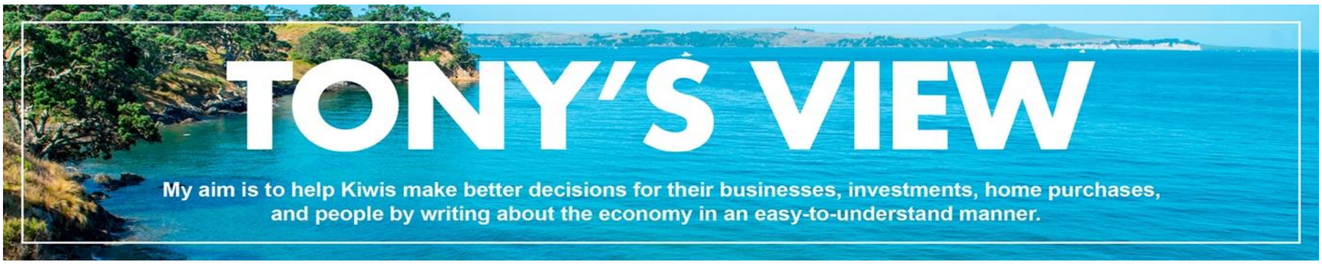

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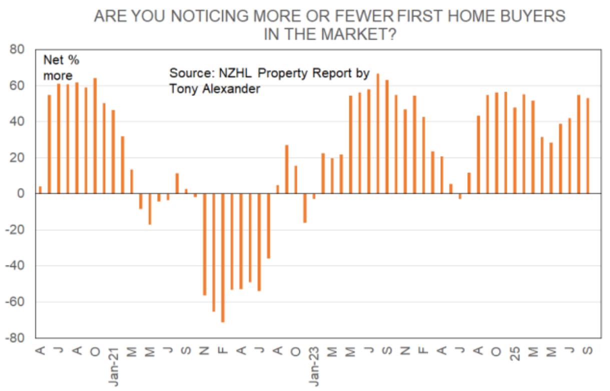
Summary of my surveys

October is almost over, and I've completed the five surveys I run each month so let's recap the main insights provided.

First, in the real estate sector from my survey with NZHL there is mild upward momentum but still a lot of caution from buyers. A net 32% of agents say that more people are attending open homes and that is well away from the net 16% in April who said that fewer people were out and about. All good.

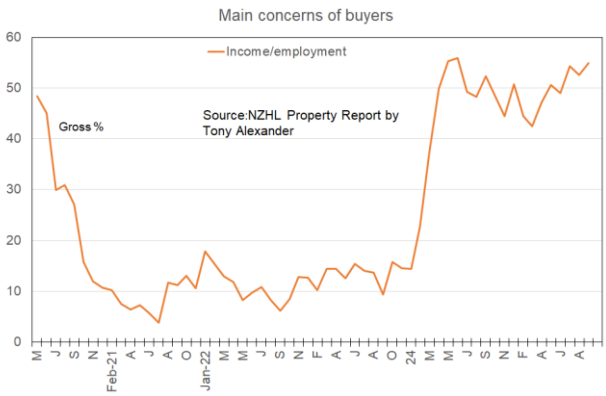


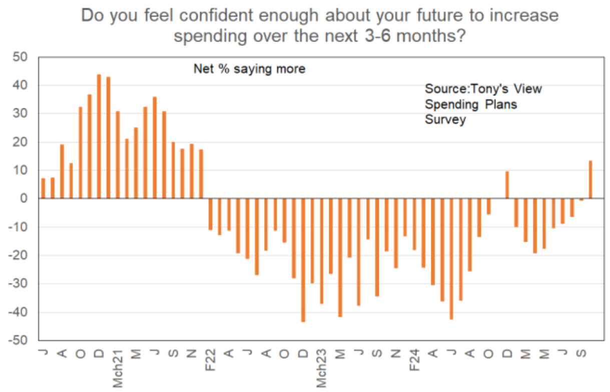
However, while a net 53% say there are more first home buyers in the market only a net 7% say that there are more investors. The low activity of investors helps explain the likes of data recently released by Cotality showing a record 28% of home purchases are being made by first time buyers. It has not been accurate for a long time to say that young people cannot afford to buy a home in New Zealand.

Young people have been taking advantage of the plethora of listings, lower prices, little competition, and accumulated savings to make purchases perhaps long delayed by the previously rampant market.

An important point to note is that first home buyers became dominant well before interest rates started falling in August last year – almost a year and a half before in fact.

A net 11% of real estate agents still feel that house prices are falling and for the near future upward price momentum is likely to be limited by high job uncertainty. A near record 55% of agents say that people are worried about their incomes and until that changes we probably won't see much extra activity by owner occupiers looking to buy then sell or sell then buy.





Fortunately, when I look deeply into the results of the business survey run with MintHC I can see some signs of the labour market improving. There is a lift underway in the proportion of businesses planning to spend more on recruitment. Job ads also look to be starting to improve.

But these are very early days in the labour cycle, and it will probably not be until the middle of next year that we get solid evidence of the labour market improving in New Zealand. Having said that, the weak migration numbers could easily scare businesses into extra labour hoarding and earlier than currently planned recruitment efforts. There is a risk of labour shortages appearing again quite early in the upturn.

