

STUDY REPORT

SR 303 (2013)

Effect of the loan-to-value limits on new housing

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Preface

This is a one-off report prepared at short notice to assess the likely effects of the 1st October 2013 LVR measures on new housing activity. The main research method was two surveys of builders and owners, and analysis of their responses. The research has revealed that significant adverse effects would occur under the new regime on housing starts.

Acknowledgments

This work was funded by the Building Research Levy and facilitated by the Registered Master Builders Federation and the Certified Builders Association of New Zealand.

Note

This report is intended for officials and the building industry to quantify the likely effect of the LVR requirements on new housing starts.

The effect of loan-to-value limits on new housing

BRANZ Study Report SR 303

I.C. Page, M.D.Curtis

Abstract

The Reserve Bank announced in August 2013 that high loan-to-valuation loans for housing were to be restricted with effect from 1st October 2013. BRANZ was requested by the building industry to estimate the likely effect of this measure on new housing starts. This was done via a survey to recent new home owners, and another survey to builders. The Reserve Bank and Treasury were consulted on the format of the survey which was carried out by post. The Registered Master Builders Federation and the Certified Builders Association of New Zealand provided assistance by sending out the survey to their members.

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1. INTRODUCTION

The Reserve Bank introduced a measure from 1st October 2013 requiring most housing mortgages to have at least a 20% deposit from the owner. The aim was to improve the stability of the financial system, because the Reserve Bank of New Zealand was concerned about the large volume of low deposit housing loans.

BRANZ was approached by builders concerned about the effect of the measure on new housing starts. It was agreed at a meeting at the Reserve Bank that BRANZ would undertake surveys of builders and recent new home owners to ascertain the likely effect on the LVR measures on new starts. The aim is to assist the Bank in monitoring the effect of the new measure.

This report describes the results of these surveys.

As survey data came in it became apparent the measure was significantly affecting enquiry levels with a flow-on effect to new starts. The BRANZ estimate, discussed below, is new housing consents would have been 10% lower due to the LVR restrictions. Preliminary results were shared with the Reserve Bank to assist in their monitoring.

Subsequently the Reserve Bank announced on 10th December 2013 that the 20% deposit requirement is no longer required for new housing mortgages, partly as a result of the findings of the surveys. Existing house buyers still need a 20% deposit and the banks will continue to assess their internal risk levels using the strengthened criteria put in place after the global financial crisis.

2. SUMMARY

The main results are:

- New owners, prior to the new measures, indicate that approximately 20% of them had a deposit of less than 20%.
- However 57% of these low deposit owners say they could have met a 20% deposit target through their own savings or by borrowing from family. That suggests 9% (20% x 43%) would not be able to meet the 20% deposit requirement.
- Builders estimate 24% of new housing prior to the LVR measures was funded by a deposit of less than 20%.
- Since the new measures were introduced enquiries to builders are down by approximately 26%.

The main conclusion is builders expect a significant effect on new starts and the drop in new enquiries tends to support their case. Owner's responses on deposit levels are similar to those of builders, though their change in new starts, after allowing for alternative sources of funding, is lower at about a 10% reduction.

3. RESULTS

3.1 New owners survey

The summary results are shown in Table 1 and Figure 1. The table is the actual survey form sent to owners and averages from all respondents have been entered in the boxes.

There were 244 responses from recent owners of newly built houses and 48 of these, or 20%, had a deposit of less than 20%. Of the low deposit borrowers 44% could have met the 20% LVR threshold through their own savings and another 13% could have borrowed from family to meet the 20% LVR requirement. So the remaining 43% could not have achieved the required deposit.

Table 1 New owners survey summary results

NEW OWNERS SURVEY

Total number of returns = 244 These are for houses consented between April 2012 and June 2013

Total 108 yes responses for a mortgage.

Total 136 no responses for a mortgage.

Number <20% deposit	48	20%
Number >20% deposit	60	25%
Number no mortgage	136	56%
	244	

Averages for the returns have been entered in the boxes below.

