NEW ZEALAND

PROPERTY PROFESSIONAL

MAGAZINE

WINTER 2021

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ECONOMIC HOUSING UPDATE

New Zealand's gender property divide

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Winter 2021

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VIV GURREY

PUTTING MEMBERS FIRST

Tēnā koutou katoa.

What an incredibly exciting time to be Property Institute Chief Executive Officer.

As the year ticks by we're now a matter of weeks away from our biggest event of the year, in fact in real terms that's actually two years since we last came together in this way. As we speak, we are putting the finishing touches to preparations for our upcoming national property conference and Property Industry Awards.

The take-up so far has been excellent, and after the face-to-face drought of 2020 I'm very much looking forward to seeing you there! We've worked hard to design a programme that inspires, educates and informs you, bringing together the foremost experts in property, the economy and providing ample opportunities to network after so long apart.

What makes this conference even more exciting is that it will be the first time that we can share our future-focused strategic plan. This is a body of work undertaken over many months by our leadership of the Property Institute of New Zealand. We set about asking ourselves tough questions about why we exist, who we're here to serve, our strengths, and where we can apply our philosophy of continuous improvement in all we do.

What makes this conference even more exciting is that it will be the first time that we can share our future-focused strategic plan.

This fundamental discussion was robust, and a necessary conversation for us to have as we set about charting our journey to tomorrow and beyond, as well as establishing PINZ as the natural home of property professionals.

We'd like to thank the many members who participated in this process, be it by way of the member surveys, our Professional Community Chairs, the Branch AGMs, and direct feedback to and from your Branch Chairs and your regional Board members.

At the 2021 annual conference we'll be laying out the principles we were working from and our three main priorities for our year ahead. These are supported by a strong workplan in order to achieve our goals.

It's also our chance to recognise those who sacrifice their time and dedication to raising our industry standards and helping make PINZ relevant and more informed. Through their efforts, we take pride in our member status which is recognised and held in high regard throughout New Zealand, and indeed the world.

It's that legacy which drives our Board today, and is the genesis of our member-focused programme of continuous improvement. We look forward to welcoming you! Register here

Also in this edition of *Property Professional* magazine, ASB Chief Economist Sharon Zollner gives us her take on the latest developments in the property industry. A new CoreLogic report explores male and female home ownership rates across the country, and it also reveals valuable insights into the barriers women face when trying to enter the housing market. Our Simpson Grierson experts take a look at the property tax changes, and regular contributor Vaughan Wilson examines the shake-up in the residential property management market.

And also not to be missed is this edition's profile with Plant & Machinery Valuers Institute Council member Andrew Liew. Plant & Machinery Valuers have been a part of PINZ since the beginning and they have played a big part in shaping the organisation as we know it today

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You're invited:

2021 NATIONAL PROPERTY CONFERENCE AND AWARDS

This is the chance for all property professionals to reconnect, learn from each other, and together chart a course for the future.

The Property Institute of New Zealand and its associated professional communities invite you to attend this very special event.

The 2021 Property Institute national conference will be held from 14 July to 16 July at the Cordis Hotel in Auckland. It's our biggest event of the year, featuring industry experts and influencers, a packed programme of specifically tailored education for smart property professionals, and superb networking opportunities with some of the best in the business.

Celebrity Master of Ceremonies – Hon. Paula Bennett

A new arrival to the property profession, Paula brings a huge amount of energy and dynamism to our conference. As a former Cabinet Minister and Deputy Prime Minister, she has a unique and informed position on the challenges we face and knows how to focus on the things that matter.

Keynote speaker – Sir Ian Taylor

We're incredibly lucky to round out our first morning of the conference with Kiwis who have been honoured by the Crown for their contribution to New Zealand. Sir Ian Taylor has a fascinating back story, navigating the stormy seas of business from success, to near failure, and back again.

Keynote speaker – Rt. Hon. Sir John Key

Sir John has been a strong supporter of the Institute in the past few years, including last year's free webinar during lockdown. He'll give us his insights into where we're at, where we're going, and how we manage the transition. We also expect the interaction between Sir John and our MC to be entertaining.

Gala dinner and PINZ Property Industry Awards

Enjoy a sumptuous three course dinner under the twinkling of chandeliers in the Cordis Great Room. As well as fine food, beverages and company, celebrate our property stars and crew at the Property Industry Awards with MC Paula Bennett.

Then get your dancing shoes on with singer and entertainer extraordinaire Shaun Preston. Partners are welcomed and encouraged to attend this wonderful evening. Book your partner on your registration form.

View the full conference programme and register now

COVID-19 cancellation policy

Uncertainty is something we have all adapted to in recent times, and with its commitment to service and putting members first the Property Institute has worked hard to reduce that risk.

Notwithstanding the General Cancellation policy, if COVID-19 Alert Level changes prior to the conference make attendance at the event untenable for a delegate, he/she may cancel and a full refund will be given. Any COVID-19 related cancellations must be in writing via email to the Conference Registration Desk – conference@property.org.nz

Once started, if the conference is stopped due to an escalation in COVID-19 Alert Levels, a partial refund will be given commensurate to the proportion of the conference enjoyed by delegates, prior to the stoppage

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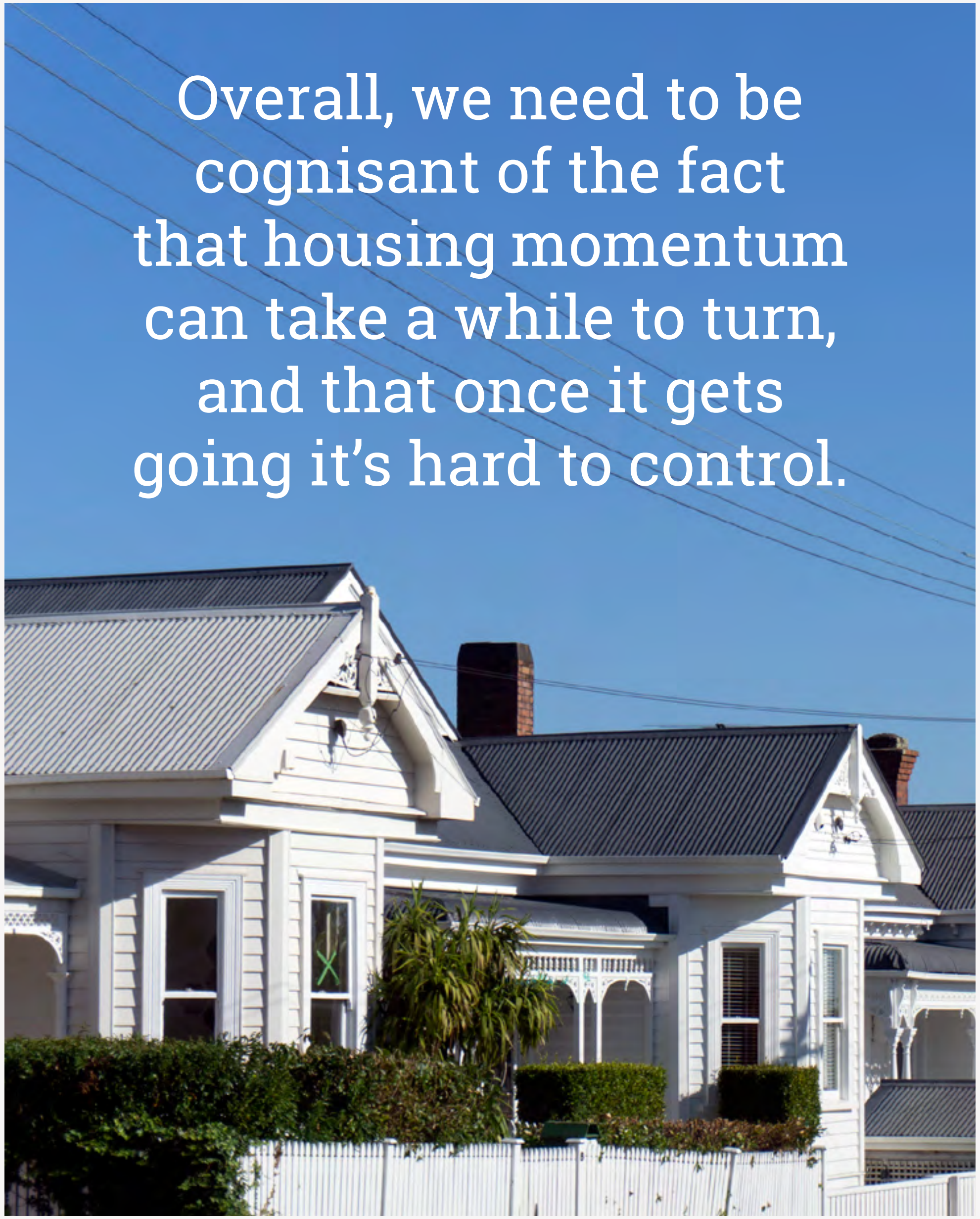
HOUSING MARKET UPDATE

