



NZ Residential Property Investment

Prepared for ANZ Bank in association with the NZ Property Investors' Federation





Background

The ANZ Property Investment Survey has been running for over 10 years. The survey is run in conjunction with the NZ Property Investors' Federation (NZPIF).

The survey acts as a barometer for the property investment market in New Zealand and also measures the impact of specific market and regulatory changes that may be occurring each year. The survey covers:

- ▶ Annual tracking of property investor strategies and purchase intentions.
- ▶ Annual tracking of property investors expectations for the market and changes in their portfolios.
- ▶ Understanding the role of financial institutions, property managers, the Property Investors Association and other key sources of property investment information.
- ▶ Understanding concerns property investors might face in the current market and specifically probing on changes in the market and regulatory environment that may impact them.

Updates to the questionnaire in 2017 included asking if investors had changed their investment strategy, and impact of RBNZ debt-to-income ratios.

This report details the analysis, findings and recommendations from this year's research.



Methodology

Online feedback from over 950 interviews with New Zealand Property Investors contributed to this report. The survey was in field from 7th to 27th August, 2017. Investors were invited to respond to the survey through the following channels:

Channel	Sample sourced
NZPIF distribution	362
Landlords.co.nz distribution	348
Refer a friend	6
ANZ Your Say	255

Consistent with 2016, investors within the Your Say panel tended to be smaller investors and their concerns, strategy and involvement in the NZPIF are reflective of this. Their responses have been reported separately than those sourced through the traditional channels used for this annual research. All other results in this presentation relate to sample sourced through traditional channels.

Investors were offered the incentive of one of five prizes of \$500 cash to complete the survey.

Weighting has been applied to the sample sourced through traditional channels to provide consistency in regional responses relative to previous surveys.

The median survey length was around 16 minutes.



2017 Highlights

PROFILE AND EXPECTATIONS:

Investor size continues to remain stable, with just over half of investors being classed as small investors.

Most investors continue to expect positive changes in rental income particularly over the medium term. Investors also continue to expect positive changes in their property value over the short and medium term. Investors expecting positive property value changes of 2.5%-10% in the short term remains high at 50% (62% 2016). **However there has been a drop in expectations across the board compared to 2016.**

Consistent with 2016, Canterbury investors have low expectations (32% vs 73% market) for rental income increases, particularly over the next year.

The percentage of investors who do not plan to purchase another rental property declined from 2011 – 2016, but stabilises in 2017. Almost 70% of investors now plan to buy again at some point.

INVESTOR CONCERNS:

Damage to property (net) and government regulations (net) are the top 2 concerns for investors in 2017. Loan to value ratios are the biggest regulatory concerns for investors.

The single biggest concern for investors is meth contamination with 48% of investors viewing this as a risk, an increase of 10% on 2016. This is of particular concern for ROSI investors with 66% saying this is a risk, however only 24% of Wellington investors say this is a risk.



2017 Highlights con't

FINANCIAL RELATIONSHIPS:

Preference for keeping all lending with a single provider continues to decline. Investors with larger portfolios and Auckland investors are significantly more likely to prefer multiple providers.

REGULATORY IMPACT:

47% of investors say that the limits on high Loan-to-Value ratio lending have significantly impacted on their strategy in the last 12 months. This is a significant increase on 2016 when just 31% of investors felt they had been impacted (and only 16% in 2015).

Along with the impact of these regulatory changes the continued increase in property values mean that investors feel their LVR levels have decreased. Only 13% of investors have an LVR over 75% versus 18% in 2015.

Around half of investors say debt-to-income restrictions would not change their strategy in the short or medium term. There is no difference across investor size or house hold income.



Investor Profile





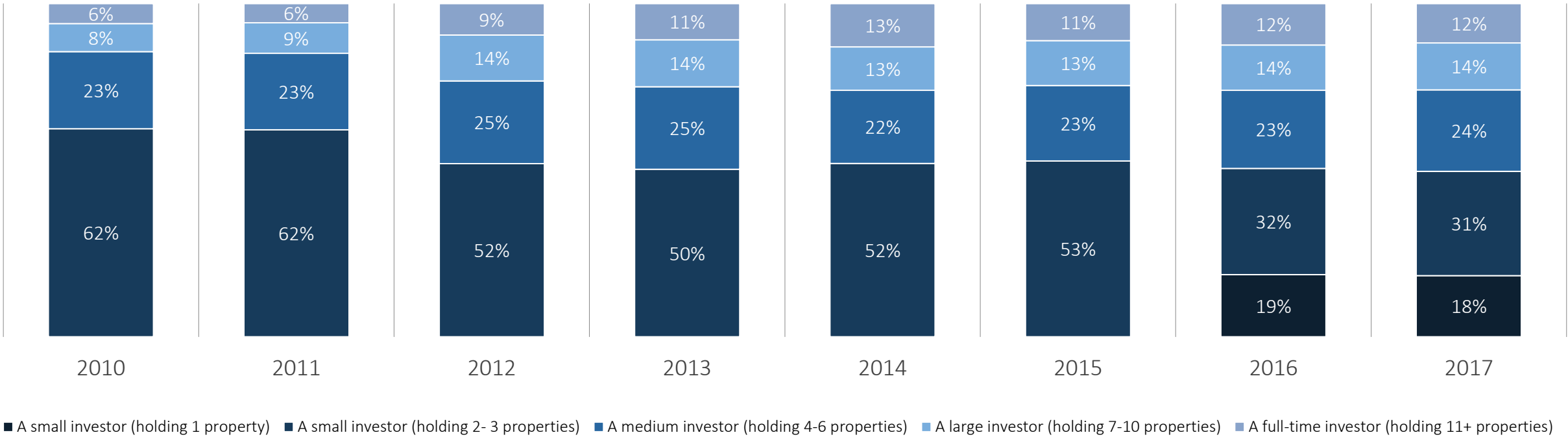
Investor Profile Overview

Investor size continues to remain stable, with around half of investors being classed as small investors. In 2017 a further breakdown of small investors shows around 18% hold a single property.

Ownership structure has remained stable, with owning property in their own name still the most popular approach for investors since the removal of LAQCs. Smaller investors are the most likely to hold property in their own name. Larger investors are more likely to hold their property in a Look Through Company or Family Trust.

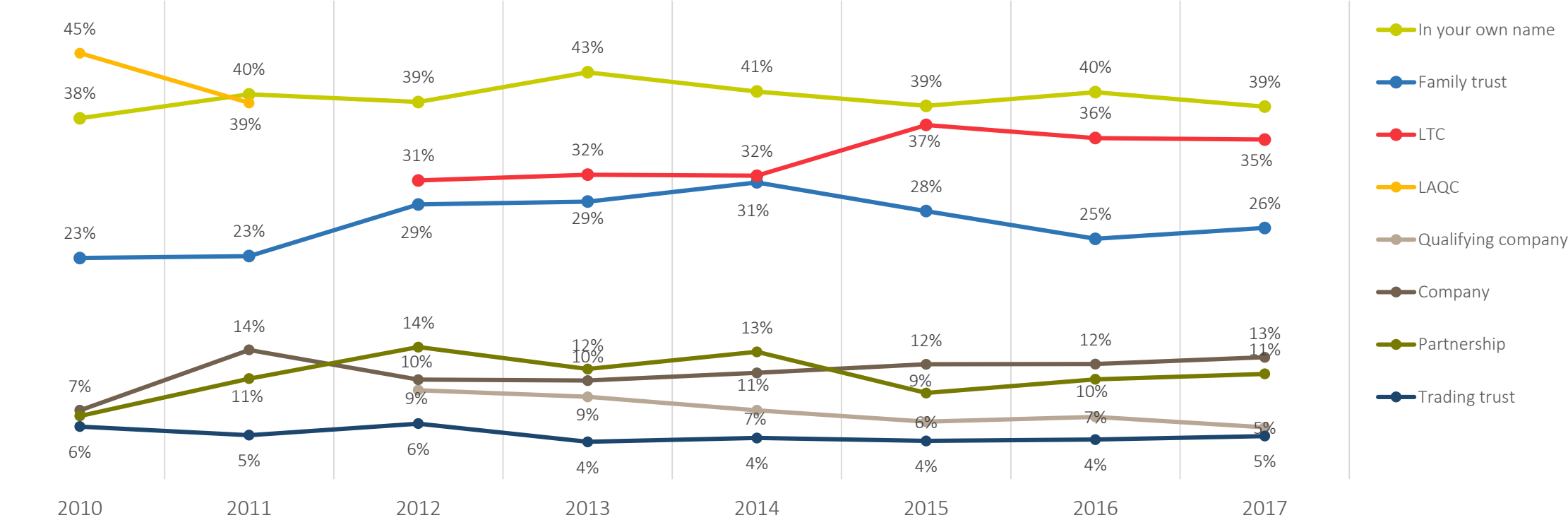
Waikato shows a significantly higher proportion of investment properties relative to the number of respondents based in Waikato. 12% of Aucklanders say they hold the majority of their investments in Waikato.

Investor size



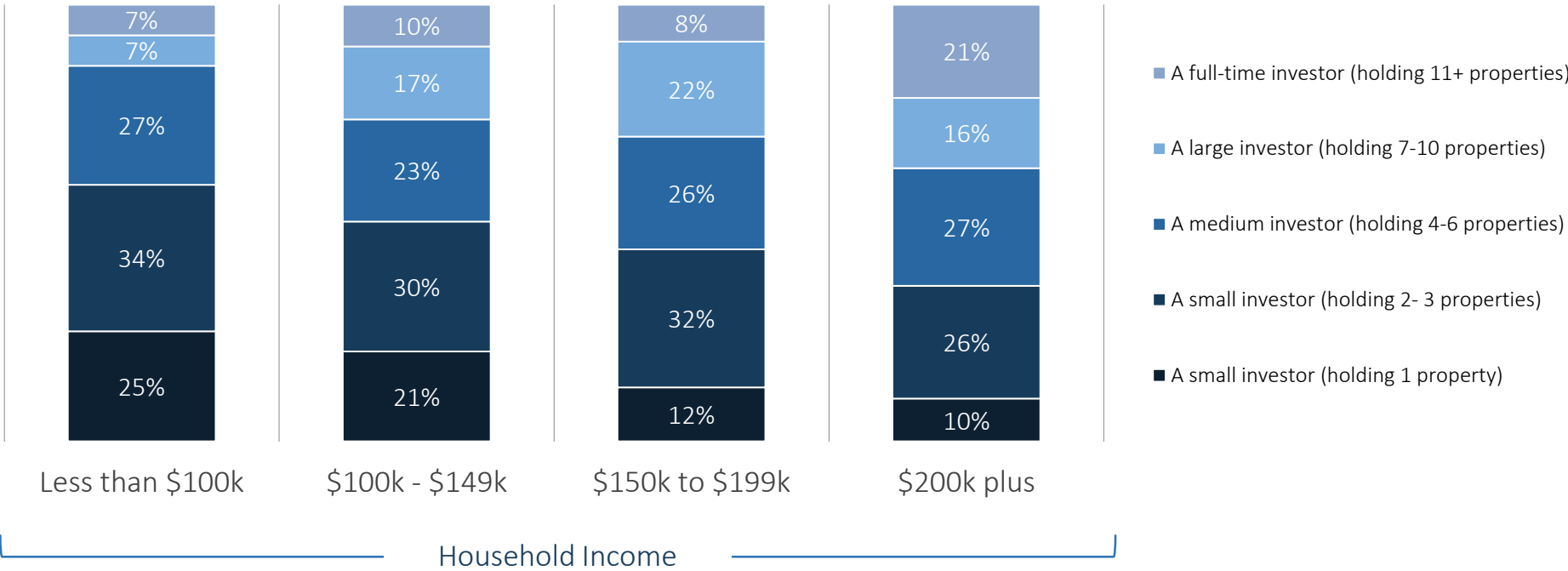
Investor size has remained stable over the last six years.

Ownership Structure



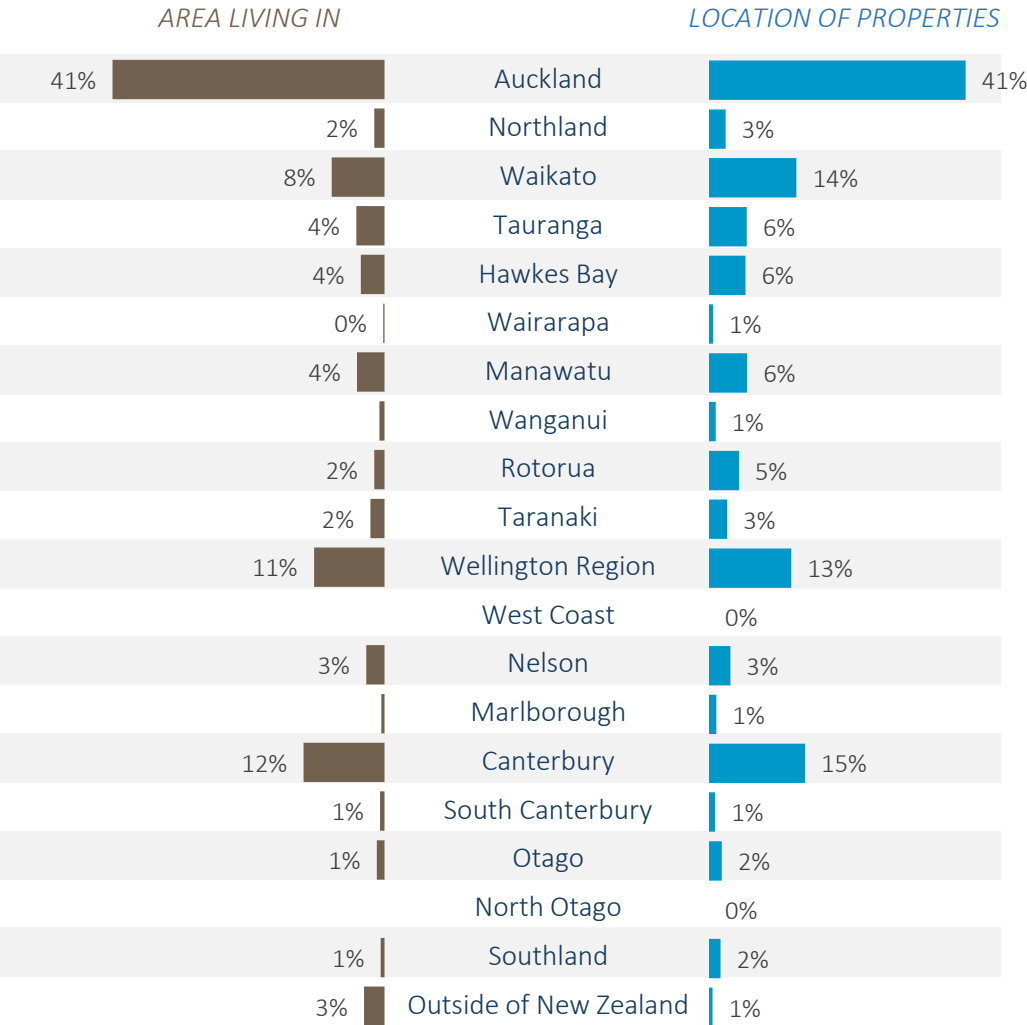
Ownership structure has remained relatively stable, with Qualifying Company declining further in 2017.

