UNDERLYING HOUSING SUPPORTS TO GROW THROUGH 2023 **P.5**

SPOTLIGHT: BANK OFFER 'UNDER THE LINE' **P.9**

HOW TO PURCHASE YOUR FIRST HOME WITH LESS THAN 20% DEPOSIT **P.11**

Newsletter

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ADVICE KNIGHT
MORTGAGES + INSURANCE + INVESTMENT

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Welcome

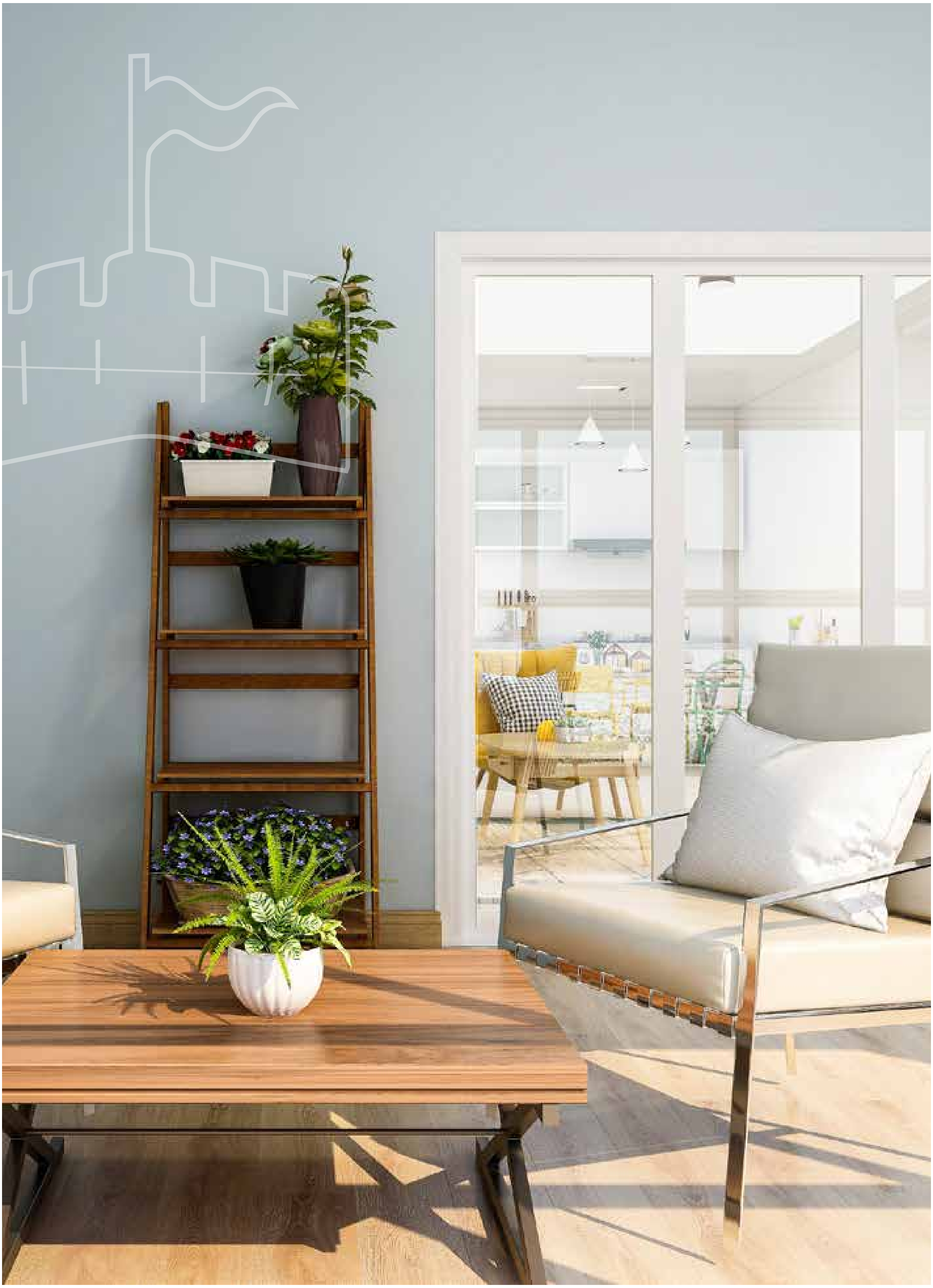
Welcome to our first edition newsletter for 2023. Alarmingly it's somehow March already and the days already are becoming shorter. Summer felt as though it never quite arrived at Advice Knight HQ and certainly did not deliver to one's usual expectations of generally pleasant, calm, warm picnic conducive conditions of summers gone by.