SHARON ZOLLNER

The housing market remained hot in March, but there have been a few tentative signs of cooling in April. Monthly house price inflation slowed in March and April, days to sell lifted, and February data had shown that higher LVR lending to investors had well and truly turned a corner. We expect recently announced government policies, particularly the removal of interest deductibility for investors, to take the wind out of the market's sails a little faster than otherwise. Also, the risks of outright falls in house prices have intensified. That said, the fundamental undersupply problem is being addressed only very slowly and more is likely to be needed. The construction industry is working hard, but capacity needs a leg up.



Momentum is slowing

House prices rose 1.7% month-on-month in April, with sales falling 12.8% month-on-month (seasonally adjusted). The latter suggests recent policy announcements have helped take a little bit of heat out of the market, and that housing momentum may have finally turned or is at least slowing. But the April data had some pockets of strength too for prices, in particular, although prices tend to follow the lead of sales so are less informative about what is coming. Overall, we need to be cognisant of the fact that housing momentum can take a while to turn, and that once it gets going it's hard to control. We will need to keep our finger on the housing pulse for a while yet.

In the month of April:

- House prices lifted 1.7% month-on-month, following a 2.8% rise in March. Annual house price inflation is running at 23.9%
- House sales fell 12.8% month-on-month after lifting 4.8% in March (ANZ seasonal adjustment). Compared to a year ago, seasonally adjusted sales were up a whopping 335% owing to base effects (i.e. weak sales during Alert Level 4 lockdown last year). Because New Zealand was at Level 4 then there isn't any signal to be had in the year-on-year figures
- Days to sell fell to 30 from 31 in March, which is up from readings early in the year, but still pretty quick by historical standards

Addressing house affordability

April Real Estate Institute of New Zealand data had been greatly anticipated since the Government's 23 March 2021 housing policy announcements. The good news for politicians is that it is pointing to a slight slowing in housing momentum, albeit from a starting point of even more pricing momentum than we had been expecting. But as far as getting on top of runaway house price inflation is concerned, it's way too early to declare job done. It remains very unclear whether investors have taken a temporary hiatus while they assess the implications of policy changes (and the housing pulse) or whether policy changes will turn momentum.

But to address New Zealand's housing affordability crisis, and the bad social outcomes associated with it, the Government really needs to be doing more on the supply side. While they are doing a lot already, they can do more, including freeing up land, supporting local councils with infrastructure, cutting red tape, addressing woeful productivity, and clearing labour and materials bottlenecks.

> As far as getting on top of runaway house price inflation is concerned, it's way too early to declare job done.

Looking at the monthly price pulse, we are expecting some relatively modest outturns going forward as policy-induced headwinds start biting harder. Indeed, the recent policy announcements represent new downside risks to the housing outlook. But at this early stage it is difficult to tell if the anecdotes we are hearing about investors throwing in the towel are representative or not. Investors have time to decide what they want to do, given the four-year phase-in. We certainly expect softer-than-otherwise housing demand in the near term, and downgraded our house price forecasts shortly after the announcement. However, recent history has taught us not to write off housing momentum too early.

Watching the data

Over the coming weeks we will be keeping a close eye on both the data pulse and anecdote. Auction clearance rates can provide a steer on market tightness so that is something to put on the radar. However, we will need to interpret these data with caution, as a significant deterioration in the very near term may not signal a sustained reduction in housing demand. It is possible that would-be investors only hit pause temporarily while they work out the implications of recent policy changes.

Credit data are also worth keeping a close eye on. These data are not as timely as the Real Estate Institute of New Zealand housing data, but they do provide some good flavour. The 'credit impulse' – a measure of credit momentum based on whether credit growth is accelerating or decelerating – tends to move with the house price cycle. Causality here is messy, but that doesn't really matter. Frothy housing without credit to facilitate it is a hard story to tell, and the data to February were displaying peaky characteristics. Bottom line: we are probably past the easiest part of the credit cycle but tightening from here should be very gradual. Global factors are the wild card.

Updated lending data will also show us who is doing all the marginal borrowing. Quarterly data shows the worm turning, which is unsurprising given how extreme and unsustainable recent growth has been.

The investor pulse

Underpinning this dynamic is the pullback taking place in higher LVR lending to investors. This precedes the latest tax announcements – it reflects the closing of the LVR suspension window, of course. But it also simply reflects the fact that investors knew the LVR suspension was temporary, and anticipated the extension of the bright-line test to boot, so rushed in while the going was good. There was always going to be a corresponding hole in investor demand in the coming months due to pure timing factors. In practice, we will never be able to fully disentangle the marginal impact of the tax deductibility change from what would have happened anyway. We can argue about it forever – that is the great thing about economics.

> Investors knew the LVR suspension was temporary, and anticipated the extension of the bright-line test to boot, so rushed in while the going was good.

Housing supply

Turning to the housing supply side – where a lack thereof (combined with strong population growth) is the main culprit behind New Zealand's housing affordability crisis – there remains plenty of pipeline activity out there. However, it will take a long time for building supply to catch up, particularly given the industry is grappling with significant capacity and supply issues.

Regulation, lacklustre productivity growth, misaligned incentives for infrastructure provision, and land availability have always been a brake on residential building. But now that is being exacerbated by:

- The closed border turning off the taps for imported skilled labour
- Global supply chain woes making it extremely difficult to land imported building materials in a timely manner
- Domestic production of building materials struggling with rising costs, competition with exports for logs and capacity.

Construction has been the jewel in the New Zealand economic recovery's crown, but it cannot shine any brighter than it already is, and rapidly rising costs may cause it to fade.

If housing tanks, it will likely take confidence with it and that could spark a negative feedback loop, resulting in economic momentum going the wrong way.

Confidence important

The above implies that the associated durables consumption pulse is also poised to slow. The indirect impetus to growth (via wealth and confidence channels) is a bit more of an open question, and that is why it is important for policy-makers to attempt to engineer a soft landing for the housing market. If housing tanks, it will likely take confidence with it and that could spark a negative feedback loop, resulting in economic momentum going the wrong way. Unfortunately for policy-makers, there is no getting away from the interconnectedness of housing from the broader economy. And a soft landing from a vertical take-off can be difficult to engineer, as Elon Musk recently found.

