

Registered Master Builders' Federation of New Zealand Incorporated

SUBMISSION TO THE NEW ZEALAND PRODUCTIVITY COMMISSION

August 2011

Housing Affordability (Issues paper)

BUILDING FOR OVER
EXCELLENCE 100 YEARS



Introductory comments

The Registered Master Builders' Federation (RMBF) is New Zealand's largest construction industry association and represents New Zealand building companies that pride themselves on delivering quality houses and buildings to their clients.

Our member companies employ more than 15,000 employees and carpentry subcontractors, and complete over two-thirds of all construction work (by dollar value) in New Zealand. Our members include the majority of the large residential volume builders and major construction companies.

Our heritage spans over 100 years and we are dedicated to delivering value to our members through strong industry representation and advocacy to create business conditions that increase opportunities for success.

The Registered Master Builders brand is a recognised hallmark of quality, and we offer a range of products and services to our members including world-class industry events namely the Registered Master Builders House of the Year and Commercial Awards in association with PlaceMakers and the Registered Master Builders Apprentice of the Year in association with Carters and the Building & Construction Industry Training Organisation.

Registered Master Builders relish being able to continue to build great homes, schools, offices and other buildings for all New Zealanders to live, work and play in. We stand for building excellence and continue to strive to achieve this on behalf of the industry as a whole.

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Submission:

The Registered Master Builders Federation is pleased the Productivity Commission is investigating issues relating to housing affordability. We have provided our thoughts and comments where necessary and trust you find this feedback of benefit.

Construction forms around 5% of New Zealand's GDP (and new homes forms a large percentage of construction activity) and there are growing concerns that low affordability will reduce the required new housing stock as homes become out of reach of the average New Zealander. While new housing forms about 20% of housing sales each year existing house prices influence the demand and attractiveness of new homes – existing homes are the greatest competition for the new home.

The New Zealand construction industry is in its third year of a prolonged recession and the number of new homes to be built in 2011 (about 12,000) is about half the number needed to sustain our population. The boom bust nature of the sector makes it particularly difficult to manage and the industry tends to lurch from cycle to cycle.

Improved and sustained housing affordability should help maintain a base level of demand for new homes that allows the construction sector to be more innovative, productive and retain its long term capability.

We are happy to provide the Commission with any further information and to discuss any aspects of our submission.

ENDS

Understanding Affordability

Q1: How should the Commission think about the concept of housing affordability?.

RMBF is of the view that as housing affordability affects the entire market, and not just low income households, then the Commission's focus should be broad and examine the market as a whole. However, having said that, the Commission should consider the importance and the relationship housing affordability has on the lower income households and their ability to acquire their first home, versus those that already have a home and are looking to "trade up".

Q2: Does the stylised framework capture all the important determinants of housing affordability?

The framework should have included in it the impacts of global economic trends and the economic health of our key trading partners. Sustained property growth in NZ housing has always been on the back of strong economic conditions and as NZ cannot operate in an international vacuum this aspect should also be included. The last strong growth period (2001-2007) was an international event just as the last 3 years of recession have. Furthermore, while potentially covered under construction costs, the ability of low income householders to maintain their home to an acceptable standard would be worthy of investigation.

Q3: Is there a more appropriate framework?

Not that we are aware of.

House Price Trend

Q4: What factors have caused recent house price increases?

The nature of the property cycle means that property prices must correct themselves eventually and cannot increase forever. Accordingly all price drivers are temporary but the issue is more that property prices become increasingly out of reach as they do not fall to the same extent as they rise in NZ. This is due to two fundamental reasons: (1) people will not sell for a perceived loss unless forced to (so will wait for price increases if a loss is perceived) and (2) NZ has a build to order culture with very little speculation in the market. Thus NZ never has a situation where there becomes a high over supply of housing. Indeed the opposite tends to happen whereby slow supply of new housing to meet high general housing demand helps raise house prices. As mentioned earlier the recent rise was on the back of strong international growth and NZ was not immune to that.

Q5: What evidence is there that there was a 'bubble' in housing prices?

