



Market Watch

Revolution or evolution – what is the future of property ownership in New Zealand?

Home ownership is steadily declining in New Zealand, as it is worldwide. National home ownership fell from 67.8% in 2001 to 66.9% last year. By 2016 just 61.9% of the population is expected to own a property. In Auckland this figure could be as low as 58.8%. What is the future of home ownership in New Zealand's cities and how will declining home ownership levels impact upon the performance of the housing market?

Some say that a doubling of property values each decade is unsustainable as the gap between the average incomes and the average property price widens. They say this will result in a downturn or stabilising of property prices. But there's another side to this argument and history is on its side.

Historically wealthy landlords owned most of the land and the rest of the population worked and never expected to own property. History has been repeated in large cities worldwide as property prices escalate beyond what average wage earners can afford. House prices and economic development have continued irrespective, resulting in a widening gap between those who are in the market and those who are not.

This international trend is one that New Zealand cities can expect to follow. Home ownership in New York City is around 33% and Los Angeles is just 38.6%, both much lower than the national USA



average of 69%. People in these cities have either changed their expectations of home ownership, have changed their approach to earning and investment or have moved out of the major cities into surrounding towns or to smaller up-and-coming cities where houses are more affordable.

While housing costs continue to rise, incomes have not. The median household income in New York City actually declined in constant dollars between 2002 and 2005 from \$42,700 to \$40,000 per annum.

Although the gap between house prices and incomes is apparent it has done little to slow housing growth in these cities. In New York City the cost of a small apartment building has almost doubled since 1994.

The median price of an apartment in the city rose by 12% from 2002 to 2003. Likewise, the average price of prime London homes has soared 254% since 1997.

This is a simple case of supply and demand. Housing in major cities worldwide has become scarce and expensive. Less city properties are built as a result of land shortage and this shortage of supply, combined with population growth and strong demand for rental accommodation pushes rents and purchase prices even higher.

As New Zealand's cities expand we can expect traditionally poorer neighbourhoods to increase in popularity resulting in a reduction in crime and increased property prices. Freeman's Bay and Ponsonby were once affordable havens for large numbers of low-income immigrants. As inner-city living increased in popularity these areas improved and prices increased. In more recent years we've seen the same occur in Auckland suburbs like Kingsland and Birkenhead.

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have sprung up to support the growing number of people living in outer-lying suburbs. Transportation to and from the big cities continues to improve. The small country village of Albany on Auckland's North Shore has become a booming city, growing 43.2% between 1996 and 2001.

Whether we recognise it or not, New Zealanders attitudes towards property

are already evolving. Ask any young person and they'll agree that the traditional kiwi home on a full section near or in a big city is no longer realistic. An increasing number of first home buyers are purchasing affordable investment properties in the suburbs while renting a smaller less affordable house or apartment closer to the city.

The style of residential property is also changing. Apartment living is becoming more accepted and desirable and leasehold property is becoming more widely embraced as a way to get into the market.

Once property was purchased for family security, now property ownership near a city is becoming an investment for those who can afford it, rather than a right of passage.

So what is the future of home ownership in New Zealand and how will property prices be affected? There's no reason for New Zealand's big cities to behave any differently from any other big city worldwide. We can expect

continued growth, city expansion both outwards and upwards and a widening of the gap between those who own property and those who do not.

Those who have the ability to get into the property market, or to expand their investment portfolios will be well positioned. Those who can not are likely to be left behind.

Bursting the Inflationary Bubble

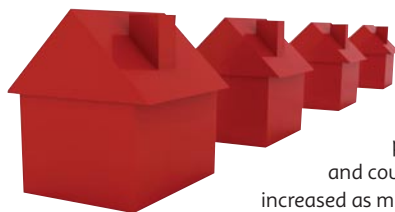
The Government and the Reserve Bank have for some years been concerned about inflation and have targeted property investors as one of the major causes of our current inflationary environment. This article discusses alternative ways to reduce inflationary pressure and reduce property prices.