That said, slowing housing-induced momentum should not be too concerning for the broader economic outlook, as long as the pipeline of planned activity doesn't turn south and confidence doesn't materially deteriorate. A move towards a trans-Tasman bubble (and later, generally open borders) will hopefully see the key driver of underlying momentum pivot from housing to international tourism and services (where there is certainly some spare capacity). Rising export prices are also providing a boost. But the economy is still pretty vulnerable this year, and the state of the housing market does have a big impact

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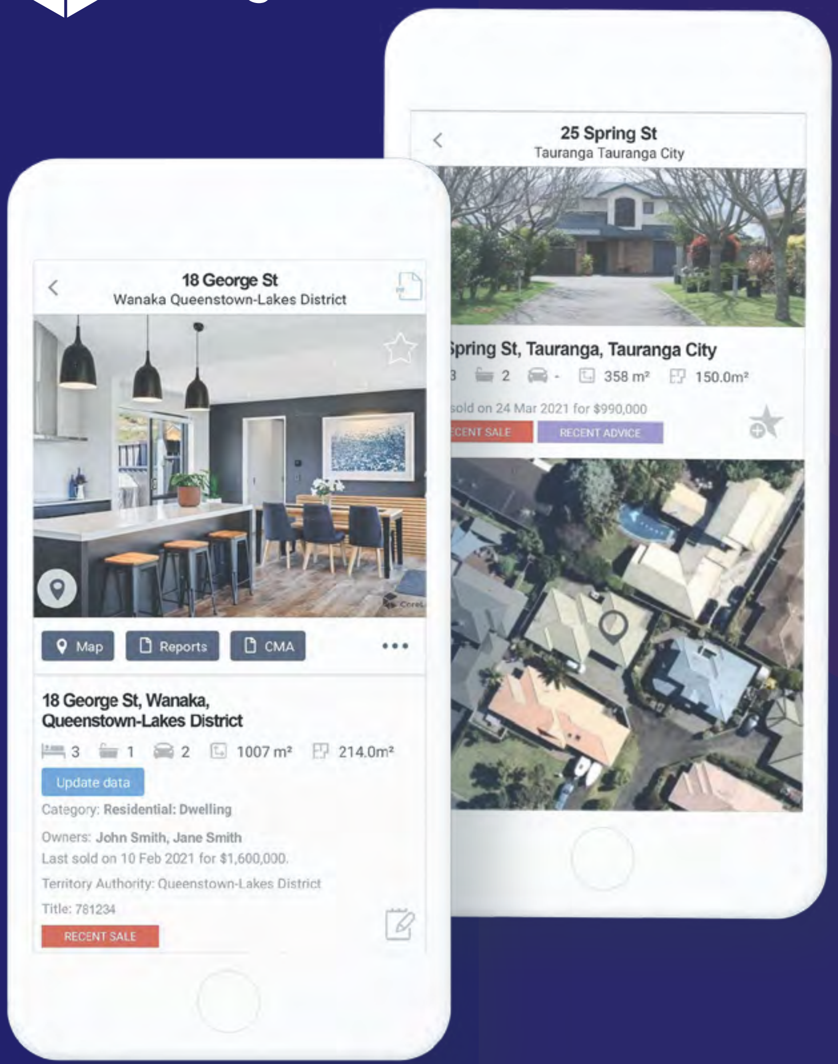

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FEATURE ARTICLES

THE 'PERFECT STORM' AFFECTING THE RESIDENTIAL PROPERTY MARKET

VAUGHAN WILSON

Vaughan Wilson looks at the multiple issues currently affecting the residential property market, leading to a 'perfect storm', and how the Government is struggling with the clean-up.

The storm of calamity

The movie *The Perfect Storm* released in 2000, and the book of the same name released three years before, tells the tale of three significant storms all converging from different points of the compass. The storms had all begun in different places and for different reasons. The result, based on a true event in 1991, was a biblical sized event resulting in death, destruction and sizable pay packets for George Clooney and Mark Wahlberg in starring roles.

The residential property market in New Zealand, and for that matter much of the developed world, is going through its own perfect storm with various cyclones of demand and pricing pressures coming from different places and for different reasons. This has culminated in some of the fastest growth in property values and prices for properties sold ever seen in New Zealand since records began. Most New Zealanders who own their own home have achieved more unearned income from the rise in their home's value than what they would have earned at their job. This is a problem for all New Zealanders.

The heart of the problem, and one that is not disputed, is the lack of supply of residential properties to meet demand. There are simply not enough homes in New Zealand to cope with demand. The perfect storm is a clash of a number of factors:

- Very low interest rates, which have reduced borrowing costs significantly and have resulted in increased demand for property and therefore property prices. The lower interest rates have improved the affordability and serviceability of debt

Most New Zealanders who own their own home have achieved more unearned income from the rise in their home's value than what they would have earned at their job.

- Low interest rates for bank deposits, meaning those with cash looking for a home are getting little to nothing for their investment and seeking higher yields (e.g. investing in rental residential real estate)
- COVID and the outcomes of this worldwide pandemic such as:
  - Large volumes of cash pumped into economies by governments
  - Thousands of people coming back from overseas, many with money to spend on housing. Many of these returnees own properties in New Zealand and now, upon returning, choose to evict their tenants so they can move into their own house. These evictions add to the current shortage of residential property available for rent
  - Thousands of young people planning to go overseas on their OE have now stayed in New Zealand and, in many cases, invested their cash into property
  - COVID also left New Zealand with a $10 billion surplus in people's hands that they used to spend overseas. Sales of new and second-hand cars, and other items such as spa pools, have gone through the roof. This has also led to people spending money on upgrading their own home (renovations pushing demand on labour and materials) and buying/selling homes as they upgrade or seek an investment bolthole
  - The general shortage in New Zealand of residential property through decades of lack lustre central government policy and poor performance by our various councils.

Residential property prices have been increasing at lightning speed all over the world since late last year, including Denmark, Canada, the UK, the US and Australia. Many of these countries would not necessarily have all the factors found in New Zealand as listed above to contend with, but people are seeking bricks and mortar in which to invest as they come out of the COVID pain.

Movements in values

Data from the Real Estate Institute of New Zealand showed median prices for residential property across New Zealand increased by 24.3% from $665,000 in March 2020 to $826,300 in March this year, a new record high for the country. Trademe has announced in May that for their website the average house sale price hit $800,000 for the first time ever, and houses are selling at a record pace – on average in 27 days, compared to 36 in March last year.

ANZ's economists have said there is an increased risk to the broader economy: 'We aren't forecasting house prices to fall, but from these lofty heights we certainly would not rule it out. There are a lot of highly indebted households out there who would be very vulnerable if interest rates were to increase or incomes were to deteriorate' (see Housing rules 'make interest rate rises scarier', *Stuff News*, 21 April 2021).

The boom in house prices is a snowball, with New Zealand among the highest in the world for residential affordability, and it is now at seven times the median household income. During 2020, the nationwide median house price soared by 19.3% to $749,000, according to the Real Estate Institute of New Zealand, compared to a mere 1.8% in 2018. During quarter 4 of 2020 the median increased by an astonishing 8.7%. The average asking price in Auckland is over $1 million.

Borrowing for mortgages leapt again in March 2021 to cross the $10 billion mark for the first time, according to new Reserve Bank lending data. The $10.4 billion borrowed in the month was the highest amount since the Reserve Bank started recording the data in August 2014:

- Of that $2.3 billion went to investors – slightly down on the $2.45 billion borrowed in December 2020 and down on their $2.48 billion record in May 2016
- $1.7 billion went to first home-buyers (FHBs)
- $6.2 billion went to existing owner-occupiers.

In March 2020, there was a total of $6.1 billion in mortgage lending, despite the last week of that month being affected by the Level 4 lockdown, up on the $5.7 billion borrowed in March 2019:

- Of that $6.1 billion in March 2020, investors were responsible for $1.3 billion and FHBs $1.1 billion
- Investors borrowed 76% more in March 2021 than in March 2020, while FHBs borrowed 56% more.

For the capital, the Wellington market is up 24.9% in the last 12 months to March 2021. Other regions are also up, with Upper Hutt City up 33.9% and Kapiti up 35.4% over 12 months. A report from realestate.co.nz showed that in March 2021, there were 11,322 properties for sale nationwide, up 12% on the same time last year.

The boom in house prices is a snowball, with New Zealand among the highest in the world for residential affordability, and it is now at seven times the median household income.

The Government's solutions

There lies a basket of issues that have caused the Government to intervene. Amongst the changes, largely implemented immediately (albeit with some stepped changes), have been:

- Increases to the bright-line rule, effectively making it a capital gains tax (but for residential property only) – up to 10 years after the initial purchase
- The removal of interest as a deductible expense on rental property for tax returns (phased in over four years and fully effective in 2025).

