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Lending rules loosen, Budget for investors: What is happening with the NZ housing market this week?

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The Reserve Bank has activated debt-to-income (DTI) rules and is loosening the loan-to-value ratios (LVR) as a further means of managing the property sector. Photo: 123RF

Analysis - There are lot more options for investors with a bunch of rule changes and Budget allocations, but the direction of interest rates still remains uncertain. Here's what moved real estate this week.

Starting off, let's look at the what the Budget brought.

Restoring interest deductibility (https://www.rnz.co.nz/news/political/511596/pm-christopher-luxon-argues-renters-will-be-grateful-for-interest-deductibility-change) for residential rental property takes up $729 million of the Budget (https://www.rnz.co.nz/news/political/518258/budget-2024-winners-and-losers).

The cost of tax breaks for landlords over four years will be $2.9 billion.

Last week the government scrapped the First Home Grants scheme (https://www.rnz.co.nz/news/political/517499/government-confirms-first-home-grants-to-be-scrapped). It is expected to save about $245m over four years.

> **Read more**: How to enter the property market without a First Home Grant (https://www.rnz.co.nz/news/business/518206/how-to-enter-the-property-market-without-a-first-home-grant)

Another $140m has been set aside in new funding for 1500 new social housing places from July 2025, to be provided through Community Housing Providers rather than Kāinga Ora.

The Ministry of Housing significantly exceeded its savings goal of $109m, instead cutting its baseline by $391m.

The Warmer Kiwi Homes scheme is also being scaled back (https://www.rnz.co.nz/news/political/518244/national-unveils-budget-2024-keeps-tax-cut-promises) with the end of subsidies for hot water heating and an outreach programme to target hard-to-reach households.

And $45m is being spent on adjusting the bright-line test (https://www.rnz.co.nz/news/on-the-inside/517784/slow-market-high-interest-rates-stubborn-inflation-what-is-happening-with-the-nz-housing-market-this-week). From 1 July, the cut-off for tax breaks when selling a second home will drop from 10 years to two.

Debt-to-income and loan-to-value ratios

The Reserve Bank (RBNZ) has activated debt-to-income (DTI) rules (https://www.rnz.co.nz/news/business/518029/rbnz-pulls-trigger-on-new-bank-lending-limits) and is loosening the loan-to-value ratios (LVR) (https://www.rnz.co.nz/news/national/518076/investors-may-see-biggest-impact-of-reserve-bank-s-lending-limits) as a further means of managing the property sector.

From 1 July, banks will be limited to no more than 20 percent of new lending to owner-occupiers with a DTI ratio of more than six, and no more than 20 percent of new investor lending over a DTI of seven.

That means most owner-occupiers with an income of $100,000 would be able to borrow $600,000, and investors $700,000.

LVRs restrict the amount of low deposit lending by banks. This changes mean banks can lend 20 percent of their lending to owner-occupiers with deposits of less than 20 percent, from 15 percent at the moment, and 5 percent of lending can be done to property investors with equity or deposits of less than 30 percent, compared to 35 percent at present.

Low interest rate expectations and house price growth

There's a growing belief among households that interest rates (https://www.rnz.co.nz/news/business/518086/low-interest-rate-expectations-good-indicator-of-future-house-prices) will soon fall, but the country remains split on whether the time is right to buy a house.

ASB's housing confidence survey for the three months to April shows that for the first time in three years, more New Zealanders expect interest rates to go down rather than up.

"While we are at the peak of the interest rate cycle, there is still uncertainty about when the Reserve Bank will begin lowering the official cash rate (OCR) which means affordability constraints are likely to remain," ASB senior economist Kim Mundy said.

She said households' expectations of lower interest rates was premature in ASB's view, but it should not be ignored as sentiment could drive demand.

> **Read more**: Investors may see biggest impact of Reserve Bank's lending limits (https://www.rnz.co.nz/news/national/518076/investors-may-see-biggest-impact-of-reserve-bank-s-lending-limits)

About 55 percent of the 3000 people surveyed said it was neither a good nor a bad time to buy a house.

House price expectations also lost momentum, with a net 44 percent expecting prices to rise, down from 51 percent last quarter.

ASB forecasts 1 percent house price growth in 2024.

