

10 August 2016

Head, Macro Financial Department
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**RE: NZPIF SUBMISSION ON THE RESERVE BANK CONSULTATION PAPER,
ADJUSTMENTS TO RESTRICTIONS ON HIGH-LVR RESIDENTIAL MORTGAGE LENDING**

Please find attached the written response of the New Zealand Property Investors' Federation Inc to the consultation paper.

The Federation is is happy to provide the Bank any further information it may require and wishes to be heard in person should verbal submissions be required.

Yours sincerely

Andrew King
Executive Officer

**Submission of the
New Zealand Property Investors' Federation Inc
to the
Reserve Bank of New Zealand**

**Adjustments to restrictions on high-LVR
residential mortgage lending**

August 2016

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Introduction

One of the Reserve Bank's core functions is to help maintain financial stability. This is done in part by regulating banks.

The Reserve Bank considers "a sharp correction in house prices to be a key risk to the financial system, and one that is increasing the longer the current boom in house."

Historical evidence would suggest that the current housing market is not vastly different to those seen in previous decades. Property cycles over the past half a century have never seen major corrections and it is unlikely that such a major correction could occur at this stage.

The Reserve Bank's says that "a severe downturn in house prices could have major implications for the banking." However the Banks own stress testing has revealed that New Zealand Bank's are very robust and could handle a severe collapse of house prices should this occur.

Despite acknowledging housing supply issues are the key component of current house price increases, the Reserve Bank is focussing on the demand side, taking particular aim at rental property providers.

Rental property owners provide homes for tenants, who are suffering from a lack of rental property options. It is unjust that the needs of home buyers are being put before the needs of tenants.

It is illogical to continue attacking rental property providers, in an attempt to slow the growth in house prices, when all measures to date have had little effect.

The affect of the proposals will be higher rental prices and lower rental choice for tenants. They are unwarranted, ineffectual and will adversely affect vulnerable people.

Cause of house price increases

The rising house prices that we have seen in Auckland over the past few years and more recently in the rest of New Zealand are the result of a housing supply system that is unresponsive to changes in demand.

While the New Zealand is performing well, we can expect to see a continuation of the record levels of migration we have been experiencing.

The migration figures are approximately half from foreigners moving to New Zealand, with the other half being fewer New Zealanders moving overseas and a higher number of over seas based New Zealanders returning home.

Previous high levels of migration have mostly been foreigners moving to New Zealand, who typically settled in Auckland. With current high migration levels involving New Zealanders, it is likely that the increase will be more evenly distributed around the country than in Auckland alone.

This is likely to apply pressure to house prices in regions outside Auckland.

These high levels of migration are difficult to control and can fluctuate quite quickly depending on economic conditions.

Unlike natural population increases, migration numbers are generally adults who need accommodation and therefore create a high level of demand for housing. This includes both owner occupied and rental housing.

Through various acts of parliament, such as the RMA, New Zealand has decided that there should be a high level of consultation around housing developments and matters such as Auckland's Unitary Plan. While it is seen as good that the general public has a say in how their environments should be used, there is no doubt that it slows down the supply of new dwellings. Likewise Council rules and regulations also slow down supply.

Even the SHA's that speed up the consenting process take a considerably long time before houses are actually built.

These matters mean that housing supply is not responsive to demand, meaning that people are forced to outbid each other and drive up house prices before supply kicks in.

While housing supply is slow to respond to increasing demand, it is also slow to react to falling demand. Should economic conditions change and migration levels fall or even turn negative, it is highly likely that we will have a pipeline of properties being built for which there is no longer any demand for.

Ineffective targeting of rental property owners

The Reserve Bank is focussing its demand side policies on rental property owners, believing that they are the key reason for house price growth.

A recent study by Core Logic has shown that it is actually First Home Buyers who are willing to pay higher prices than investors. First home buyers buy with emotion while investors buy with an eye to the return. Consequently they are unwilling to pay too high a price as this directly affects both their yield and their potential for asset appreciation over time.

It is illogical to continue targeting investors when two thirds of property buyers are home owners.

Economist and Chief Research Officer for Strategic Risk Analysis Ltd, Rodney Dickens, says "No matter how well justified the lending restrictions on low deposit borrowers and the planned targeting of investors by the Reserve Bank may seem, history teaches us that such interventions impose costs and will most likely have unexpected and undesirable consequences".

