

## REINZ Political Update – December 2017

The recent change in Government means a number of changes to housing policy and direction are underway. We have collated information to help understand the changing political environment. This will be part of an ongoing update on policy changes we can keep abreast of the potential changes and implications for our industry.

### Labour's manifesto outlined:

- The Kiwi dream of home ownership is slipping away
- A quarter of adults under 40 own their own home, compared to half in 1991
- Home ownership is at its lowest level in 65 years
- Out of control house prices are putting home ownership beyond the reach of middle New Zealand
- Speculators flipping houses for quick capital gain are out-bidding families looking to buy a home for themselves and forcing up house prices at a dangerous rate
- The previous Government's policies have been half-baked and half-hearted.

### Labour's policies aim to:

- Increase tax for property speculators by extending the Brightline test from 2 years to 5 years
- Ban foreign speculators from buying existing New Zealand houses
- Create a level playing field for families to buy their first home by removing negative gearing.

### Labour's 100-day plan for housing includes 3 key points that will impact the real estate market:

1. Changes to the Overseas Investment Act to ban non-residents from purchasing property in New Zealand
2. Changes to rental property legislation including changes to taxation on sale of rental properties by extending the Brightline test. Introducing the Healthy Homes Guarantee Bill for rental properties
3. Creation of a Housing Commission to address supply and demand issues within New Zealand including a KiwiBuild initiative.



#### 1. Changes to the Overseas Investment Act

##### What is the change?

- Banning overseas residents from buying existing residential homes within New Zealand.

##### When will the changes take place?

- The changes to the Overseas Investment Act is forecast to be passed by the end of the year.

##### What are the market implications for change to the foreign buyers' policy?

- Could potentially cap prices

- It's likely moves by the banks to stop lending on foreign income will have a far greater (and much faster) effect given that the rate of growth in values has dropped considerably already, the impact on the market is unknown so we will need to wait and see.

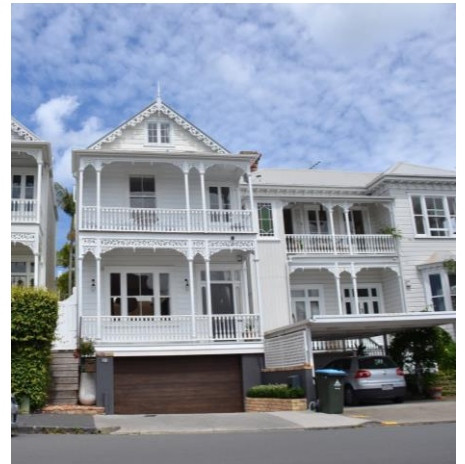
#### **REINZ's view:**

- There is little data or evidence that clearly links the role foreign buyers have in allegedly increasing house prices. Looking across the Tasman, we can see that the impact of a similar policy on banning foreign buyers is minimal, with Australia still remaining the third most unaffordable country in the world
- Additionally, many of the large banks here have already made restrictions to offshore buyers without a local income, yet we've still seen the national median house price increase 1.2% year-on-year from \$519,000 in September 2016 to \$525,000 in September 2017
- Lastly, there is no evidence that all foreign buyers are speculators – a point reiterated by BNZ's Tony Alexander. So, from our perspective, we would just like some clarification on what the ban is trying to achieve. We await further clarity on how the ban will be implemented going forward.

## **2. Changes to Rental Property legislation – Healthy Homes Guarantee Bill**

### **2a. What is the Healthy Homes Guarantee Bill?**

- A Bill to ensure that New Zealand residential property rentals meet minimum healthy home criteria including heating, insulation, ventilation and drainage
- The law will require landlords to guarantee that any new tenancy from July 1, 2019 must be either properly insulated or contain a heating source able to make the home warm and dry
- The Government will run a consultation process over the next 18 months to ensure that tenants, landlords, public health and building science experts and industry representatives have an opportunity to get involved in creating robust minimum standards.



#### **When will it be introduced?**

- The Bill passed its third and final reading in Parliament on 30 November 2017. All tenancies must meet the new standards by July 1, 2024
- The exact requirements are not in the Bill, but will be set by the Government before 2019.