It's been despairing seeing the sad stories unfold, first from the flooding events in Auckland/Northland and then by delivered by Cyclone Gabrielle only weeks apart. A number of our clients have been adversely impacted with damage to property and even having homes 'red stickered'. It was particularly confronting seeing the devastation and destruction in the Hawkes Bay first hand over the last fortnight.

Unfortunately, the economic backdrop has similarly expressed further tails of destruction and key factors like inflation are proving more stubborn than otherwise hoped. This will be further strained by the impacts of the cyclone challenging food production and logistics. Many crops can't be harvest or sold and will contribute to a further inflation spike in the first half of this year. Food prices have already been running rampant and we've all felt the hit in our grocery bills. The cost to infrastructure will likewise be severe and makes important moves like adjustment to tax brackets harder to deliver.

ASB's Housing Confidence Survey last week and the word 'Gloomy' was used to sum it up. It showed house price expectations hit their weakest level since the 2008/09 Global Financial Crises with a net 43% of respondents expecting prices to fall over the next year. We have already seen prices drop around 15% from their peak so the question will be where does that bottom sit. With soft net migration, further impact of fixed rates rolling and repricing and low confidence – I feel another 10% softening is far from off the cards and suspect a further winter drop being quite likely. Will Spring inject life back into the market?

In this issue



Underlying housing supports to grow through 2023

by Tony Alexander

House prices are still falling in New Zealand and very few people feel any need to hurry up and make a housing purchase just in case house prices runaway upward on them again. I can see that explicitly from my monthly survey of residential real estate agents around the country where I ask them to note the main concerns which buyers have.

On average 42% of agents say that buyers are concerned prices will fall after they make a purchase. This is something we call FOOP - for fear of overpaying. The peak for this measure was 73% in May last year, it was still 71% in December, and it is still at a high level of 65%.

FOMO – fear of missing out - remains near completely absent at about 5%. But there is one result from the survey which backs up something I observed about three weeks ago from my monthly survey of mortgage advisors. First home buyers are back in the market.

A net 24% of real estate agents around the country say that they are seeing more first home buyers. This is up from a net 16% seeing fewer such young people in December and above the average reading for the past three years of 3%.

These are early days yet and with no sign that investors are returning to the market now or likely to do so perhaps ahead of the election in October it would be premature to start talking in terms of the housing market turning upward. But there are some supporting factors gaining strength behind the scenes which eventually will come out into the open and encourage the growing queue of buyers to start stepping forward into the open homes and auctions.

One thing which is eventually going to attract a lot of attention but is being lost in the focus on flooding issues at the moment is the rapid turnaround of net migration flows for New Zealand. Six months ago the net migration flow was a loss of 16,000 people. Now the annual flow is a gain of 16,000 and at the pace things are going we could finish 2023 with a net gain somewhere close to 40,000 people.

Another factor to keep an eye on is the likelihood that fixed mortgage rates peaked almost two months ago. Banks are failing to meet their mortgage sales targets so are running behind the scenes discounting campaigns having already cut their two to five year fixed rates publicly a few weeks back.

There is no reason for believing that interest rates are going to fall away in a hurry considering the inflation risks which still persist in New Zealand. But as each week goes by more and more people are likely to move away from the worst case scenarios they embraced after their November 23 record tightening of monetary policy and no longer believe fixed mortgage rates are headed towards 8%.

The absence of extreme fears about interest rate levels will encourage a few more people to start looking at the housing market, but maybe not immediately.