The best home loan to fix?

Home loan interest rates have risen from historic lows of about 2 percent to more than 8 percent in some cases. But rates dropping again is a story for next year.

The Reserve Bank made it clear that it did not expect the OCR to fall (https://www.rnz.co.nz/news/national/517749/what-s-the-best-home-loan-term-to-fix-for-now) any time soon.

For those taking out a new loan or refixing an existing one, 12 months seems to hit the right spot, a bunch of mortgage advisors told RNZ.

Squirrel chief executive David Cunningham said fixing short, on a term of 18 months or less, made sense based on the likely track for the official cash rate.

"The Reserve Bank is holding rates up with the OCR and inflation track in the latest MPS. My view is that once inflation is snuffed out, home loan rates will likely fall over the course of 2025-26 towards 5 percent."

Edge Mortgages financial adviser Glen McLeod said his preference was "firmly in the 12-month rate".

He said 12-month fixes would be at a rate of between 6.85 percent and 6.99 percent when discounted. "While it is more expensive than the 18 to 24-month lending, it does bring greater flexibility. Taking the longer-term interest rates may result in your rates being higher for longer than they need to be."

> **Read more**: https://www.rnz.co.nz/news/national/517749/what-s-the-best-home-loan-term-to-fix-for-now What's the best home loan term to fix for now?]

Real estate sector on the struggle to find buyers

More real estate agents are quitting the housing market (https://www.rnz.co.nz/news/business/518207/real-estate-agents-exit-as-earnings-fall) as the job gets tougher.

"It's a buyer's market. We are having more problems with finding buyers," one agent said.

The number of active real estate licenses - including agents, branch managers and salespeople - is now 15,460 down from 16,053 in April 2023.

In late 2020, at the busiest time of the market, more than 10,000 houses changed hands in a single month. That number was 5559 in April 2024 - or about one sale for every three licensed industry participants.

> **Read more**: TradeMe notes increase in $1 reserve properties, but are they worth it? (https://www.rnz.co.nz/news/business/518217/trademe-notes-increase-in-1-reserve-properties-but-are-they-worth-it)

At the same time, the Real Estate Authority (REA) said licensed real estate branch managers had grown by 21.6 percent in the past year.

REA chief executive Belinda Moffat said it had developed a new NZQA-approved branch manager qualification, with the Real Estate Institute of New Zealand and The Skills Organisation.

"We wanted to see strong growth in the number of supervisors in the profession to support high standards of conduct. Through supervision, branch managers are able to support salespeople to identify and resolve issues to avoid problems occurring in a transaction. This is particularly important in a challenging real estate market where transactions can be complex."

Renters v landlords

Property investors say there is no excuse for poor insulation or ventilation (https://www.rnz.co.nz/news/national/518008/tenants-still-battling-mould-and-damp-despite-healthy-homes-standards-compliance) under the new healthy homes standards, but some renters say it is too hard to challenge landlords.

Renters are reporting they are still living in cold and mouldy houses despite them being healthy homes compliant.

But Property Investors' Federation president Sue Harrison said tenants could go to the Tenancy Tribunal.

However, Renters United said the Tenancy Tribunal was not set up in a way that was easy for renters to use.

And the government is being told it needs to do more to help people struggling to pay for housing.

The weekly accommodation supplement (https://www.rnz.co.nz/news/national/517983/rent-stress-as-accommodation-supplement-stagnant) hasn't been increased in six years and Trademe last month reported rents had reached a record high.

A budget advisor said the payments should be linked to rent prices.

Building consents down

Another 1.9 percent drop in residential building consents in April over March points to a continued downturn in the construction sector over the rest of the year.

A report by Westpac economists indicates the 23 percent drop on the year earlier reflects the tough conditions in the building sector, with large increases in build costs and financing costs over the past few years, as well as weakness in the housing market.

> **Read more**: Construction industry leaders plead for acceleration of infrastructure projects (https://www.rnz.co.nz/news/business/518174/construction-industry-leaders-plead-for-acceleration-of-infrastructure-projects)

Despite the rising costs the price for newly built homes is under pressure.

Consent numbers fell 27 percent in Auckland, 30 percent in Wellington, with Canterbury down 16 percent.