1. Did you take out a mortgage when you purchased your new home?	Yes	44%	No	56%	n= 244
If NO, then please stop here. If YES, please continue to 2					
2. Can you please tell us:					
how much you borrowed in total:	\$	323,700	average	n= 74	
how big your mortgage deposit was:	\$	244,400	average		
total valuation of house and land	\$	631,400	average		
3. Were you a first time home buyer?	Yes	9%	No	91%	n= 157
4. If your deposit was less than 20%, could you have financed a 20% deposit?	n= 82				
i.e. you actively chose a deposit less than 20% rather than this was the deposit that you could afford.	Yes	61%	No	39%	
5. If you had any variations, how much extra did it cost?	n= 66				
	0%	1-2%	3-5%	6-10%	11%+
	24%	26%	24%	15%	11%
	Average variation = 4.2 %				
If the variations cost you extra, how were the variations paid for?	Increased bank loan 34%				
	Savings	50%	Loans from Family/Friends	8%	Other (state)
				8%	
6. If your deposit was less than 20%, how would you have responded to a 20% deposit requirement	n= 99				
Could have met deposit requirement through own savings (i.e. could have afforded a larger deposit:	44%				
Would have borrowed money from family or another lender to meet deposit:	13%				
Would have bought a cheaper house:	18%				
Would have delayed purchase plans until I had a sufficient deposit	24%				