Bubbles is an interesting term. When a bubble bursts it collapses altogether. Housing markets in NZ have never done that to a large degree but high growth periods since the

1970s (prior to that NZ house prices were quite stable for long periods) have been followed by long periods of little or no growth in real prices. This is the market correction - or the bubble bursting. We are of the view that house prices were not undervalued as property values are market driven and a reflection of what the market is prepared to pay based on the circumstances at that time – which of course can change rapidly, causing a change in attitude by the market towards property and thus affecting price.

Q6: What effects have price rises in housing had on the affordability of home ownership?

Increasing house prices have probably made the first home less affordable. However, that may not be so for the second or subsequent home. Indeed increasing house prices makes that acquisition easier due to increasing equity and the ability to leverage off the existing asset.

Q7: Are median price trends representative of trends within housing sub-markets?

Not altogether. Median price does provide an indication but sub-markets can behave differently, particularly those markets more subject to international trends (eg coastal property, high country pastoral leases/runs and properties with high values) and apartments. Also unique local issues can have an influence on local prices but these tend to be of short duration causing spikes in prices that do not perform independently of the wider market and economy.

Q8: What is the best way to segment the market?

While it is possible to segment the housing market both by value and location – eg lower quartile, medium, upper quartile, apartments, major urban areas, secondary urban and rural it may be also valuable to segment the low income households in a similar vein to understand any consequential correlations.

Q9: Why have different parts of NZ experienced different trends in housing prices?

The market is not uniform and while the macro economic situation sets the scene for a positive or negative sentiment, local variations are always apparent due to local economic, demographic and international reasons. For example Queenstown is heavily influenced by tourism, and has traditionally been one of NZ's most volatile markets. Auckland follows similar patterns but for different reasons eg it is more influenced by immigration as 50% or more of all immigrants stay in Auckland. Regional areas can be affected by the health of its surrounding rural industries and all regions are ultimately influenced by demographic outcomes. Some markets are affected by the influence of international purchasers eg high country pastoral properties, coastal and high end homes, islands and properties with unique international elements – space, privacy and views. Clearly the value of the NZ dollar can play a role in this but some of our “iconic” properties are still relatively cheap by international standards.

Affordability Trend

Q10: How should affordability for home buyers/owners be defined and measured?

Affordability is not purely a matter of cost as other elements need to be taken into consideration such as society's attitude to their indebtedness, the availability of credit, the value it places on tenure preferences and so forth. On a pure median cost Vs median salary measure it appears housing has become less affordable. However, credit is now more freely available; interest rates have never been lower and generational attitudes change over time towards housing so a single economic measure is probably insufficient.

Q11: What has happened to affordability over time and what has caused this?

Depends on one's perspective on what determines affordability. While prices have certainly increased and housing is more expensive, credit is more freely available and 100% borrowing is now possible (not so 30 years ago), so one could argue housing is indeed more affordable as it is more accessible than ever before. If affordability is measured as only in relation to income, without taking into account the rise in equity (wealth) then affordability is very narrowly defined.

Q12: Do affordability trends differ for first home buyers with different income and household characteristics?

As mentioned above each generation has had different attitudes towards housing, where they will live, when they will purchase and renting Vs purchasing. It appears that the latest generation places more value on their quality of life as opposed to earlier generations who were heavily focused on owning their share of the "quarter acre paradise". I have heard it said many times "I would sooner rent where I want to live and enjoy my lifestyle than own where I do not want to live". This is quite a different attitude to the earlier baby boomer generation whose focus was on home ownership.

Q13: Do they adequately capture the problems facing those on lower incomes or those in particular locations?

Potentially not, and that is why we have suggested developing a correlative model of housing and low income households and location.

Affordability of Rental Housing

Q14: How should affordability for renters be defined and measured?

We have similar comments on rental affordability measures as we do for housing affordability from an ownership perspective. Given changing attitudes and a seemingly higher willingness to rent in locations that offer a higher lifestyle it may not be possible to develop a single measure or at the very least a single economic measure that really portrays "affordability".

Q15: What has happened to rental affordability over time?

