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Insights from the field: 10 things to know about the property market right now

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Regulatory change is a huge theme for housing at present, so in this environment CoreLogic's Chief Property Economist Kelvin Davidson draws on some anecdotal insights gathered from market participants 'on the ground'. In this *Pulse* article covering 10 key aspects of the current market, we look at issues such as attitudes towards the rule changes, regional disparities, and sentiment among different buyers across the country.

1. **The economy is hurting.** To be fair, that's nothing new, but it's been a useful reality check to hear it directly from 'real world' mortgage advisors, estate agents, bankers, and property buyers. It's also been a timely reminder that Q1's 0.2% expansion in GDP is hardly anything to go overboard about.

2. **Property buyers remain keen, but getting deals done is difficult.** Even despite the continued high levels of mortgage rates, buyers are still out there doing their due diligence. But with affordability remaining a key hurdle, until there is a bit more clarity about the potential timing for mortgage rates to start falling, it may still remain tricky for many people to convert a willingness to buy property into an actual deal. However, it's also worth noting that, anecdotally, the affordability/serviceability rules have recently been eased a little by some banks – as covered on recent guest episodes of the NZ Property Market Podcast.

3. **Far from being 'bad policy', the balance of opinion is that debt to income restrictions are worth a try.** Sure, some people think the DTIs are a terrible idea. But on balance, more people seem to think they're worth a shot, if they can help slowly restore some kind of normality for our housing market in terms of affordability.

4. **Buyers in the provinces aren't unduly concerned about DTI caps.** Although there's a strong awareness that longer term declines in mortgage rates will eventually start to see debt to income caps become a more significant restraint on lending, the sentiment in regional markets is still fairly relaxed. That's because property values are lower in relation to incomes anyway, so high DTI lending is always less of an issue in these areas.

5. **There is interest in whether or not banks will 'hold' the DTI speed limits for more expensive markets.** If the 20% allowances for high DTI lending will actually just be reserved for borrowers in pricier areas, such as Auckland, that might mean mortgages can flow relatively well for everyone. But if those allowances aren't reserved for expensive markets, it's conceivable that some buyers from those areas will look outside their home patch.

6. **Early action could be keeping formal mortgage stress indicators low.** Given 'higher for longer' mortgage rates, there's a sense that some property owners with large debts are acting early and making a change to their situation (e.g. downsizing, moving to a cheaper area) before real trouble arises. Of course, it's not easy to prove this, as these sales are not readily identifiable in the records – they're 'just another sale'.

7. **Where mortgage stress does arise, the first step seems to be a loan term extension rather than going interest-only.** Opting for a loan extension from 25 to 30 years, for example, at least allows some principal to still be paid off.

8. **The shorter Brightline test from 1st July is arguably going to drive more selling activity than buying.** Due to the substantial top-ups required for some investors but also an early 'escape' from capital gains tax, no doubt some existing landlords will start to list. Of course, some people we spoke to will hang on, simply because a rise in new listings coming forward from other investors might make it an unfavourable time to sell.

9. **On top of normal weekly outgoings, awareness levels that investors' largest tax bills are about to hit might not be fully recognised.** Clearly, the overwhelming majority of property investors will know that deductibility was at its lowest level in the tax year ended 31st March 2024, but it was also noted that some investors will be getting an unwelcome surprise with their latest tax bill. This extra financial hit could underline the selling potential noted above.

10. **Many people wondered about the level of interest rates that would bring investors fully back to the market, and where mortgage rates will generally settle in the long term.** The first part of that question is very difficult to answer as it depends hugely on individual circumstances. For the second part, the consensus seems to be that a long-run assumption of a typical 5.0-5.5% mortgage rate on average is roughly fair.

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