Investor annual household income



There continues to be a strong relationship between investor size and income with over 20% of full-time investors having a HHI of \$200k+

Profile of where properties are held vs where investors live



For most regions the profile of where investors live and where properties are held are similar.

Consistent with 2016, Waikato shows a significantly higher proportion of investment properties relative to the number of respondents based in Waikato.

12% of Aucklanders say they hold the majority of their investments in Waikato.



Expectations





Investor Expectations Overview

Expectations for rental income increases continue to remain lower than expectations for property value increases.

Most investors continue to expect positive changes in rental income particularly over the medium term, however there has been a drop in expectations across the board compared to 2016.

Investors also continue to expect positive changes in their property value over the short and medium term.

	Next year	Next 5 years
Rental income 2.5% or more	41% (53% 2016)	58% (65%)
Value increase 2.5% or more	56% (84%)	74% (82%)

Most of the country expect rental income to increase or hold steady over the next year (92%). Most Canterbury investors however expect rental income to hold or decline over the next year (68%).

Canterbury investors are however more optimistic over the medium term with 81% saying they think rental income will increase.

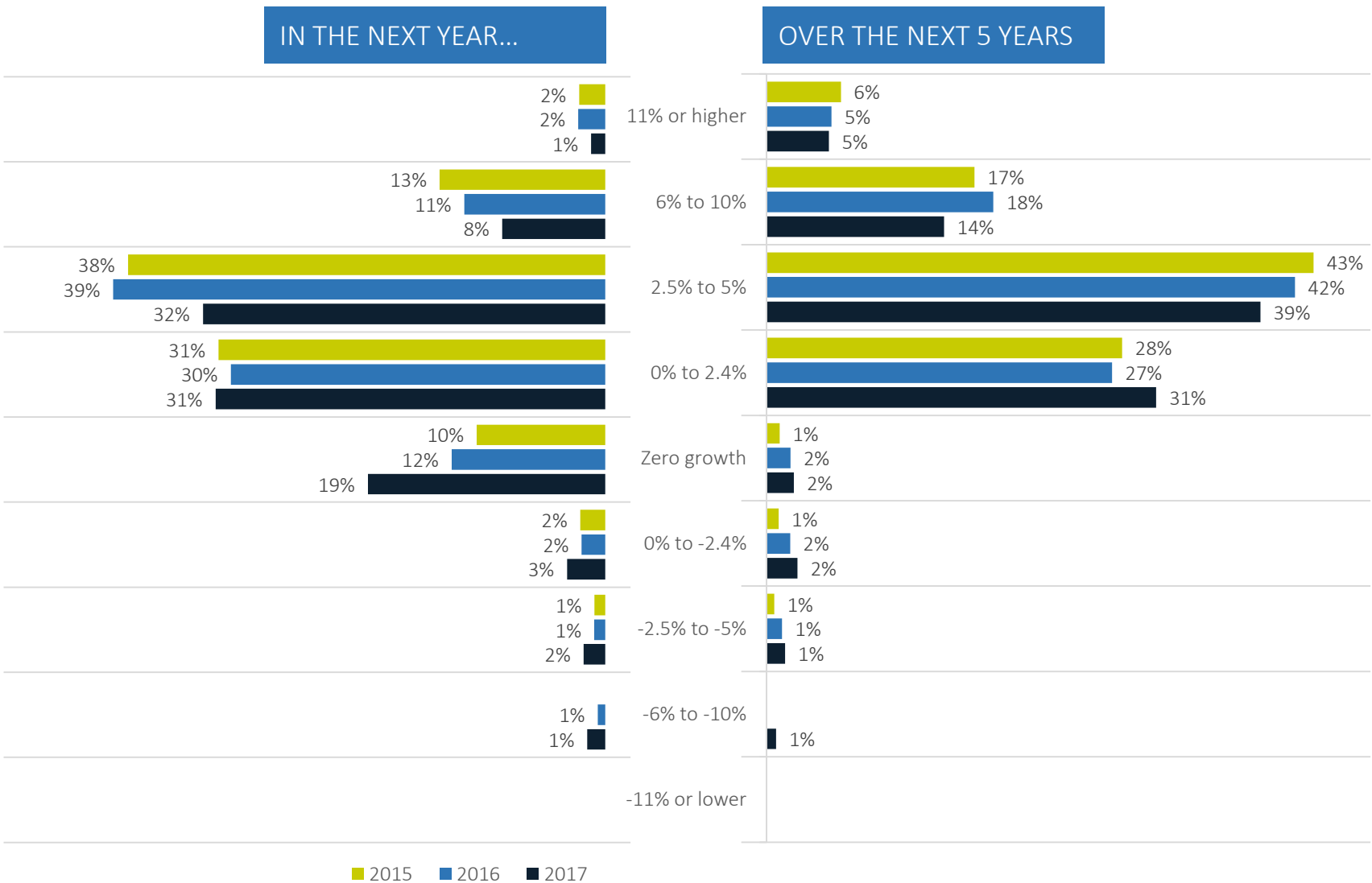
Canterbury investors are also the least likely to expect an increase in property values in the short term (59%). However, this improves over the medium term with 88% of Canterbury investors expecting values to increase.

Expected change in investment property rental income



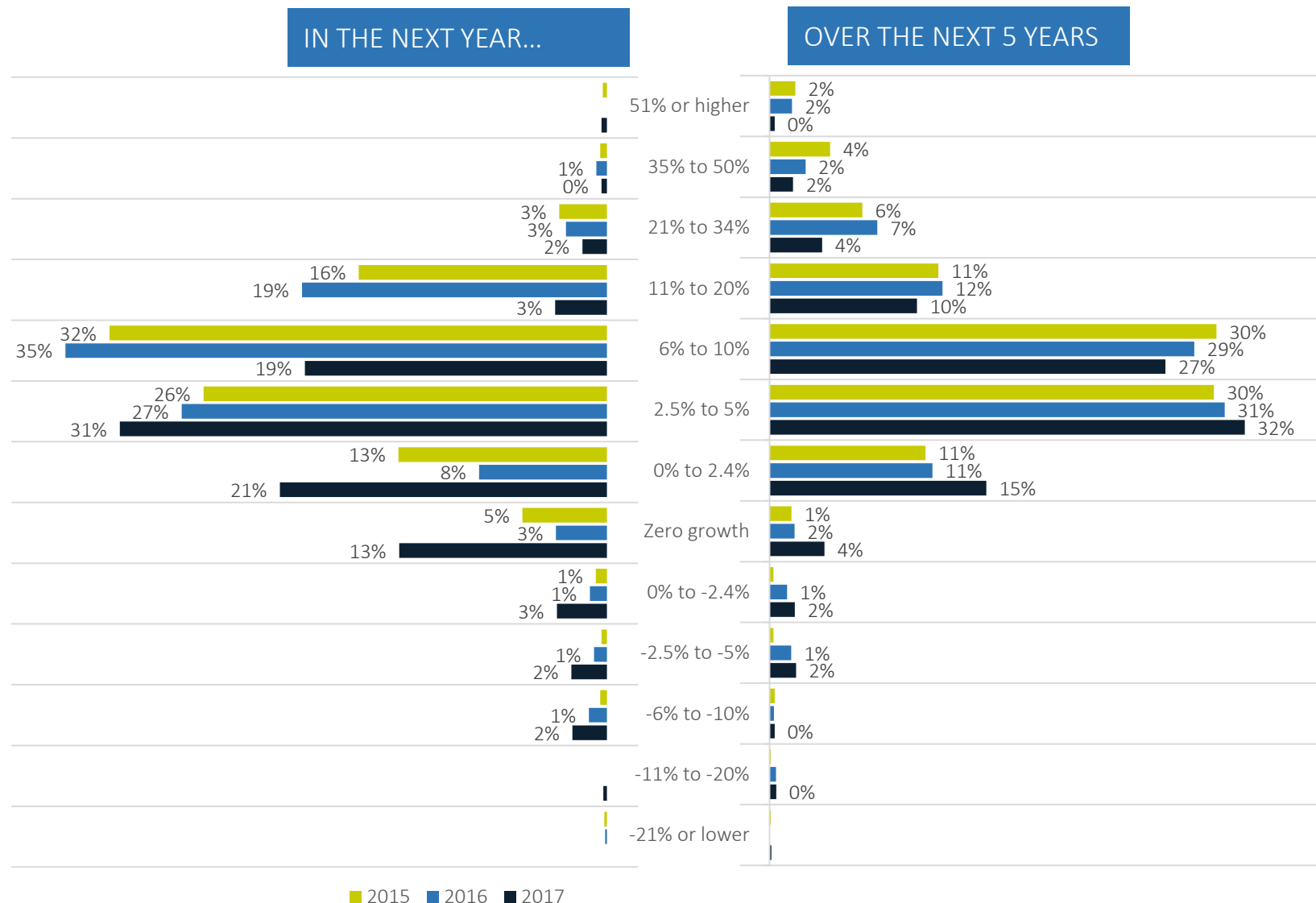
A significant change in expectations between 2016 and 2017 for investors expecting zero growth in the short term, and a reduction in expectations for higher rental income growth.

Most investors continue to expect positive changes in rental income particularly over the next 5 years, although expectations are reducing.



Expected change in investment property value

Once again investors continue to expect positive changes in their property value. However expectations are lower than previous years, with 13% expecting zero growth in the short term, and an increase in the number of investors expecting low growth in the short and medium term.





Expected changes in regional rental income

IN THE NEXT YEAR...

2016

	Auckland N=194	Waikato N=56	Wellington Region N=56	Canterbury N=114	Otago N=42	RONI N=130	ROSI N=66
% annual increase	90%	98%	79%	45%	83%	90%	80%
Zero growth	8%	0%	16%	38%	14%	7%	11%
% annual decrease	1%	0%	2%	17%	2%	2%	6%

2017

	Auckland N=183	Waikato N=71	Wellington Region N=95	Canterbury N=109	Otago N=14	RONI N=163	ROSI N=54
% annual increase	77%	79%	84%	32%	71%	80%	89%
Zero growth	17%	11%	13%	44%	29%	12%	6%
% annual decrease	4%	6%	2%	22%	0%	5%	4%

Most of the country expect rental income to increase over the next year. Apart from Wellington and ROSI investors, there has been an increase in investors expecting zero growth. Canterbury continues to differentiate, with most Canterbury investors expecting rental income to hold or decline over the next year.

OVER THE NEXT 5 YEARS

	Auckland N=194	Waikato N=56	Wellington Region N=56	Canterbury N=114	Otago N=42	RONI N=130	ROSI N=66
% annual increase	95%	95%	93%	84%	90%	95%	86%
Zero growth	1%	0%	0%	7%	0%	2%	5%
% annual decrease	3%	2%	4%	7%	7%	2%	8%

	Auckland N=183	Waikato N=71	Wellington Region N=95	Canterbury N=109	Otago N=14	RONI N=163	ROSI N=54
% annual increase	91%	89%	96%	81%	93%	88%	91%
Zero growth	1%	0%	0%	7%	7%	2%	2%
% annual decrease	4%	4%	2%	8%	0%	6%	6%

Canterbury investors are more optimistic over the medium term with 81% saying they think rental income will increase and only 8% expecting a decrease.

Expected changes in regional investment property value

IN THE NEXT YEAR...

2016

	Auckland N=194	Waikato N=56	Wellington Region N=56	Canterbury N=114	Otago N=42	RONI N=130	ROSI N=66
% annual increase	93%	98%	91%	88%	90%	93%	89%
Zero growth	2%	2%	5%	5%	0%	5%	5%
% annual decrease	4%	0%	0%	6%	7%	2%	5%

2017

	Auckland N=183	Waikato N=71	Wellington Region N=95	Canterbury N=109	Otago N=14	RONI N=163	ROSI N=54
% annual increase	74%	76%	89%	59%	86%	85%	87%
Zero growth	14%	11%	8%	29%	7%	7%	7%
% annual decrease	10%	10%	1%	10%	7%	4%	4%

Wellington investors are the most optimistic in the short term with 89% expecting values to rise in the next year. Canterbury are the least optimistic with 59% expecting values to increase.

This shows a similar profile to rental expectations, with an increase in investors expecting zero or negative growth.

OVER THE NEXT 5 YEARS

	Auckland N=194	Waikato N=56	Wellington Region N=56	Canterbury N=114	Otago N=42	RONI N=130	ROSI N=66
% annual increase	92%	96%	96%	95%	90%	93%	89%
Zero growth	2%	0%	0%	1%	0%	5%	2%
% annual decrease	5%	2%	0%	3%	5%	2%	8%

	Auckland N=183	Waikato N=71	Wellington Region N=95	Canterbury N=109	Otago N=14*	RONI N=163	ROSI N=54
% annual increase	87%	87%	94%	88%	93%	89%	94%
Zero growth	5%	3%	1%	6%	7%	2%	0%
% annual decrease	8%	10%	5%	6%	0%	9%	6%

However, over the next 5 years, 88% of Canterbury investors are expecting values to increase.

There is an increase across most regions in investors expecting zero or negative growth.



Strategy and Plans





Investor Strategy and Planning Overview

Holding for the long term remains the number one strategy across the country with renovations/develop and hold second.

