

Housing Aucklanders

Keith Rankin, 29 March 2013

We hear much about the rising prices of residential land and houses in Auckland, but little analysis of the market that really matters, the rental market.

When we buy a plot of land with a house on it, we are acquiring two distinct things: a home for someone (maybe oneself) and a financial asset. The return on that asset is the yield (rent received, or rent saved) and the capital gain (which may be negative, but, in our experience, is usually positive). Thus, buying a house has much in common with buying equities such as shares in Telecom or Mighty River Power.

There is no valid argument that public policy should assist people to purchase speculative assets. But policy certainly is required to ensure the widespread availability of affordable and adequately comfortable homes for our population. Thus, policy needs to focus on creating a vibrant market for private rental housing.

For a number of reasons it's becoming almost impossible for people who do not already own a house to buy a house in the Auckland isthmus. The first reason is the high level of inequality within New Zealand. A second reason is that there are a large number of foreign residents – including New Zealanders living abroad – whose relatively high earnings enable them to outbid most New Zealand residents in real estate auctions.

In the absence of more comprehensive measures to address the issue of inequality, and with one proviso, we have to accept these realities. Increasing numbers of houses in Auckland are owned by people who own multiple properties. If a city such as Auckland has a stable and well regulated private rental market, then it will not matter who owns the properties. Foreign ownership comes and goes.

First, the proviso. I understand that a significant number of houses are being bought by people hoping to migrate to New Zealand. What should not be allowed to happen is that their acquisition of existing houses be taken as evidence of investment in New Zealand.

Purchasing existing houses is not investment. Investment is new spending on something productive, or reviving something old. Expenditure on a new house is investment. Restoring an old bungalow is investment. But simply buying a property in Mt Roskill is not investment.

So, what can government do to ensure that Auckland has a thriving and not over-priced rental market?

First, it must gather data on empty properties. There's no point in building upwards or outwards if some people, buying properties solely with a view to capital gain, leave them untenanted.

Second, the government should tax all property owners who leave their properties vacant, unless of course they are being renovated.

Third, governments could create incentives for landlords to hold their tenanted properties rather than sell them. (We note that the government is planning to provide such incentives for purchasers of Mighty River Power shares to retain their equity.) One way to do this would be to charge landlords (as well as tenants) bonds, and to progressively release landlords' bonds after several years of problem-free letting.

Fourth, when rental houses are sold, that in itself should not mean that a tenancy comes to an end. Once it is accepted that rented housing is the norm, then, as in the commercial world, changes of ownership will not typically mean eviction of occupiers.

It is a myth that owner-occupation creates better communities, with more social capital. Outlying commuter suburbs may be more likely to create suburban neurosis; or at least commuter neuroses. Suburbs closer in with a diverse mix of settled renters and owner occupiers probably create the best places to live.

Why are house prices rising so much? It's for the same reason that share markets are booming, despite economic growth remaining tepid. Savers world-wide, with relatively high incomes, are looking for places to park their unspent earnings. Russians of means looked to Cyprus banks, expecting low taxes and high yields. Parking money is quite different to investing it.

Those looking to park copious amounts of unspent money in the property market will always be able to outbid couples looking for a home. Further, very high returns can be gained through leverage; for example, parking \$200,000 by buying a one million dollar house with an \$800,000 loan, and selling the house a few years later for \$1.2million.

While inequality remains high, markets for goods and services remain weak, and the rich seek places to park their money. Banks, preferring to lend to the rich than to the poor, will fund leveraged purchases of existing assets. Real estate firms call it land-banking. Just don't call it investment.

Government should be helping people into liveable and affordable homes. It is not the role of government to help people to climb the property ladder.

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