An update from the Finance Desk

As always finance and the ability to access it is a large topic in the world of property investors.

Interest Rates

In the New Zealand mortgage market, we've recently seen Kiwibank come out with New Zealand's lowest-ever five-year rate, ASB aggressively slice large chunks off their three, four and five-year rates, TSB come out with an offer to match any rate from the Australian banks and traditional pricing heavyweight ANZ comes up with a special targeted around the Healthy Homes legislation which includes an exceptionally low 1 year option of 3.75%.

We've also seen the Reserve Bank drop the Official Cash Rate (one of the main drivers of interest rates) to 1.5% which is the lowest in the 20-year existence of this key rate.

There is, however, a storm cloud on the horizon. The Reserve Bank is talking about increasing the amount of capital banks need to hold in their coffers. There's some debate going on between economists wondering, if this happens, whether the flow-on effect could be increased interest rates. It could get a bit scary. UBS economists suggest we could see an increase in mortgage rates of between 86 and 122 basis points, or 0.86% to 1.22%.

The Reserve Bank's been upfront: they're looking at this capital increase to prevent a one in 200-year banking crisis. It's an admirable goal, but the question does need to be asked whether the potential detrimental effects of this could outweigh the benefits.

All this is happening at a time when property investors are already taking cashflow hits in the form of other changes – the ring-fencing of tax losses and Healthy Homes legislation forcing landlords to upgrade heating and insulation to minimum standards.

Here in New Zealand, we tend to just 'set and forget' our interest rates, but here's a heads-up…

Right now, I strongly suggest you put some time and effort into your mortgage, in view of the fact that it's often a family's biggest expense.

Criteria Differences

While banks may appear similar, often the different rules regarding how they assess security types can have a large effect on how much an investor can borrow. This is even more noticeable when dealing with apartments as there can large discrepancies in a lender's appetite. For example, minimum size requirements for an apartment to be treated as 'standard' range from as small as $40m^2$ to as large as $60m^2$ with different lenders. Most main banks exclude deck size, although, some may include it within the overall square meterage size and these variances only continue if other factors such as if the apartment is serviced or leasehold come into it as well.

We are currently going through a tight credit market and have already seen parts of lending contract off the back of a slower domestic property market and issues coming out of Australia. This will create opportunities for those savvy enough to spot them.

My team and I welcome the opportunity to have a coffee and review your portfolio, learn about your goals and provide forward-thinking advice on how to better structure your finance.