Proud providers of rental homes

Submission to the Reserve Bank of New Zealand

"DTI Framework Consultation 2022"

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New Zealand Property Investors' Federation

This New Zealand Property Investors' Federation Inc (NZPIF) welcomes the opportunity to provide feedback for the Reserve Bank on the regulatory framework for DTI Restrictions.

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

Our philosophy is to be an industry advocate, which means we take a balanced role in considering the rental industry as a whole, including the requirements, rights, and responsibilities of both tenants and rental property owners.

Industry Background

There are approximately 1,267,100 owner occupier properties and 628,800 rented and 37,300 provided free.[1] (54.9% are rented).

There are approximately 290,000 landlords in New Zealand. There are very few corporate or institutional residential landlords.

Rental properties house over 1,500,000 tenants[2]. (32.5% of NZ's population)

The national median price of a property is $810,000[3].

There are currently 76,271[4] public (State) houses. Of these, 64,870 homes are provided by Kāinga Ora, and 11.401 community houses are provided by 51 registered Community Housing Providers across New Zealand.

Private landlords are the largest providers of rental accommodation in New Zealand. 87% of tenants rent from a private landlord or trust. They provide a necessary and essential service to society.

Most property investors (57%) have been engaged in the business for 10 or more years[5], which rebuts the myth that people are investing in property to make a "quick buck
66% of existing investors plan keeping their properties for at least ten years or not selling at all. The proportion of investors with this long-term focus is showing no upward or downward trend[6]. This reveals how the view in some quarters that investors are in for short-term profits is incorrect. 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.

[1] Statistics New Zealand 'Estimated number of private dwellings in New Zealand by tenure' 1991-2021.

[2] 2020 Statistics NZ – Housing in NZ 2020

[3] NZA Report October 2022 REINZ.

[4] HUD Public Housing Quarterly Report June 2022

[5] ANZ NZPIF Annual Survey 2006

[6] 'Tony's View' survey February 2022

At the time of the 2018 Census, New Zealand's homeownership rates were at their lowest since the 1950s.[7]

Homeownership percentages continue to be higher outside the main centres – for example, 8 out of 10 households in Waimakariri and Selwyn districts lived in an owner-occupied dwelling.[8] Homeownership rates in our major cities in 2018 were generally well below the national average.

There were 25,887[9] people on the Public Housing Register in January 2022.

By 2018, just over 1.4 million people lived in houses they did not own. Although private renting predominated for all age groups, almost one-third of renters aged 65 and over lived in social housing.[10]

Statistics NZ has made a comparison of household expenditure from 2021 compared to 2020[11]:

- total rent payments (up 5.4 percent) to $392.30 per week from $372.30
- mortgage principal repayments (up 17.5 percent) to $273.40 per week from $232.60
- property rates (up 5.3 percent) to $61.20 per week from $58.10
- building-related insurance (up 5.7 percent) to $39.70 per week from $37.60.
- Mortgage interest payments decreased, down 14.9 percent to $203.20 per week from $238.70, compared with the year ended June 2020.

Information from HUD shows that only about 25% of tenants have the ability and means to buy their own house.

The rental property industry paid tax on net rental income of $1,444,000,000 in the 2016 financial year[12]

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[7] Housing in Aotearoa 2020.
[8] Housing in Aotearoa 2020.
[9] HUD Government Housing Dash Board, January 2022

[10] Housing in Aotearoa 2020.
[11] Statistics NZ
[12] IRD Data, April 2018

Executive Summary

The NZPIF remains of the opinion that Debt-to-Income Restrictions are fundamentally flawed and should not be introduced.
However, if a DTI is to be introduced then it should not applied to investor loans.
Debt-to-income restrictions are already used in the United Kingdom, where most owner-occupier buyers cannot get a mortgage higher than 4.5 times their annual earnings. However, it is not widely appreciated and seldom mentioned that these restrictions do not apply to buy-to-let investors (i.e. rental property investors) under the current UK scheme. If you do want to control property prices then this actually makes sense – first home buyers, driven by emotion, tend to bid prices up while investors, seeking a bargain and with one eye on their calculators, tend to hold prices down.

The proposals set out would appear to advantage overseas buyers who either have ready cash available or who could arrange access to loans outside the New Zealand banking system, as it would reduce competition from local buyers who would be affected by the restrictions.

We believe that any broad DTI requirements which included investor loans would

- reduce the number of rental homes
- increase rents
- cause overcrowding which will have adverse health effects on tenants
- make it harder for first home buyers to save for their own property
- not encourage more investing in new build houses.

Discussion

Questions regarding personal income

Q1: Do you agree with our proposal to measure personal income on a gross rather than net basis?
We think that would be the most equitable way

Q2: Do you agree with our proposal to include all forms of personal income in the DTI calculation?
Yes, on the basis that all forms of personal income are available for either unavoidable living costs and mortgage serviceability

Q3: Do you agree with our proposal to treat all personal income on an unweighted basis (i.e. without 'haircuts') while retaining the option to specify haircuts in future if necessary?
Yes, to treating on an unweighted basis. However, haircuts at a later stage should not be specified, as this then probably becomes a political and punitive option rather than one related to serviceability.

