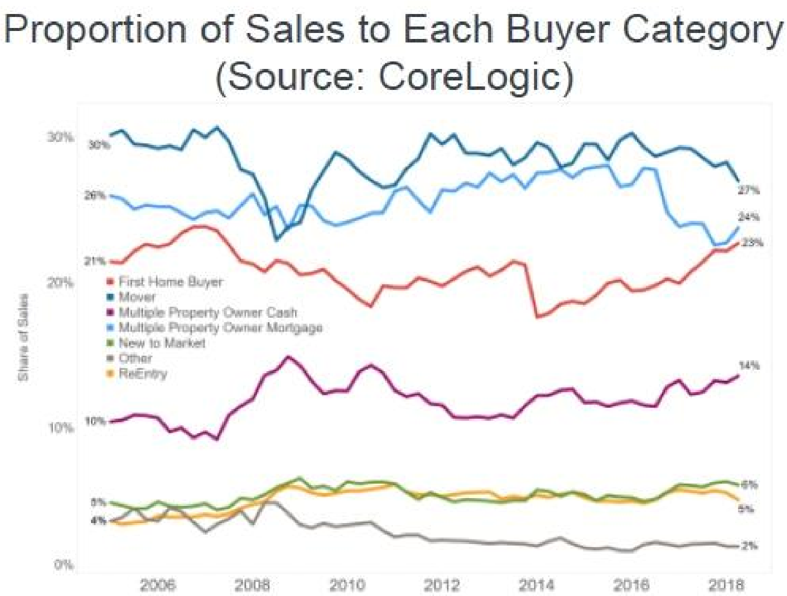
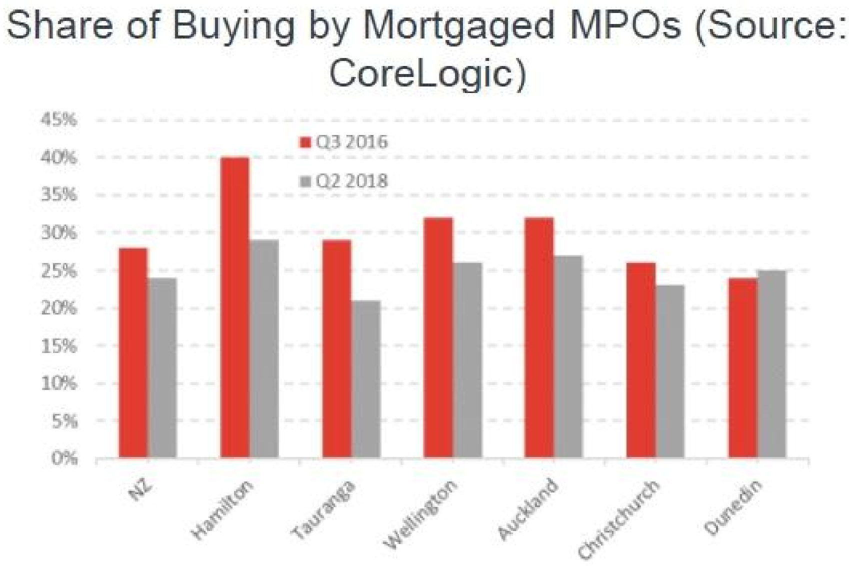
Who's Actually Buying Property At Present?   Corelogic - Kelvin Davidson

One clear trend in the CoreLogic Buyer Classification dataset over the past year or two has been the drop in activity* by multiple property owners (MPOs) with a mortgage. From a figure of 28% in Q3 2016, their share of activity has fallen to 24%. As the first chart shows, these are very low levels in an historical context, but not surprising when you recall that the third round of LVR limits was introduced in October 2016**.

