## RESIDENTIAL PROPERTY INVESTMENT SURVEY

# OCTOBER 2017 KEY FINDINGS

1. Most investors continue to expect positive changes in rental income, particularly over the medium term, and positive changes in their property value over the short and medium term.
2. Government regulations (net) and damage to property (net) are the top concerns for investors.
3. Price and service continue to be the most important attributes for investors in their banking relationship. At a total sample level ANZ has the strongest perception of Service, Expertise and Price.
4. The percentage of investors saying that the limits on high LVR lending have significantly impacted on their strategy in the last 12 months has risen from 31% in 2016 to 47%.
5. Information continues to be a key benefit of membership, with speaker meetings, networking and industry lobbying rated highly. National advocacy is seen as the most important activity of the Associations.

ANZ

## RESIDENTIAL PROPERTY INVESTMENT SURVEY

# RESULTS, COMMENTARY AND ANALYSIS

## OCTOBER 2017

The 2017 ANZ Residential Property Survey results suggest that an inflection point has been reached in the market. While most investors continue to expect positive changes in property values over the short and medium term, and in rental income (particularly over the medium term), expectations of growth have moderated considerably since last year's survey. Despite this, the survey reveals investors remain strongly committed to the sector.

In 2016, 19% of investors expected asset price increases in the 11% to 20% range. This year only 3% of investors expect rises in this range. Those who expect zero growth over the next year has risen from 3% in 2016 to 13%. Over five years, however, 74% of investors expect positive changes in property values.

Rental expectations have also reduced. Respondents across most of the country expect rental income to increase or hold steady over the next year (92%), but the percentage of investors expecting zero growth in the short term has risen from 10% in 2016 to 19% this year.

While expectations of growth have moderated, the survey reveals investors continue to have a strong commitment to residential property investment. This is not a sector characterised by the speculative pursuit of quick capital gains. Nearly all investors intend to hold on to their properties and live with the ups and downs of the housing market, cash-flow permitting, because their past experiences in the sector have most likely made them confident that this form of investment will deliver.

This confidence in the long-term performance of residential property as an investment is likely to inform the intention of almost 70% of investors to buy again at some stage. Off the back of a strong housing market, many of these investors have been delivered a free kick in terms of improved LVR from asset price increases. This will have created head room for them to consider purchasing further property in the future. This can be seen in the survey data, with 49% of investors reporting their LVR has decreased in the last 12 months and only 13% of investors have an LVR over 75% versus 18% in 2016. This puts investors in a stronger position should there be a correction in house prices, and is reassuring from a risk perspective for lenders.

Interestingly, the percentage of investors not planning to purchase has stabilised. Looking back to 2012, around 40% of investors did not plan to purchase further property. By 2016 this had dropped to 31%, and this has remained at roughly the same level this year. Could we see this percentage begin to lift again as New Zealand moves into a different phase in the business cycle?

Investors identify damage to property and Government regulations as key areas of risk, as they did in 2016. The timing of the survey in August, just weeks out from the General Election along with market commentary on further macro prudential tools like Debt to Income ratios, may have influenced investor anxiety about regulatory risk.

Price and service continue to be the most important attributes for investors in their banking relationship. We were pleased to see that at a total sample level, ANZ has the strongest perception of Service, Expertise and Price. While this is a good result, we will continue to use the survey to inform how we can continue to improve what we offer to our property investor customers.

As the housing market has boomed, residential property investors have generally seen their returns outstrip what is available through bank deposits, Kiwisaver, or the sharemarket. The more modest current expectations of investors revealed by the survey are an indication that the sector may be sensing the end of this long period of golden weather. It is unlikely that investors will continue to enjoy the easy gains in property value experienced over recent years, and will need to pay careful attention to the fundamentals of good business management, particularly if they are planning to grow their portfolios.

Thanks to NZPIF president Andrew King and to ANZ economist Sharon Zollner for their contributions to the analysis of this year's survey.

Further information on the survey will be included in the next edition of the New Zealand Property Investor magazine.

**Glenn Stevenson** Head of Mortgages, ANZ

# THE INVESTOR'S PERSPECTIVE

This year's Residential Property Investment survey shows a stable confident sector to which investors have a long-term commitment. This is a good outcome for the many New Zealanders who rely on the sector to provide rental housing. It is reassuring that this commitment remains strong even as it is clear that investor expectations of significant gains in property values and rents are moderating.

Once again, around half of respondents to the survey were classed as small investors, having less than three properties. The number of small investors involved in the sector is not surprising. Residential property investment allows people to leverage the equity in their own homes, and build equity in another tangible asset. Add to this the historic performance of residential property compared to other types of investment, and the appeal is easy to understand.

The commonly held belief that residential property investors are largely concerned with reaping quick gains is shown to be false by the survey. Holding for the long term remains the number one strategy across the country, with 'renovate/develop and hold' second. This finding remains largely unchanged from 2016 when the housing market was booming and quick capital gains could have been realised. Many investors appear instead to have applied those gains to improve their LVR, with 49% saying their LVR has decreased in the last 12 months. This may have been forced onto them however, as 30% have not been able to buy a rental that they otherwise would have because of LVR restrictions. This is up from 14% last year.