Suspect rental affordability is more closely related to salary and wage growth. Accordingly rents tend to be more stable and not as volatile as house prices. This is evident in the way Auckland City has been able to develop its rating policies as it utilises (though the Super City is changing to Capital Value) the Annual Value rating system where rates are based on rent rather than values. This data indicates rents are significantly more stable and increase more gradually.

Q16: What factors have influenced the price of renting relative to house purchase prices?

Housing from an investment perspective, is predominantly driven by capital gains with yield (rental income) being a secondary outcome (as returns are greater and less risky in other forms of investment). While landlords may want to increase rents to recover the recent tax changes they can do little about it if tenants cannot pay. Rental affordability will be more substantially affected by housing supply so if investment housing is sold off causing a shortage in rental accommodation then rents will rise.

Q17: What has been the impact of existing government programmes to assist first home buyers?

There appears to have been very little impact from existing government programmes to assist first homebuyers

Home Ownership Trend

Q18: What are the key drivers of the decline in home ownership rates?

Very difficult to answer as it may not just be a price related matter, given the availability of credit. Certainly the cost of housing, particularly for first homebuyers is dearer, but it is not necessarily more difficult to purchase a home. The cost of an ever increasing deposit (as property prices rise) and ongoing rates and maintenance may be contributing factors. To a degree the “extra discretionary dollar” (ie the extra mortgage cost over the rent) may have to go towards paying for more essential living items but it could also be a reflection of generational attitudes.

Q19: To what extent are changes in home ownership levels explained by changing tenure preferences?

Potentially, either by choice or as a consequence of perceived high house prices and the reduction in the quality of life that purchasing will bring.

Markets for Housing

Q20: How should housing markets be defined in NZ?

Urban (main centres), urban (regional centres), urban (small towns), rural, apartments, coastal, lifestyle, high end housing.

Q21: Do housing price trends for the various sub-markets differ?

See responses Q7 – Q9

Q22: What are the characteristics of investors in housing?

Housing is seen by small investors as an alternative retirement plan. A large proportion of private rental stock owned by small “ma & pa” investors. As the figures suggest these investors consider capital gain and regular income (with no drop in the value of their asset) as key to their savings plans. Off shore investment in housing on a large scale is mostly restricted to retirement villages, Asian investment in housing as alternative student accommodation or the high end high amenity property as a one off purchase for private lifestyle reasons by wealthy individuals.

Q23: What are the major factors that have influenced recent investor activity in housing markets?

The NZ equities tend to be a yield driven investment and rapid growth in share prices is limited. Property investment is more “tangible” to the average investor, they understand property (or think they do) and many have experienced high capital gains since the 1970s. Furthermore, one can borrow 100% of the property’s value and receive 100% of its capital growth, obtain tax benefits and manage it directly. During times of high property growth many purchase as an opportunity cost (the cost of alternatives investment or waiting to a later time is out weighed by buying now) which helps fuel the market and competes with first home buyers for those lower priced properties.

Q24: What effect has investor activity in housing markets had on housing prices and affordability?

Investor activity has potentially crowded out first home purchasers as they compete for the same property. Apartments were initially viewed as an alternative real estate investment with many developers offering guaranteed returns and management contracts. However, over the years apartment values have not performed as expected from a capital gains perspective (as supply is not limited as more are constructed) and many investors have “been burnt” in the process. Due to their location apartments rent very well and consequently are now being purchased more from a yield perspective rather than capital gain.

Q25: Why is there little institutional investment in the private rental market in NZ?

Institutional investors are skilled in understanding the total cost of ownership and alternative forms of investment. Housing is a poor investment as it has comparatively low returns and high management and maintenance costs. Decent returns in housing

are contingent upon capital gain (which is high risk) and residential property unless packaged (eg a retirement village) is accordingly unattractive. However, institutional investors do invest in land, land development and land banking.

Q26: What practices of real estate agents impact on housing prices and affordability?

Real estate agents are paid by the vendor therefore they must act in their best interest to maximise price. More recent trends have seen the 'listed price' be replaced with tenders or auctions. This has the effect of fuelling house prices in times of high demand as previous unsuccessful purchasers "pay whatever it takes" in a bid to secure ownership in the fear it will just be more expensive next time. This practice works against vendors during weak property markets as they can be 'squeezed' by agents who present low offers within short marketing timeframes, when longer marketing is needed and a different marketing approach required.