Another interesting development is that some pressures are starting to re-emerge in the rental accommodation sector. There is new demand coming from the 10,000 people displaced by recent flooding events. The faster than expected rebound in tourism is leading investors to redirect their properties back towards short term holiday rentals and away from long term leasing. The quick return of foreign students is also increasing demand for rental accommodation.

In my survey of residential property investors I can see a lift in the proportion of landlords planning to raise their rents and a slight increase in the average rental increase which they will target. But again, these are early days for the development of this factor and it is extremely unlikely the rental market will tighten up sufficiently to bring a whole new wave of investors into the residential property market. But the mild changes underway will work towards encouraging a few more investors to hold onto their properties for longer than they may otherwise have been thinking.

Another factor to consider is that as the months go by more people are likely to come around to my view that the forecasts by the Reserve Bank and Treasury of New Zealand's unemployment rate heading towards 6% are too pessimistic. Business surveys show that businesses are still struggling badly to find the staff that they want. Their employment intentions are starting to improve and it is likely that feelings of job security will remain relatively firm this year. If people expect to keep their job they are more likely to consider a house purchase than if they live in fear of unemployment. Wages growth is likely to remain relatively good and again that is supportive of home purchases.

Things are looking fairly bad when it comes to construction of new houses later this year. Banks have pulled back aggressively on financing new residential developments and a lot of media exposure to some people who have lost money because of the collapse of builders and developers is encouraging home buyers to focus back on the stock of existing properties rather than a new build.

We don't know the extent to which new home construction will fall away from late this year, but the decline is likely to last for two or three years and at some stage this will lead to questions again about shortages of property in some parts of the country. Not now, somewhere down the track.

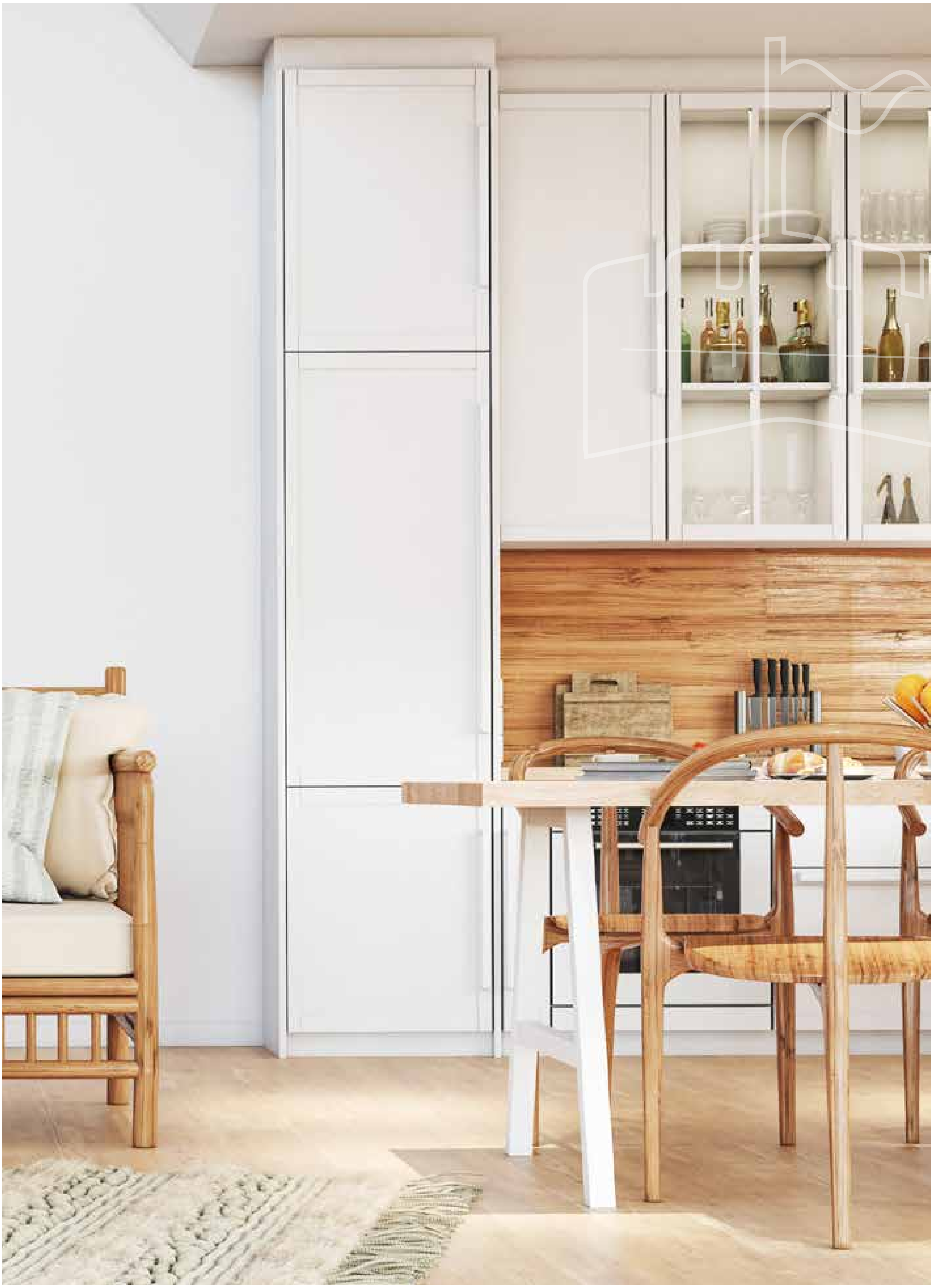
Once we add in the fact that the stock of properties listed for sale has now fallen for two months in a row, we start to get an environment in which we can once again talk about the endgame being underway for the period of decline in the New Zealand housing market. This means that we should still anticipate weakness in sales and prices over the next few months but that the extent of that weakness will get smaller and smaller on average as each month goes by.