Figure 1 New owners survey summary characteristics

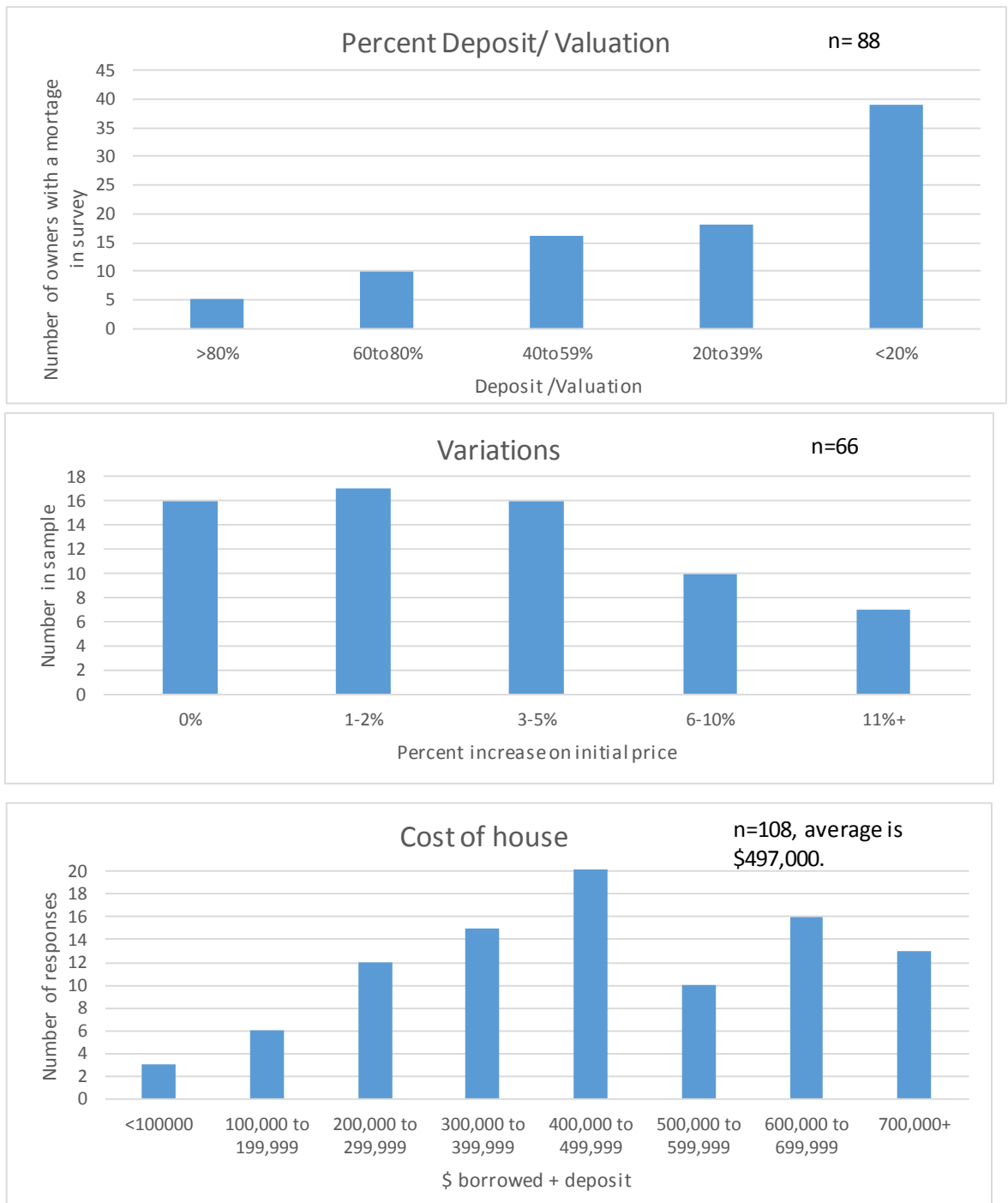


Table 2 and Figure 2 show the results of the builder’s survey. The table is the actual survey form and weighted averages for all builders have been entered in most boxes. The weight is the number of houses each builder erects per year. The 130 house builders in the survey build approximately 2,800 new houses per year, representing about 20% of all new detached housing. They estimate 24% of their clients have a deposit of less than 20%, which suggests the new LVR measures could have reduced new starts by up to that percentage.

Table 2 Builders survey summary results

BUILDERS SURVEY		Main result is 24% of houses built have less than 20% deposit		#
Total number of returns =	146	Number of houses <20% deposit	655	24%
Number of house builders responding =	130	Number of houses >20% deposit	1749	63%
Total number of houses they build per year =	2775	Number of houses no deposit	372	13%
Averages/ totals of returns have been entered in the boxes below.			2775	100%

1. What type of work do you do? (please put the percentage of each work type) n= 146

Residential:

New	Additions & Alterations	Repairs and Maintenance	Garages and Sheds
<input type="text" value="63"/> %	<input type="text" value="16"/> %	<input type="text" value="5"/> %	<input type="text" value="2"/> %

Non-Residential:

New	Additions & Alterations	Repairs and Maintenance
<input type="text" value="6"/> %	<input type="text" value="6"/> %	<input type="text" value="2"/> %

If you do New Residential, please continue with the survey. If not, please stop and return the form.

2. Do you build new housing for customers with less than 20% deposits? Yes No n= 129

If YES, what percentage of your new build business is for these customers?

Weighted by # houses for builders responding

Where are you building these homes?

Auckland	<input type="text" value="27%"/>	Other North Island	<input type="text" value="34%"/>
Christchurch	<input type="text" value="23%"/>	Other South Island	<input type="text" value="17%"/>

What types of housing are you building for these customers?

Stand alone	<input type="text" value="81%"/>
Apartments	<input type="text" value="5%"/>
Townhouses	<input type="text" value="14%"/>

3. Do you know how many of your customers would consider themselves first time buyers? n= 125

Yes No

If YES, what percentage of these fall into the sub 20% deposit category?

At what price point are you building these homes? \$

4. What impact, if any, are you seeing from the changes to the levels of deposits that are being required by lenders?

Can you quantify this in terms of the percentage reduction of the following: n= 114