Q27: Is there scope to improve the practices of the real estate sector?

TradeMe has introduced true competition to the traditional real estate process. However, there tends to be a barrier between vendor and purchaser when negotiating on the price. Generally this is undertaken by the agent as the go-between as vendors and purchasers do not like to negotiate face to face. Most are unskilled at it and find it intimidating therefore prefer someone else do that on their behalf. Furthermore, vendors like to ensure their property is fully marketed and believe, at this stage, alternative options do not exist that do that to maximise price.

Urban Planning, Design and Land Use Policies

Q28: What are the relative costs and benefits of intensification and expansion to urban planning?

NZ has a population just over 4 mil and a land area not dissimilar to the UK and Japan. It is absurd to think we cannot accommodate expansion of our cities but we should also be able to accommodate greater urban intensification in those areas (mainly Auckland) where it is desirable. However, both require the necessary infrastructure to support them and both require other matters to be addressed, such as planning controls and less regulatory intervention. Areas in Texas that do not have MULs and a less intrusive regulatory regime have very affordable housing and an ability to hold and supply land at the rate it is needed to meet increased housing demand so that property prices remain stable and affordable.

Residential land tends to form around 50% of capital value in the inner city, and a third to a quarter in outer suburbs. Market forces create higher demand for land and subsequently the value of the improvements on the land are rendered of less value and economic use. Improvements are demolished or refurbished so the land is adequately capitalised. However, with the cost of holding and creating new land in NZ being high it requires the improvements (house) to be of such a cost to warrant the land price. So the

higher the cost of the land the higher the cost of improvements (required capitalisation) and the greater impact on affordability.

Q29: How do these different approaches to urban planning support competitiveness and economic growth?

It is difficult to say which model or hybrid is the right one and no doubt preferences and decisions change over time. However, it is necessary to ensure NZ has vibrant and sustainable cities and communities and the jury is out on which approach, if any, delivers that. The issue tends to be managed more from an emergent strategy perspective than a deliberate one and this is understandable given the ever changing environment and attitudes. However, continuous tinkering and too much regulatory control can stifle innovation and increase costs and these need to be avoided.

Q30: To what extent do these different approaches to urban planning support environmental objectives?

Such policies need to support environmental objectives however, these need to be managed via an integrated framework that is understood by all and potentially national in its approach. Is there really anything so different between some suburban sectors of NZ that a national approach is impossible?

Q31: In NZ do home owners prefer living in dense urban settlements or less dense urban developments?

These preferences are changing and denser urban settlements are now more acceptable to the latest generation (who value lifestyle over ownership) and immigrants (who are used to and come from such environments).

Q32: Has there been a reduction in the rate of land release?

Unable to comment

Q33: Are local authorities' land release policies enabling or constraining?

Generally constraining

Q34: What is the likely minimum lead time for release and development of new land and housing?

2-4 years (subject to appeals and complexity)

Q35: Is land release delayed unnecessarily?

Due to high land development cost land is developed in response to demand for new housing (as the cost of holding fully developed land is too expensive). The long lead in time (particularly if land has to be rezoned or subject to RMA appeals) results in supply being too slow and the subsequent lag puts pressure on existing property prices as demand increases. Speed to market is potentially the main issue and a just in time approach does not work in NZ at present.

Q36: Are planning policies that are designed to encourage higher density housing consistent with changing community preferences?

Unable to comment

Q37: Is there evidence of land banking by some developers? Is this a problem?

Yes, as they are able to influence price by their speed of release without fear of competition.

Q38: Is the current regulatory system more complex and fragmented than it needs to be?

While the RMA is essentially outcomes based the process for obtaining resource consent can be subject to too many appeals and time delays. There are too many planning interfaces that each impact on the other – including the Building Act. There is insufficient certainty and high risk for a developer and it is not necessarily assured of a result in a known timeframe. Greater regulatory communication is essential and a national set of standards or such like needs to be developed to create greater consistency and smoother processing.