Increases to bright-line rule

Bright-line tests were put in place by the last National Government and affected the buying and selling of property on or after 1 October 2015. If a residential property is sold and has not been owned for more than the bright-line test period there may be a liability to pay income tax. Interestingly, this rule also applies to New Zealand tax residents who buy overseas residential properties. Originally, the bright-line test related to holding the property for less than two years, but Labour extended this in their last term to five years.

As part of the housing policy announcement by Labour in late March, there has now been a change to the bright-line test from five years to 10 years on or after 27 March 2021, which is estimated to bring in $650 million of taxes per annum. Treasury wanted it extended to 20 years. In any case, under the bright-line test tax is calculated by looking at purchase and sales figures for the same property, ignoring general or property inflation over the same period.

There are some exemptions to the tax liability, including:

- Property that is acquired through inheritance
- If you are the executor or administrator of a deceased estate
- If the property is used as your main home for the entire period you own it, or
- If the property was acquired before 29 March 2018.

In addition, the new 10-year bright-line test does not apply to new build homes, which will still be subject to the five-year test.

Removal of interest as deductible expense

The removal of the deductibility of interest is in the following form. Starting from 1 October 2021, only 75% of the interest will be deductible (equating to 87.5% of a full year of interest expense). For the full year ending 31 March 2023, 75% will be deductible. For the year ended 31 March 2024 it will fall to 50%, and for the year ended 31 March 2025 it falls to 25%. Then from 1 April 2025 onwards no interest deduction will be allowed.

Treasury, Kainga Ora and Inland Revenue advised the Government against removing the ability for investors to deduct interest on their mortgages from their rental incomes for fear of it increasing residential rental prices. A hue and cry roared out of New Zealand when these changes were announced, with landlords promising increases in rental prices and the Government going on the attack suggesting rent freezes and other forms of intervention to corral landlords.

Treasury, Kainga Ora and Inland Revenue advised the Government against removing the ability for investors to deduct interest on their mortgages from their rental incomes for fear of it increasing residential rental prices.

It is still unclear exactly what the Government's expectations and outcomes are in relation to these significant changes. With five possible issues/initiatives to reduce or alter, as follows, perhaps they only wanted to affect one or more of them:

- Arresting the significant monthly jumps in the value of residential property values
- Making more homes available to FHBs by putting investors off buying properties for rentals
- Creating an environment whereby landlords of existing rental properties dispose of them to make more homes available for FHBs

- Creating an environment that encourages more new residential construction
- Creating further barriers to speculators and traders in the form of enhanced taxation.

The New Zealand residential portfolio

New Zealand has around 1.7 million occupied dwellings and approximately 603,500 (35.5%) are rented. State-owned Kainga Ora's portfolio is approximately 67,000 dwellings, so most of the nation's rental portfolio is privately provided.

MBIE has determined that (via analysis of bond lodgements statistics) 80% are owned by people who only own one rental and only 20% of rental properties are owned by people who own two or more. Interestingly, in a report prepared by the Ministry of Housing and Urban Development (HUD), 37% of residential property investors (107,530 people) reported an average annual property loss to the Inland Revenue of $9,000 because the rents received did not cover outlays. A total of 63% (182,219 people) of property investors declared an average rental profit of $14,000.

Prior to COVID there was a shortage of residential rentals and rent rises were occurring. The Government has been trying to curtail this with changes to the Residential Tenancies Act: limiting rental increases to once per annum, among other changes; and requiring landlords to upgrade their properties for the general health and wellbeing of tenants and the market.

Inflation

MV=PT is a formula showing that if a government prints money, or confidence rises and people spend more, it results in either inflation or economic growth, or both. Economists in New Zealand and around the world are worried about inflation creeping into economies as a direct result of the tremendous amount of money that has been poured in by governments. Previous pandemic recovery periods do not show an intense level of inflation, but we are living in different times, and without a world war and inflationary impacts to factor in as they did 100 years ago. Typically, interest rates need to grow to reduce inflation.

Economists in New Zealand and around the world are worried about inflation creeping into economies as a direct result of the tremendous amount of money that has been poured in by governments.

The global supply chain is under immense pressure as the world comes out of the pandemic. There are significant lines of waiting for everything from computer chips to those things that utilise computer chips (just about everything, including the common toaster), timber, steel and paint. Some of this demand is benefiting New Zealand in the form of demand for the foods we breed and grow. We are also getting good money for our logs.

However, we are also at the waiting end of the queue for things that new houses need such as timber (particularly a shortage of larger timbers in New Zealand), paint, some claddings, steel (up from an eight week wait from overseas to eight months or longer) and other items. Product is available in some places, but of course the costs have gone up, all feeding into the cost of new houses.

New house construction was already expensive and there are lots of reasons for this, including the impact of local council policies on land subdivisions, and the cost of building and resource consents for housing. Councils claim the infrastructure costs are prohibitive, and the Government is working on schemes to fix this, along with a rebuild of the resource consent legislation. But that all takes lots of time and it is too long to fix the current shortage. When new house construction costs go up, existing houses rise in parallel – 'the rising tide lifts all boats' scenario.

Typically, houses that are owner-occupied have a less dense number of people in them compared to the same properties rented out. Renters on average have more occupants, not least to spread out the cost of renting. However, in the case of families, those with larger numbers of children are often in the lowest house ownership statistic.

The Government has just mandated loan-to-value ratios (LVRs) again, with a 20% deposit for those looking for a home to live in and a 40% deposit for investment property for most of their lending. Most banks already had in place these types of LVRs before the Government mandated them, and early data is suggesting this has a greater effect than the new tax changes.

Where the New Zealand Government seems to be hell bent on assisting FHBs get into their first home to the detriment of landlords and tenants, this is in contradiction to the Canadian Government, which has noted the likelihood of inflation and increases in interest rates in the medium and long term. Canada has experienced a 17% increase in house prices in the last 12 months. Their interest rates are currently under 2%, but their government is concerned with future affordability when interest rates rise.

The Canadian Government has now mandated that residential real estate buyers applying for a mortgage from a federally regulated lender have to undergo a 'mortgage stress test', substantiating they can potentially finance interested rates up to 4.79% (to be increased in the test soon to 5.25%). Banks in New Zealand often calculate the affordability of a new mortgage with a client, assuming a higher level of interest than is currently being offered, but this is not mandated by the Government. The average household in Canada is indebted to 170% of their disposable income, while New Zealand it is 166%.

In Vancouver, there are rent controls that limit rent increases to 2.5% plus inflation per year and these are tied to the tenant. If the tenant moves out, the landlord is free to raise the rent as high as possible, which has led to a crisis of renovictions in British Columbia's rental market.

For a typical home loan currently of $800,000 over 25 years at 3% (let's say fixed for five years from today), payments per annum (calculated as a fortnightly table mortgage) would be $45,500, and after five years $116,000 would be paid off the principal. If after five years interest rates are 6%, annual payments would become $58,700 for the remaining 20 years. The increase in annual payments of $13,200 is all interest and that is at the modest 6% (traditionally in New Zealand a very low rate of interest). How many people currently sitting on large mortgages could afford this level of increase?

In March 2021, only 21% of homes sold went to FHBs. If the Government's changes to the bright-line rule and tax deductibility are about making more properties available to FHBs, then this could result in over-zealous Fear Of Missing Out (FOMO), leading young people to enter into long-term sizeable loans to secure such properties. This may lead to a generation of FOMOs who may be bankrupted in years to come as interest rates rise.

ANZ Chief Economist, Sharon Zollner, warned in March 2021 that in Auckland a 1% rise in mortgage rates would slash 5% off disposable income and 3% in the rest of New Zealand. Waikato University Research Fellow, Leo Krippner, recently stated that New Zealand had the best environment for the emergence of high inflation since the 1970s, and this was because of the current very strong monetary and fiscal stimulus combined with supply disruptions created by COVID and changes in the labour market.