Q4: For lenders, how do you currently treat variable income in your serviceability assessments, and approximately what percentage of personal income is variable? This information can be provided in confidence.
No opinion

Q5: What is your preferred approach for measuring variable personal income in the DTI calculation – leaving this to banks' discretion, or applying set rules? If you prefer a rules-based approach, what rules would you recommend?
Given that the Banks are best placed to make this assessment on a person-by-person basis the decision should be theirs. This variability would lead to some competition between Banks which, in a commercial marketplace, should be encouraged.

Q6: Does the wording of the draft framework clearly convey our design decisions in relation to personal income? If not, how could the text be improved?
We disagree with the statement that "investors still account for the large majority of lending at high DTIs" as this would relate to an individual mortgage rather than the investors overall portfolio. By purchasing the addition income-earning property the investor is incurring extra debt but is also increasing their income in order to service that debt.

Questions regarding personal debt

Q7: Do you agree with our proposal to include all forms of personal debt in the DTI calculation, on an unweighted basis?
That would seem to be the least complex option and therefore preferable.

Q8: Do you agree with our proposal to incorporate student loans within the total debt

calculation, rather than as a deduction from income?
No opinion

Q9: What is your view on whether BNPL lending should be included within personal debt?
No opinion

Q10: Does the wording of the draft framework clearly convey our design decisions in relation to personal debt? If not, how could the text be improved?
No opinion

Questions regarding business debt and income

Q11: Do you agree with our proposal not to include business debt in the DTI calculation?
We see a complication there with sole traders who operate under their own name rather than forming a company.
Given that MBIE and the IRD have always clearly defined residential renting as a business, does this mean that the debt of residential landlords would also not included in the calculation?

Q12: Do you agree with our proposal to calculate the business income available to service residential mortgage lending based on taxable profits?
Yes

Q13: If business income is calculated based on taxable profits, do you agree that a deduction should also be made for principal repayments on business debt?
Yes, include business debt in total debt, and measure business income based on gross earnings after expenses

Q14: How should DTI ratios be calculated in cases where it is difficult to disentangle business from residential debt?
Business debt should always be excluded.

Q15: Does the wording of the draft framework clearly convey our proposed rules for business debt and income? If not, how could the text be improved?
It is a very complex area, and no doubt any wording will lead to endless arguments and legal rulings.

Questions regarding treatment of complex lending situations

Q16: Do you agree with our proposal to adopt a set of rules to cover some types of complex lending, with the remainder allocated into the general speed limit?
Create a specific exemption from the DTI restrictions for complex lending situations.

Q17: Do you agree with the rules we have set out for complex lending? If not, what changes or improvements would you suggest to the rules?
Disagree. See answer to Q16 above.

Q18: For lenders, what percentage of your complex lending do you estimate would be covered by the proposed rules, and how much would need to be allocated into the speed limit? You

can provide this information confidentially if you wish
No opinion

Questions regarding exemptions

Q19: Do you agree with our proposal to apply an exemption regime for DTI restrictions that mirrors the current approach for LVR restrictions, with the exception of the combined collateral exemption?
Yes.

Questions regarding structure of the restrictions

Q20: Do you agree with our proposal to structure the DTI restrictions in the form of a speed limit and a threshold, based on the value of new lending, as for the LVR restrictions?
Yes, compatibility is essential

Q21: Do you agree with our proposal to apply a uniform DTI limit across all residential mortgage lending, rather than differentiating by borrower or property type?
No. We remain firmly of the belief that any DTI restrictions should not apply to residential investment housing. This is based on the reality that (a) being a residential landlord is being in business and therefore the business exemption should apply, and (b) any DTI would further impact on the already declining number of private rental properties available for tenants.
The assumption of expenses becomes even more unreasonable when DTI is applied to an investor wanting to purchase an investment property. This is because when a borrower purchases a new property, it is automatically assumed their living expenses increase. But that is not the case with someone who is buying an investment.

Questions regarding administrative issues

Q22: Do you agree with the proposed general guidance on debt and income verification in the draft framework? If not, what would be your preferred approach?
No opinion

Q23: Do you agree with our proposal to measure compliance with the DTI restrictions over a rolling period of three months for larger banks, and six months for smaller banks?
Presumably this relates to the Speed Limit. If so, yes.
Not mentioned in the above is the ability of more astute borrowers to source funds on the overseas markets. How would the RB seek to control this funding avenue?

Q24: Do you agree with our proposal to monitor compliance via the DTI survey, updated to reflect any changes to the definitions of debt and income?
No, this would create uncertainty and uncertainty always has a negative impact on any market. We need regulations that are clear simple and fixed.

Questions regarding DTI calibration

Q25: Would it be helpful to have an indicative starting calibration for the DTI restrictions, prior to the restrictions coming into force? If so, please explain how this would assist with your systems development, and indicate whether you have a view on the preferred calibration.
No opinion