MAY 22

Newsletter

MORTGAGE BORROWING STRATEGY Independent Economist, Tony Alexander. **P.4**

GOOD NEWS IN THE BUDGET FOR FIRST HOME BUYERS Government's Budget 2022 Announcement **P.9**

Welcome

Welcome to our mid-year edition of our quarterly newsletter. In this edition we are pleased to introduce leading economist, Tony Alexander. Tony will become a regular fixture providing his valuable insight regarding mortgage interest rates – expectations and borrowing strategy for Advice Knight readers.

We are seeing a very interesting and somewhat challenging economic backdrop in recent months with the combination of rising interest rates (including today's Reserve Bank rise of 0.5% to 2%, the fifth OCR increase in 10 months), harsh lending criteria and the absence of inward migration starting to flow through to a softening housing market.

The sentiment in the media has drastically changed and this can become self-fulfilling where buyers lose confidence, preferring rather to wait on the side-lines. This reduces demand and increases time to sell - dampening vendors expectations and ultimately flows through to price. In the last week we have seen two of the leading banks forecast that prices could drop by as much as 20% over the next year which is certainly unsettling to both those that have purchased recently and for those that are planning to enter the market in the near term.

We would acknowledge that as alarming as a forecast of 20% drop in prices sound, this would only bring us back to where they were just over 12 months ago. As such the 'crash alert flag' is not being raised up the mast at Advice Knight HQ just yet. What we are seeing is that real buying opportunities are now presenting themselves and for well financed/cashed up buyers there are bargains to be had.

We reiterate the points made in our last newsletter regarding property being best approached as a long-term investment and stand firm that property is and will remain an excellent vehicle for long-term wealth creation. With rents rising rapidly (along with many of our base living costs), paying down your own mortgage becomes a sensible way to reduce base living costs and with higher interest rates, that payoff is improved i.e. paying down your mortgage now provides a heightened return on investment vs during periods of lower interest cost (e.g. when they were 2.19% pay-off was lower).

In this Issue

Tony Alexander's Quarterly Market Update for Advice Knight Clients

Mortgage Borrowing Strategy

by Tony Alexander

The Reserve Bank have taken the official cash rate up from a record low of 0.25% to 2.0% and a peak at or above 3% is likely in the next 6 – 12 months. In the financial markets the anticipation of higher short-term borrowing costs for banks has led to fixed mortgage rates rising well in advance of actual monetary policy changes and led to the likes of five year rates climbing near 3% and one year rates near 2%.

These strong rate rises since just before the middle of 2021 have come very early on in the tightening cycle as compared with the last period of extended rate rises from 2005 to 2008. That helps explain the quick reaction of house prices (assisted by the credit crunch) and evidence of household spending being reined in very quickly.

But these speedy rises also mean even though additional monetary policy tightening remains, the extent to which fixed mortgage rates rise is likely to be less than further official cash rate increases. In fact, there is a good chance that the 2-5 year rates only increase another 0.5% from current levels while the one year rate perhaps climbs another 1%.

The main implication of this outlook for borrowers is that the time for fixing long to avoid higher rates disappeared a long time ago and for the next two years the optimal choice is probably fixing 1-2 years with a tad longer for those of more conservative nature wanting some extra stability in these very uncertain times.

Late this year the discussion about interest rates is likely to shift away from rate rises and the likely peak to when rates will start falling again. My personal pick is 2024, but without knowledge of who will invade who and how the pandemic and supply chains alter, we all have to be very careful not to get too clever in thinking we can build a strategy around a likely rates scenario. Managing risk is not the same thing as backing a particular set of forecasts.

Tony Alexander is an independent economist and produces a free weekly publication with a housing focus called "Tony's View", available for signup at **www.tonyalexander.nz.**

Sage Advice

Should I Break or Fix?

by Anthony Sage

Earlier this month, I had the opportunity to join the Breakfast Show on 1News to discuss the merit of breaking and re-fixing your lending early, the property market as a whole and to field live questions from viewers.

As interest rates have been historically low for the past decade, many borrowers now find themselves with low fixed rates coming up for renewal in the next 12 months, resulting in a big jump in repayments when repricing to current market rates.

There can be merit in breaking and re-fixing now, to ensure your next 3-5 years have a manageable plan in place. This serves as an insurance policy if rates continue to rise, and we are not often seeing break fees in these situations, which takes one strong consideration out of the equation.

Interest rates appear to continue to rise, so hedging your bets by taking a medium to long term rate now may not be a bad idea. Splitting up your lending is always prudent to ensure less exposure to market changes and the ability to review a portion of your lending every year or so. Revolving credit or offset facilities can reduce interest paid and provide further insurance if cashflow becomes a bit tight in the future.

Of course, every situation is unique, so please sit down with your favourite adviser and review all options on the table, to ensure whatever you pick fits your medium to long term goals and requirements.

