



July 1st brings changes: What to expect

1. New Debt-to-Income (DTI) rules for banks on home lending.

Banks will need to follow the new rules from 1 July 2024, for home loans issued from that date onwards.

- Lending to be restricted to 6x income for owner-occupiers and 7x for property investors.
- Calculation includes household income and rental income for investors. Existing debts and property yields impact borrowing limits.

DTI Example:

Household with a total annual income of \$120,000 and total debt of \$20,000.

If they borrow over \$700,000, they will be considered as high-DTI.

$$6 \times (\$120,000 - \$20,000) = \$700,000$$

More examples can be found <https://www.rbnz.govt.nz/education/explainers/dti>

Examples include: buying your first home, upgrading your home, topping up your mortgage, buying an investment property

2. Loan-to-Value (LVR) restriction easing.

- Tighter LVR rules lowering deposit requirements for investment properties. Investors will only need a 30% deposit to buy an existing property (instead of 35%).
- 20% for owner-occupiers

New builds are exempt from DTI and LVR restrictions.

3. Bright-line Test Changes

Effective from July 1, 2024, the bright-line test will apply only if a property is sold within 2 years of its purchase. Sales before or after this period can significantly affect tax obligations.

[IRD: Changes to the bright-line property rule](#)

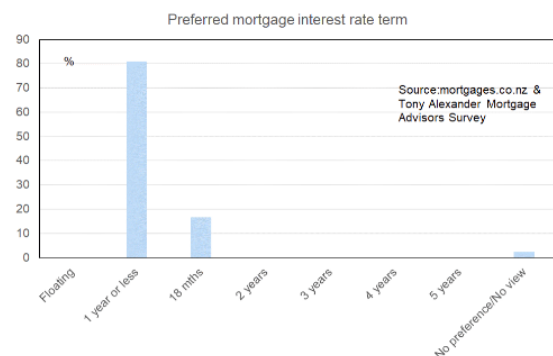
Insights from Tony Alexander Monthly Survey (June 2024)

Bank Lending Trends.

- First Home Buyers. Banks are making slight adjustments, such as considering boarder income for servicing and offering enhanced cash contributions for high LVR lending. However, buyer discomfort persists due to fears over interest rates and job stability, influencing purchasing decisions.
- Investors. Banks are cautiously adjusting to recent tax law changes, though significant shifts in lending practices are gradual. There's a consistent interest in rental property, but with a measured approach from lenders.

Interest Rate Fixing Preferences.

Majority of borrowers prefer short-term fixes (1 year or less), anticipating potential rate decreases in the near future. Only a minority opt for longer-term fixes, reflecting a desire to capitalise on future rate cuts.

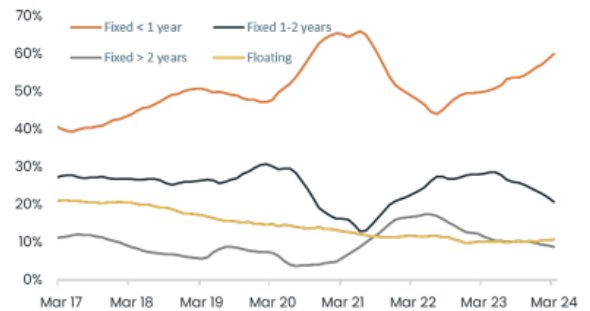


Update June 2024

June Housing Chart Pack highlights, CoreLogic NZ

- New Zealand's residential real estate market is worth \$1.63 trillion.
- A 1% increase in average property values over 12 months to May.
- Dunedin and Hamilton saw the strongest performance, with 2.1% and 1% increases respectively in the three months to May.
- May sales volumes increased for the 13th consecutive month.
- Total stock on the market increased by 15.8% compared to last year.
- National rental growth has slowed to 3.8% in the year to May.
- Gross rental yields remain at 3.2%, the highest level since late 2020.
- About 62% of New Zealand's current mortgages, by value, are set to reprice onto higher rates within the next 12 months.
- Inflation has passed its peak and the Reserve Bank will wait to see the effects of the final 5.5% OCR for this tightening cycle.

% share of existing loans on various terms to repricing



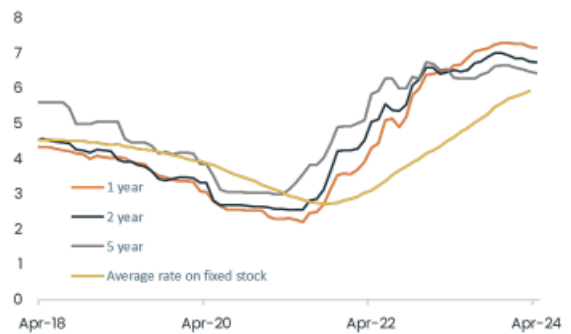
"Given that inflation now seems to have passed its peak, the Reserve Bank appears happy to sit back and judge the effects of a 'final' OCR peak of 5.5% for this tightening cycle. In turn, mortgage rates are now very close to, or already at, their peak. To be fair, they may not fall materially over the next 6-9 months either, but at least households can now quantify their 'worst case'."

Official cash rate and 1-year special fixed rate



Source: Reserve Bank NZ

Current special mortgage rates and average on existing stock



CoreLogic

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*None of the above is intended to be financial advice so please discuss your situation with a financial adviser at Vega for your personal options.

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