23 Nov, 2021 12:00 AM

First home buyers vanish: survey

Mortgage Advisers Survey by Tony Alexander Economist mortgages.co.nz

High prices & bank reluctance to lend sees first home buyers disappearing.
New Zealand's mortgage advisors say the number of first home buyers asking for advice on a purchase has dropped to an all-time low.

The November survey, jointly held by mortgages.co.nz and well-known economist Tony Alexander, shows 26 per cent of advisors were fielding fewer inquiries, compared to the previous monthly survey where only a net 2 per cent felt they were seeing fewer inquiries.

"That's a significant drop from last month," says Alexander*, "and is the biggest pullback since the monthly survey was launched in June 2020."

Read the full report and download your free copy here.

The survey's other major finding, as well as the record drop in first home buyer inquiries, was another record – a previously unknown level of perception that banks are cutting back on their willingness to lend.

Alexander says young property buyers are viewing "a continuing flow of media stories about high prices being achieved by vendors".

"Their interest in making a purchase is likely to be high," he says. "However, they are also encountering a growing flow of information about banks tightening up their lending criteria.

"This includes a sharp reduction in the availability of low deposit mortgages as banks have scrambled to get low deposit lending below 10 per cent of new lending from November 1. One bank has even just withdrawn previously approved finance for such lending."

About 75 per cent of low deposit loans have historically gone to first home buyers, he says, and it was expected they would be disproportionately impacted by this rule change.
"But they are also being affected by banks having to undertake the deepest examination of mortgage applicant expenses and income sources and stability on record."

Banks are getting ready for the December 1 commencement of more stringent responsible lending criteria in the Credit Contracts and Consumer Finance Act (CCCFA).

"That means fewer young people, self-employed, and people over 50 in particular are now qualifying for mortgages," says Alexander.

Meanwhile, the survey shows a record decline in advisor perceptions of bank willingness to lend – with a net 85 per cent saying willingness has declined, compared with 75 per cent last month.

"Only five months ago, advisors were seeing lending willingness increase – so the period since June represents a substantial turnaround in bank lending policies," he says.

Factors included tougher LVR rules, getting ready for the anticipated introduction of debt-to-income restrictions, and meeting new requirements of the CCCFA.

"That strong divergence between the change in lender willingness and the recently accelerating pace of price rises calls into serious question the ability of prices to keep rising for much longer," says Alexander.

Investor inquiries low
Meanwhile, close to half the mortgage advisors polled (a net 42 per cent) report they are seeing fewer inquiries from investors – consistent with the retreat of investors since just before the March 23 tax announcement which affected them.

Mortgage rates for new lending and re-fixing of maturing fixed rates are now 1.3-1.8 per cent above the lows of less than six months ago. LVR rules have tightened, banks are counting extra expenses when assessing debt servicing ability, and new uncertainties have arisen regarding new builds and their final cost and completion dates.

"Although a transition of investor buying from existing properties to new builds is under way, the rising level of interest rates, in particular, along with construction sector issues, may stem the extent of that switch in focus in the coming year or so," says Alexander.

The downward trend in the proportion of mortgage advisors noting more inquiries about refinancing has continued this month. Seven per cent have reported more inquiries, down from 10 per cent last month and the lowest proportion since just after the March 23 tax announcement.

The downward trend, despite the recent sharp jump in mortgage rates, may reflect general commentary surrounding the lack of enthusiasm banks currently have in servicing other than their own existing customers.

"This is probably a temporary situation," he says, "reflecting the speed with which banks are reining in lending to meet the new rules."

**The mortgages.co.nz and Tony Alexander monthly survey invites mortgage brokers around the country to give insights into developments in the residential real estate market. There were responses from 78. Alexander spent 26 years with BNZ, with almost 25 as Chief Economist.*