

Rent Now, Live Life, Buy Later Maybe

Keith Rankin, 16 April 2015

The hand-wringing about the Auckland property market continues to escalate; the headless chickens run amok through the corridors of power, and through the mainstream media.

There are two issues for policymakers. The Reserve Bank needs to ensure that our commercial banks are not too exposed to lending on inflated security. And the Government and Auckland Council together need to act to fix the residential rental market.

Much of the bubble is foreign financed (directly), meaning that part of the Auckland bubble is fuelled by non-resident cash buyers. ('Non-resident' certainly includes New Zealanders resident overseas.) That is not an issue for the New Zealand banking system, though it may be an issue for global finance in that what is happening in Auckland represents a small part of a global bubble in real estate in select world cities.

The remaining part of the Auckland bubble is funded by New Zealand banks doing what banks do (lending to New Zealanders), but, in doing so, also acting as a conduit for foreign savings. The problem in New Zealand is one of banks having too many foreign liabilities on their books, and having too many 'eggs in the property basket' on the asset sides of their balance sheets.

The Reserve Bank is right to worry about these things (see yesterday's news release [Action needed to reduce housing imbalances](#)). Unlike many other countries, New Zealand avoided a banking crisis in 2008. The finance companies then acted as a 'crumple zone', protecting the banks. New Zealand's banks will be significantly more exposed during the next financial crisis than they were last time. (New Zealand has had three periods of banking crisis in the last 140 years: around 1880, early 1890s; late 1980s.)

We need policies that will strengthen the New Zealand economy across the global economic cycle, ensuring that New Zealand residents will be well-placed to buy, at reasonable prices, the so-called 'investment' properties when their owners tire of them. (The Auckland bubble is analogous to the coastal property bubble of the 2000s' decade.)

In the meantime, Auckland needs to be a vibrant world city with a well-functioning rental market. On Radio New Zealand's the Panel (31 May 2013) Neville Gibson noted:

"The key thing on the Reserve Bank's plate is prices of Auckland's housing ... the discussion widened out ... most countries do not have the same levels of home ownership or expectations of it as we do ... economists [at an NZIER symposium] have pointed out that, far from being a progressive thing, home ownership is actually a regressive type of thing; once you've bought a house you don't want change ... the dynamics move into the centre of the city and we've seen all around the world in dynamic cities that people in the centre do not own ... the unintended consequences of everyone having security in owning their own property is social stagnation ... you look at the centre of Auckland ... you see young people and that is what creates the dynamism in Auckland ... none of these people own a property, they rent it ... you can easily move, you're very mobile."

The Auckland isthmus has a huge number of properties that are not the permanent residences of their owners. (Many other properties in the isthmus are large and underoccupied by owners whose children have long since left home.) So present housing policy should be about making the best use of this housing stock to further build a vibrant central Auckland where young people can live, work and move, and where middle-income families can grow up in rental properties close to their parents' places of work. (These middle income renting parents could be being encouraged to own rental properties

outside of the isthmus; so please, policymakers, don't make it more expensive for such New Zealanders to own a rental house!)

Properties in the isthmus that are not the principal residence of their owners fall into three categories: unfurnished rental properties currently being let; furnished properties that the owners (or relatives) may occupy some of the time; and empty properties that are being held purely for land speculation.

We need to know precisely how many residential properties (especially but not only in the isthmus that once defined Auckland City) fall into each category. And, to build a vibrant liveable city without homelessness, we need policies around all three types of property.

Unfurnished rental properties are great for both families and young people building lives with a commitment to living in Auckland. We need incentives to raise the quality and maintenance level of these properties, and to encourage their owners to invest as long-term landlords. If the owners have the mindset that these properties are simply assets that can be flicked on at a moment's notice, then that is a huge problem that makes people averse to renting their homes; this attitude on the part of owners is what gives renting a bad name. Residential unfurnished investment houses need to be understood as long-term investments.

We need to accept that rich people in the world like to have multiple residences, that they can move themselves and family members into as and when their inclinations dictate. Here Auckland needs to develop a vibrant rental market in short-medium term furnished housing that reflects both the accommodation needs of mobile renters unencumbered with chattels of their own, and the needs of absent owners who require their properties to be house-sat. Because each party is providing services for the other, rents for such properties need not be high.

Finally, we need laws that come down heavily on pure land-bankers; people who just sit on city land, often with derelict houses on that land, just waiting for the moment to realise for them an unearned (typically leveraged) capital gain. (Such laws should also be applied to undeveloped land on the fringes; residential land not built on, with owners instead looking to make a large speculative gain on such sections. Extending urban limits just increases the amount of such land available to speculators.)

New Zealand has a long history of land speculation, especially in the nineteenth century. One of the biggest episodes was the Canterbury bubble of the 1870s that burst in 1878, creating a bank crisis and a long economic crisis in its wake. While that may be a long time ago, we are not immune from it happening again. We may also note that Japan experienced one of the world's most ridiculous speculative crises from 1987 to 1991, leading to a subsequent banking crisis. Many say Japan never recovered. While I am not one of those 'many', Japan quickly lost its former tag as an economic superpower to rival the United States. Now the Eurozone of Europe as a whole is suffering in the wake of this century of huge speculative bubbles and banking crises along its southern and western periphery.

New Zealand policymakers cannot do much directly about overpriced land in Auckland. What they can do is manage the domestic economy in a countercyclical way, and pursue policies that facilitate a vibrant city with an abundant rental market.