The percentage of investors who do not plan to purchase another rental property has stabilised in 2017 after declining from 2011 – 2016. Almost 70% of investors now plan to buy again at some point.

Those most likely to purchase again are investors under 50 years old, those living in Auckland or Waikato, and those with higher HHI.

For those not likely to purchase in the next 2 years, regulatory changes, poor rental returns, insufficient deposit and can't afford to subsidise more properties are the main concerns.

20% of investors have changed strategy in the previous 12 months, with 25% more aggressive and 35% more conservative.

Damage to property (net), government regulations (net) remain the top 2 concerns for investors in 2017. Loan to value ratios are the biggest regulatory concerns for investors.

The single biggest concern for investors is meth contamination with 48% of investors viewing this as a risk, up 10% from 2016. This is of particular concern for ROSI investors with 66% saying this is a risk.

The chart displays four data series over time from 2010 to 2017. The top series, 'U.S. respects personal freedoms', remains consistently high, ranging from 86% to 89%. The second series, 'U.S. respects civil liberties', shows a general upward trend from 20% to 29%, with a slight dip in 2015. The third series, 'U.S. respects privacy', shows a slight increase from 8% to 13%. The bottom series, 'U.S. respects human rights', remains relatively stable, ranging from 7% to 9%.

Year	U.S. respects personal freedoms	U.S. respects civil liberties	U.S. respects privacy	U.S. respects human rights
2010	88%	20%	8%	7%
2011	86%	24%	8%	8%
2012	86%	26%	10%	8%
2013	87%	28%	11%	8%
2014	89%	28%	9%	8%
2015	88%	23%	9%	7%
2016	89%	29%	13%	9%
2017	88%	28%	13%	8%

Investor Category	Completed a course	Completed a course and passed	Completed a course and passed with a grade	Completed a course and passed with a grade and a certificate	Completed a course and passed with a grade and a certificate and a diploma
Small investor (1-3 properties)	86%	23%	10%	8%	6%
Medium investor (4-6 properties)	90%	30%	13%	11%	8%
Large investor (7-10 properties)	95%	33%	18%	16%	
Full time investor (11+ properties)	81%	41%	20%	16%	11%

Investor Strategy – Top 5

Holding for the long term remains the number one strategy across the country, and renovate/develop and hold remains number two.

AUCKLAND N=183	
Hold for the longer term	87%
Renovate/develop and hold	25%
Subdivide property, build extra and hold	17%
Add minor dwelling to main rental	13%
Renovate/develop and sell	6%

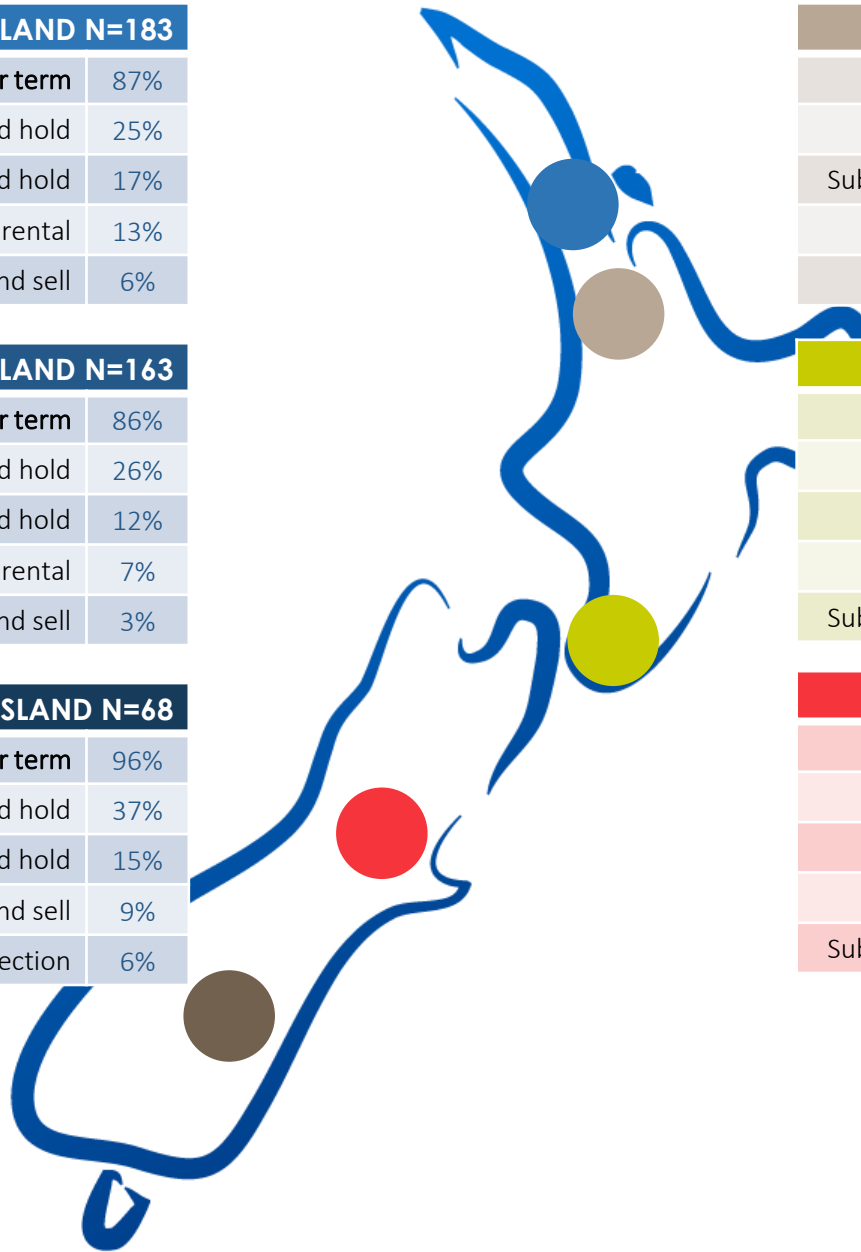
REST OF NORTH ISLAND N=163	
Hold for the longer term	86%
Renovate/develop and hold	26%
Subdivide property, build extra and hold	12%
Add minor dwelling to main rental	7%
Renovate/develop and sell	3%

REST OF SOUTH ISLAND N=68	
Hold for the longer term	96%
Renovate/develop and hold	37%
Subdivide property, build extra and hold	15%
Renovate/develop and sell	9%
Subdivide and sell extra section	6%

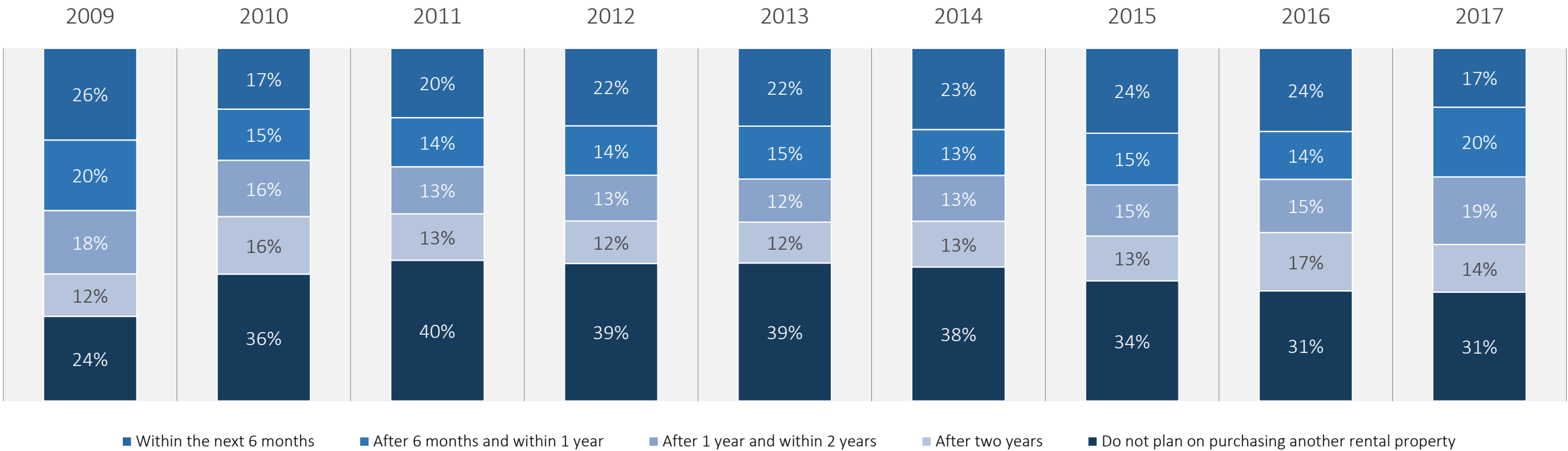
WAIKATO N=71	
Hold for the longer term	92%
Renovate/develop and hold	34%
Subdivide property, build extra and hold	18%
Add minor dwelling to main rental	13%
Renovate/develop and sell	7%

WELLINGTON N=95	
Hold for the longer term	86%
Renovate/develop and hold	35%
Renovate/develop and sell	8%
Add minor dwelling to main rental	5%
Subdivide property, build extra and hold	5%

CANTERBURY N=109	
Hold for the longer term	90%
Renovate/develop and hold	31%
Add minor dwelling to main rental	12%
Renovate/develop and sell	7%
Subdivide property, build extra and hold	6%



Investment property purchase

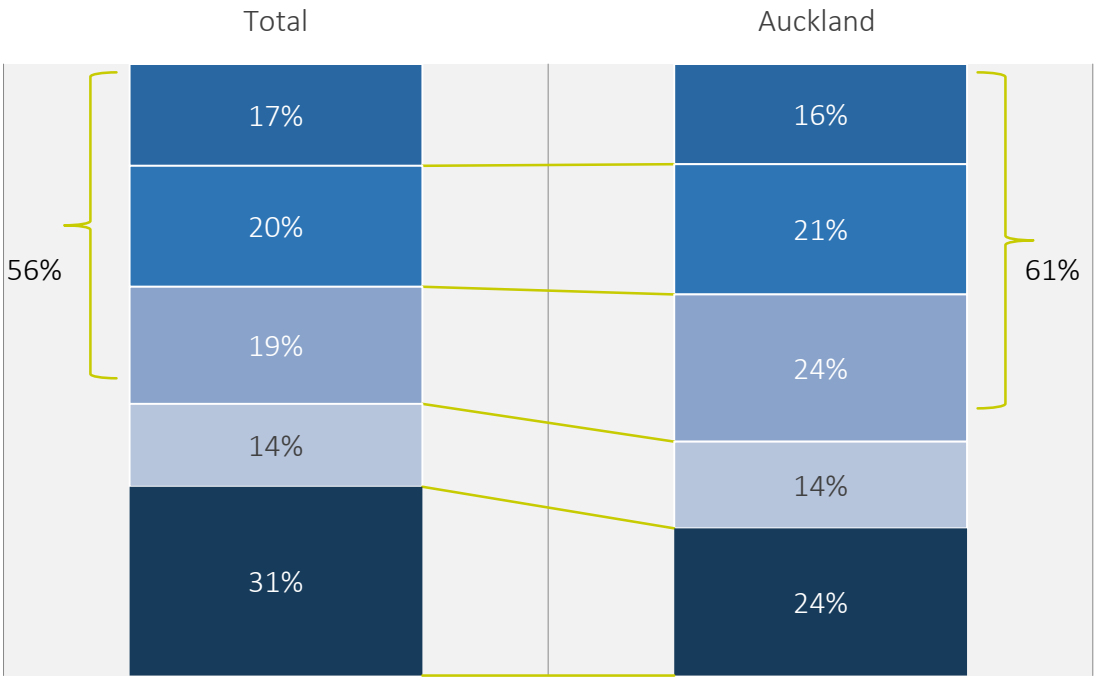


The percentage of investors who do not plan to purchase another rental property has stabilised in 2017 after declining from 2011 - 2016. Almost 70% of investors now plan to buy again at some point.

Those most likely to purchase again are investors under 50 years old, those living in Auckland and Waikato, and those with higher HHI.

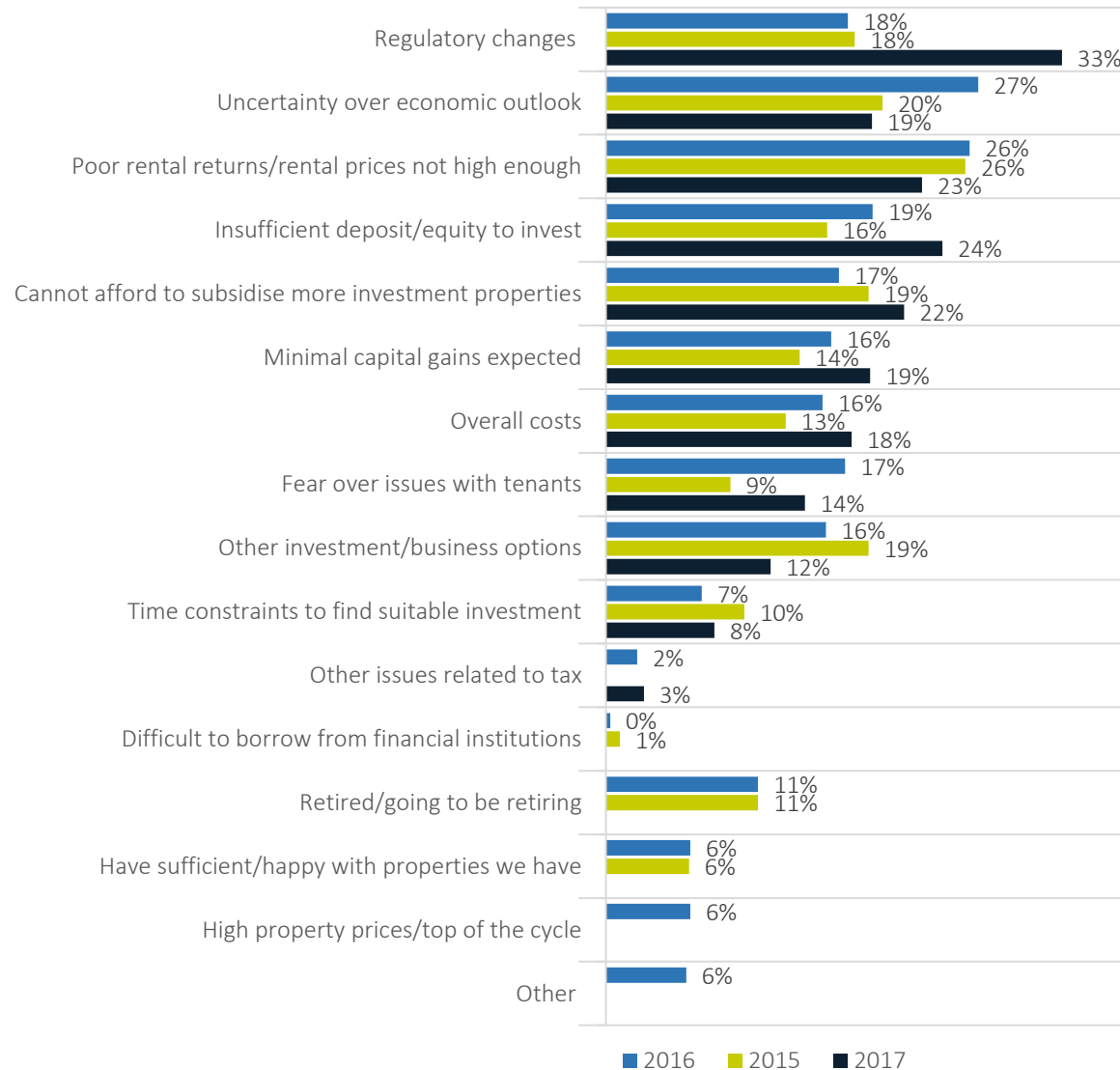
Investment property purchase

61% of Auckland investors plan to purchase again within the next 2 years. This is the highest of all the regions.

