

# Housing Supply: Investment versus Rental Properties

Keith Rankin, 11 June 2015

The housing debate in New Zealand is befuddled by the language used, and by people with propertied interests who are happy to maintain such confusion.

Every now and again, however, we see unwitting exposure of the multiple meanings given to popular words. In one NZ Herald article ([Rising numbers of Aucklanders heading for regions](#), 4 June 2015), 'Auckland timber sales representative Mike Towns invested in nine properties in Hawkes Bay. Returns "are not so strong from an investment point of view, but they're good from a rental return point of view".'

The media uses the word 'invest' very loosely. Mr Towns was buying properties with the intent of gaining returns in the form of yield; namely rent from tenants. The Herald reporter says he "invested". Yet Mr Towns himself said that his transaction was not undertaken from "an investment" point of view. He clearly understands property investment as the pursuit of capital gain. This concept of investment reflects the reality that an investment house need not be occupied; it's a financial security rather than a dwelling. A tenanted house, on the other hand, clearly is a dwelling; it's somebody's home.

Shamubeel Eaqub, on Sunday Mornings on Radio NZ ([Renters: society's second-class citizens](#)) reaffirmed this point by noting that letting properties is an 'incidental' component of housing investment. (From the point of view of an economist such as Eaqub, housing investment is *building* new houses. There are three distinct meanings out there for the word 'investment'.)

Government spokespeople have also inadvertently noted that investment houses may or may not be tenanted. When discussing the proposed 'warrant of fitness' for rented houses, they note that if landlords' costs are raised it will mean that some houses may be withdrawn from the rental market, to the detriment of the tenant community. They don't say what will happen to these houses if they are withdrawn, but we are left to presume that they will be untenanted – essentially empty. (See my comments in [Running on Empty](#), *North and South*, 16 April 2015.)

The neglected issue of housing supply is what I will call the 'housing stock participation rate'. I use this expression as a deliberate analogue of the well-known 'labour force participation rate'. Housing is employed fulltime when it is occupied by a family (or other) group appropriate to the size of the house. Housing is employed part-time when it is underoccupied; eg one person living in a large house. Housing is unemployed when it is between occupiers, maybe undergoing refurbishment (analogous to retraining). And houses are 'not in the housing force' if they are not available to be lived in.

We need to know whether the housing stock participation rate is falling, and housing supply is therefore shrinking. From a policy or analysis point of view, it is incidental whether the dwellers of a house are owner-occupiers, paying tenants or house-sitters. What matters is the size of the housing force, a subset of the total housing stock. Further, we know that building more houses will increase the housing stock. But this alone will not necessarily increase the number of houses that are available to be lived in.

We need a proper 'Housing Force Survey' that is analogous to Statistics NZ's Household Labour Force Survey (HLFS). We may be surprised at the extent of multiple house ownership by non-landlords.

Housing policy should have four components: (1) seeking to maximise the 'housing stock participation rate'; (2) ensuring that all dwellings meet minimum standards (with a possible exemption for owner-occupied properties without children); (3) ensuring that the housing stock increases with population growth; and (4) ensuring that housing density is greatest closest to places of employment and to transport hubs. We have a toolkit of taxes and subsidies that can provide the appropriate incentives.

Many 'investment' properties appear not to be in the housing force, just as 'discouraged workers' are not in the labour force. Our policy priority is to ensure that every investment house is also a healthy home.

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