Check out the full interview below:

https://www.1news.co.nz/2022/04/21/top-mortgage-tips-for-kiwis-after-rate-increase/

Chris' Corner

KiwiSaver

by Chris Dilks

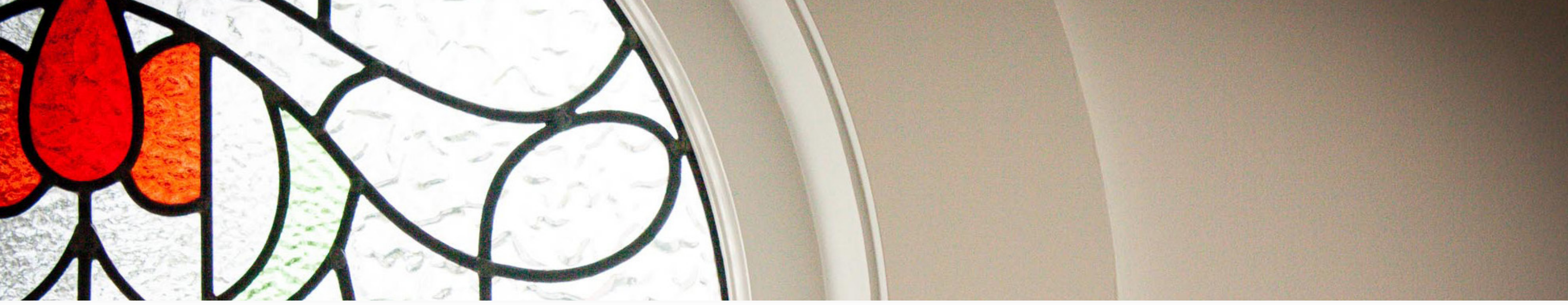
It's been a challenging time for KiwiSaver members in recent months with high levels of volatility within equity markets. China Covid restrictions, supply chain constraints, sharp oil price rises and high levels of inflation impacting consumers globally will certainly be causing angst for many members. We continue to recommend looking beyond short term fluctuations and remind you that KiwiSaver is typically a very long term investment vehicle.

One of the key factors that influences the level of risk a fund does have is the funds 'asset allocation'. The asset allocation shows the percentage of funds which are invested in either 'income or growth assets' and will have an impact on the performance and volatility of a fund over time. We have access to a wide range of funds, each with their own merits and with the market softening, now is a fantastic time to investigate whether you are in the right type of fund for your goals.

We are still seeing many clients who have not received any advice in relation to their KiwiSaver fund, many remain in default funds with default providers. The right type of fund with the right KiwiSaver provider can result in a difference of hundreds of thousands of dollars come retirement.

For a number of our clients KiwiSaver is also forming a large part of their first home deposit, so even if retirement is not something you've started to consider just yet, there is still great merit in ensuring you are getting the most out of your KiwiSaver and that the fund choice is aligned with your goals.

If you would like a no obligation discussion on your KiwiSaver, we are happy to talk through the options available and help you get the most out of your investment.



Good News in the Budget for First Home Buyers

The Government's Budget 2022 announcement out last week provided positive changes to the First Home Loan and First Home Grant schemes administered by Kāinga Ora. This means more people now qualify for the mortgage help programmes these schemes provide. The First Home Loan allows buyers to get into a first home sooner with as little as a 5% deposit, while the first home grants can be as high as $20,000 towards the deposit (for a qualifying couple buying a new build home).

Effective immediately, house prices caps will be removed entirely from the Government backed 'First Home Loan' providing great choices for first home buyers.

Some of the key high level eligibility criteria are as follows:

- Earned less than the income caps in past 12m ($95,000 for an individual, $150,000 for an individual with dependents, or $150,000 for two buyers together)
- Not currently owning any property
- Have been contributing to KiwiSaver for 3+ years
- Purchasing a property that is within the regional house price caps (Auckland has moved from $700,000 to $875,000, Hamilton and Tauranga from $600,000 to $700,000, Christchurch increased to $750,000 while Wellington and Queenstown up to $925,000)
- Agree to live in the property for at least six months

Under the new regime, house price and income caps will be reviewed every six months in an effort to keep the scheme more relevant (with data showing uptake has dropped rapidly over the past three years – from 15,470 between April to 2018 and March 2019 to only 6,834 in the same period in 2021-2022).

First Home Grant Eligibility Criteria available here: **(kaingaora.govt.nz)**

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RESIDENCE 33 -Milford

These brand-new standalone townhouses offer you the best of Milford.
This is a rare find and a striking opportunity you would not want to miss out on for anyone looking for a first home, investment, or a downsizer. Five beautifully designed 4 bedroom standalone townhouses offer a great combination of modern and sophisticated lifestyle.

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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

When Nelson Mandela said, “The greatest glory in living lies not in never falling, but in rising every time we fall,” he was speaking about the power of persistence. More specifically, the power to get up day after day and fight all over again.

The quote applies well in an economic context too when applied to markets. Straight lines really are for geometry class – not for markets. Providing we maintain good cashflow and can hold our steel through the dips, we will enjoy the rallies to follow. A ‘discounted market’ provides opportunity to buy and can be incredibly lucrative for a savvy investor.

One way or another, every major bull market needs a major bear market. The two go together like yin and yang, gin and tonic or Labour and high taxes. Take one out of the picture and the other one no longer makes any sense.

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