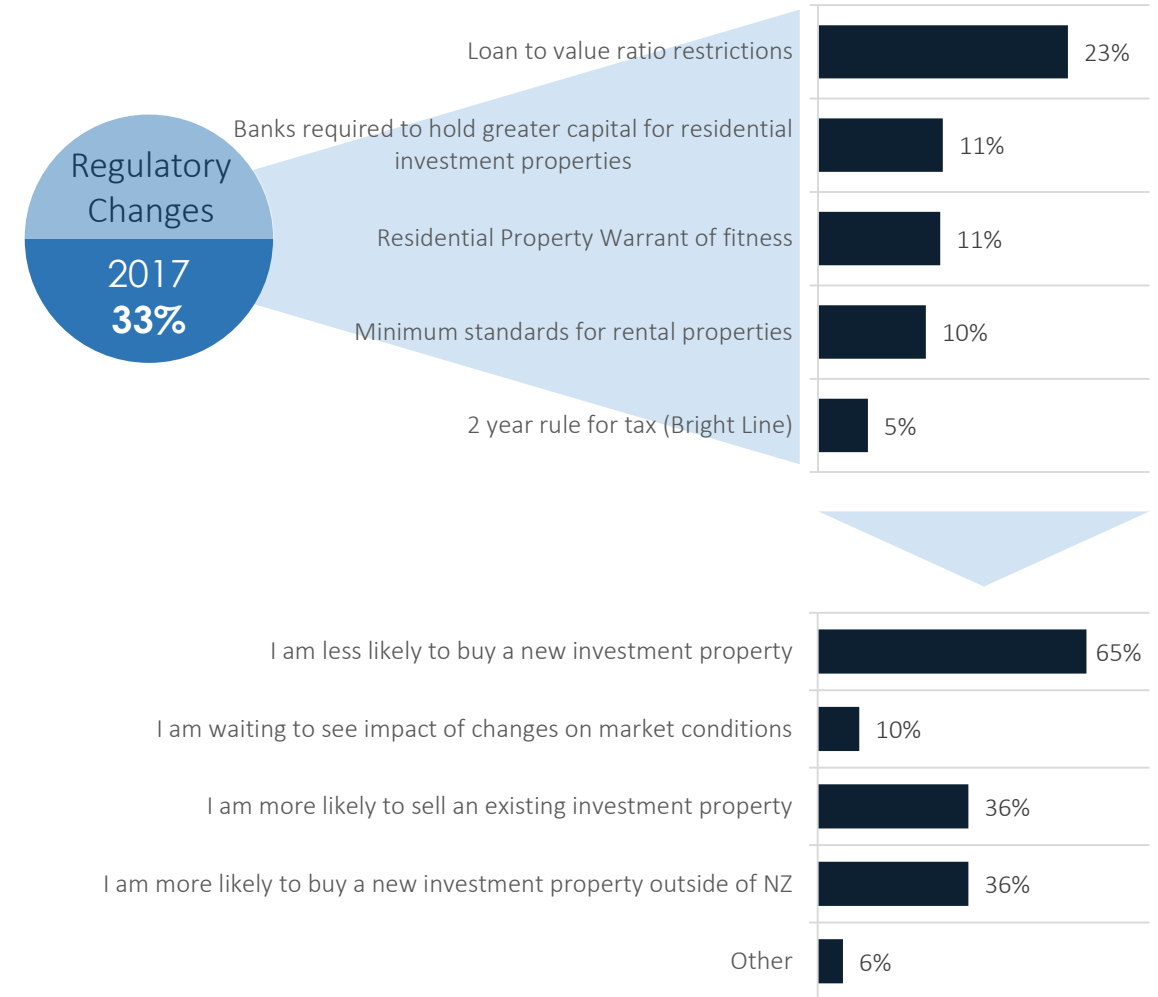


- Do not plan on purchasing another investment property
- After two years
- After 1 year and within 2 years
- After 6 months and within 1 year
- Within the next 6 months

Factors preventing purchase of further investment property



IMPACT OF REGULATORY CHANGES | 2017



Damage to property, government regulations, tax changes and tenants defaulting on payments are the top 4 concerns for investors in 2017.

Damage to property (net) returns to previous levels.

(Note: question changes between 2015 and 2016 mean results may not be directly comparable)

Concerns around interest rate volatility has increased to 14%, similar to 2015.



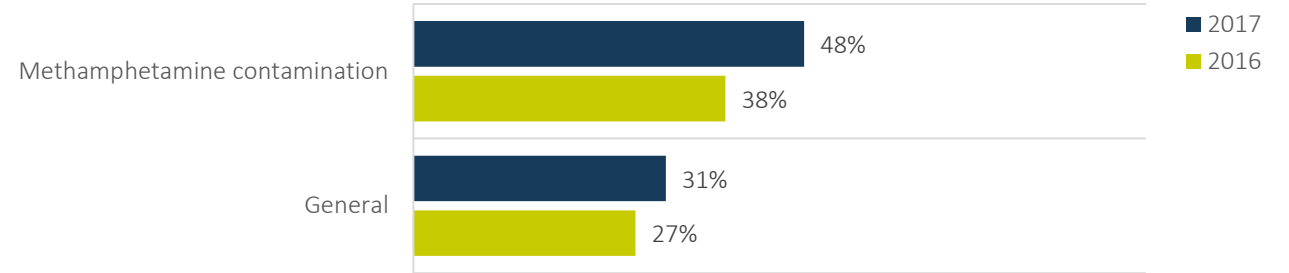
Property Investor Risks - Details

Methamphetamine (meth) damage is a major concern for investors, and increases 10% in 2017.

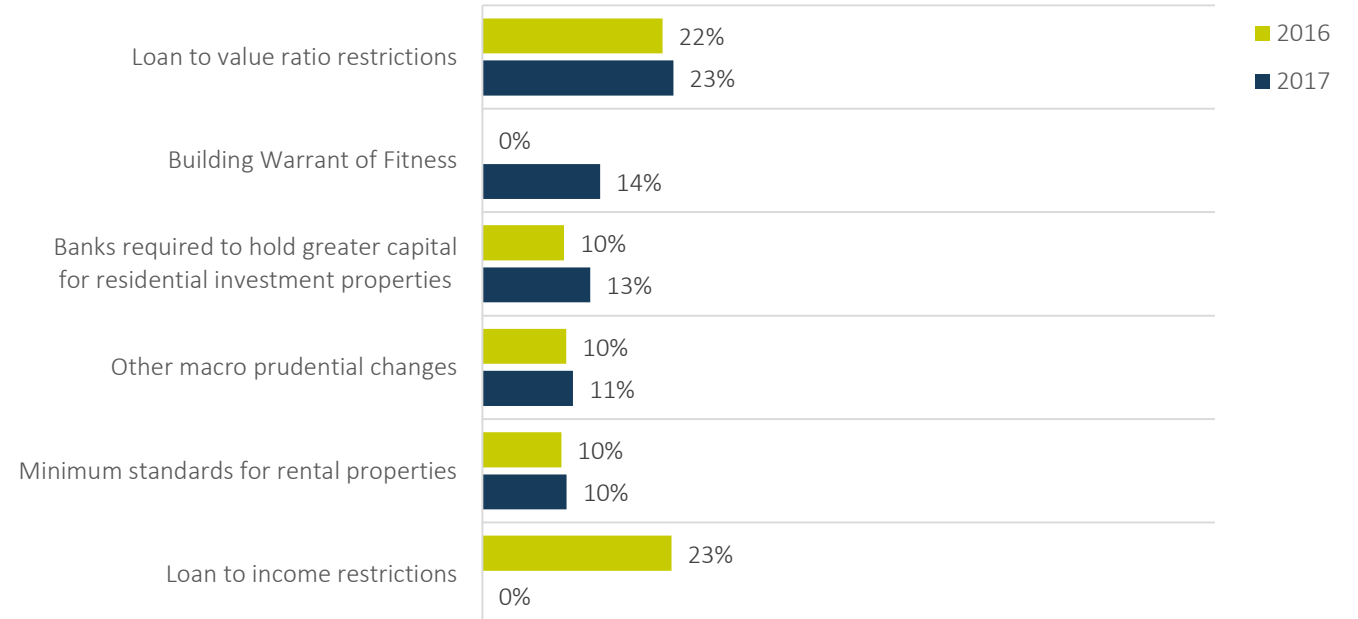
Full time investors are most concerned about meth damage to properties (56%).

Not surprisingly those with higher LVR levels and those looking to buy in the next 1-2 years are the most concerned about Loan to Value restrictions.

PROPERTY DAMAGE



GOVERNMENT REGULATIONS



Property Investment Risks – Top 5

Meth damage is the highest concerns across all regions except Wellington.

The next top concern varies amongst the regions:

- Damage to property in Auckland, RONI, ROSI,
- Tax changes in Waikato and Wellington,
- Rental prices decreasing in Canterbury

AUCKLAND N=183	
Methamphetamine contamination	49%
Damage to property	33%
Tenant defaulting on payments	24%
Loan to value ratio restrictions	23%
Tax changes	20%

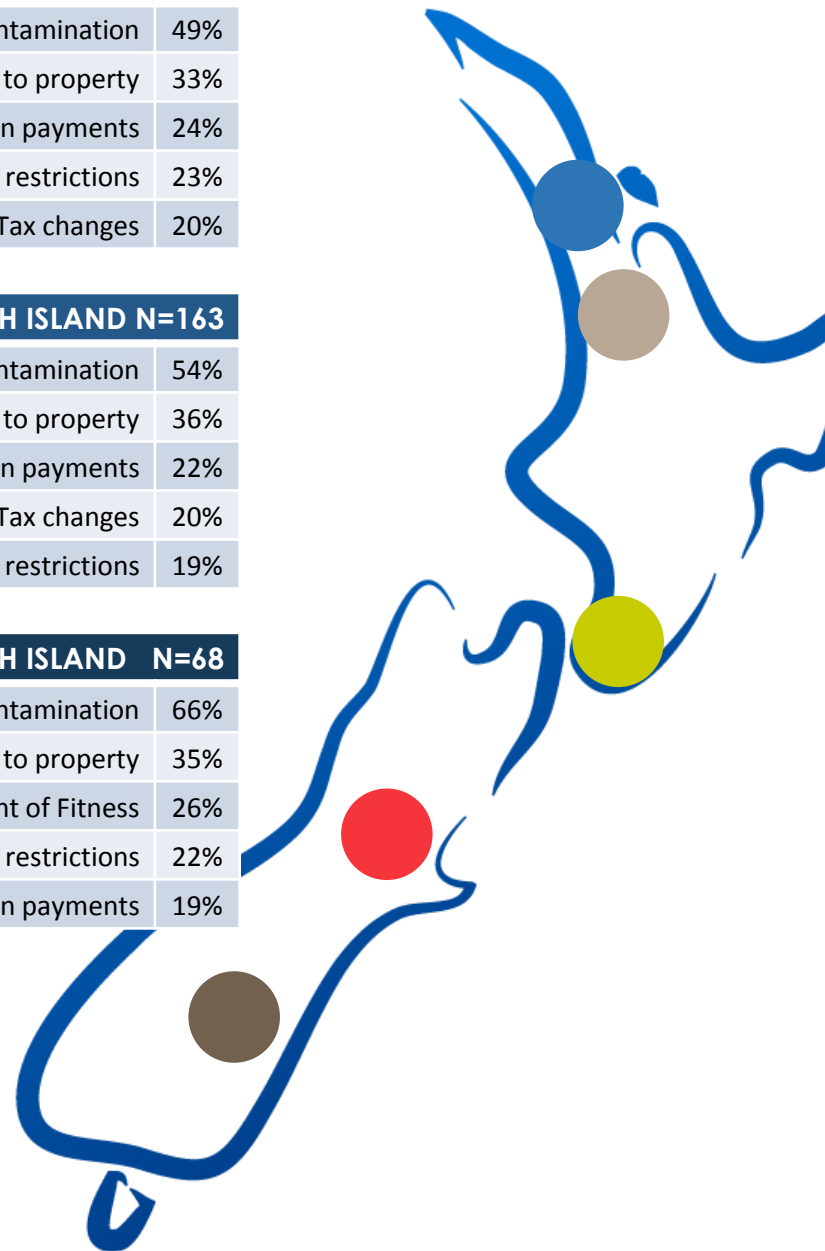
REST OF NORTH ISLAND N=163	
Methamphetamine contamination	54%
Damage to property	36%
Tenant defaulting on payments	22%
Tax changes	20%
Loan to value ratio restrictions	19%

REST OF SOUTH ISLAND N=68	
Methamphetamine contamination	66%
Damage to property	35%
Building Warrant of Fitness	26%
Loan to value ratio restrictions	22%
Tenant defaulting on payments	19%

WAIKATO N=71	
Methamphetamine contamination	56%
Tax changes	28%
Damage to property	21%
Loan to value ratio restrictions	21%
Building Warrant of Fitness	18%

WELLINGTON N=95	
Damage to property	28%
Tax changes	26%
Loan to value ratio restrictions	26%
Methamphetamine contamination	24%
Tenant defaulting on payments	22%

CANTERBURY N=109	
Methamphetamine contamination	41%
Rental prices decreasing	32%
Loan to value ratio restrictions	28%
Damage to property	22%
Tax changes	17%





Regulatory

[Including Investor LVR Levels]





Highlights

47% of investors say that the limits on high Loan-to-Value ratio lending have significantly impacted on their strategy in the last 12 months. This is a significant increase on 2016 when 31% of investors felt they had been impacted (and only 16% in 2015).