In order for us to look at what drives inflation we need to understand what causes it. Economic growth is driven by the greater use of inputs (such as labour, capital and natural resources) and/or growth in productivity. When the price of goods and services increases without increasing productivity, we refer to this as inflation. It means that money is losing its value or that demand in the economy is outpacing its ability to supply. In general, this situation occurs when an economy is growing so quickly that there are widespread shortages of labour and materials. People are then able to charge higher prices for the same goods or services. The key to reducing inflation is reducing demand (i.e. spending) or increasing supply (i.e. resources).

This concept of supply and demand is the backbone of a market economy and determines the quantity and price of what is sold in the market. When demand exceeds supply prices will rise.

The Government has requested New Zealanders reduce their spending and curb their appetite for debt, in order to decrease demand. However, the central Government and our local city councils are contributing to inflation and continued economic expansion through their own expenditure programs. For example:

- ▶ A billion dollars will be spent between now and 2013 on urban railway and the electrification of Auckland's urban



passenger network
(Budget 2007)

- ▶ The cost of planning consents and council levies has increased as much as 900% over a five year period (NZ Herald)

- ▶ The upgrade to Auckland's Eden Park for the 2011 Rugby World Cup will cost as much \$190 million. (Ministry of Economic Development)
- ▶ A series of development projects are planned for the 'Tank Farm'. This is potentially a billion dollar development project including a vibrant new urban village with green parks, boulevards, plazas and shops in the heart of the city.

As long as there is high demand and short supply of properties in New Zealand the property market is likely to remain strong.

The tourism for the Rugby World Cup in 2011 is expected to boost New Zealand's economy by around a billion dollars. (Estimated Economic Impact of the 2011 Rugby World Cup)

Rapidly rising commodity prices are also a key driver of confidence and consumer spending. Fonterra has projected an additional \$200,000 will be added to dairy farmers' incomes this season. This is the result of a 20% increase in worldwide demand for dairy products, an increase in prices and a decline in worldwide supply while America focuses on producing ethanol as a fuel alternative.

The 8% jump in petrol prices (CPI Index) is also contributing to consumer spending and the resulting pressure on inflation.

While all these independent factors are increasing demand, trying to curb consumer spending, raising interest rates and targeting property investors will not be enough to regain control of inflation. The obvious alternative to trying to reduce

demand is to increase supply.

Currently, demand for housing is high. Demand has exceeded supply and therefore prices increase.

With an increase in the uncertainty associated with terrorism and war, net migration to New Zealand increased from 10,551 in 2001 to 61,602 in 2002. Between the years 2000 and 2006, New Zealand saw a net migration gain of 202,488 people. This increased migration has resulted in increased demand for housing however building consents for residential properties between 2000 and 2006 totalled just 181,144 demonstrating a shortfall in building consents of 21,344 before even considering demand from domestic population growth.

Supply of housing and land is currently inadequate. The Resource Management Act 1991 and other council planning consents have restricted developers and increased the costs of compliance. Freeing up more land and eliminating delays in the planning process would help to increase supply, therefore addressing the shortage of supply and potentially reducing prices.

As long as there is high demand and short supply of properties in New Zealand the property market is likely to remain strong. While the investment in infrastructure, the benefits of tourism and the increased wealth in New Zealanders' back pockets is a positive and encouraging step for the country, these things all impact demand and contribute to inflationary pressure. If the Government really wants to slow down the housing market and inflation perhaps it's time they started focusing on increasing supply.

Investing in Bricks and Mortar

With the collapse of finance companies like Bridgecorp it's no wonder New Zealanders choose to invest in bricks and mortar, despite the protests of the Reserve Bank. Very seldom do you hear about houses collapsing leaving investors without a cent to show for their investment.

Investing in property offers solid returns and more security than investing in funds and finance companies. When you invest in property you retain the ownership, you retain the title and you have a solid asset to show for your money. Best of all no decision anyone else makes can take that away from you.