A poll of economists shows widespread expectation that rents will rise because of changes to property investment rules.

A poll of economists shows widespread expectation that rents will rise because of changes to property investment rules. Although the changes are intended to help Kiwis get on the property ladder by dampening house prices, 69% of the 13 economists interviewed by comparison site Finder expected rents to rise in response to the law changes. Rents have already lifted 3% in the year to February 2021 according to Statistics NZ.

Can the Government's changes improve things?

So why bring in legislation that makes things worse? By removing the ability for landlords to claim interest, they will either increase rent or sell their properties, possibly to a new home-buyer, thereby reducing further the pool of rental properties in a market already screaming for more stock. And what does reduction in supply and an increase in demand lead to – an increase in rents, of course. True, the Government is bringing in the changes to tax deduction slowly, but that also means it is easier for landlords to bring in rental increases and have them accepted by the market.

True, also, that if you bought a property now that was brand new, you got the benefit as a landlord of claiming interest in a stepped reduction. But if you bought an existing property now to rent out (or were unfortunate enough to have bought but not settled when the Government made the changes), you instantly go into a state of not being able to claim any interest. These new rules do not fundamentally increase supply.

Successive governments have told New Zealanders to save for their retirements, and utilise KiwiSaver and other forms of investment such as residential properties. These new rules are a kick in the teeth to those who have invested in property.

Certainly, the changes to the bright-line and interest deduction are a disincentive to invest/restore/upgrade older houses for rental properties. Borrowing more money is not uncommon to carry out upgrades to rental properties. Removing the interest deduction will have a significant impact on this, reducing the quality of the nationwide rental portfolio and reducing spend in the economy.

The simple fairness of businesses to deduct interest on a loan is constant across New Zealand and around the world. Grant Robertson described it as a loophole and yet it is a fundamental aspect of business, and owning and operating a residential rental property is a business, pure and simple. It seems draconian to remove this aspect of business from this sole type of business.

Is the Government looking at interest deductibility as a subsidy from an economics standpoint rather than a *bone fide* expense deduction from an accounting perspective? Couldn't the Government not have been smarter and allowed FHBs' interest to be deductible, say, for a period of time to give them a leg up or make refurbishment costs tax deductible?

Investors who have bought since 2018 and are captured by the current five-year bright-line test are unlikely to sell. They have enjoyed large capital gains and this more than offsets the loss of interest deductibility. Why would someone crystalise the capital gains tax for a few thousand dollars of lost interest deductibility?

Lastly, the media has been misreporting capital gains as being income. It is not. Capital is not income. Capital grows with inflation of an asset class to maintain the income it provides. You pay tax on the income. Capital gains is simply unrealised gains in value and, without inflation taken into account, the true level of these gains is theoretical.

Avoiding the next perfect storm

Perhaps the answer lies simply in the word 'tax'. The Government has simply found new ways of attaining more tax in the form of a capital gains tax (loosely camouflaged as a bright-line test) and by reducing deductibles to increase the tax take. If the Government wishes to avoid the next perfect storm of property prices and rent increases, and weather the current one, then perhaps they would be best placed not to create the contributing currents and cold fronts that cause such natural disasters

If the Government wishes to avoid the next perfect storm of property prices and rent increases, and weather the current one, then perhaps they would be best placed not to create the contributing currents and cold fronts that cause such natural disasters.

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UNDERSTANDING NEW ZEALAND'S GENDER PROPERTY DIVIDE

SIMONE MOORS

A new CoreLogic report explores male and female home ownership rates across the country. It also reveals valuable insights into the barriers women face when trying to enter the housing market.

Our latest study, *Women and Property: State of Play*, draws on detailed analysis of CoreLogic's extensive property data. This has enabled us to shed light on how New Zealand's residential property wealth is distributed, which is valued at over $1.3 trillion.

Why do women fall behind?

The research reveals that fewer Kiwi women own their own home than men. Of the 1.7 million New Zealand properties analysed, 17.4% have a sole female owner and 19.2% are owned by a sole male. While this 1.8% difference may seem relatively minor, it translates to more than 31,000 properties.

The report also highlights how lower rates of female home ownership are underscored by the gender pay gap, which currently stands at 9.5% in New Zealand. Since women typically earn less than men, many find it harder to gain a foothold in the property market. This can have significant knock-on implications for their ongoing financial security into retirement.

For women on a single income, buying a home is even more challenging. It's therefore unsurprising that most homes are jointly owned by a man and a woman – this ownership structure accounts for 56.8% of the New Zealand properties we researched.

> The report highlights how lower rates of female home ownership are underscored by the gender pay gap, which currently stands at 9.5% in New Zealand.

City vs country

Women in New Zealand's metropolitan areas enjoy higher rates of home ownership than those in the provinces. For example, female owners (single or multiple) account for 23.7% of properties in Auckland and 21% in Wellington, while in the West Coast, Otago and Waikato the figure is 18.5% or lower.

As female ownership rates are significantly higher in cities than in regional areas, this correlates to the higher salaries typically available to urban dwellers. Other factors may also contribute, such as the prevalence of apartments in cities, which are often more affordable than standalone residences. Employment availability is also likely to play a part. Female ownership rates are lower in regional areas, where industries typically dominated by males (e.g. agriculture, mining) tend to be more significant.

Bucking this trend are seven Territorial Authorities in New Zealand where female-only property ownership rates are higher than male-only rates. These include Kapiti Coast (21.5% vs 18.4%), Napier (21.7% vs 20.1%), Carterton (20.5% vs 19.6%), and Nelson (21.5% vs 20.6%). One explanation could be that these places are popular retirement destinations, and the gender balance of older people in each of these areas might play into ownership rates.

Closing the gap

While more analysis of this topic is needed, it is clear that property is a key factor in wealth creation for individuals and families. Owning property can help New Zealanders maintain a comfortable standard of living, reduce the incidence of poverty in retirement, and support the costs of aged care. It also plays an important role in intergenerational wealth transfer.

Since the home-buying journey is currently more challenging for women than men, particularly those on a single income, addressing the pay gap is an essential first step towards creating an even playing field between the sexes. There are also opportunities for the financial services sector to make a difference, for instance, by offering tailored savings and investment solutions to make wealth-building more accessible to low-income earners.

Property valuers could help to redress the imbalance as well by considering how they engage with female clients to see if there's room for improvement. This may even highlight ways that valuers can better support women who are buying property on their own

> Addressing the pay gap is an essential first step towards creating an even playing field between the sexes.

Read the full report

For more information or to download the report, visit www.corelogic.co.nz/women-and-property

