David Hargreaves analyses the crucial roles in the house market that the investors, the first home buyers and Kiwisaver have been playing

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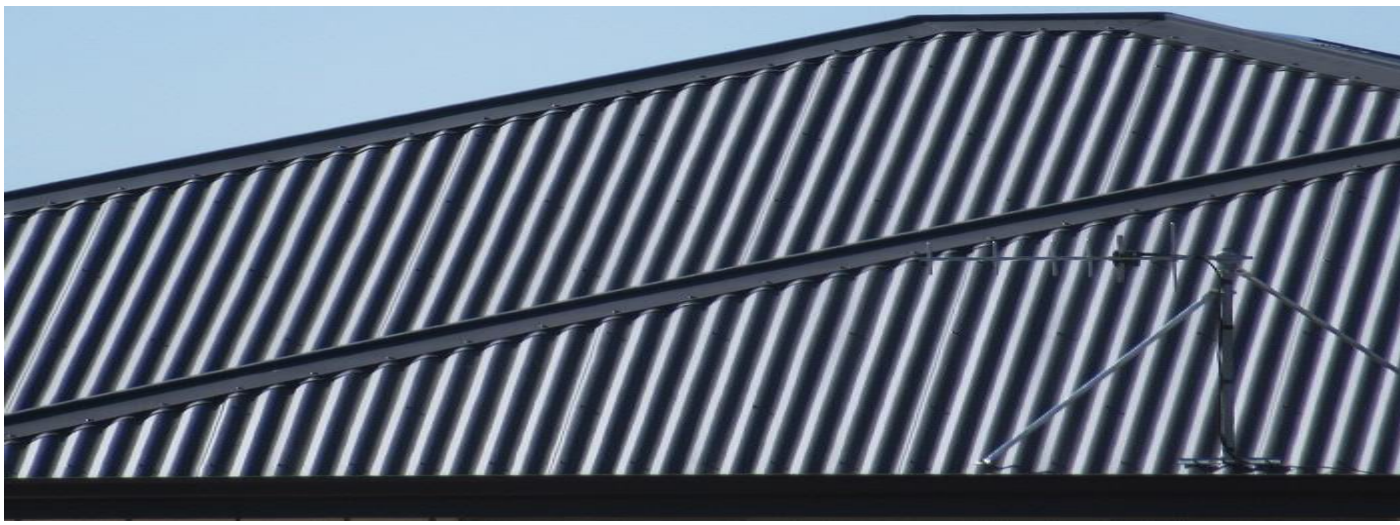

The Spring is Sprung, The Grass is Riz...I wonder where the housing investors is?
As we prepare for the onslaught of August housing sales data, and view **tentative signs of a Spring upswing**, the key thing to watch for in coming months, in my view, will be whether there's a Spring upswing in investor interest.
I reach this view after trawling through yards of historic information and figures and attempting to make sense of them.
To this end, I've been having some fun with both the RBNZ's monthly **mortgage data** and with the IRD's **Kiwisaver withdrawal figures**.
I do this, Dear Reader, so that you don't have to. All I ask is that you be kind in the comments stream.
The RBNZ's monthly series breaking down lending by borrower type has been an excellent addition to the central bank's data sets since first being published in August 2014.
And while here at interest.co.nz we've been keenly following the developments through that data every month, some times it pays to sit back and have a bit of a broader view at the grand scheme.
The RBNZ's figures give us a good picture of what's happened in mortgage borrowing trends and ergo the broader housing market post-introduction of the central bank's loan to value ratio (LVR) restrictions in 2013.
It is unfortunate we don't have a clear picture of how the market looked before that.
What we know from what the RBNZ has said is that the initial impost of the LVR limits did have a disproportional impact on the first home buyers. Their figures dropped away. At the same time the figures for investors rose.
It is clear enough to work out why that dynamic would apply.
With everybody facing exactly the same LVR restrictions, the investors were in a better position to raise deposits and therefore to outbid the would-be FHBs.
The vital moment came, I still think almost by accident and born of desperation, when the RBNZ in 2016, smashed the investors across the bridge of the nose with 40% deposit limits.
Suddenly the supposed level playing field, which as explained above wasn't really level for the FHBs, was tilted hugely in favour of these would be first time home owners.
And back they came.

The fascinating thing to observe has been the extent to which this revival of the FHBs has been funded by Kiwisaver.
The below table summarises withdrawals made from Kiwisaver by members in the past four years to June.

It's all on the house for these Kiwisaver members		
June year withdrawals to buy a first home (source IRD)		
	Withdrawals (full number)	**Amounts ($mln)**
2016	25,569	494.989
2017	32,682	601.479
2018	34,343	768.521
2019	**40,606**	**986.882**