Chances are improving that we will see the bottom of the housing market generally towards the middle of this year. But what does this mean for interest rates? Principally that although they have probably peaked the speed with which interest rates decline over the next couple of years is likely to be very slow because of the persistence of inflationary pressures, absence of a deep recession, and inability of the Reserve Bank to send easing signals for quite some time.

This means that while for many borrowers fixing one year will be the optimal choice, people should not ignore the two year fixed rate given the slow speed with which monetary policy is likely to be eased starting at some point in 2024.

Go to www.tonyalexander.nz to subscribe to my free weekly “Tony’s View” for easy-to-understand discussion of wider developments in the NZ economy, plus more on housing markets.

Tony Alexander is an independent economist with additional commentary available at
www.tonyalexander.nz.



Sage Advice

Spotlight: Bank offer 'under the line'

by Anthony Sage

Recently we have seen a major NZ bank offer a 12-month rate substantially below anything else available in the market. The offer was surprising and unable to be advertised as it only applied to new business. With inflation running hot and interest rates creeping ever higher, many borrowers sought to obtain this rate to achieve temporary relief of cashflow and score a bit of a moral victory.

In response to this, competing banks also began offering similar rates on longer terms (slightly higher but with 1% cashback added to bridge the gap) and even matching the very competitive rate on offer as a retention tool. This ignited a bit of a price war between major banks and many of our clients were able to lock in substantially better offers than previously expected. The flurry happened very fast and bank queues began to fill up with application, pushing service levels out substantially.

Banks have 'simplified' the re-fix process by offering existing borrowers' digital rates that are tailored to their unique situation, saving them time and staff effort to re-fix their loan books. However, the previously highlighted situation proves using a good advisor is worth it's weight in gold. Not only do you receive customised advice, but you have an independent representative with access to the market – ensuring you consider all options available and get the best overall deal.

It may be tempting to DIY manage your home loan, especially when it as easy as literally pressing a button, but you have little way of knowing if you are making the right decision without professional advice.

I believe we will continue to see discounted rates offered at times 'under the line' as banks struggle to maintain the level of new business they became used to over the past bull market. Make sure your adviser is aware of the decisions on your plate and have them double check that something better isn't hiding around the corner.

Example: John has $1m existing lending on a 20 year term and was offered 6.49% for 12 months to re-fix with his existing bank.

If he takes this option, he will pay roughly $64,157 in interest over the next year.