Q39: How could urban planning and development be improved?

As above – potential for nationally delivered standards and policy statements, greater integration of TAs (we have too many) and limiting the ground rules for appeals.

Q40: Do local authorities planning schemes and approval processes create unnecessary costs?

Yes, there is insufficient co-ordination between the resource consent and building consent processes resulting in reworks and time delays. Better communication and an integrated customer approach that delivers a single response is preferable.

Q41: Do external or third party appeal mechanisms unnecessarily delay planning approvals?

Yes, the appeal process can (and is) being used to deliberately delay planning approvals by competitors and to hold up developments with tenuous arguments.

Infrastructure Charges

Q42: What infrastructure costs should be recovered through infrastructure charges?

Infrastructure costs should be restricted to that infrastructure that directly services the development. The costs of providing open space for whatever public use need to be provided for and a contribution is necessary, however not necessarily the entire amount as those services should be funded out of taxes or rates. The developer, or end purchaser, in incurring the entire cost results in land being slow to market as increasing costs/contributions requires higher land prices to justify their development. The extra

cost for increased servicing specifications, beyond that required for the development, should be funded by the ratepayer.

Q43 – Q46

There is a need for greater transparency of what the charges are funding and justification for the level of the charges. The developer should not be paying for intergenerational inequities as previous councils have not invested in the necessary infrastructural upgrading and a catch up level of investment is now required. That is the role of rates and taxes.

Q47: Do infrastructure charges become fully capitalised into the value of the land

The value of the land value is set by the market and will reflect the services provided. However, it is unlikely the value would be significantly different without the infrastructure charges which only act as a financial hurdle and slows land to market as developers need to wait until land values have risen high enough to cover such charges.

Q48: What alternative methods of funding could deliver fairer and/or more efficient outcomes?

Open for discussion depending on better understanding and transparency associated with where the funds are being allocated. But potentially better use of targeted rates for new developments that funded by the ratepayer as a trade off for lower land prices and greater affordability.

Building Controls

Q49: What effect have the 2004 changes to the Building Act had on housing prices and affordability?

The level of regulatory response to the leaky homes issue as detailed in the 2004 Building Act has had nothing but a negative effect on prices and affordability. Not only are regulatory costs greater but the amount of time now required to meet these controls has increased markedly. Far more detailed plans, delays with inspections and longer from concept to consent approval.

Q50: What evidence exists of unnecessary or inappropriate regulation of building?

All residential buildings are considered high risk and treated the same, irrespective of design and materials. This has resulted in over regulation of most homes in NZ. This risk averse approach by Building Consent Authorities (BCAs) is imposed by their insurers and the BCA accreditation requirements. This is being addressed by the Building Amendment Act No3 which is designed to readdress the imbalances in the building system and introduce risk (stepped) consenting.

NZ has one Building Act and Building Code that is being interpreted by each BCA and within the BCA by different building control officials. There is no consistency between

BCAs and differing requirements for the same building making it difficult for the building sector to produce fast and accurate plans for consents.

Q51: Compared with overseas, are there specific NZ conditions that require additional costly building controls and standards?

Compared to many countries NZ does have specific design issues that are needed to address our topography, seismic activity, wind condition and geography (eg snow etc). This does increase cost.

Q52: To what extent does the building code encourage or accommodate medium to high density housing?

Neutral, though there is some uncertainty about whether an apartment building is a commercial or residential structure. Same applies to mix-use properties.

Q53: Is there evidence of unnecessary delays in approving building consents?

As above, too many interpretations of Building Code and suspicion by builders/developers that when the processing time is tight consents are delayed for spurious reasons to ensure Building Act processing requirements are met.

Performance of the Building Industry

Q54: Are construction costs higher than they need to be?

As mentioned earlier the regulatory requirements are excessive in both time and cost. Productivity is very low and the rework rate high – however, it is interesting to note that we at Master Builders do not have that level of major dispute as the data suggests. The sector is not well educated with high rates of poor numeracy and literary skills. The sector also has a very high number of small/medium enterprises (less than 10 people) that do not have the capability or capacity to implement good management and quality control systems. The Productivity Partnership is designed to address such issues.