#### **What are the implications for rental home owners?**

- Improvements will benefit the health and well being of people that live in cold and damp houses
- It could cause landlords to sell their rental property to prevent financial difficulties, which may lead to a lack of available rental properties. The costs are likely to be passed onto tenants – which will mean that rents are likely to increase.

#### **REINZ's view:**

- We welcome the principles behind the Healthy Homes Guarantee as there are significant pockets of New Zealand's housing stock that are below par by world standards. Any improvement to housing standards will be of benefit to the health and wellbeing of Kiwis – particularly in relation to respiratory illnesses caused by cold and damp housing e.g. asthma, rheumatic fever which can have significant impacts for children and elderly people
- However, the Bill will be more effective if it is practical and doesn't penalise landlords or place an unnecessary cost burden on landlords. Many private landlords and even some investors may struggle to find funding to upgrade their properties to the requirements outlined in the Bill.

This could cause them to sell their rental property to prevent financial difficulties, which may lead to a lack of rental properties. Government schemes that help fund compliance, such as insulation, will be beneficial and support the objectives of the Bill

- The other important factor that needs to be taken into consideration, is that many landlords may look to pass the costs of upgrading on to their tenants, which could potentially increase rents across the country
- The Bill will require a fine balancing act in order to avoid penalising one specific sector of the market.

## **2b. Changes that target property investment and speculation – the Brightline Test**

### **What is the change?**

- The Brightline Test will increase from 2 years to 5 years.

### **When will it take place?**

- We're still awaiting clarification from the Government but expect it to take effect in 2018.

### **What are the implications?**

- Uncertainty around the effectiveness to date of the current Brightline Test
- Labour would likely argue that is because two years is too short a period, and the increase to five years will make a difference. It's uncertain whether this will make a difference.

### **REINZ's view:**

- We're comfortable with the extension of the Brightline Test from 2 to 5 years as long as it continues to meet the objectives of preventing profit making by selling properties quickly
- Any change needs to ensure a steady market and not impact people who genuinely need to move reasonably quickly e.g. due to increasing family size, serious illness or job losses.

## **2c. Removal of the ability to negatively gear property against income tax:**

### **What are the changes?**

- Property rental owners will no longer be able to negatively gear their income against their property to get a tax advantage.

### **When will it take place?**

- We are awaiting the announcement from the Government, but it should occur in 2018. We will watch this closely over the coming months.

### **What are the implications?**

- The implications are that rental investment will be less attractive for some investors.

## **3. Creation of a Housing Commission**

### **What is the Housing Commission?**

- It aims to address the supply and demand issues within the New Zealand market place
- The key output will be KiwiBuild, a Government initiative that will aim to build 100,000 affordable homes within 10 years and the Affordable Housing Authority - an urban development entity which will be independent to the Crown and will hold all surplus urban Crown land. It is mandated to select and use this land for development projects; be able to fast track planning and construction work with select building partners to fast track projects.



### When will the initiatives commence?

- KiwiBuild will have a longer gestation period and its implementation will be driven by a newly-created Affordable Housing Authority
- It is anticipated that we will hear more about these next year as these two initiatives are linked.

### What are the implications?

- Will the Government be able to build enough properties to impact on demand in Auckland even with the creation of the Housing Commission initiatives?
- The Government will partner with private builders to accomplish their targets
- Statistics figures show that NZ's population increased by 2.1% over the year to June 2017. In Auckland the growth rate was 2.6% year-on-year, equivalent to an additional 42,700 people
- Assuming an average of 2.7 people per household, around 15,800 additional houses would have been needed in Auckland over the past year to keep pace with population growth
- In reality, 10,000 dwellings were consented with an estimated 7,000 - 8,000 of those actually being completed
- Add to that the pre-existing shortage, estimated at some 30,000 - 40,000 dwellings, and not forgetting the industry's capacity constraints - it is hard to see radical changes coming quickly.

### REINZ's view:



- Any moves to help first time buyers get a foot on the property ladder such as affordable sections are welcomed. Given the significant housing shortfall across the country – particularly in Auckland, the promises to build more homes are welcomed as we need to ensure there are enough houses to meet demand. However, any build numbers need to be realistic enough to take into consideration any constraints placed on the market (e.g. RMA, labour supply)
- A proportion of those houses also need to be affordable in order to ensure first time buyers are able to enter the market and more social and emergency housing needs to be built
- Any reduction of red-tape or use of pre-fabrication in housing in order to speed up the process of building houses would broadly be applauded as it helps to fill gaps in the shortfall of housing.