Had John been able to obtain the 4.99% special rate for 12 months, he would pay roughly $49,222 in interest over the next year.

Total savings of $14,935 – using these spare funds to make extra repayments would have a substantial impact on his future debt reduction.

Anthony Sage is an Advice Knight Adviser; you can reach him by email anthony@adviceknight.co.nz or phone 022 651 7802.

Chris' Corner

How to purchase your first home with less than 20% deposit.

by Chris Dilks

Currently in New Zealand the 'ideal' minimum deposit amount for your first home sits at 20%. Not only will any lender apply favourable lending criteria but they will also offer great cashback offers (generally ~1% of the loan amount) as well as discount advertised interest rates to win your business.

As property prices have increased over the years and cost of everything has risen, saving that magical 20% deposit sum has felt like a never ending and uphill battle for many. But don't count yourself out just yet! Lenders are open to buyers with less than a 20% deposit and with just a 10% deposit in hand the options do open up. In some rare and particularly strong cases even a 5% can be considered.

The lending criteria does become a stricter for buyers with less than 20% deposit so we want to make sure your application looks as presentable and appealing as possible. To achieve this we would recommend building a budget with you and sticking to it! This will help prove to the lenders that you have your spending habits well managed, can demonstrate good account conduct and will be able to afford home ownership.

If you are building savings into your budget (recommended), then make sure you can get by on what you have left i.e. It can be a lot more sustainable and achievable to save less but to be consistent with it than save more and then have to pull those funds back out when the next bill arrives. Perhaps just increasing contributions to your KiwiSaver from the minimum 3% to 4% or 6% can have a big impact on obtaining your savings goals without hurting your budget too much.

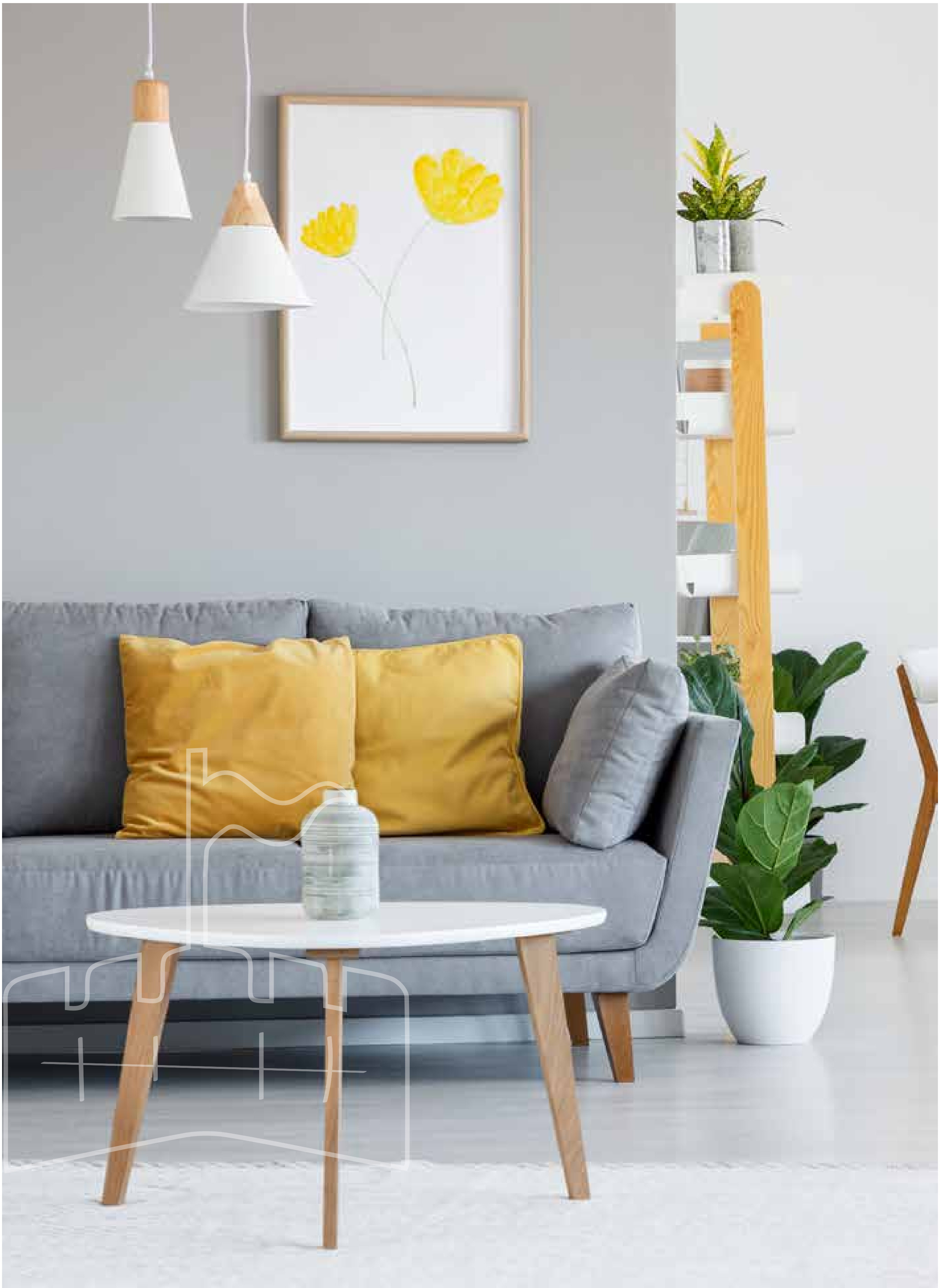
A great tip which has helped many first home buyers is to bank at two separate banks. Banks will often favour lending above 80% to their own customers first. Using two separate banks gives you access to two different lending options when you are ready to buy and allows you to pick the best option.