I've only highlighted the past four years there because the accompanying information from the RBNZ's mortgage figures, that I'm shortly referring to, only covers four full June years.
It's worth noting though that on the Kiwisaver withdrawals, the year to June 2015 saw $257.834 million withdrawn to fund a first home. So, in very rough terms the withdrawals have increased close to fourfold across a five year period.
I've previously **opined on the usage of Kiwisaver money** to buy first homes and it's fair to say there's a reasonable level of debate about the pros and cons. My colleague **Jenée Tibshraeny had a differing view**.
I won't climb back into detailed discussion of this subject, since that's not the main point of this article, but perhaps just as one shot at it, what if Kiwisaver was re-organised so that there was a specific 'homestart' or similar category to put your funds into? That way maybe people could direct a portion of their Kiwisaver money to a house and the rest to their retirement fund.
The other point about that differentiation would be that, on the assumption that saving for a house is a fairly short (say five-year) timeframe then the risk profile of savings for a house is very different to that for the longer term, which might well be 40-50 years.
So separating money that you want to go towards a house from money you want to go directly towards retirement (accepting before the commenters even start shouting, that owning houses can help towards retirement) would make sense.
But anyway, things are as they are.
And unquestionably, the rise and revival of the FHBs since the investors got slapped back in 2016 has come with great dollops of assistance from Kiwisaver funds.
If we look at the Kiwisaver withdrawal figures for the 12 months to June this year we can see that nearly a billion dollars was taken out.
On a very basic level, assuming the 'normal' 20% deposit for a house, that billion dollars would be able to access $4 billion of mortgages. In reality, with a number of mortgages likely to be high LVR ones, the amount that could be borrowed with that money would be rather higher than that.
So, at this point I refer back to the RBNZ's lending by borrower type figures. And here's a table that summarises the past four June years.

Who borrowed? A breakdown of house market lending				
Nationwide NZ mortgage figures for the past four years ending June (source RBNZ)				
	First home buyers ($bln)	**Investors ($bln)**	**Owner/occupier ($bln)**	**All borrowers**

Who borrowed? A breakdown of house market lending				
2016	8.235	23.813	40.284	73.168*
2017	8.709	16.679	39.283	65.395*
2018	9.352	13.734	37.200	60.953*
2019	**10.983**	**12.511**	**40.592**	**64.805***

*Figures don't exactly add up as the All borrowers total includes small amounts of business purposes loans

If we look at the FHBs figure on the left there for up to June 2019, it's a touch under $11 billion.

What that tells me is the nearly $1 billion taken from Kiwisaver accounts has been instrumental in such an amount being able to be borrowed.

You can see too, that as the amounts taken from Kiwisaver have increased, so, have the amounts borrowed for mortgages.

Everybody knows that the housing markets, particularly in Auckland, have flattened since 2016.

But, interestingly we can see from these figures that FHB borrowing has increased by a third since 2016. Which is a lot.

Intriguingly also, the amount borrowed by owner-occupiers in the year to June 2019 is slightly HIGHER also than the same group - much the largest group - borrowed four years ago.

The retreat of the investor

And yet the overall borrowing figures are down over $8 billion compared with four years ago.

The difference? Ah, look at the column in the middle there.

Yes, Mr and Mrs Investor have hibernated.

Their amount borrowed has NEARLY HALVED in the past four years.

They have really made all the difference.

The RBNZ smashed them in the face with the 40% deposit requirements, the FHBs were given some encouragement and have gone out and raided their Kiwisaver funds in droves, and the owner-occupiers have kind of just trucked on.

The flattening of the housing market has been all about the investor, is what these figures would tell you.

So, that being the case, are their any reasons to believe things might turn around now?

Was it normal?

Well, the first thing to consider is whether the amount of investor activity pre-2016 was 'normal'.

With the benefit of hindsight, there's no doubt the first iteration of the LVRs, with everybody treated the same, was a mistake. It gave investors a crucial advantage over the FHBs and they took it. Investors were at one point accounting for well over a third of new mortgage borrowing.

And I call them investors. Well, clearly at least some of these were 'specuvestors', people attracted by the prospect of capital gains rather than the lure of handling unruly tenants who like having parties at 1am on Tuesday mornings.

It could be that some of those 'investors' of a few years ago have had enough now and might want to get out.

So, we can't make assumptions.

However, and it's a huge however, it might not have escaped everybody's' attention that yields on 'safe' deposits - such as with the bank - are disappearing down a big hole in the ground.

At what point do mom and dad look at these disappearing returns and decide there might be something better to do with the nest egg?

Handling risk

On one level, Kiwis are very risk averse - even though many, in my view don't have a good handle on what 'risk' really is.
But you would have to say that housing is never regarded as a huge 'risk'. It's something Kiwis are more than comfortable with. It's in the DNA.
So, I would have to think that some people will be twitching now and thinking, well, the house market hasn't collapsed, would an investment property be better for us than the rubbish returns our bank's offering?
Therefore Spring looms very large as quite important for, not just the housing market this year, but actually our economy.
As can be seen from the tables in this article, a resurgence of investor interest could make all the difference.
And if the house market has a good Spring, then the mood of the people would be more buoyant and people may start spending more, and the economy may flip up.
The All Blacks winning the Rugby World Cup wouldn't harm matters either. A winning rugby team and a winning housing market. The whistling in gardens at the weekend would drown out the birds.

Swap the rubbish returns for a house

Investors are still faced with finding 30% deposits (gradually reduced by the RBNZ from that original 40%).
There's got to be a good chance that the RBNZ will loosen the LVR reins further when it next makes a decision on the LVR limits in November.
If the investors have that 30% deposit rule dropped, then this could be all the encouragement some of them need.
Swap the rubbish returns on money in the bank for a house that's paid for with money from the same bank borrowed at incredibly low interest rates.
The Spring housing market will be very interesting indeed this year.
It is going to be all about the investors.
Are they in, or are they out?