Nearly two thirds of these investors (30%) have said they have not bought a property they likely would have otherwise, this is up from 2016's 14%.

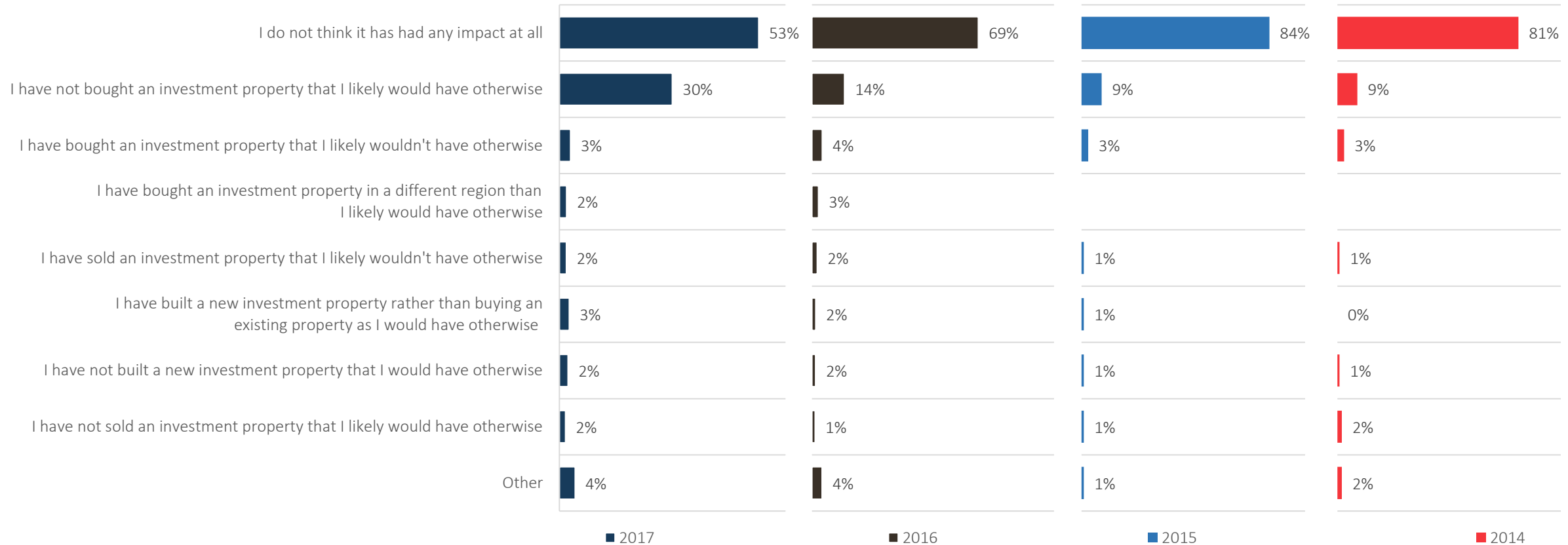
Along with the impact of these regulatory changes the continued increase in property values means that investors feel their LVR levels have significantly decreased.

- Only 13% of investors have an LVR over 75% versus 18% in 2016.
- 49% of investors say their LVR has decreased in the last 12 months
- 29% of investors feel their LVR has had no change

Aucklanders feel the most impacted by the regulatory changes (54%), and significantly up from 2016, 35% now have said it stopped them from purchasing a property.

Around half of investors say debt-to-income restrictions would not change their strategy in the short or medium term. For higher leveraged investors this is lower however (36%), and a higher number would be less likely to purchase an additional property.

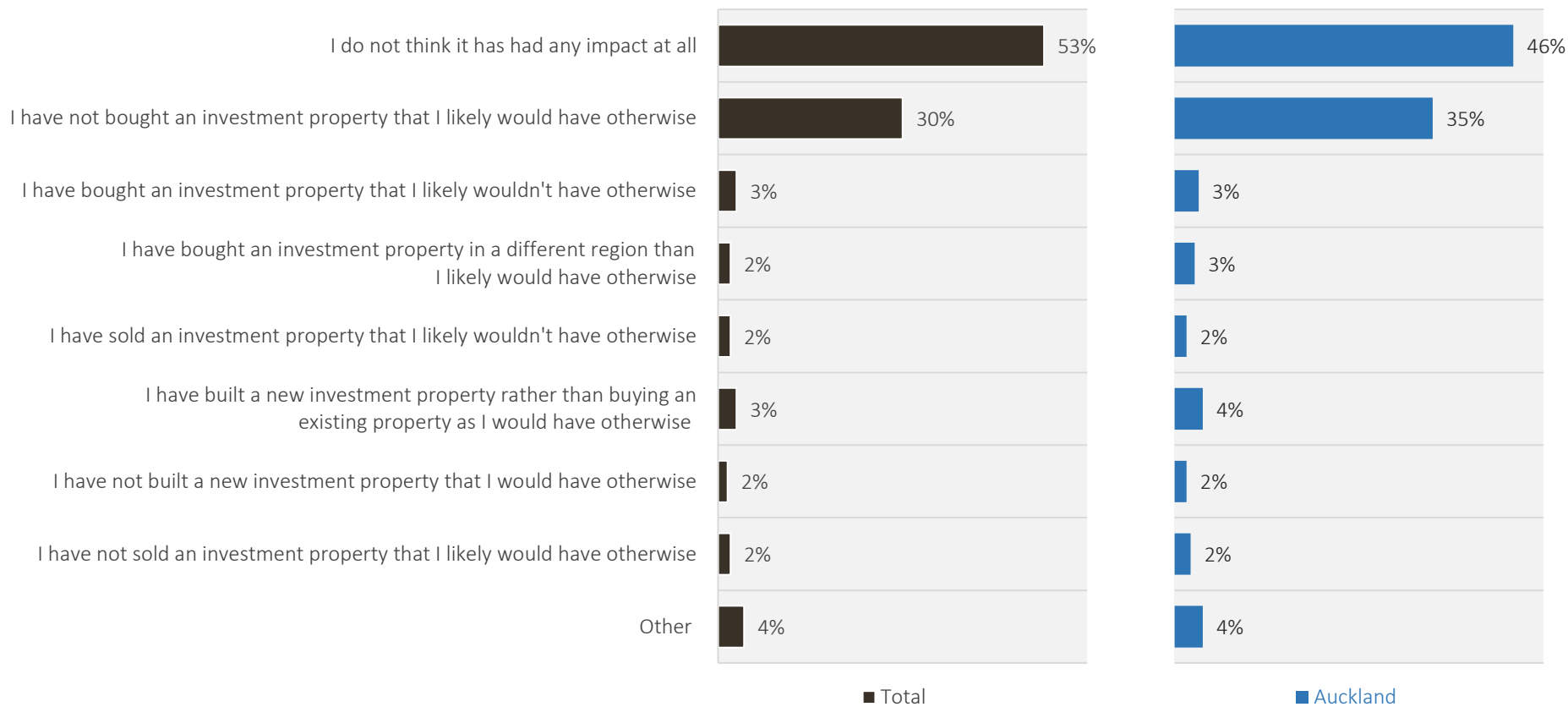
Impact of limits on High Loan-to-Value ratio lending



There is a reduction of investors who say that the limits on high Loan-to-Value ratio lending have had no impact, and a large number (30%) are now reporting the impact of not making a property investment purchase they would otherwise have done. Investors under the age of 40, those with smaller portfolios and those with higher LVRs have been the most impacted.

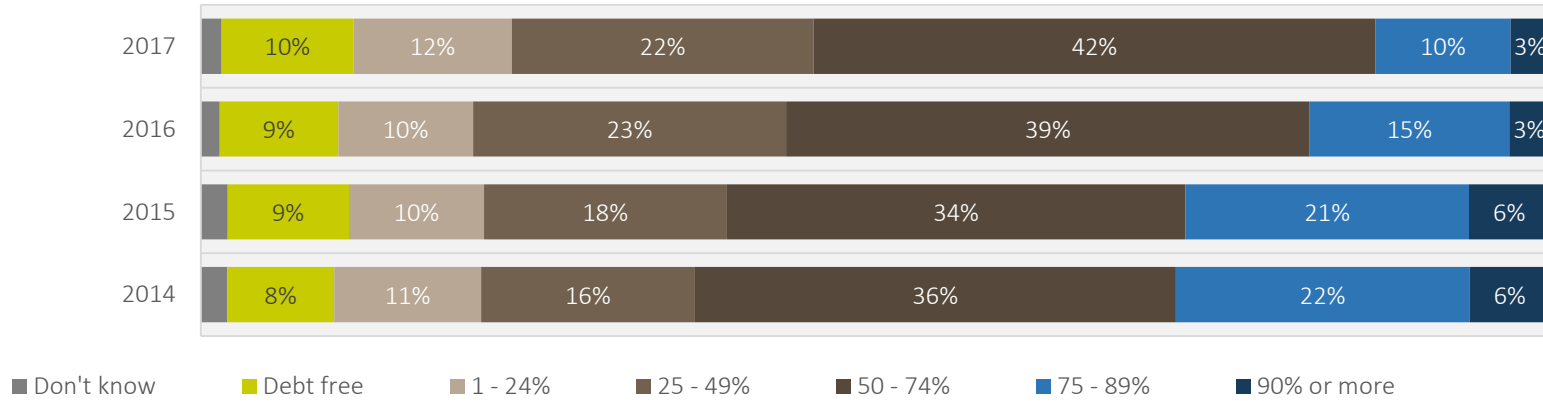
Impact of limits on High Loan-to-Value ratio lending

AUCKLAND VS TOTAL MARKET

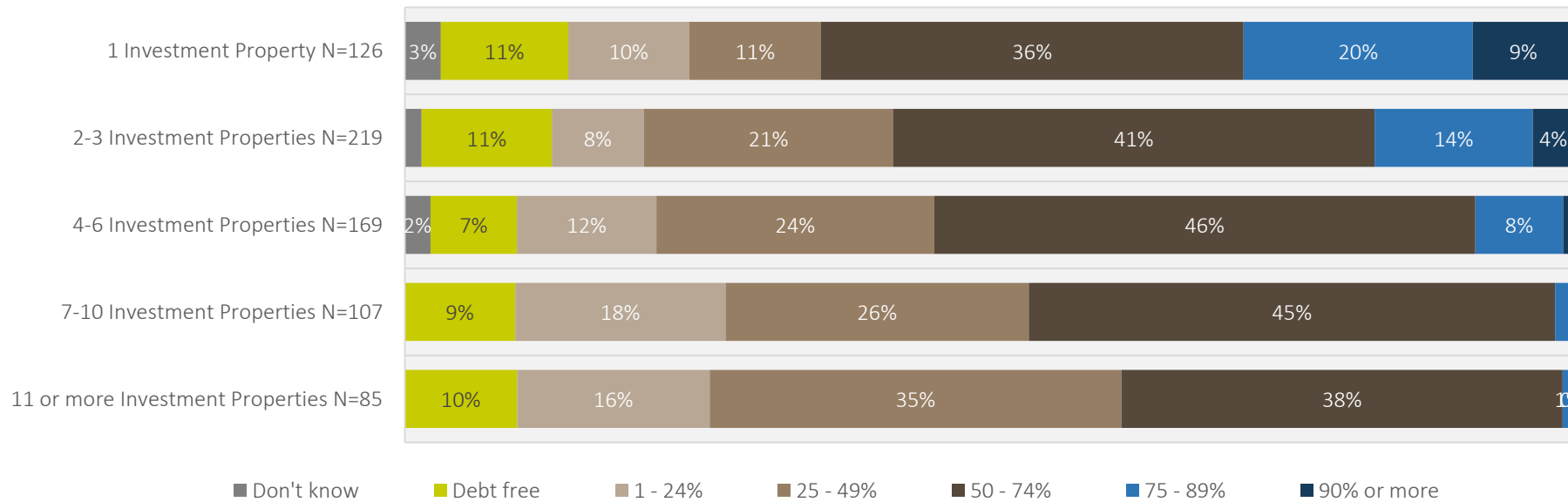


Auckland investors are more likely to say they have not bought an investment property that they otherwise would have done, and less likely to say there has been no impact.