To illustrate, consider a town where the local factory has had a large increase in demand and is hiring many more workers to increase production. There is only one road to the factory and it has become heavily jammed through the higher number of workers going to and from work.

Most workers use their own car to get to work, however some don't have a car and rent taxi's as there is no public transport.

Unable to supply a wider road quickly, and facing concerns from the public, the decision is made to reduce demand. To do this they apply a higher tax on the taxi drivers to dissuade them from using the road.

However the workers without cars still need to get to work, so they are forced to pay the higher fares that the taxi drivers now need to charge. To cope with the extra costs, some workers cram into overcrowded taxis to share the cost.

While this sees a minor reduction of cars on the road, it is still being blocked and more workers are being employed by the factory. So the Taxi drivers are charged even more in an attempt to reduce demand for the road.

But by now the workers without cars are already cramming in as many people as they can and they still need to get to work. The affect is that the cost of getting to work is increasing for those that don't have a car and the road is still jammed. The higher taxi costs are making it harder for them to save a deposit for a car of their own.

The population wonder how the young will ever be able to buy their first car.

Summary

It is short sighted to focus on demand for property when supply is the issue. By continuing to target rental property providers it is tenants who will ultimately suffer.

Recommendation

The NZPIF recommends that the Reserve Bank does not proceed with plans to create an asset class for rental property loans or to require banks to hold higher capital reserves for such loans.

New Zealand Property Investors' Federation

This submission has been prepared by the New Zealand Property Investors' Federation Inc (the Federation) in response to the Reserve Bank's invitation to provide feedback on their consultation paper regarding Housing Review Stage Two: Asset class treatment of residential property investment loans in BS2A and BS2B.

Established in 1983, the Federation has twenty affiliated local associations situated throughout New Zealand. It is the national body representing the interests of over 7,000 property investors on all matters affecting rental-housing.

The Federation welcomes this opportunity to participate and comment on the draft legislation.

Industry background

The following points are provided to assist readers understand the extent of the economic and social importance of the private rental industry in New Zealand.

What is the extent of the private rental industry?

- According to a recent survey¹ of property investors it was estimated that there are over 300,000 landlords in New Zealand. There are no corporate or institutional residential landlords.
- There are over 464,000 residential rental properties², housing over 600,000 tenants, and worth around \$150 billion³.
- Private landlords are the largest providers of rental accommodation in New Zealand.
- 81% of tenants rent from a private landlord or trust⁴.

³ NZ Herald 10/1/07

- Median weekly rent for all accommodation is \$350. The amount spent on rent each week is \$162 million and annually this is \$8.4 billion.
- Assuming a 20% equity rate on a \$257,000⁵ property, the amount spent on mortgage interest payments, at 8% interest, (\$16,000pa) is \$4.8 billion.
- Most property investors (57%) have been engaged in the business for 10 or more years⁶, which dispels the myth that people are investing in property to make a “quick buck”. Instead, property investors are using their rental income business as a mechanism for saving for retirement and are professional and committed long-term service/accommodation providers.

Who rents?

- Census information shows 366,000 New Zealand households pay rent, up from 272,000 in 1996, with an average tenancy of around a year-and-a-half, and the average just 16 months for those with private landlords⁷.
- There is a growing demand for private rental market places and the number of people living in flats or apartments is likely to increase.⁸
- The cost of renting the NZ median priced home in December 2014 was \$7,852 cheaper per year than the cost of owning the same property⁹

What does the private sector offer?

- Private landlords provide rental accommodation to those seeking short or long-term housing options.
- Private rental housing owners are the most flexible and cost effective means of providing housing stock and accommodation to New Zealanders.

⁴ Jo Goodhew MP, RTA Bill, First reading, Hansard 26/5/09

⁵ The lower quartile figure from QV’s Residential Property Sales Summary, Dec 2008

⁶ ANZ NZPIF Annual Survey 2006

⁷ Dept of Building & Housing Annual Report 06/07

⁸ The Economic Impact of Immigration on Housing in New Zealand 1991 to 2016 At a Glance
Published: June 2008 – Economic Impacts of Immigration Working Paper Series (Reported in the NZ Herald 7/6/08)

⁹ Survey into the cost difference between owning a renting a home in New Zealand. Andrew King, May 2009