

Keeping Abreast of the Property Market as it Evolves!

Paula and Keith like to keep abreast of topical issues in the **Property Market**, and share a few of their findings with their friends as they occur.

Here's an Update that may be of interest to all our developers in the **Build-to-Rent Scheme**, as well as a very Positive Outlook from our friends at **Kiwi Saver**.

Please contact us if you'd like any further updates or clarification arounds events in the current property market, or topics we may have covered in previous market reports.

Update on the Build-to-Rent Scheme

This is a reminder that existing build-to-rent developments must apply by **1 July 2023** to register for the exclusion from the interest limitation rules. Once approved, the exclusion for existing developments applies retrospectively from **1 October 2021**.

From 1 July 2023, only new build-to-rent developments (built on or after 1 July 2023) will be eligible to register for the build-to-rent exclusion from the interest limitation rules. The exclusion will apply to new build-to-rent developments from the date of application for registration.

Applying for the exclusion

Build-to-rent providers must apply to Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (**HUD**) to register build-to-rent land for exclusion from the interest limitation rules. Once approved, land will be recorded on a register of build-to-rent assets and relevant information will be shared with Inland Revenue.

You can find more information, including guidance on completing the application form, on HUD's website.

Saving Kiwis Newsletter – Better Times Ahead

The last 18 months in the property and mortgage markets have been extremely challenging.

Interest rates have soared on the back of the highest inflation in 32 years.

Auckland property prices have come down 23% from their November 2021 peak,

and new mortgage lending down around 50% from 2021. Unprecedented and unpleasant times for many homeowners, indeed.

Market sentiment on the improve

But at last, some good news. House prices look to have bottomed out, and the Reserve Bank (RBNZ) has said there will be no further increases to the OCR.

Over the last 12 months or so, FOOP – fear of overpaying – has dominated buyer decision-making, and rightly so. High interest rates and tougher borrowing conditions have hit the lending and property market hard after a couple of decades of largely smooth sailing.

While prices are still 20% above pre-Covid levels, for homeowners who bought in late 2021 and the first half of 2022, it's been a tough double whammy of lost equity and ever-increasing mortgage repayments.

Now it seems the worst is behind us, and a familiar set of circumstances is forming as immigration ramps up, construction lags, and a shortage of new housing stock increases competition. Some of the early signs that price increases are getting closer.

More good news is that prices are not going to go crazy once spring arrives and more stock hits the market. The RBNZ is absolutely committed to getting inflation under control, so we're expecting meaningful rate relief to occur only around the middle of 2024. High interest rates will continue to restrict lending amounts and hold borrowers back from getting too excited and paying too much, so any rebound shouldn't get too frothy.

Why will the next cycle be different?

The last boom was created largely by the overly stimulatory monetary policy of Covid times, with interest rates dropping into the low two percents. What was supposed to be helping the economy through a difficult time ended up creating a housing bubble and laid the foundations for the inflation battle we're all in the middle of now.

This next cycle, the RBNZ and the government will be very cautious about letting property prices get away again. New regulation, mainly the Responsible Lending Code and, to a lesser extent, the Credit Contracts and Consumer Finance Act

(CCCFA), will make access to finance much more restrictive in the years ahead, which will be critical in keeping the market under control.

Migration, construction, and the election will be the next hot topics

The headlines of late have all been about inflation, rates, and falling house prices. Over the next 6 to 12 months, we'll see a focus on the need for more houses to be built to meet the needs of our growing population. This will put upward pressure on rents and house prices once again if the market and the government can't stay ahead of the demand.

Speaking of government, it looks increasingly likely that we may have a National-led government come October. If that happens, it would provide a boost for the property market, as National is expected to reintroduce interest tax deductibility on rental properties and reduce the bright-line test to closer to three years. This would bring investors back to the market, which would create further demand – more good news for the property and lending markets.

Nevertheless, price increases are expected to be modest through 2024. Depending on which chief economist you listen to, prices are expected to go sideways or possibly dip a little more this year and then increase by around 7% by the end of 2024.

A combination of falling inflation, lower mortgage repayments, and some modest increases in house prices is going to make 2024 a much better year!

Something to look forward to!

Thanks from the Saving Kiwis Team

Nick, Kurt, Deb and Lorry