Q55: Have rising construction costs contributed to rising housing prices?

Construction had to expand rapidly in the early-mid 2000s to meet increasing demand. At its peak there was pressure on resources and costs increased as a result. However, we do not think the cost increases were excessive or highly out of kilter with other sectors of the economy at that time.

Q56: To what extent is the market structure and lack of economies of scale a factor driving the cost of building materials?

A major factor in NZ is the market structure and lack of economies of scale. We build too few buildings of standard type design to encourage the capital investment in large scale prefabrication or standardisation. The consumer always requires some specific design components and our markets are so small locally and spread thinly across NZ that no one internal market is large enough to risk such investment.

Q57: Are there any concerns with the level of competition in the building materials market or any other part of the building and construction supply chain?

Unable to comment, except for the influence of the risk averse nature of BCAs and the difficulty in accepting alternative solutions. Accordingly innovation is stifled. Productivity would also improve with a change in the relationship between the owner, designer, (or architect) builder and specialist trades. It tends to be an iterative/linear approach resulting in high cost of 'fix' when a problem occurs once the building is under construction. Such issues may well have been identified up front if the builder and specialist trades were included from the outset.

Q58: Why is there not more standardisation in NZ?

Standardisation, or lack of it, is driven by both consumer preference and our build to order approach. However, more volume and franchise companies, with standard designs and materials, are constructing new homes now than before so some level of "standardisation" is creeping into the market.

Q59: Have skill shortages in the construction industry contributed to rising house prices?

In the past skill shortages have been provided as a reaction as general demand increases, however there is always a lag. Skills shortages of a large scale are predicted going forward as a result of:

- 3 years of very low activity has resulted in the sector losing a high number of skilled trades people (2011 the likely to be the lowest ever at around 12,000 new homes)
- NZ will ultimately recover and new housing demand return but NZ will also have to gear up for:
 - Demand in Canterbury for the rebuild
 - Demand in Auckland (predominantly) as a result of the passing of the financial assistance package to fund the repair of leaky buildings

Coming off such a low base and if these demands eventuate in 2012-2013 it is highly unlikely NZ has sufficient skills going forward. This may be exacerbated with the introduction of the Licensed Building Practitioner scheme in March 2012.

Q60: Are there differences in productivity between residential and commercial construction?

There is greater potential for increased productivity in the commercial sector due to fewer but highly skilled operators, particularly at the upper commercial end.

Q61: Why does there appear to be a high level of rework in the construction sector?

The data does not identify what it means by major dispute and when this occurs. There is a power imbalance within the residential sector as the construction progresses. Generally the power rests with the builder at the commencement of the project but shifts to the owner at the end (who may retain the final payment). This retention can be for a number of reasons of which workmanship is one, but also it is not uncommon for

the owner to be under financial stress by the end and cash flow for them is a problem. Disputes can be a way of deferring payment. However, the sector is also poor at managing expectations and utilising existing mechanisms to resolve disputes (ie the building contract or the Construction Contract Act if payment related)

Population and Demographic Change

Q62: To what extent has immigration influenced overall housing demand?

As over 50% of immigrants stay in Auckland it is this market that is likely to be most influenced by immigration. It is difficult to say that immigration is a major source of increasing house prices. We suspect not, given net population is about 2/3rds births and 1/3rd immigration and the numbers are small in relation to all sales.

Q63: Where has population growth contributed most to housing prices?

As above.

Q64: Has population growth been concentrated in the major regional cities?

See above comments.

Q65: What are the major demographic and social changes that have influenced housing demand?

We have seen a small increase in recent times in the household size which suggests that since the global financial crisis people are staying at home longer, not leaving NZ or other reasons. This may ultimately lead to pent up demand but the general feeling is that Auckland is the only city (Christchurch aside) that has a genuine housing shortage, while in the rest of NZ cities this is not so.

Q66: To what extent has the changes in household composition affected the demand for housing?

See above

Q67: How have household preferences for housing changed?