The collapse of Bridgecorp highlights the lack of regulation in the investment industry, both in terms of the companies to invest in and the advice offered by financial consultants. Currently anyone can call themselves an investment adviser, without having to pass any exams or background checks. These people are entrusted with your nest egg! Fortunately for New Zealanders the government is looking at changing the rules governing financial advice.

It also highlights the need for New Zealanders to become more investment savvy and look more closely at where they choose to invest their money. Research conducted by TNS and RaboPlus found that just 30% of people considered guarantees and protections offered when looking at investment. But 72% looked at what interest rate was being paid.

When considering your investment options be sure you do your homework and look at all providers and options available to you. With tax rebates and rental income, investing in property is often more affordable than you'd expect.

KiwiSaver



70% of your existing income. Most people want their standard of living to improve or at least stay the same in retirement. Furthermore medical bills and insurances tend to be more expensive in retirement, more time at home means higher utility costs and if you dream of traveling, or buying

a nice boat or car you are likely to need more than 70% of your current income.

Statistics New Zealand's 'Survey of Older People' in 2000 reported that over 35% New Zealanders aged 65 and over bought cheaper cuts of meat to economise during retirement. Others cancelled insurance, postponed dentist visits, put off buying new clothes and bought second hand clothes. Over 10% of non-partnered individuals in this age group put up with the cold or stayed in bed for warmth. Is this how you imagine

There has been a lot of public confusion over whether or not to join KiwiSaver. There are many pros and cons of this scheme but ultimately the decision comes down to individual choice and circumstance.

For New Zealand the establishment of a national superannuation scheme is a commendable step. The well-established Australian scheme contributes a billion dollars a day back into investment in Australia, strengthening the Australian economy while financially providing for

At the very least KiwiSaver is a trigger to start thinking seriously about your financial plans for retirement.

retirement of the Australian population.

Whatever your age or stage it's important to plan for your future – whether that's by paying off debt or preparing for retirement. All saving is good saving but we suggest you don't make a decision about KiwiSaver in isolation. To determine whether something will meet your needs you first need to establish what your needs are.

The calculators at www.sorted.org.nz will assist you in determining how much money you'll need in retirement, but be warned that this is calculated based on

spending your golden years? At the very least KiwiSaver is a trigger to start thinking seriously about your financial plans for retirement.

The Retirement Commission has identified that New Zealanders need other sources of income to supplement the pension, and suggest two options; get your own investments or work past 65. There are many different forms of investment and although some will suit you better than others, any reputable investment towards your retirement is a step in the right direction.

If you do choose to proceed with KiwiSaver make sure you consider what effect your KiwiSaver contributions could have on any existing home loans, particularly if you will need to refinance your home loan over coming months as you come off fixed rates.

A KiwiSaver contribution of 4% for someone on \$50,000 per annum equates to \$167 per month or \$300 per month at 8%. If that same person has a \$200,000 mortgage fixed at 7% two years ago for a 15-year term and wants to re-fix for another two years at 9.25%, monthly payments would increase from \$1764 to \$2026; an increase of \$262 a month. Consider whether you could afford the increased mortgage payments while making your KiwiSaver contributions. Every situation is unique however whatever your circumstances the best decision you can make is to

start investing today. There are many other investment vehicles to choose from and many considerations to be taken into account. Savings are good but diversification is considered the tried and true method for hedging against the risk of concentrating all your eggs in the same investment basket. NZINVEST provides a free investment coaching service so you can find out more about whether property investment is a suitable investment vehicle for your needs.

Whatever your decision, make sure you're well-informed about your options and that any investment is tailored to your individual needs. If you're interested in finding out or joining KiwiSaver, or would like a free investment coaching session or financial health check please call us on 0800 NZINVEST and mention this article..

Spring Cleaning at Great Rates

Mother Nature can give your home or investment property a beating over winter. Let NZINVEST Maintenance Services spring clean your property, leaving it looking clean and refreshed.