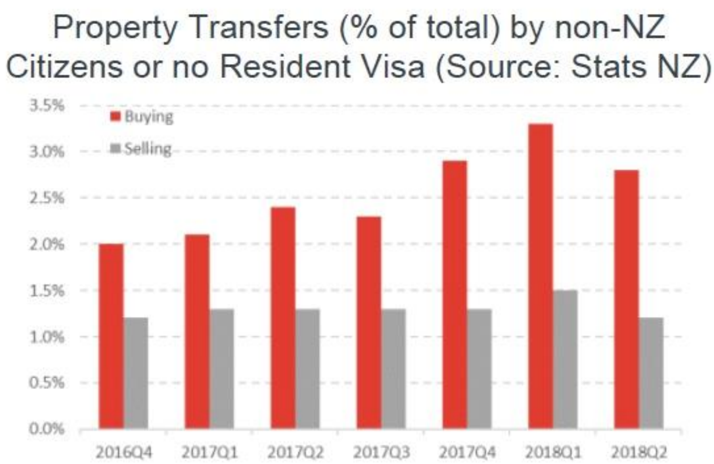


Amongst the six main centres, the drop in market share for mortgaged MPOs from Q3 2016 to Q2 2018 has been biggest in Hamilton, from 40% to 29%. Tauranga and Wellington are second and third, dropping from 29% to 21% and from 32% to 26% respectively. This is illustrated in the chart below. Hamilton in particular had previously seen a boom in buying by mortgaged MPOs after LVR II was introduced in November 2015, because it required investors in Auckland to have a 30% deposit –hence would-be Auckland investors chose to buy in Hamilton instead.

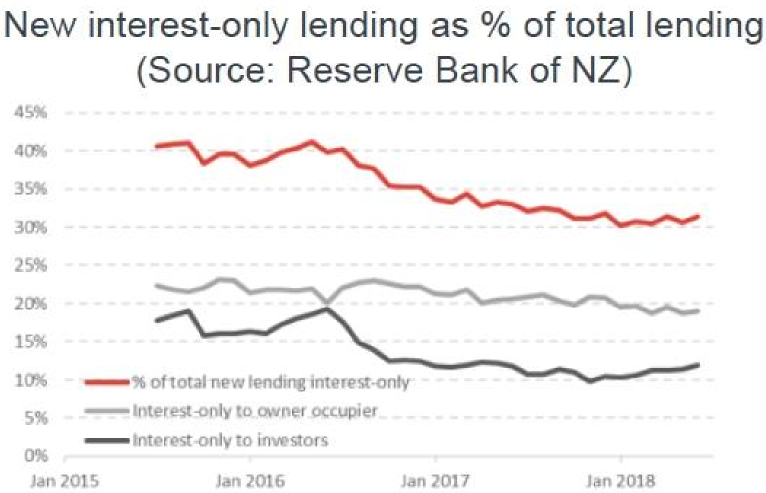


First home buyers have managed to hold on better than other buyer groups in a sluggish overall market, with their share of activity rising from just 18% in Q1 2014 to an 11-year high of 23% now. Given that they can access Kiwsaver funds for a deposit, as well as the fact that mortgage repayments can often be lower than rent, it's no surprise that FHBs are still keen to enter the market.

Elsewhere, our CoreLogic 'new to market' category is a bit of a catch-all for a range of different types of buyer, but at least part of it will be foreigners. So it's an interesting/reassuring cross-check to see that our new to market category is still a low share of activity and that Statistics NZ's property transfer data show a similar picture. As the chart below shows, the share of purchases by people without citizenship or a resident visa fell from 3.3% in Q1 2018 to 2.8% in Q2. Net purchasing by this group also eased, from 1.8% to 1.6%.



Looking ahead, overall property market activity will probably stay subdued into 2019, so a purchase by one type of buyer will be at the expense of another. And in the current environment, it may remain quite difficult for new mortgaged investors. Indeed, Reserve Bank figures (see chart below) show that practically the entire drop in the share of new lending on interest-only terms since mid-2016 has been because of a fall in this lending to the group that like it most, i.e. investors.



This will have been partly demand-driven (i.e. new investors less keen to take on debt), but at least as big a factor is likely to have been tighter standards by the banks themselves. And, if the Australian experience is anything to go by (where the share of overall new lending on interest-only terms has fallen by two-thirds from 45% in mid-2015 to just 15% now), it may well require a very solid financial base for new investors to continue to enter the property market in the coming year or two.

** It's important to note that in absolute terms activity by all buyer groups has fallen over the past few years. But mortgaged MPOs have been weaker than the rest, so their relative share of activity has dropped too.*

*** LVR III required a 40% deposit for investors nationwide, with only 5% of new lending able to be advanced with deposits of less than 40%.*