Population growth is the largest long term influencer on house prices – pure supply and demand pressures. Long term predictions show certain areas of NZ are unlikely to grow in population over the next 20 years or so (eg West Coast, East Coast, Southland) so house prices in these regions may well stabilise or even fall if the population reduces. Values will be maintained if employment prospects are promising and if these regions are seen by those in more populated and expensive areas as a more affordable alternative. Auckland and the area north of Taupo are likely to be subject to population pressures as the baby boomers retire to a warmer climate and immigrants continue to

settle in Auckland. There is also an increasing awareness from the consumer on energy efficiency and sustainability which may affect housing preferences over time.

Q68: Does the apparent mismatch between the increasing average size of dwellings and the projected shift to smaller households raise any market or policy concerns?

This does pose an interesting question. Given baby boomers will retire over the next 20 years and household sizes are getting smaller is a mismatch occurring so that the housing we currently have be unsuitable?. Furthermore, should these baby boomers sell off their existing residential investment properties when they retire (assuming they do) will there be sufficient demand for those houses? We are of the view that the market will sort those issues including the required refurbishment of large volume of homes built in the 1960s and 1970s that will be necessary over the next 10-20 years.

The Role of Taxation

Q69: How have taxes affected price and affordability outcomes?

Given the tax treatment of residential investment properties this has undoubtedly provided an incentive to acquire an investment property. Such properties tend to be toward the lower end, first home buyer market which has the affect of increased competition for these homes and higher prices than otherwise may have been the case. However, having said that, these properties still need to trade within the wider market parameters ie relative to other housing offerings, but in times of high demand and low supply the gap between lower priced properties and better properties tends to widen then close again when the demand changes. However the relativity does not remain constant and the lower priced properties are ratcheted up over time relative to more expensive homes whose prices are more volatile.

Q70: To what extent, is the tax treatment of investment housing concessional relative to other income earning assets?

There is little doubt that the tax treatment of investment property has attributed to the high level of investment in this sector relative to other forms of investment. This has come at the expense of investment funds in other capital markets. However, the wider policy issue needs to be considered relating to what, if any, influence changing the tax regime will result in fewer private sector rental properties and a greater reliance on the State for housing

Q71: Does the NZ tax system influence tenure decisions towards or away from home ownership?

It influences decisions relative to acquiring a second investment property, but given homeownership rates are declining any influence can only be by affecting affordability as opposed to tenure.

Q72: What is the impact of local property taxes on housing demand?

The level of rates is low compared to the acquisition price and we do not believe is an influencing factor on overall housing demand. However, development charges provide a barrier to the supply of new housing.

Macroeconomic Influences

Q73: Has growth in household incomes been a major factor affecting housing demand, prices and affordability?

Higher household incomes means a greater ability to service debt which can lead to higher prices being paid...just because the debt can be serviced. .

Q74: To what extent have changes in real and nominal interest rates over the last decade stimulated demand and increased house prices?

The new housing market is heavily influenced by interest rates. Enquiry increases and decreases with every fall and rise in the ORC. However, during a time of rapid house prices due to short supply, increasing interest rates (depending on debt servicing and perceived capital gain) can have little effect on house prices. We experienced interest rates in excess of 20% in the 1980s (with admittedly very high inflation) in conjunction with rapid house price movements. It would be interesting to analyse if this period in NZ's history contributed to why our house prices are perceived to be so high and whether our high inflationary environment of that time, and the policies adopted, resulted in NZ having excessive inflation for a longer period (and therefore rising house prices) compared to other countries.

Q75: To what extent have housing prices been affected by labour market developments?

Employment security is a key factor in the mind of the consumer and their appetite to acquire a home, upgrade or trade up. The prospect of losing one's employment deters investment in housing and we are experiencing that at the moment. There is still uncertainty for the consumer that they will retain their job and consequently they are not committing to housing decisions notwithstanding very low interest rates and something of a "buyers' market.

Q76: What other macroeconomic factors have influenced housing prices and affordability?

The condition and performance of international economies and world growth in general, together with the economic health of our main trading partners

Q77: To what extent have housing prices been affected by recent performance of equity markets?

