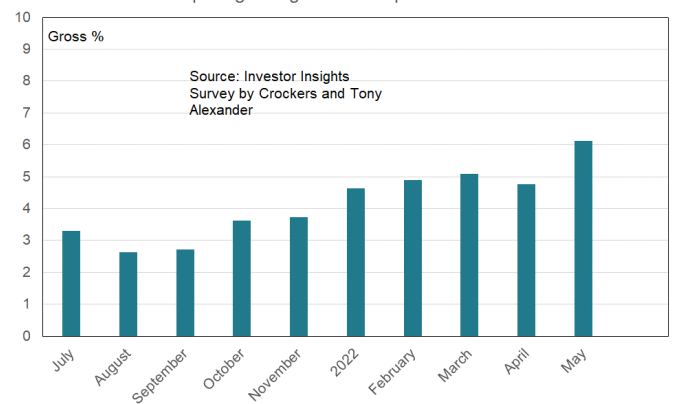
The proportion looking to sell to fund a non-housing investment is trending slowly upward.



Contemplating selling to fund purchase of a different asset

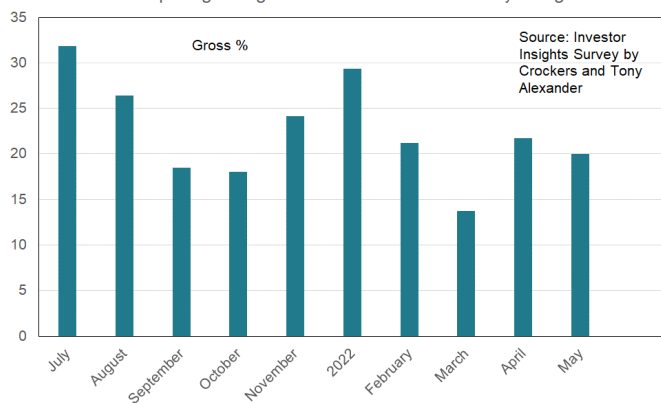


Contemplating selling because of price decline worries



And if anything, the proportion saying they are selling because of the tax legislation changes is oscillating downward. Maybe the increasing loss of interest expense deductibility will see a change over time. Maybe not.

Contemplating selling because of the tax deductibility changes



There is an upward trend in the proportion contemplating selling because house prices are falling. But at 6% the proportion is quite low.

There were 519 responses received in this month's survey, with respondents located as follows.

Region	%
Northland	1.3
Auckland	46.0
Bay of Plenty	4.2
Waikato	7.5
Gisborne	0.4
Hawke's Bay	3.3
Taranaki	1.9
Manawatu-Wanganui	3.4
Wellington	11.7
Nelson, Tas., Marl	2.5
West Coast	0.1
Canterbury	11.7
Dunedin City	3.8
Queenstown Lakes	1.5
Southland	0.8

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