Typical level of debt leverage on investment property/s

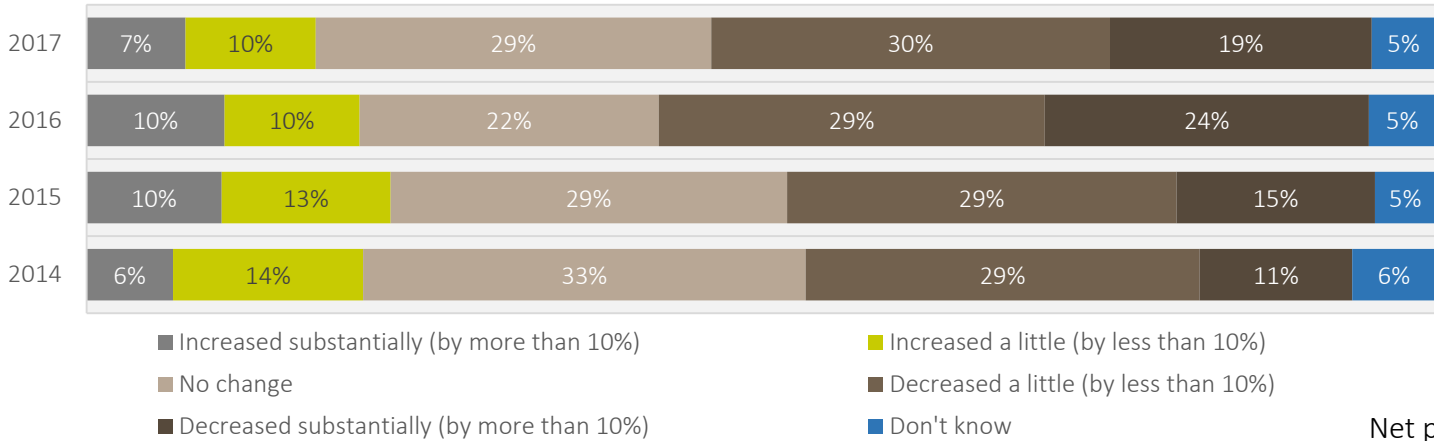


BY NUMBER OF INVESTMENT PROPERTY/S

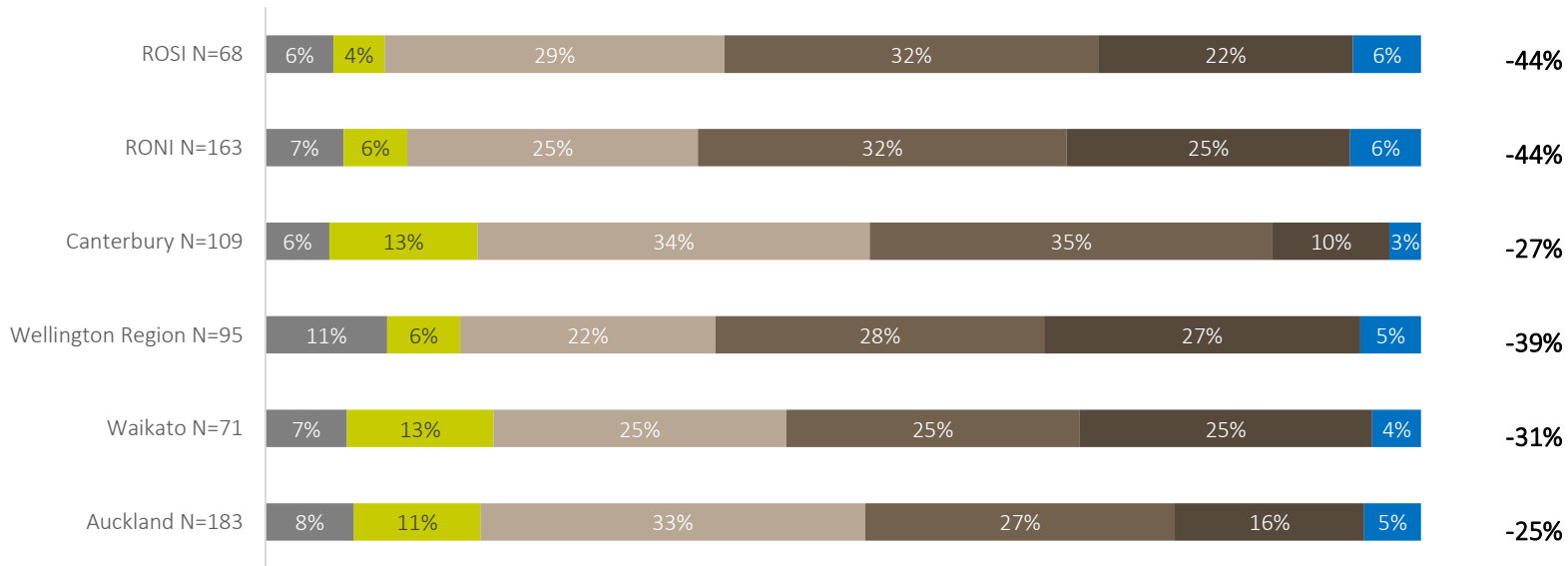


After significant decreases in LVR between 2015 and 2016, there is a further reduction at the high end.

Changes in debt/value ratio in past 12 months



BY REGION



After significantly more investors (53%) said their debt/value ratio decreased substantially in 2016, there is growth in the No Change rating to 29%.

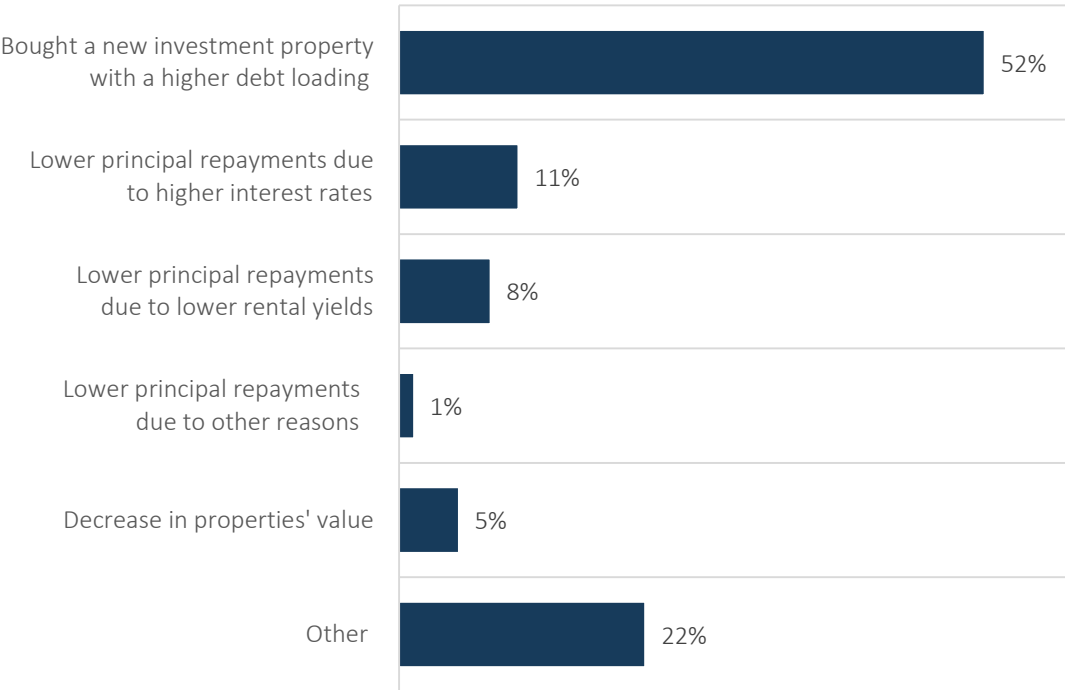
Smaller investors are the least likely to have seen a decline (36%).

Aucklanders had the lowest number experiencing a decline (43%) and 34% of Canterbury investors had no change.

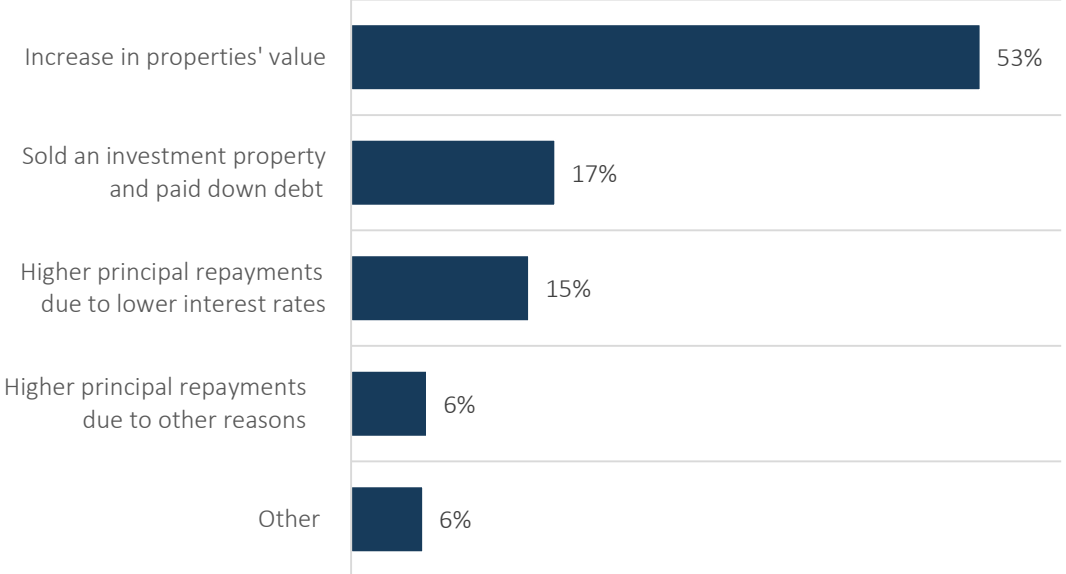
19% of Aucklanders and 20% of Waikato investors had an increase, primarily due to purchasing another property.

Factors driving change in debt/value ratios

FACTORS DRIVING INCREASE



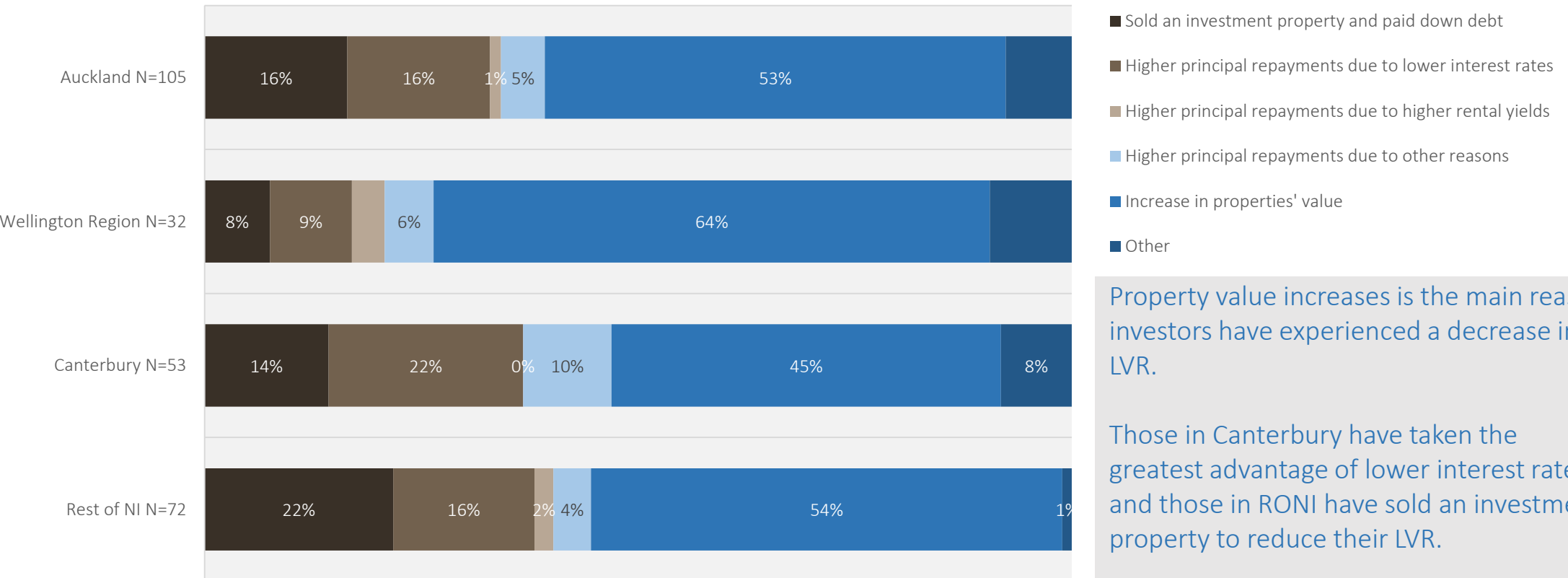
FACTORS DRIVING DECREASE



For the 49% of investors whose debt/value ratio has decreased, the key driver has been increased property values. These investors have also been taking advantage of lower interest rates with 15% saying the higher principal repayments are reducing their debt/value ratio. There has been an increase in investors who have sold an investment property and paid down debt to 17% from 10% in 2016.

Factors driving change in debt/value ratios

FACTORS DRIVING DECREASE BY REGION

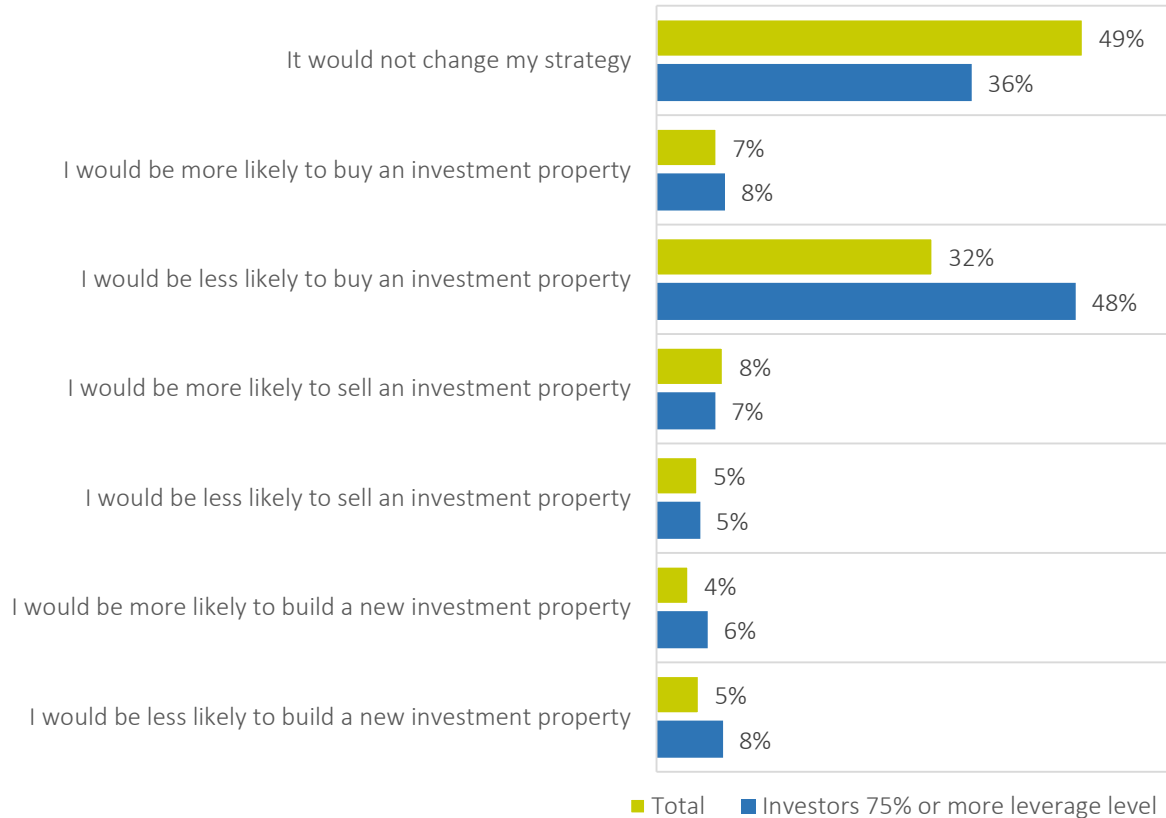


Property value increases is the main reason investors have experienced a decrease in LVR.