If you are eligible for approval with less than a 20% deposit then it's worth knowing that most lenders won't pay you a generous cashback contribution (although note some are paying $3,000 to first home buyers regardless of deposit amount) and they will charge what they call a 'Low Equity Margin' or a 'Equity Premium' (LEM or LEP for short). LEM is a percentage that the banks will add onto your interest rate to reflect the additional risk involved to the lender, where LEP is a one off fee charged by the Bank. Depending on your deposit the margin can range from 0.25% to 1.5% per annum.

With the harsher lending conditions and higher costs we tend to recommend exploring all options to get as close to, if not the full 20% deposit. In a softening market this can be easier without having the fear of the market racing away on you. If parents/family members own their own home then an option exists to use equity in their property to furnish your own deposit. Get in touch if you'd like us to explain this option in detail.

It is definitely possible to purchase your first home with less than a 20% deposit and we deal a lot of clients in this position. Don't give up on your home ownership dream just yet! If this sounds like you and you want help building your plan, please do reach and we would happy to assist.

Chris Dilks is an Advice Knight Adviser; you can reach him by email chris@adviceknight.co.nz or phone 021 169 2845.



In the media

Since our last update, we've had the pleasure of being interviewed for the following articles.

[Malcolm Knight: financial advisor offers investment advice]
NewstalkZB: The Weekend Collective

Sponsorships

We are very pleased to support the following initiatives:

Special Children's Christmas Party

Advice Knight was honored to support the 2022 Special Children's Christmas Party; an event which aims to provide children who live with life threatening illness, physical or intellectual impairment, domestic violence, or in underprivileged circumstances, a special day of entertainment to help them stay positive amongst their challenges.

Belmont Primary School

Advice Knight is sponsoring the school's communication app, Skool Loop. This is the school's main communication channel for the principal, staff and parents and is constantly updated with school information making it the go to place for all of the school community.

Devonport Primary School Fair

Advice Knight is sponsoring the upcoming Fair on the Hill; Devonport Primary School's largest fundraising event of the year. The event will be held next Saturday 18 March from 12 - 6pm; if you're looking for something fun to do with your family next weekend, we encourage you to come along!

Welcome to the team

Rebecca Lash

We are very pleased to welcome Rebecca Lash to the Advice Knight team.

Rebecca joins us as Lending Manager where she will work closely with our advisers and the lenders to achieve great outcomes for our clients.