## Other Key Policies

### Restrictions on overseas purchases of rural land

#### What are the changes?

- The Overseas Investment Office (OIO) must consider/approve sales of rural land greater than 5 hectares as well as smaller parcels in some conditions e.g. if the property is next to a lake or adjoins public conservation land
- Purchasers must move to NZ with 1 year rather than 5 years.

#### When will it take place?

- It will be effective from 15 December 2017

#### What are the implications?

- Downgrades to the value of sponsorships and similar payments
- Potential impact on sales that have already gone unconditional

## RBNZ changes to the LVR restrictions

### What are the changes?

- Investors can now borrow with a 35% deposit, down from 40% (although total loans of this type cannot be more than 5 % of the bank's book)
- Owner occupiers with less than 20% deposit can make up 15% of the bank's book (up from 10%)

### When will they take place?

- The change will take place from 1 January 2018.

### What are the implications?

- There will be little impact on the home owner/occupier market
- It may help increase the number of investment properties sold, however with the Healthy Homes Guarantee Bill, Brightline test increase and the removal of negative gearing this remains debatable.

### REINZ's view:

- We were surprised that LVRs remained the same for first time buyers
- It's a considered approach in terms of slowly reducing LVRs for investors, but we would call for the Reserve Bank to take the same approach with owner occupiers by continuing to monitor the impact on the market – particularly in relation to first time buyers.

## Regional Fuel Tax

### What is it?

- Aucklanders will be charged an additional 10c per litre (plus GST) fuel tax within the greater Auckland region and will help fund the cost of additional infrastructure that the city needs
- This tax will be on top of the current local authority fuel tax, collected by oil companies (at 66c per litre for petrol and 33c for diesel) and returned to councils. This revenue is available for general expenditure by the council.

### When will it take place?

- From 1 July 2018

### What are the implications?

- This additional tax will increase the cost of doing business in and around Auckland
- It may result in many people filling their cars up outside the Auckland boundary
- It will make Auckland a more expensive place to live, work and play.

### REINZ's view:

- Members of REINZ spend significant portions of time in their cars driving to appointments and open homes. This is likely to have a significant impact on Auckland based members.

## The Immigration Policy

### What is it?

- A reduction of immigration to NZ, in particular reducing/targeting low-skilled workers and international students that study low quality courses, limiting student visas and the ability to work while studying, restricting low-skill work visas to those with job offers, and making skills shortage lists region specific.





### When will it occur?

- We expect further detail in 2018

### What are the implications?

- Not enough of the skilled people to help build the houses that New Zealand needs
- There is a reduction in emigration as Kiwis are not leaving New Zealand like they used to and more Kiwis are returning home. Kiwis are large contributors to current high net immigration figures – and we can't change that with immigration policies or new legislation. It's unlikely we're going to dramatically drop from 70,000 net flow within a few months - so pressure from strong population growth will remain for the time being.

### Key people in Government

- **Phil Twyford** has been prominent as Labour's spokesman on Housing and Auckland issues. He is likely to be a strong advocate of a programme of building affordable starter homes for first time buyers and state houses for families in need
- **Jacinda Ardern**, as PM, and Grant Robertson, as finance Minister, will be highly influential in determining how these policy ideas play out in practice
- **David Parker** is a key confidant of Jacinda and will work closely with NZ First's Regional Economic Development Minister Shane Jones, who now controls a \$1 billion-a-year capital fund. Parker is also rated (and trusted) by the Greens. He has promised a National Policy Statement under the RMA to free up planning rules and allow cities to grow, turn on the tap for infrastructure financing and work more closely with Councils on long term regional growth strategies
- **Aupito William Sio**, as Associate Minister of Justice, is likely to take responsibility for the REAA
- **Jenny Salesa** is the new Associate Minister for Housing & Urban Development (and the new Minister for Building & Construction). To date, her major contribution to the housing debate has centred around affordability issues and the need for the Government to invest more in education and training.