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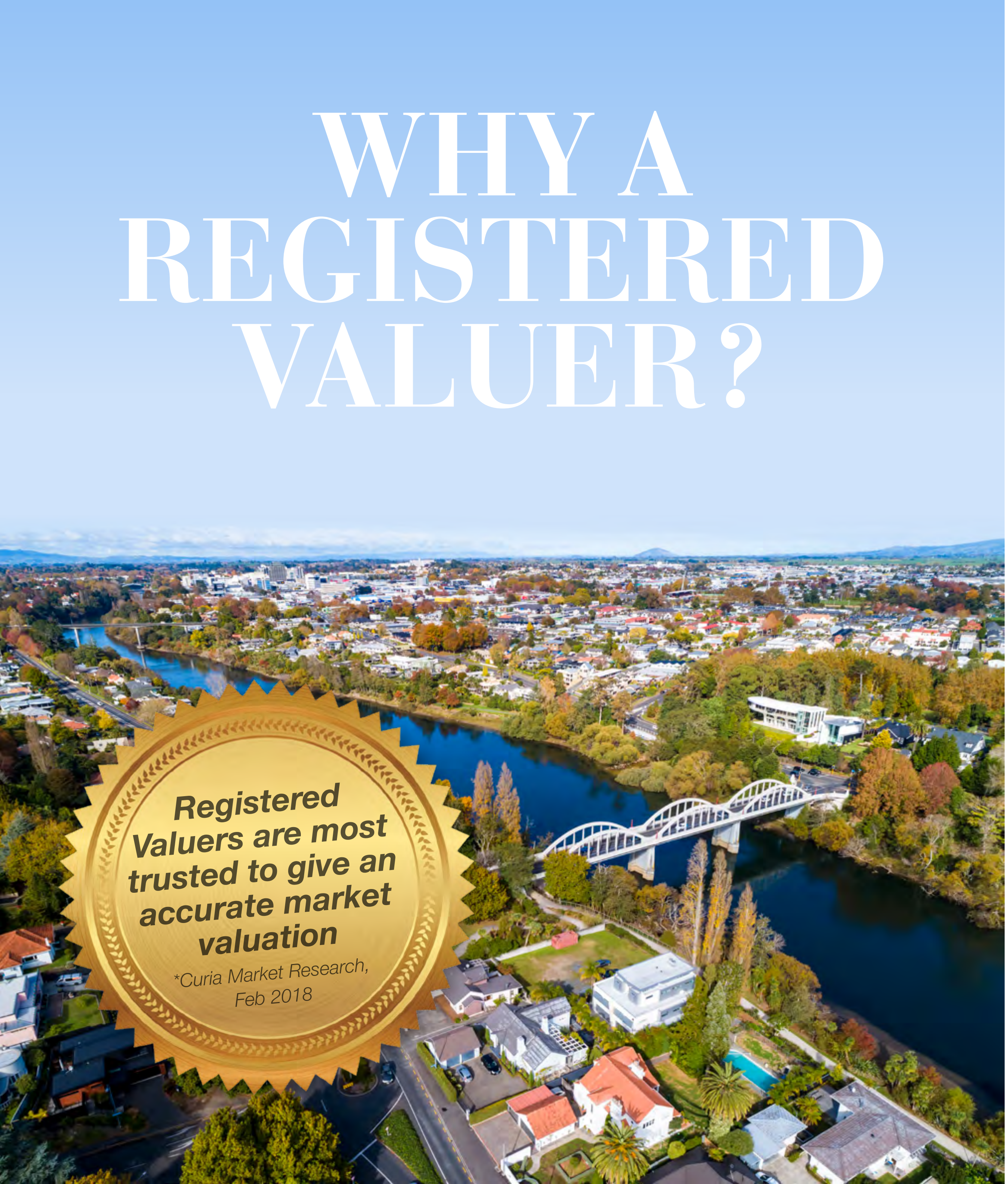
WHY A REGISTERED VALUER?



Over 40 pieces of legislation and many legal documents and lending institutions in New Zealand specifically refer to and rely on Registered Valuers because they are considered the authority when it comes to providing valuation advice on real property.

What sets Registered Valuers apart is that they not only must adhere to high ethical standards (enforced through the Valuers Act 1948), but also follow world recognised professional standards that are approved by the New Zealand Institute of Valuers (NZIV) – of which all Registered Valuers in New Zealand are members.

If independent expert valuation advice is important to you, talk to a Registered Valuer.

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

This profile looks at the life and career of plant and machinery valuer, Andrew Liew.

ANDREW LIEW

Early days – Malaysia

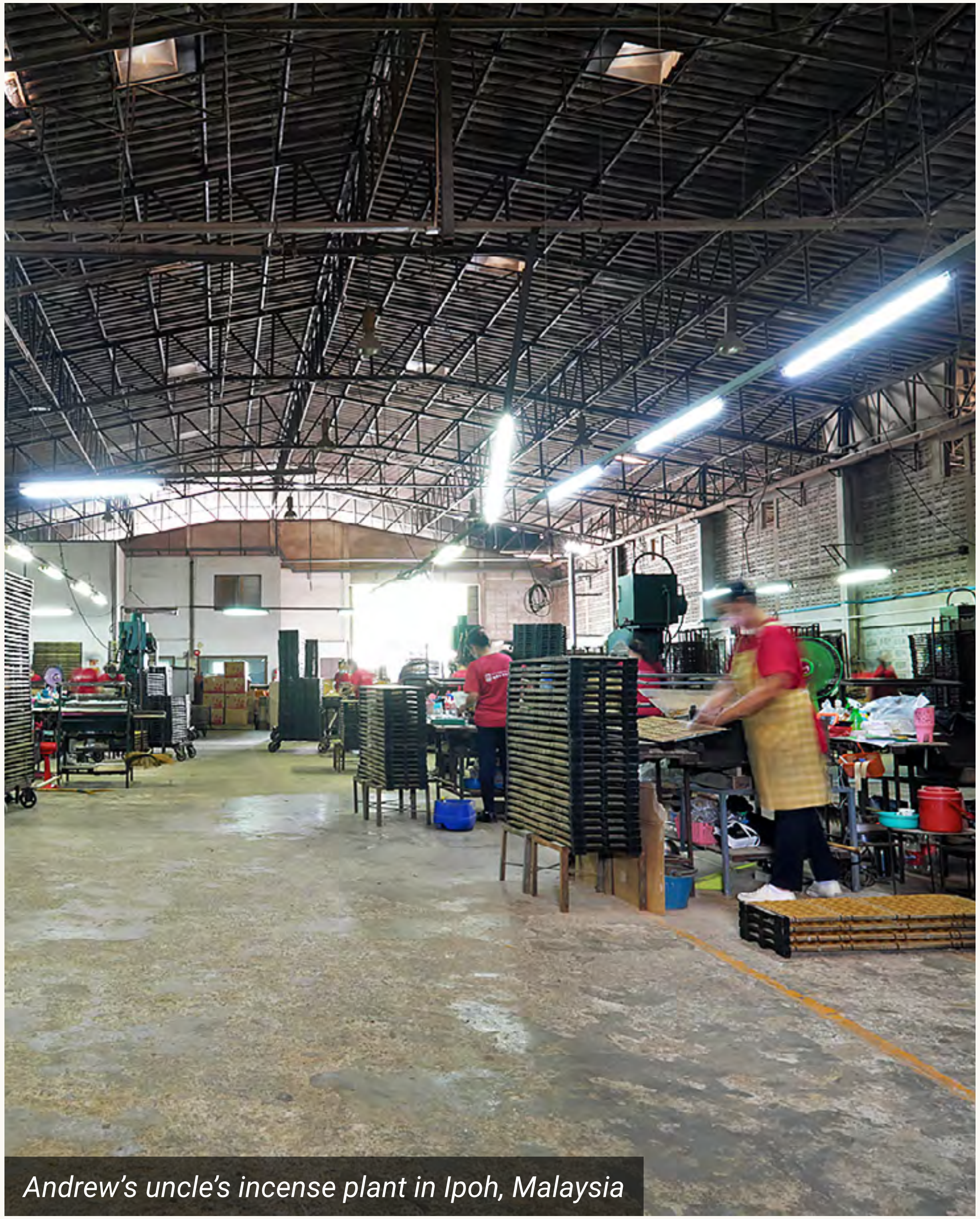
Originally from Malaysia, Andrew migrated to Christchurch at the end of high school with his family. He grew up in Kuching, the capital city of the Sarawak state, during a time when infrastructure and developments were booming. His first taste of everything infrastructure, plant and machinery began in these years. Having a civil engineer as a father helped, and regular field trips to factories was a norm in the school curriculum.

Andrew had an uncle who owned an incense factory in another Malaysian state who would oblige to give family tours of his factory, introducing his machinery every time they paid him a visit. Despite all this exposure and his interest in machinery, becoming a Plant and Machinery Valuer was never under his radar until a later stage in his life. It is not a profession often heard about in movies and parties.

It began with property

Andrew's decision to pursue a degree a Valuation and Property Management (VAPM) at Lincoln University came about while working as a parking attendant. He had after a brief interaction with a former boss at Wilson's Parking who was a Registered Valuer.