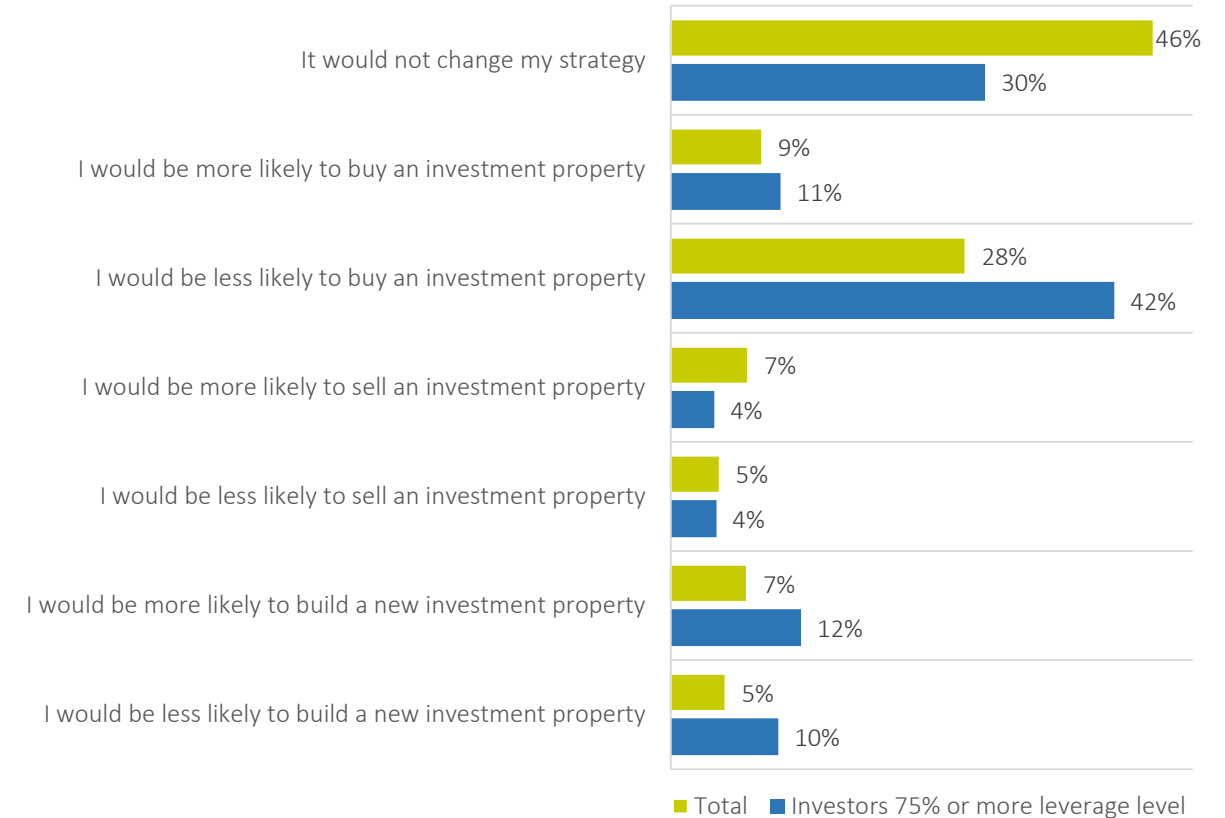
Those in Canterbury have taken the greatest advantage of lower interest rates, and those in RONI have sold an investment property to reduce their LVR.

Impact of further tightening of restrictions: debt-to-income

FIRST 12 MONTHS FOLLOWING CHANGE



AFTER 12 MONTHS FOLLOWING CHANGE



About half of investors say debt-to-income would not change their strategy. Those with a higher LVR would be less likely to buy an investment property in the short and medium term. There is no difference across investor size or house hold income.



Support and Information





Support and information highlights

Over half of investors currently use a property manager and a third of those that don't use one would consider using one.

Consideration factors in choosing a property manager are:

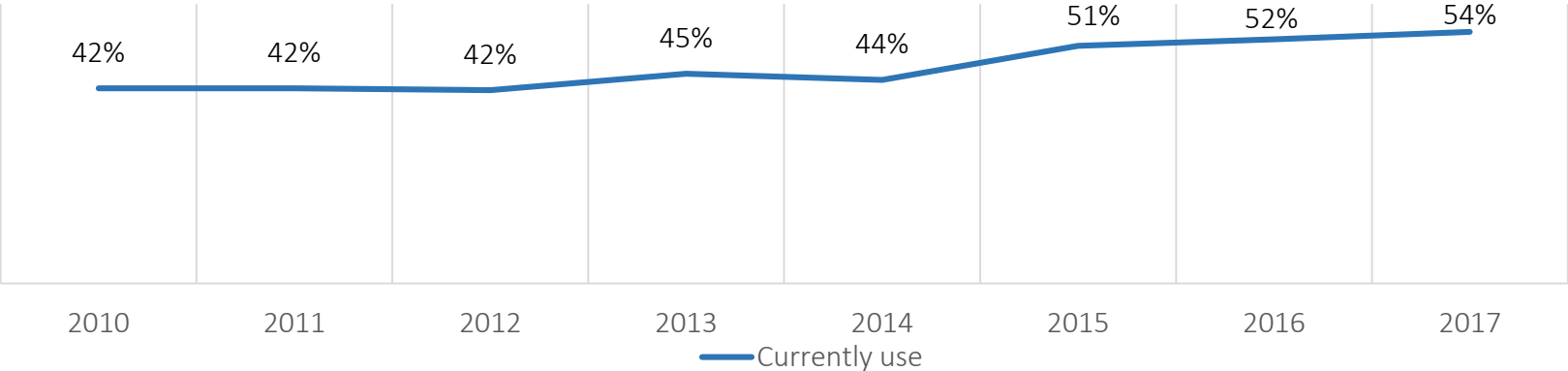
- Tenant screening - 75%
- Inspection processes - 51%
- Cost as a percentage of rental income – 41%

Around a third of investors use MBIE services at least once a year. Rental statistics are by far the most frequently used MBIE service.

The NZ Property Investor magazine is used by around 40% of investors and is particularly popular for investors with large portfolios. 54% of investors with 7-10 properties say they use the magazine.

Auckland investors are significantly more likely to use landlords.co.nz. They are significantly less likely to use the Property Investor Magazine (32%).

Use of property managers



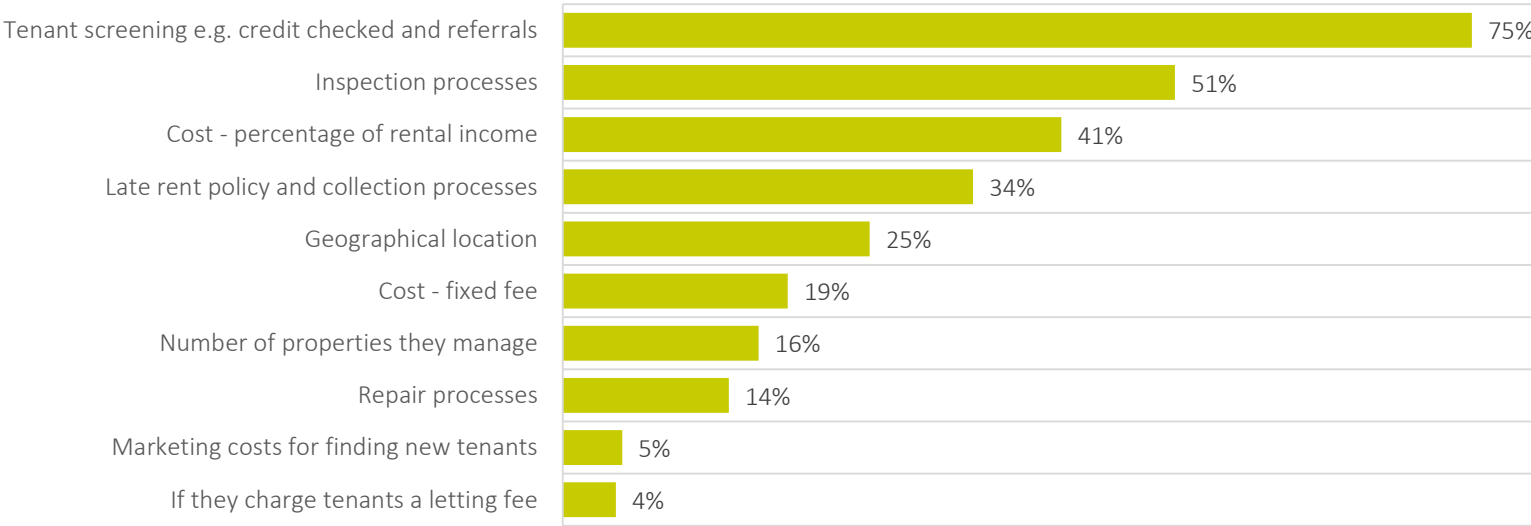
Over half of investors currently use a property manager and a third of those that don't use one would consider using one.

PROPERTY MANAGER CONSIDERATION



The key consideration factors are tenant screening, inspections and cost – the same as 2016.

PROPERTY MANAGER CONSIDERATION FACTORS

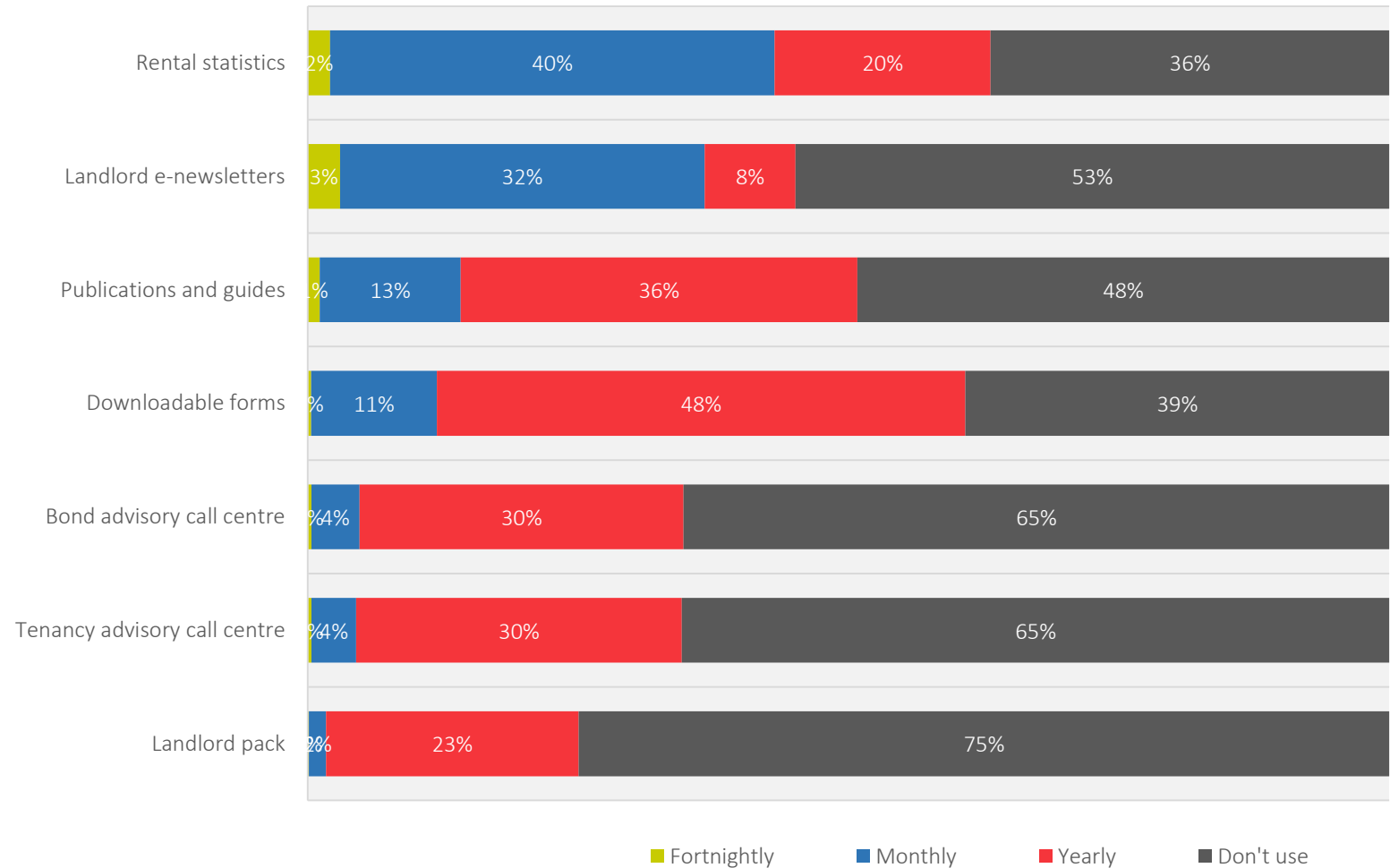


Do you currently use a property manager for any of your investments? Would you consider using a property manager for any of your investment properties? If you were considering who to use for a property manager for your current properties, which of the following would be the three most important?

Base: All property investors, 2017 N=706, 2016 N=674. Consideration of Property Manager N=339, Consideration factors N=483.