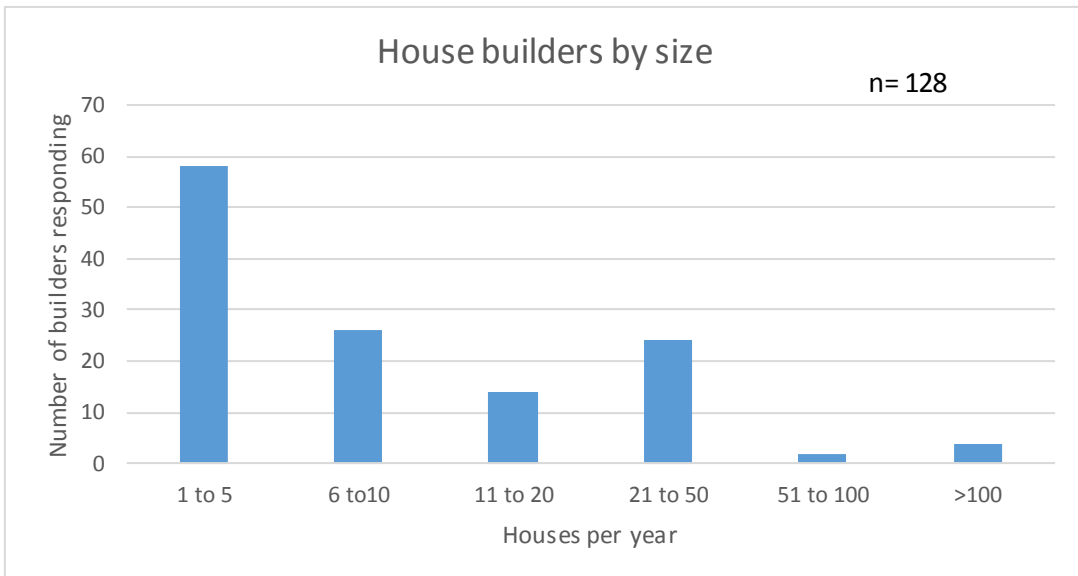
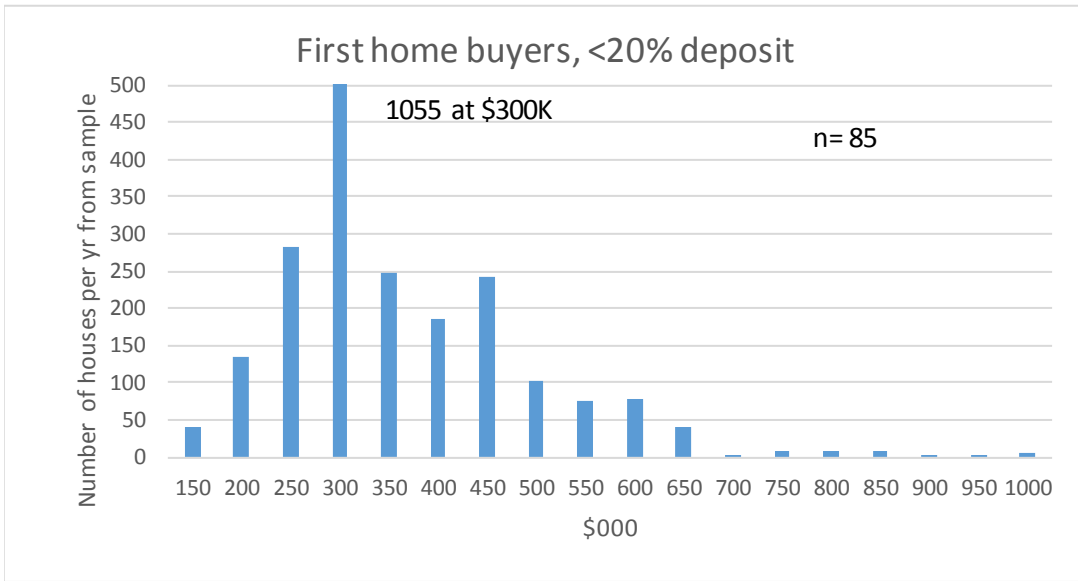
	0%	1-10%	11-25%	26-50%	51%+	Overall reduction weighted
Cancelled orders? Number	<input type="text" value="64"/>	<input type="text" value="18"/>	<input type="text" value="13"/>	<input type="text" value="10"/>	<input type="text" value="2"/>	<input type="text" value="9%"/>
Changes in enquiry levels? Number	<input type="text" value="43"/>	<input type="text" value="17"/>	<input type="text" value="18"/>	<input type="text" value="19"/>	<input type="text" value="15"/>	<input type="text" value="26%"/>
Changes in order levels? Number	<input type="text" value="47"/>	<input type="text" value="20"/>	<input type="text" value="14"/>	<input type="text" value="13"/>	<input type="text" value="9"/>	<input type="text" value="16%"/>