During university summer breaks, Andrew worked at Christchurch City Council and City Care Ltd as an intern in the Asset Management Team. His role involved condition assessments and data entry of building information and the data was collected on paper-based inspection sheets. While the jobs were fairly monotonous for him, it would become a catalyst to his passion for managing asset data and condition assessments digitally.



Andrew's uncle's incense plant in Ipoh, Malaysia

Plant and machinery valuation

Upon completing a Bachelor's degree VAPM in 2009, he worked across various facets of the property industry – from residential sales to facilities management in companies including Farmers Trading Company, Downer and GE Capital. Andrew then took on a Valuer role at Turners Group, with a job description stating that the role was for valuing plant and equipment, not something he was familiar with. Learning from his manager Neil Davis, who was a very experienced Plant and Equipment Valuer, Turners was the turning point for him to find his calling in this field. Neil taught Andrew everything he knows about mobile equipment from vehicle configurations to writing reports. Having the opportunity to be paid to be on the auction floor for truck and machinery sales was the best experience he could ask for.

After a short stint at Turners, he landed a role at Beca Ltd as a Valuer involving infrastructure, plant and machinery (IPM) asset groups. Andrew obtained the PINZ Registered plant and machinery status under the strong guidance of Marvin Clough in 2018. For Andrew, the biggest attraction of being an IPM Valuer is the challenge of understanding value across a broad variety of assets, projects and markets. As new technology and the industry constantly evolves, the learning never stops. Site visits are always an exciting aspect of the job. He feels that seeing how machinery works and how assets are used is always breath-taking, especially if it is for the first time. For him, doing site visits are like going to a VIP private tour around plants as a Plant and Machinery Valuer as you learn all the insights of the operations as part of the job.

> Andrew's area of focus includes specialised asset valuations across local authorities, airports, heavy industry, manufacturing and brewing.

Andrew has completed multiple valuation projects for Beca across New Zealand, Australia and Fiji. His area of focus includes specialised asset valuations across local authorities, airports, heavy industry, manufacturing and brewing.

Working as a Plant and Machinery Valuer involves various condition assessments, which Andrew didn't think he would ever have to do again after his internship. His experience dealing with data collection in paper format and not wanting to do this again inspired him to upskill in creating designed digital project-specific databases and in-house data collection applications, with a goal of making the data collected work smarter for valuers and clients.

As part of his role in Beca as a Valuer, Andrew was presented with a secondments opportunity on infrastructure alliance projects such as the Waterview Connection project (The Well-Connected Alliance). He provided advice on managing the disposal of assets, which involved numerous valuations for forecasting and budgeting purposes, as well as managing the sale of the assets. Major equipment managed in this project included highly specialised infrastructure equipment, including parts of 'Alice', the tunnel-boring machine.

PINZ involvement

Andrew was selected for the PINZ Young Leaders programme in 2015, which enabled him to continuously work towards the development and visibility of the Plant and Machinery Valuers Institute (PMVI). The two-year programme provided him with exposure to PINZ as an organisation and the PMVI valuation profession. He has presented at universities on the career in plant and machinery valuation, and organised multiple webinars and PMVI Valuers conference presentations.

Having finished with the Young Leaders programme in 2017, Andrew is now an active member of the PINZ Auckland branch and PMVI Council, as IPM Valuers Representative and Education Council member, respectively. As a full-time PMVI Council member he has helped organise a number of webinars and training initiatives, including workshops for PMVI registration exams. He was awarded runner-up for the Young Property Professional of the Year award at the 2019 PINZ national conference for his contributions and achievements.

Andrew is passionate about increasing the exposure of the PMVI profession. He has raised and taken initiatives to the PMVI Council to review their membership pathways, with the intention of encouraging members to pursue careers as Registered PMVI Valuers.

Alice – the tunnel boring machine

National Chilli Eating Qualifying Heats in Rotorua 2016

Andrew is passionate about increasing the exposure of the PMVI profession.

He acknowledges that there are not enough young Plant and Machinery Valuers in the country and is always more than happy to meet other property professionals who want to know more about PMVI.

Football and chilli champ

Outside his life as a Valuer, he is a football fanatic and enjoys refereeing in the weekend whenever he gets a hall pass. Andrew also enjoys eating spicy food. He has competed in chilli eating competitions and was runner-up in the final New Zealand Chilli Eating Champs in 2016

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2021 GOVERNMENT HOUSING TAX CHANGES

HARRISON BROWN & NICK WILSON

This article provides a high-level overview of the tax changes that arrived with the Government's new housing policy, who these changes target and how they will affect you.

The Government's new housing policy is an aggressive one that looks to target property investors. The policy covers an extension to the bright-line test and significant tax changes around interest deductions and apportionment of property use. On 30 March 2021, the Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill received Royal Assent. In a Supplementary Order Paper to the Bill, the bright-line test was extended from five to 10 years, and a new apportionment approach that alters the 'main home exemption' was introduced. These changes have taken effect from 27 March 2021.

According to the Government, the ultimate objective of the changes is to shift the balance away from speculators and back towards first-home buyers, to relieve market pressure and to increase housing supply. The Prime Minister has stated that there is no silver bullet, but that the combined effect of these changes will make a positive difference.

The new policy includes considerable changes to the way that residential properties will be taxed in New Zealand. The tax changes are particularly contentious, and many commentators are sceptical about whether they will actually help solve housing access and affordability.

> The tax changes are particularly contentious, and many commentators are sceptical about whether they will actually help solve housing access and affordability.

What are the changes?

The Government has brought in two key changes to residential property tax laws:

1. Extending the 'bright-line' property test from five years to 10 years, meaning that now if you have purchased and sold your property within 10 years and it has not been used as your main home, you will be required to pay income tax on the difference in value you have gained ('new builds' are exempt from this and still have the five-year threshold); and

2. Property investors who have acquired property on or after 27 March 2021 can no longer claim loan interest as a deductible expense. This change will not apply to:
   - 'New builds' acquired as residential investment properties, and
   - Property developers (who pay tax on their property sale – the Government has not confirmed whether this change will apply to other taxpayers who also pay tax on their property sale).

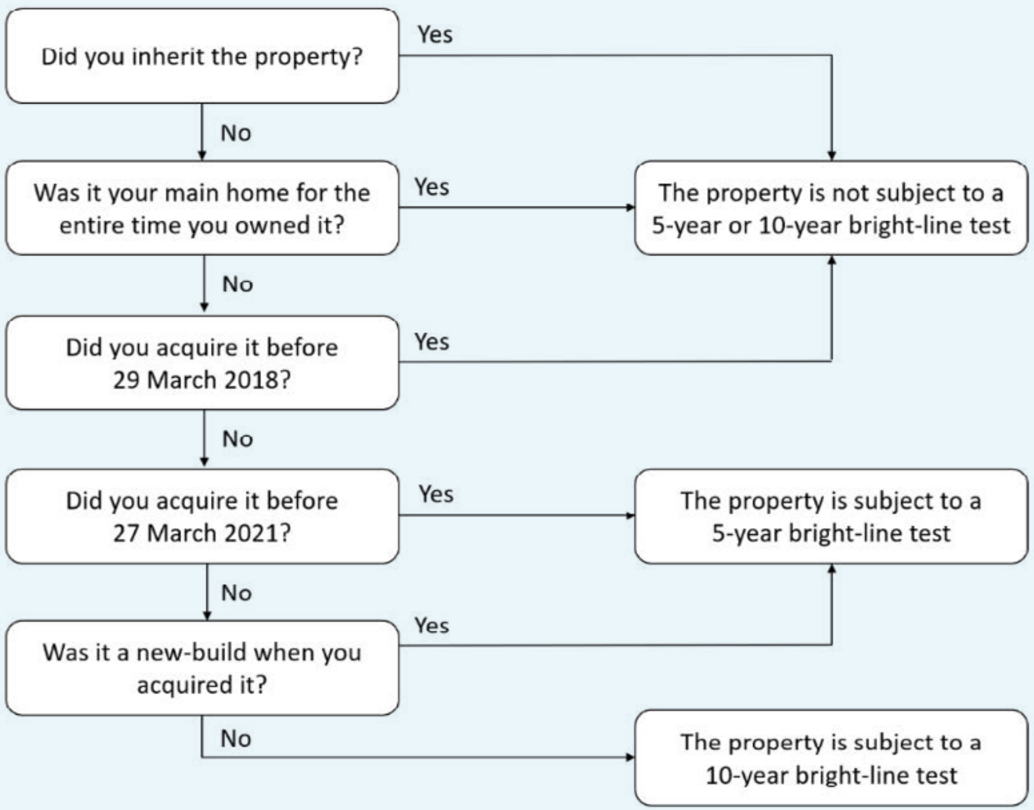
There is also a change to the 'main home exemption' from the bright-line test. Any residential property that has been used as a main home for the entirety of its ownership will remain exempt from the bright-line test. However, when a property acquired on or after 27 March 2021 has not been used as a main home for a period of more than 12 months at a time during the bright-line period, the owner will be taxed at a rate that is proportional to the amount of time the home has been used not as a main home. For example, where a person owns their property for seven years, and has rented it out for three of those years, they will be taxed on 3/7th of their net profit.