From my Spending Plans survey we can see that the plans of consumers to spend are improving quite firmly. A net 13% of us now plan to buy more things in the next 3-6 months whereas in April a net 18% planned buying less stuff.

This is important because 65% or so of spending in a modern economy like ours is undertaken by consumers and for the pace of economic growth to get cranking people have to open their wallets. We are not there yet but the direction of travel is good.

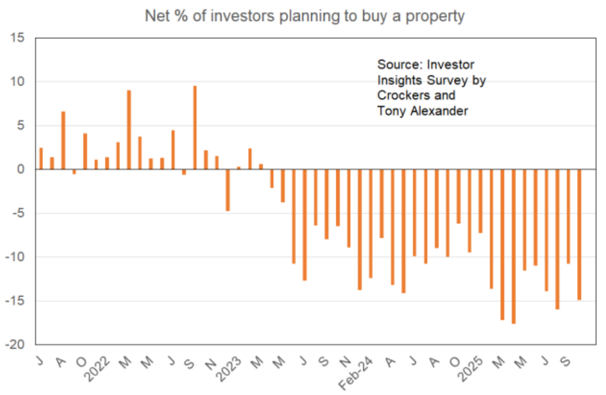
From my survey of mortgage brokers with mortgages.co.nz we can see further evidence that first home buyers are strongly in the market with a net 33% reporting they are seeing more. But only a net 14% say that there are more investors looking for advice.

Finally, there are the results released this week from my survey of existing residential property investors undertaken with Crockers Property Management. A near record net 39% of investors say that it is hard to secure a good tenant whereas

18 months ago a net 27% said it was easy. The market has firmly turned in favour of tenants.

This is manifesting itself in slowing rents growth with the average rise landlords say they will seek in the coming year falling to 3.8% from 4.4% a year ago and 6% late in 2023.

And again we have evidence of only weak investor demand for making a fresh purchase – which has sought of been the point of most of the policy changes enacted by governments in recent years.



Labour's first new tax

Which brings me to Labour's promise that if elected to govern (along with the Green and Maori parties) in next year's general election they will introduce another tax. They plan taxing all capital gains upon the sale of all commercial and residential properties which are not the family home after July 1 2027. The calculations will be from then and not retrospective.

Apart from saying the tax is to pay for three free doctors visits for people like me who don't need or expect such a subsidy, they believe it will lead to capital being directed towards productive activities – seeing that building houses is apparently a very unproductive thing to do for the country's population.

Presumably they expect that effectively introducing a brightline test of 100 years will help constrain house price levels. That is likely to be the case. However, the magnitude of restraint is unlikely to ever be noticeable if Labour do get the chance to implement this first of their tax policies.

That is because there is already well underway a movement of average people at the margin away from residential property investment. I have strongly highlighted here in recent years the many factors in play and here are some of them again.

The costs of running a rental property business have risen sharply courtesy of soaring council rates, insurance premiums, and maintenance costs.

Interest rates were on a structural/secular decline for almost three decades from 1992 ending in 2021. As they were falling this gave an incentive to people to invest in other assets such as shares and property and this imparted extra upward pressure to the prices of those assets. That process has now ended and that means average capital gains going forward are likely to be 1% - 2% less per annum than people had got used to.

I think many people have accepted this and this has already affected their investment and increasingly divestment decisions.

The government has introduced policies which are making more land available for residential development and allowing greater housing density in certain areas. The supply response of the market to housing demand has been improved and this will contain prices.

Purchasing a residential property investment has already gone off the radar for many people. Not those who have done it for years as perhaps their parents did, but for the great unwashed who only bought because they figured they were stupid not to do so

They kept seeing stories of people making more from houses than their employment and were taught to fear that prices would keep escalating – so buy now before you'd not be able to at all.

I suggest that those fear of missing out or fear of regret emotions have by and large gone. That means very few inexperienced people will now gear themselves into property as they would have otherwise done.

It is into this situation that the new brightline test 28% tax falls. A shift has already occurred with more to come. The marginal impact of Labour's latest tax then will be very minor and perhaps never noticeable on house prices at all.

If I were a borrower, what would I do?

Wholesale interest rates this week have ended at their highest levels since a month ago. The one year swap rate for instance is near 2.44% from 2.37% last week and 2.53% a month back. The three year rate is near 2.76% from 2.59% last week and 2.78% four weeks ago.

The rate rises have been driven by a slight lift in bond yields in the United States on the back of some better hopes for growth as tensions cool with China over trade matters, plus a selloff in the Aussie bond market.

The monthly inflation number released yesterday in Australia was higher than expected and doubts are growing that the RBA will be able to cut interest rates much more from the current cash rate level of 3.6%.

Plus also I wonder if people are starting to question how NZ inflation can fall and comfortably stay at 2% as predicted by the Reserve Bank when the GDP growth rate goes from -1% to near +3%. It doesn't add up and perhaps emerging signs of weakness starting to end in the labour market are acting as a bit of a trigger for questioning the ongoing disinflationary impact of current spare resource levels.

If I were borrowing at the moment, I would fix five years below 5%. The rate is good, and I would get great protection (again) against upside inflation risks which will emerge in NZ once growth really picks up.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.