Our services include:

- ▶ exterior cleaning to clean, protect and beautify your home
- ▶ waterblasting of slippery driveways, pathways and decks
- ▶ gutter and downpipe cleaning, maintenance and protection
- ▶ garden maintenance, lawn mowing, hedge trimming, landscaping and more
- ▶ home handyman chores such as fence or gate repairs, painting, door handle repairs, replacement and installation of security bolts and cleaning of waste disposal units.



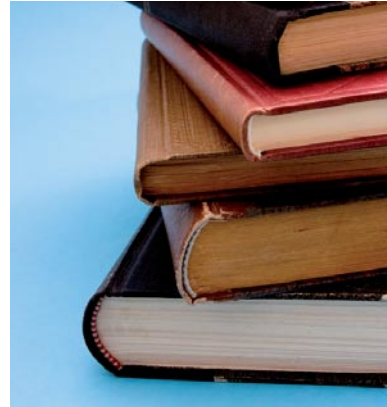
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Proposed Property Tax Changes

Here are five reasons why Dr Cullen's idea of 'ring-fencing' losses on investment properties is unlikely to eventuate.

- ▶ **Lack of support:** With the MMP system Dr Cullen has admitted he is unlikely to get the support he needs. Helen Clark categorically denied that Labour were progressing with moves in this area, John Key does not support it saying ring-fencing investment housing losses is "unlikely to work" and "inconsistent with overall provisions of the tax code", United Future is "far from convinced", New Zealand First is "generally not in favour of more taxation" and the IRD does not support it. For such a bill to pass it will need multi-party support, which it is unlikely to get. Dr Cullen himself is quoted as saying "there is not much point in doing lots of work if we don't have the 61 votes."
- ▶ **Government reliance on investors and rental properties:** Landlords provide affordable housing to a large number of citizens who choose to rent. The enthusiasm for property investment among the private sector has meant a steady supply of rental property, which has served to hold rents low for the last decade. The Government, via Housing New Zealand (HNZ), has largely passed the burden of housing to the private sector. HNZ itself now chooses to lease property from the private sector rather than spends tax payer funds directly on housing.
- ▶ **Tenants would wear the increased costs:** The damage that would be done to the private investor sector by these tax changes would inevitably have a run-on effect for our most vulnerable members of society as the supply of affordable



- rental property inevitably dries up and rents begin rising. If market conditions allowed, landlords would certainly charge higher rents. Avoiding 100% of a loss is clearly better than being able to claw back 33% or 39% of it in taxes.
- ▶ **The voters:** There are 200,000 property investors in New Zealand (including many politicians), politically this represents a significant voting block of middle New Zealand. Labour could not afford to implement this with an election in sight.
 - ▶ **They already rejected it:** In 2006 the Treasury's 'Supplementary Stabilisation Instrument Report' examined ring-fencing of tax losses amongst other measures that could be introduced to reduce inflationary pressure. Treasury concluded in this report that there was no evidence internationally that ring-fencing tax losses would achieve the Government's objectives in this area. The report concluded that ring-fencing was not recommended. The Muldoon Government experimented with ring-fencing via the specified loss regime and saw property values practically double overnight. This experiment was scrapped having proven itself a complete failure.

The Protection Buffer



It can be very worrying if your cash flow is stretched and there are mortgage payments to be made, but it doesn't have to be that way. A 'Protection Buffer' can be a valuable tool to ensure you and your investment make it through any difficult times. The beauty of it is, it doesn't cost you anything until you use it.

A 'Protection Buffer' is a loan facility secured against a property. These funds are not drawn down from the loan unless they are required and do not incur interest charges unless they are used.

This buffer can be used wherever cash flow is tight including if your income is temporarily reduced through:

- ▶ unemployment
- ▶ market conditions
- ▶ parenthood
- ▶ increased interest rates and resulting pressure on mortgage payments
- ▶ reduced rental income, or
- ▶ unexpected costs.

If you are interested in finding out more about this facility please call 0800 NZINVEST and mention this article.

Beginners Guide

What is leveraging? Leveraging allows you to use the bank's money to make money or to increase the equity in your asset. Over time a property asset will appreciate in value, providing you with capital gain on the total asset, not just the part you 'own'.

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