

Property BULLETIN

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Welcome to our August/September edition of our property bulletin. We are now seeing the other side of the winter months with listing numbers and appraisal figures starting to increase both well ahead of last year's figures. With the election upon us soon, the possibility of lower interest rates, inflation at zero, property is still the place for your money to be as a long term investment with conservative lending. Feel free to give either Evan or myself a call for top advice on the purchase or sale of your home.

**Regards Malc Morris
and Evan Tomuri**



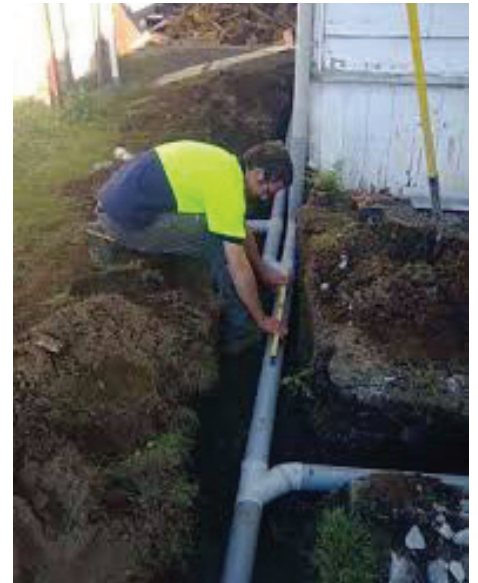
Refinancing / Buying a Property

In the new employment environment of today, most people start a job with a 3 month trial period. The banks don't seem to like this situation so if applying for a mortgage it may be a good idea to sort a house shift or purchase either before you switch jobs or after your trial period has finished. This can save you from the embarrassing situation of being turned down for finance when you find the house of your dreams!

Drainage Laterals – no change at WCC!!

In a follow-up to an earlier article we wrote back in our blog in May 2015 (see here*) there appears to be no change at the Wellington City Council with each respective homeowner still responsible for the maintenance and replacement of any sewerage and stormwater lateral that extends past the boundary of their property to the connection to the council pipe. It is estimated that there is approximately 215 kms of this piping. When I first wrote about this in 2015, the council was keen to take the liability back in-house in the 2016/2017 annual plan and for good reason. There were at the time a couple of high profile cases in the paper highlighting the issue and the quite extensive cost that the homeowner can be lumbered with if they find themselves in this situation.

In an update from a councillor in June 2017 it now appears that there has been no change to the current situation with the council. "It will be reviewed again after July 2017 when the council again assesses its long term plan which looks at any major changes to funding". My thoughts around this are the council may be struggling with not only fitting it into the long term plan, but assessing what it will actually cost them to maintain and upgrade the laterals over time. I am advised by plumbers that the overall condition of them is not good given our topography, tree growth and the existing



apathy of owners to maintain them since the responsibility went back to the homeowners in 2005. There are a number of ways to check the condition and assess the potential for problems moving forward. It is surprising how few owners actually know where their drains are located. A quick search at the council offices or online using the web map on the council website can help you to assess where your drains travel.

* <http://www.malcormorris.co.nz/blog-channel/>

EQC Levy to Increase

In the 2017 Budget, the government announced the EQC levy is to be increased from 15c to 20c per \$100 of home insurance cover. The maximum that homeowners have to pay will rise by no more than \$69.00 with the cap increasing from \$207 to \$276 including GST.

The reason behind the increase is to build up the Natural Disaster Fund which has been depleted by the recent Canterbury and Kaikoura earthquakes.

The increase will take effect on 1 Nov 2017.

Without the levy increase Gerry Brownlee the Minister Responsible for EQC says it would take more than 30 years for the Fund to reach the point where it could cover the \$1.75 billion excess of this cover. With the new levy the Fund will be restored within 10 years.

Brownlee also assures us that the EQC has a Government guarantee, "so homeowners will be covered if there is another natural disaster".

This 33% EQC levy increase is in addition to a 39% increase in the levy people with home, contents and car insurance started paying from 1 July this year to fund Fire and Emergency New Zealand (FENZ).

This levy was bumped up from 7.6c to 10.6c per \$100 of sum insured, with the cap extended from \$76 to \$106.

So by the end of the year, insured homeowners could pay up to \$382 in EQC and FENZ levies – a \$99 increase from the previous year. This is not to mention higher FENZ levies on insured cars and contents.

Debt to Income Ratios

The Reserve Bank released on the 8th June (see here*) a consultation paper about Debt to Income Ratios and is seeking feedback from stakeholders about adding it to its macroeconomic prudential toolkit. Submissions close on 18th August 2017

Put simply, a debt to income ratio (DTI) is a way of measuring your ability to service a mortgage against the income you earn.

We already have loan to value ratios LVR restrictions in place but these are really used to reduce the risk to the stability of the financial system overall. The increase in borrower leverage has gone hand in hand with significant increases in house prices, especially in Auckland. LVRs therefore relate mainly to only one dimension of housing loan risk.