Who are the changes targeting and what problems arise?

Bright-line test

The bright-line test was introduced in October 2015. It was designed to makes homes more affordable by taxing property speculation. Instead of a buyer's intention to hold or dispose of a property determining how much tax a person will be required to pay, the bright-line test acts as a blanket rule that simply looks at the time when a person buys and then sells their property. If they buy and sell a residential property within a certain period (the bright-line period), they will be required to pay income tax on their profit.

Figure 1: Flowchart supplied by IRD to help determine what length of bright-line test a property is subject to



While the core objective of the bright-line test was to capture property speculators, the extension to five years resulted in non-speculators being inadvertently caught in the bright-line's tax web simply due to changing circumstances that would require them to sell.

Before 27 March 2021, when a purchaser acquired a residential property and sold it within five years, they were required to pay tax on their net profit. While the core objective of the bright-line test was to capture property speculators, the extension to five years resulted in non-speculators being inadvertently caught in the bright-line's tax web simply due to changing circumstances that would require them to sell. With the new laws extending this period to 10 years, even more non-speculators will be caught in the firing line.

Interest deduction

The second and more unexpected change for New Zealanders has been the removal of residential property owners' ability to deduct interest for income tax purposes. From 27 March 2021 onwards, if you purchase a residential property (that is not a new build), you will not be able to claim a deduction for any interest costs on that property.

This has been done to close what the Government has deemed a 'loophole', i.e. property speculators' ability to 'write off interest costs against the income they make from their properties.' The Treasury specifically advised against progressing the Government's 'loophole' fix due to lack of time and lack of analysis. Others have criticised the fix as being heavy-handed and anti-enterprise. A fundamental principle of New Zealand's tax framework is that if revenue is taxable, then any costs that are incurred while deriving that revenue should be tax deductible. It seems difficult to reconcile this principle with the concept of interest being non-deductible.

Moreover, the rejection of interest deduction arguably punishes Kiwi enterprise and, in particular, middle income New Zealand. The wealthiest investors are able to repurpose their debt, or simply have no debt, whereas the mum-and-dad investors who are borrowing and buying an investment property are ultimately the ones who lose out.

Who will the changes affect and how?

Current investors and property owners

Although the changes are significant, for most investors the extension of the bright-line period and the denial of interest deductions may not be an insurmountable barrier that slows down residential property investment. The bright-line extension from five to 10 years will not require a significant change in current investors' behaviour. The approach to property speculation is still the same, only now investors must think more long term (10 + years rather than five + years).

Current investors will also have reduced flexibility in how they deal with their property, and this extends to any current or prospective homeowner. Property owners are now facing an even higher risk of being caught by the bright-line test given the now 10-year window, where any adverse event that would require homeowners or investors to move out of or sell their property could inadvertently trigger tax consequences.

Transitioning to an apportionment approach for the 'main home exemption' will require owners to plan and (even more so than before) carefully track how long they have rented their properties as a proportion of the period they have owned it. Previously, if you occupied your property as a main home for 50% of its ownership, it was tax exempt, whereas if it were a main home for 49% of the time it would be subject to tax. The result of this move away from an 'all or nothing' approach for owners is that while some gains that would have previously been fully exempt are now taxable (i.e. 80% main home; 20% not main home), other gains that were fully taxable will now only be partially taxable (i.e. 49% main home; 51% not main home).

Realistically, the removal of interest deductions is unlikely to significantly change the way investors act in the near future in respect of existing property. Because the removal will be phased out over a four-year period, current portfolio owners have time to assess their options and prepare. See Table 1, which gives the IRD table detailing the transitioning arrangements.

For investors, what may have been an appealing investment property a few months ago may now be unfeasible under the new interest deduction laws. Prospective buyers should carefully evaluate the cashflow profile of the property because they will now be taxed as if they do not pay interest, including paydown of principal debt. A property investment could result in a negative cashflow that a purchaser will still need to pay tax on. In such situations, new property owners may find themselves paying the shortfall from their own salary and wages.

For investors, what may have been an appealing investment property a few months ago may now be unfeasible under the new interest deduction laws.

Table 1: Table supplied by the IRD showing the four-year phase out period for interest deductions

Income year	Percent of interest you can claim
1 April 2020–31 March 2021	**100%**
1 April 2021–31 March 2022 (transitional year)	1 April 2021 to 30 September 2021 – **100%** 1 October 2021 to 31 March 2022 – **75%**
1 April 2022–31 March 2023	**75%**
1 April 2023–31 March 2024	**50%**
1 April 2024–31 March 2025	**25%**
From 1 April 2025 onwards	**0%**

Renters

We may expect to see some landlords selling their properties as rental property investment becomes less appealing due to fear of the new tax changes, which could free up some house supply for other purchasers and first-home buyers. However, this would potentially take existing rental properties away from renters and into the hands of owner-occupiers.

Some landlords may swap to new builds given the tax exemptions new builds enjoy. This will tighten the rental market. As a result of these changes, especially the denying of interest deductions, one might expect to see rent prices continue to increase. Rather than the new builds going to first-home buyers, we may see property investors purchasing more new builds given the tax incentives they offer, leaving first-home buyers with the second-hand properties (or Kiwibuild units).

First-home buyers

Much like current investors and property owners, first-home buyers will need to be extra cautious about what properties they choose to purchase given the further loss of flexibility. First-home buyers need to bear in mind that any change in their situation over the first 10 years of property ownership that would cause them to not reside in the property and subsequently to sell it (medical issues, crises or other legitimate events) will result in them being hit with income tax. Particularly in the current COVID-19 landscape, this is something to consider.

Residential property investment has been the default investment option for many Kiwis over the last 30 years. These recent tax changes make that a bit more difficult, especially for the mum-and-dad investors.

Summary

Residential property investment has been the default investment option for many Kiwis over the last 30 years. These recent tax changes make that a bit more difficult, especially for the mum-and-dad investors. Some key takeaways that property investors, homeowners and first-home buyers should consider are that:

- The extension from five to 10 years is not the only change to the bright-line test
- The 'main home exemption' is more nuanced – looking at the proportion of time a person uses their property as a main home to decide income tax
- The denial of interest deductions will significantly affect some property owners' cashflow, although the effects of this change will not be catastrophic to existing property investors given the four-year transition period, and
- The inability to deduct interest, coupled with the five-year bright-line for new builds, may generate a push towards property investment in new builds.

While it seems clear that the Government's tax changes are addressing the home affordability crisis by targeting property speculators and incentivising investment in new builds, it remains to be seen if the changes have a meaningful impact on a rampant property market and ultimately make it easier for first-home buyers

Disclaimer

This article is only intended to provide general comments on the subject matter. Specialist advice should be sought about your specific circumstances.

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