Difficult to say regarding recent affects however the long run performance of housing since the 1970s has breded a generation of investors who believe housing is a viable alternative to other forms of investment. Given the capital gains that is difficult to argue with, particularly when you can retain all the equity and borrow 100% of the purchase cost.

Q78: How have returns in investment in housing moved over time and relative to other assets?

Housing has performed very well and as mentioned above seen by investors as a solid long term alternative to other forms of investment. Yields on housing are consistently around 5% (market rent as a % of property value) but return is made up from both yields and capital gain and it is the capital gain that is most rewarding. This has come at the cost of investment in other capital markets.

Availability of Finance

Q79: How has financial product innovation in home lending contributed to increasing demand for owner-occupier and investor housing?

The availability of credit and financial product innovation has certainly contributed to increased demand for housing. It is certainly a lot easier to purchase a home now than it was 20-30 years ago. This must increase competition amongst both lenders and borrowers putting pressure on property prices over time. However, lenders went into their shell after the global financial crisis and required greater deposits and tougher lending criteria. Commercial property was greatly affected by the loss of property based financial institutions and the "mezzanine" lending (that is required to scope, investigate and resource projects at the front end) virtually disappeared from 2007.

Q80: Are capital markets meeting the needs of home buyers, in particular first home buyers?

There is certainly a prejudice by some lending institutions against financing new homes in a depressed property market. They perceive the risks as too high and prefer to steer purchasers towards existing property.

Q81: To what extent is the financial sector overly exposed to property markets?

Those with high loan – value ratios who are under financial pressure would mean potential exposure to capital markets. However, as long as the borrower can continue to service the mortgage lending institutions are not required to account for a loss that may not eventuate, though they do account for potential bad loans where they consider default is likely. With high borrowing levels lending institutions are looking towards capital gain over time to reduce their exposure. Under mortgagee sale conditions properties can sell for less than 2/3rds of their perceived market value at the time however lenders are prepared to accept this risk with reinsurance and other financial products available to protect them. Securitisation of mortgages is also now quite a sophisticated market for capital markets and the selling off of mortgage debt packages now commonplace.

Q82: Are household debt levels in NZ a concern?

Not necessarily, particularly if property values continue to grow as the debt to income ratio is only part of the consideration as the debt to asset ratio is also important. Should property values not grow over time then there will be inadequate savings generated for investors. They are therefore likely to change their investment behaviour and invest in other forms of wealth generating activities.

Renting Versus Owning

Q83: What are the benefits of owning rather than renting and visa versa?

The benefits of renting include a more stable and known level of outgoings for the household. They are not subject to interest rate variations, rates, maintenance and other homeowner's expenses. Rents are less volatile and are linked more closely to salary and wages than property prices. There seems to be a greater level of preference towards renting as a lifestyle choice as it provides greater disposable household income. Of course what it doesn't do is generate wealth (assuming property prices increase over time) but renters will argue they can save just as rapidly. Security of accommodation is at risk with renting as the circumstances of the landlord can change but renters will argue they are more mobile and have greater accommodation choices.

Q84: How responsive is the demand for owner-occupier housing to changes in rental costs?

The link between demand for housing and changes to rents is most apparent when borrowing costs are low and the rent is equivalent to mortgage debt repayments. There is therefore a benefit in ownership. However, this relationship changes over time and one need only look again at the Auckland City Council Annual Value Valuation Roll and the behaviour of rents vs capital values. Most likely the greatest influence for the

investor (ie a second home) is the ability of the rent to fund the mortgage and for the first home buyer whether or not they have sufficient deposit.

Q85: Have changes in the costs of renting and ownership caused changes in the level of first home ownership?

Unable to comment

Q86: Has investor activity influenced the relative cost of renting and home ownership?

Has potentially had a bigger influence on home ownership than rents. However a significant percentage of the housing market is made up of investment property. Unless there is a under supply of rental accommodation landlords cannot lift rents beyond what the market is prepared to pay so the degree of investment activity, and the extent to which it satisfies rental demand, will have an effect on rents (through over or under supply of accommodation).

Q87: To what extent does the design and administration of the accommodation supplement influence housing consumption, tenure choices or affordability?

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