5. How many houses have you built in the last 12 months? n= 129

6. In your experience, do lenders typically use the final expected valuation (i.e. the value of the house that is expected once the work is completed) when completing a valuation, or an interim valuation (i.e. the value of the house prior to work being fully completed) or a mixture of both? Please explain:

59% Final expected	n= 147
23% Interim	
19% Mixed	

Figure 2 New house builders characteristics



4. DISCUSSION

The two surveys give similar results. The owner's survey indicates 20% of new owners had a deposit of less than 20% before the introduction of the LVR measures. Builders estimate that 24% of their clients had a deposit of less than 20% before the new measures. Owners were asked if they could have found the necessary deposit and over half said they could have. So this indicates the new requirement could reduce new housing by about 10%.

Builders were not asked whether their clients were likely to access to additional funds to meet the new deposit threshold. Also, builders' returns are likely to be biased toward those most likely to be affected by the LVR measures. So their reported 24% drop is likely to be an over-estimate for the whole industry. However, the builder's survey was forward looking in that they were asked about current enquiry levels, and this showed a large drop of 26% compared to enquiry levels before the announcement of the LVR requirements.

Based on the two survey results it is concluded the effect of the LVR requirements is likely to have been a drop of at least 10% in the level of new starts, or about 2,000 houses per year. Now that the measures have been reversed for new house loans this no longer applies. Officials were periodically updated on the surveys' results and this is believed to have contributed to the Banks decision to remove the LVR requirements for new house construction. The outcome is positive for the house building industry. There may be a small net gain for new housing numbers through redirection from existing to new housing since the LVR requirement still apply to existing houses.

5. APPENDIX

5.1 Survey design

The survey forms are shown in Table 1 and Table 2. The owner's survey was postal and addresses of recent new house owners was obtained from the Whats-On database of building consents. The builder's survey was sent out by a mix of post and e-mail using the builder associations' membership lists, and the BRANZ database of builders.

The response rates were quite low. For owners 1,500 forms were posted and 244 returned a response rate of 16%, and for builders 700 were contacted and 146 responses were received, a response rate of 21%.

5.1.1 New house owners survey cover letter.

The Owner
X Street

Dear Sir/Madam

As you may be aware, there is currently considerable interest in how well the building and construction industry is meeting the needs of New Zealanders seeking to get onto the housing ladder.

BRANZ is keen to find out more about the levels of borrowing that new home buyers have used to purchase their properties.

In particular, we want to gain a better understanding about the loan to value ratios that new home buyers have in place in purchasing their new homes. This is so we can gain some insight into the potential impact that recent Reserve Bank changes could have on new house building.

We would be grateful if you could help with this important study by answering the questions on the following page and return it to us via the freepost return envelope provided.

Please be assured that this information will be treated in the strictest confidence. Individual responses will not be used in any reports or publications – rather the aim is to look at a sample from across New Zealand.

Yours faithfully

5.1.2 Builders survey cover note/ letter

Builders name
Address

Survey on the impact of new lending policies on new housing supply

Dear

As you may be aware, there is currently considerable interest in how well the building and construction industry is meeting the needs of New Zealanders seeking to get onto the housing ladder.

At the same time, there are also concerns about how booming housing markets in some parts of New Zealand could impact on New Zealand's wider economic health.

With these things in mind, BRANZ has been talking to Treasury, the Reserve Bank and Industry about improving our understanding of the impact of some recent important changes on new housing supply.

In particular, we are keen to find out more about the levels of borrowing that new home buyers have used in the purchase of their properties and whether changes to loan to value ratios are impacting on house building.

We would be grateful if you could help with this important study by answering the questions on the following page and returning it to us via the freepost return envelope provided.

Please be assured that this information will be treated in the strictest confidence. Individual responses will not be used in any reports or publications – rather the aim is to look at a sample from across New Zealand.

Yours faithfully