LVR restrictions had their largest impact in Auckland, with 35% not being able to buy a rental that they otherwise would have. This is concerning for an area with high levels of overcrowding implying that there is a need for more rental properties.

However the intention of 70% of investors to add to their portfolios at some stage is evidence of respondents' confidence in both the long-term performance of residential property, and their own abilities to manage the involved risks. Intent to buy additional property within the next two years is highest in the Auckland region, at 61% of investors. Although this is positive and consistent with previous years, the survey results showed that those intending to buy rental property are pushing this timeframe further into the future, showing some hesitancy creeping into the market.

For those not planning to buy again, the impact of regulatory changes was the most common reason. Government regulation continued to be viewed as the number one risk for property investors. The number of investors viewing it as a risk has continued to increase over the past few years and it is now seen as a risk by 52% of respondents.

Regulatory changes had the largest impact on people not being able to provide rental property. Thirty three percent of respondents were prevented from buying a rental property because of regulatory changes this year. This is up from 18% last year. Poor rental returns were also seen as a key reason for not being able to purchase a rental property.

Damage to property also continues to be seen as a major area of risk, especially as resolution from the Osaki court decision that removed responsibility for accidental damage away from tenants still hasn't been achieved. Landlord insurance cover has increased by 8% across the country from 2016. This was largely driven by Aucklanders (56% in 2016 to 71% in 2017), and Cantabrians (69% to 82%).

Concern about methamphetamine contamination, in particular, has grown from 38% in the 2016 survey to 48% this year. The new standard for decontamination, released in June, provides some welcome guidance to tenants and landlords about the health risks associated with contamination, and the level of decontamination required to ensure tenant safety.

It was good to see that national advocacy on behalf of the sector as an important area of focus for the PIAs, while at an individual level, access to information continues to be a key benefit of membership.

On behalf of the Federation and Property Investors' Association members, I would like to thank ANZ for its continuing support of the rental property industry.

**Andrew King** Executive Officer, New Zealand Property Investors' Federation

NEW ZEALAND PROPERTY INVESTORS FEDERATION

# THE ECONOMIST'S PERSPECTIVE

Investors in residential property remain positive about the medium to long-term value of their investments. This year's survey does show, however, that investors are more cautious than they were in 2016. This is not surprising. Over the last 12 months the Reserve Bank's tighter loan-to-value ratio (LVR) requirements have taken effect. Reduced property turnover and house price inflation are evidence of a change in the mood of the market.

The Reserve Bank will be very content with the recent orderly slowdown in the housing market, including a cool-off in overheated Auckland. We have seen a sharp slowdown in property sales. Some of this can probably be assigned with some confidence to the impact of the LVR restrictions, given nearly half of investors this year (47%) say that the restrictions have had a significant impact on their strategy. In 2016, around a third of investors said LVR had affected their strategy, while in 2015 just 16% said so. Of the 47% of survey respondents who said that there had been an impact, nearly two thirds of these investors said they had not bought a property they likely would have otherwise. This is up from 14% in 2016.

Investors have done well out of housing, though, and it is clear from the survey that they are not going to abandon it lightly. Almost 70% of investors plan to buy again at some point, the same proportion as last year, though the urgency has declined, with fewer planning to buy in the next 6 months. The continued enthusiasm for property as an investment is not surprising. Most investors are planning to hold their properties for the long term. Even if they have pretty modest expectations of price growth in the near term, many of them will have assessed residential property investment as a solid prospect over time.

The increase in property values across most regions has helped improve debt ratios for many investors. However, investors are unlikely to be able to continue to rely on this method of deleveraging in the near term, especially in Auckland. It is likely that for some time at least, LVR reductions will need to be achieved the hard way, through careful management of rental income and costs. For those who are still highly leveraged, a focus on consolidation and cashflow may help ensure that unexpected developments do not result in a need to sell during a significant downturn in the market.

Expectations of increases in property values have eased across the country since 2016, with significantly lower expectations in Auckland, Waikato and Canterbury. While 84% of investors in 2016 expected their property values to increase by 2.5% or greater over the coming twelve months, this dropped to just over half of respondents in this year's survey. Although short-term expectations have moderated since 2016, they still look optimistic, particularly in Auckland. The city continues to have one of the most stretched affordability ratios in the world, yet 74% of Auckland investors still expect values to rise at least 2.5% in the next twelve months. That is down from 93% last year but that number is likely to continue to ease as reality bites. At the time of the survey, only 10% of Auckland investors expected house prices to fall over the next twelve months, but they are falling now.

Rent expectations have moderated. That said, most investors continue to expect growth in rental income, particularly over the next five years. It is interesting to see the percentage of Auckland investors expecting to see rent increases over the next year dropping from 90% in 2016 to 77% this year. This perhaps reflects a realisation that net migration is topping out, and that the days of ever-higher net migration and population growth are likely over for this cycle.

Evolving investor expectations reflect a growing awareness that the world is changing. We are late in the economic cycle, and while a second wind can never be ruled out, the boom in residential property prices appears to be ending. Most survey respondents are in a strong position as they consider their strategies in this environment. They are sitting on solid capital gains, and most are in a pretty good equity position. But we are now entering an era where cashflow is king.

**Sharon Zollner** Senior Economist, ANZ

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