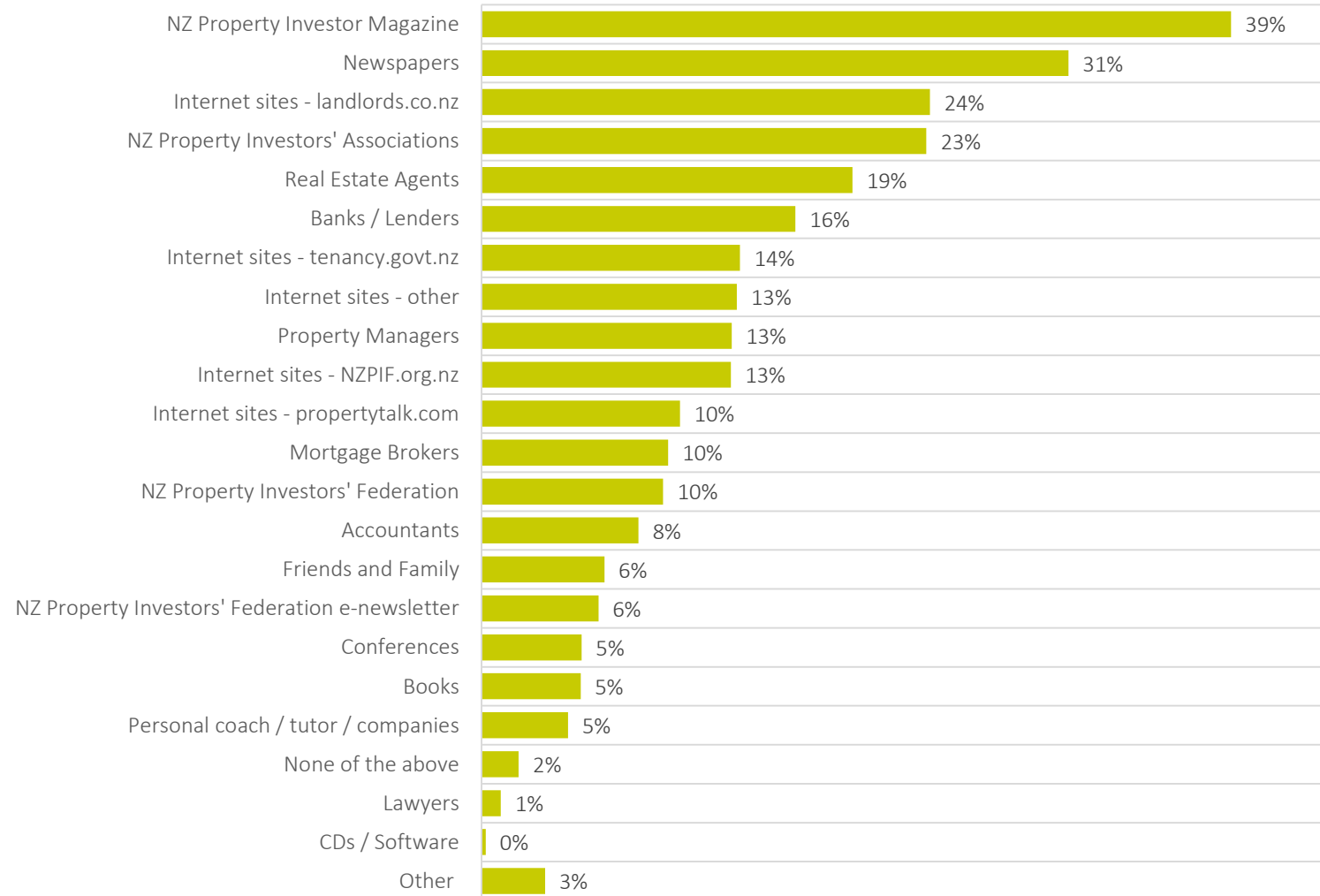
MBIE Tenancy Services website and call centre use

Rental statistics are by far the most frequently used MBIE service.



Information sources

INFORMATION SOURCES DURING 2016/17 PERIOD



Auckland investors are significantly more likely to use landlords.co.nz (31%). They are significantly less likely to use the Property Investor Magazine (32%).

Waikato, ROSI and RONI investors are significantly more likely to use the Property Investor Magazine.

The Property Investor Magazine is most popular amongst those with larger portfolios.



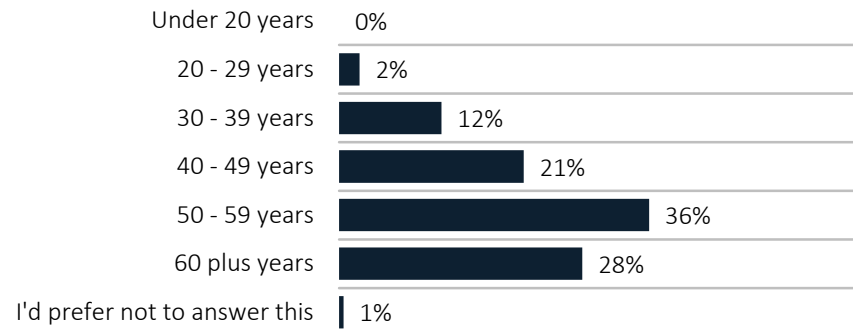
Demographics and Sample profile

[Traditional Channels N=706]

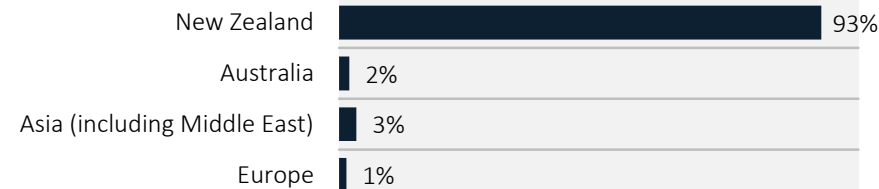


Demographics

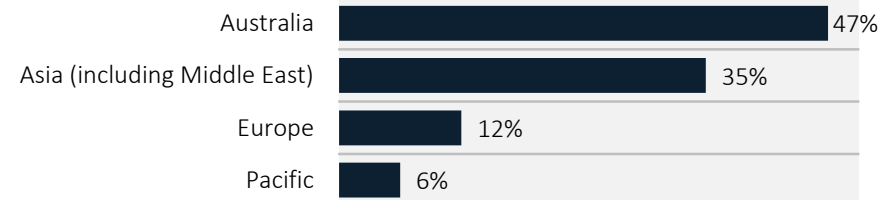
AGE



REGION MOST ASSOCIATE WITH



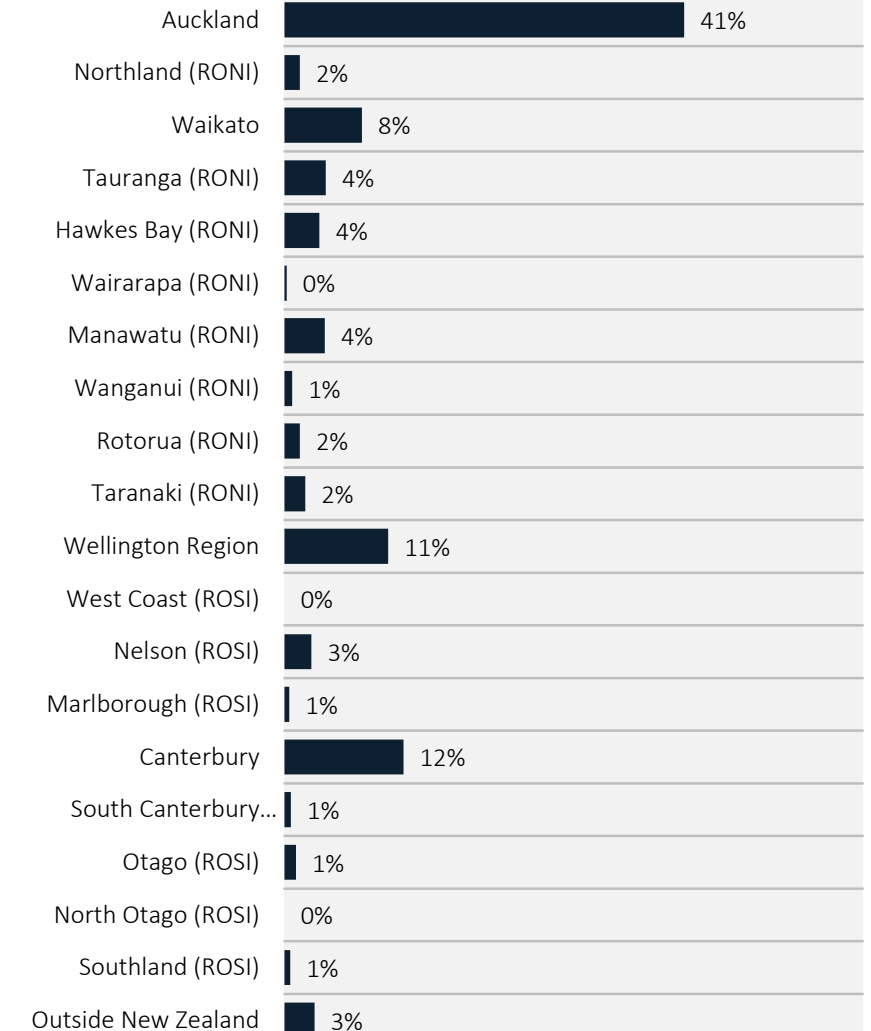
REGION LIVING IN (OUTSIDE NZ) NB N=17



GENDER

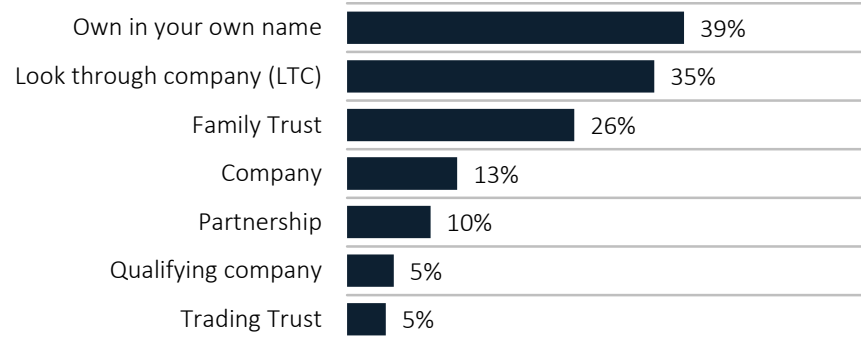


REGION

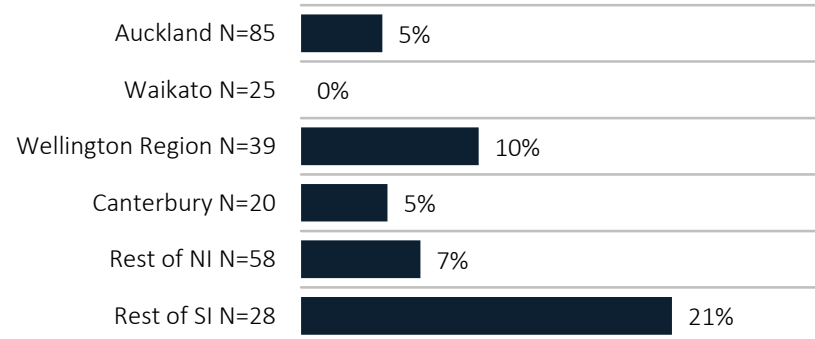


Demographics

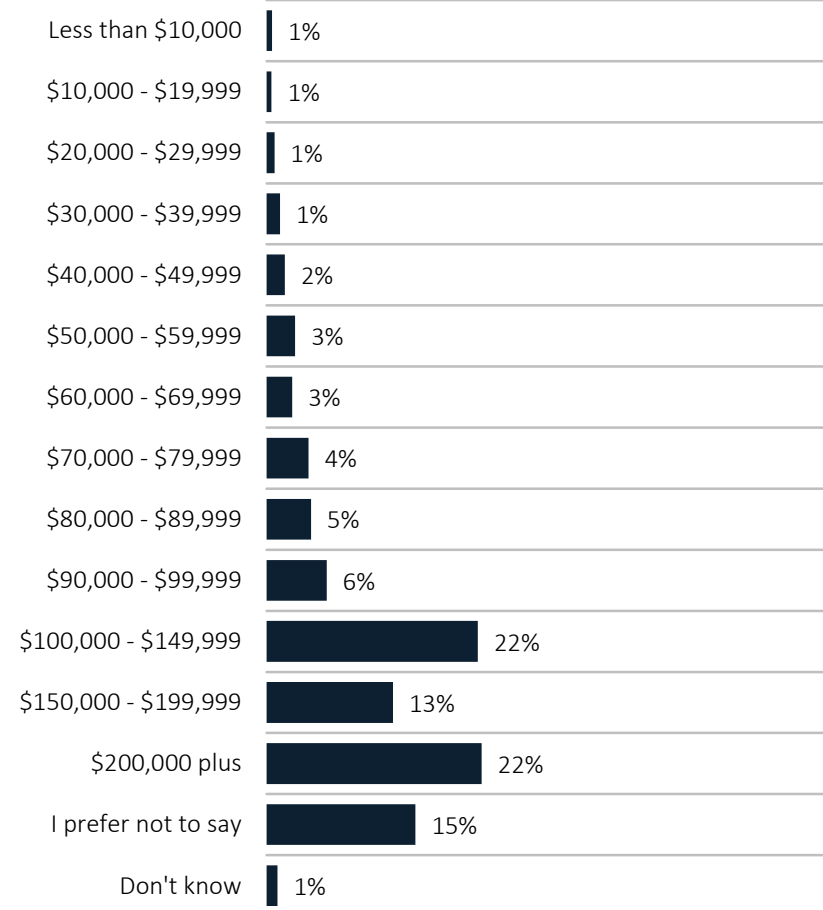
INVESTMENT PROPERTY OWNERSHIP STRUCTURE



PROPERTY INVESTORS ASSOCIATION MEMBERSHIP



ANNUAL HOUSEHOLD INCOME





contact

Neil Hanna | Consultant | Camorra Research Limited

email neil.hanna@camorresearch.co.nz | mobile 021 91 91 87



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