Rebecca brings to the role a strong financial services background with great relationship management experience and a strong credit background having started her professional career in 2017 with Youi Insurance as a Sales Adviser. She went on to Sovereign Home Loans for a little over 2 years working as a Senior Customer Services Representative before joining Threefold Mortgages in an Adviser Support role.

Rebecca went on to further extend her credit knowledge at Pepper Money where she worked as a full-time credit assessor, responsible for assessing broker lending applications. It is from Pepper Money that Rebecca joins us now at Advice Knight and only three weeks into the role we already seeing great results, a keen eye for detail and fantastic client service.

We look forward to sharing Rebecca’s skillset with you all in the years to come.

Rebecca Lash
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Meet the team

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Disclosure

Please **click here** to download our disclosure information; key information you need to know to help you understand what type of advice we are able to give you, so that you can make an informed and confident choice when engaging Advice Knight.

Final word

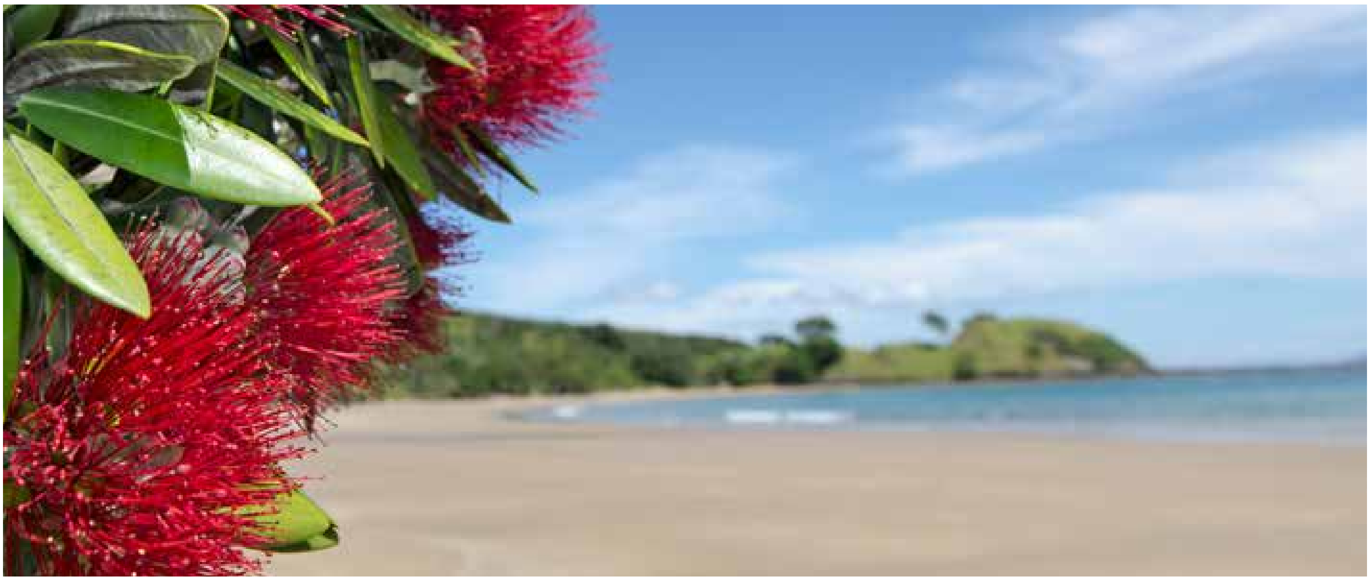
'If you want the rainbow, you got to put up with the rain' Steven Wright

We can see that there are plenty of challenges facing the New Zealand economy currently as well as house hold budgets. Key indicators of economic confidence, consumer spending, asset prices etc are all softening and indicating a sluggish economy.

According to conventional wisdom, a sluggish economy tends to reduce demand for credit which tends to keep interest rates low…. All else being equal. Robust economic conditions on the other hand, tend to increase demand for credit, which tends to push interest rates higher… all else being equal. The problem is "all else" is almost never equal…

Malcolm Knight
Director, Financial Advisor

/adviceknight @advice_knight



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