The other key component of risk in the financial system relates to the individual borrower's capacity to service the loan, and this is best represented by DTI ratios. Several countries have implemented DTI ratios over time with the Bank of England currently running a DTI of 4.5 times (with banks having no more than 15% of their lending above that level and then only to owner occupiers), and Ireland with a DTI of 3.5 times (with banks having no more than 20% of their lending above that level and then only to owner occupiers). It has been suggested that if a DTI was implemented in NZ it would probably have to be in the range of 5 to 7 times the borrower's earnings.

Topics discussed in the report include:

- the risks posed by high-DTI lending and the potential for a DTI limit or similar policy to mitigate those risks;
- alternative policies under the Reserve Bank's control and how they would compare to a DTI limit;

- desirable design features for any DTI policy and the potential costs and benefits.

The consultation paper outlines the Reserve Bank's view on these issues. The Reserve Bank has said it would not implement a DTI policy in current market conditions, but that it considers it could be a useful option in the future. The consultation paper includes a cost-benefit analysis considering the potential costs and benefits of implementing a DTI policy and finds there could be significant net benefits.

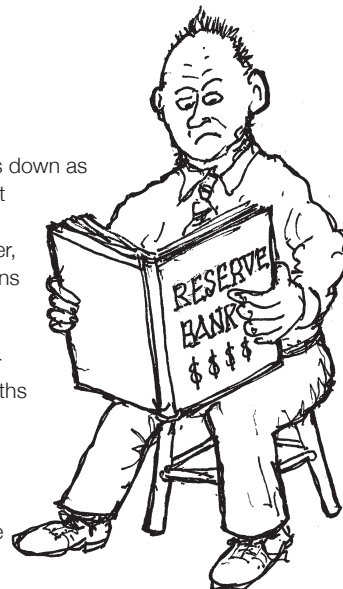
The Finance Minister and the Reserve Bank have signed a Memorandum of Understanding (MoU) that governs the use of macro-prudential tools. This MoU sets objectives for and requires accountability around the use of the tools. The introduction of DTI limits would require the MoU to be amended.

In 2016 the Reserve Bank formally asked the Finance Minister for the DTI policy tools to be added to its Memorandum of Understanding on macro-prudential policy. Steven Joyce, the Finance Minister, has since said that there would be no consideration of the likely implementation or addition to the MoU until after the election on 23rd September. His comment read; "I have decided that, consistent with good regulatory principles, a full cost-benefit analysis and consultation with the public should occur before I consider whether to amend the Memorandum of Understanding (MoU) on Macro-Prudential Policy."

Hence the DTI submission process now seems to be a part of this process as the Reserve Bank seeks feedback as an initial stage to get the policy option included into the MoU.

The Finance Minister in recent speeches has not mentioned much about the DTI's but has been consistent about the perceived need to

get land prices down as a means to get house prices down. However, sales of sections in Auckland have actually increased over the last 6 months and have held up better than housing sales in Auckland because of the higher ratio of lending available to new construction.



Asked at the announcement of the consultation process under what circumstances a DTI tool would be used, Graeme Wheeler, Governor of the Reserve Bank, said, "If we were in a situation where we saw house price inflation start to pick up again and we also had debt-to-income ratios starting to increase again like they have over the past three years. So if they continued to rise, or even remained at high levels, while house price inflation was resurgent again, then they're the sorts of things that we would look at."

I can't help but think things may have been different if we weren't in an election year with property prices a hot topic at the moment. It is interesting how the banks have changed their stance since the DTI's were first mooted, being a lot tougher on people applying for finance now than they were pre June 2016. If the market picks up again to the extent we saw in 2015-2016 DTI's will certainly be on the table for discussion.

* <http://www.rbnz.govt.nz/news/2017/06/debt-to-income-limit-consultation>

Search hard for the best financing deal – it's worth your while!

Speaking to a mortgage broker recently he confirmed that banks are offering cash incentives to secure new mortgage business. Yes, most banks are giving cash for new clients (not, however, if you are re-fixing a loan at your existing bank). The amount offered varies considerably between banks. I heard of a finance deal recently where a client was offered \$8,000 for a \$800,000 refinance, however another bank would only give \$3,000 for the same deal.

The answer is to shop around when refinancing or buying a home as it is well worth it.

Unfortunately it seems that your existing mortgage provider may not offer you as good a deal as a competing bank who sees you as new business. My experience of dealing with banks is that you quickly get into a vacuum, as it is so easy paperwork-wise to reset your rate or refinance through your existing bank. The bank is well aware how much paperwork is involved in refinancing with another bank and knows it is "hard to walk off the lot". They also have a great head start in the knowledge of your timing so get some help early and be informed so you make the best choice.

I have always advocated the use of a good mortgage broker who knows the market, is efficient and usually can get you a better deal even from your existing bank.

Another important advantage of a mortgage broker is around building disclosures made to the purchaser and how they are navigated by the broker. Experienced in these issues, a good broker usually has a solution-based approach with issues such as old wiring, wooden piles, or other defects. Quite often presenting a solution to the mortgagor around these issues, in conjunction with the selling agent, can be so much easier than just you dealing with a bank directly.

With the advent of incentives, inflation at zero and most banks predicting now that the Reserve Bank won't touch the OCR till late 2018, I think we are going to see a bit of downward pressure on mortgage rates but only time will tell.



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