NEW ZEALAND

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PROPERTY PROFESSIONAL

MAGAZINE

PULLING VOTES WITH PROPERTY

First shots fired in property turf war

HOME BUYERS BEWARE

Rural land at the right price

If it sounds too good to be true IT USUALLY IS

As Election Season moves closer we're increasingly being presented with a dazzling array of political promises of a bright new future – all, tantalisingly, available if only we would just vote for one party or another.

Unfortunately, I think we've all become pretty cynical about the political process, and most of us take the promises with a grain of salt.

Perhaps that's why so many people don't bother to exercise their democratic right, and perhaps that's why there's been open revolt against the 'establishment' in places like the US (with the election of Donald Trump) and in the UK (Brexit).

But here in New Zealand, I'd like to think we're a more balanced bunch.

And unlike elsewhere, here in Godzone we've been doing alright with the big picture stuff. However, like other desirable parts of the world, we have been seeing rapid property price inflation.

It's not new.

The recently released Housing Affordability Measure clearly shows the upward trajectory started long long ago. As early as 2003 housing affordability was becoming a serious problem – and since then the global financial crisis and the flight of capital from the stock exchanges has sent billions of dollars pouring into the property sector.

It's easy to see why New Zealand property is so attractive, not just to those seeking a haven from the economic uncertainty offshore, but also Kiwi mums and dads looking to grow a retirement nest egg with what's perceived to be a 'safe' investment.

But when you have increasing demand that's not matched by increased supply – prices rise. So here we are, preparing for an election, where fixing our decades-old housing supply problems has become a vote getter.

In this article it is not my intention to do a point-by-point critique of the parties' respective policies – that will be for you to judge as you read their contributions later in this magazine.

And of course in the end the wider public of New Zealand will make their own decisions on whether or not they think the policies are affordable or realistic.

But what I want to highlight is the Property Institute's role in the discussion over the next few months.

PINZ is a non-partisan organisation and we have no desire to insert ourselves into the middle of the property turf war – but that's not to say that we won't be offering our opinions on what's good for our industry, what's bad for our industry – and what's just window dressing.

Our aim is to deal with all parties in an even-handed way, because as an increasingly relevant and credible voice in property I don't think biting our tongues and remaining silent would be in the best interests of our members or the public.

If professional groups such as ours excuse ourselves from the debate, then the public stand no chance of deciphering the pros and cons of political party property pronouncements.

We can't rely on the politicians to highlight the risks, dangers and downsides of their policies. Instead, they'll be telling us that they, and they alone, have the answers that will magically solve problems that have been decades in the making.

But they don't.

Fixing housing supply takes a lot more than some vague promises made in the run up to an election.

A few more government-owned houses here and there, beating up on investors, blaming foreigners, or offering a few more subsidies to first home buyers won't solve the imbalances and in some cases it could be simply disastrous.

In many cases, these things are little more than a sugar fix for politicians who want to be seen to be doing something.

And in many situations, it's just a high stakes game of whack-a-mole, where beating up on one area will simply lead to problems popping up in another.

What we need is a comprehensive approach that includes government, councils, banks, investors, developers, trades and the wider industry. Central government politicians on their own can't deliver this.

So, as you sit back and listen to all the air time and read the column inches devoted to housing this election, just remember – if it sounds too good to be true – it usually is

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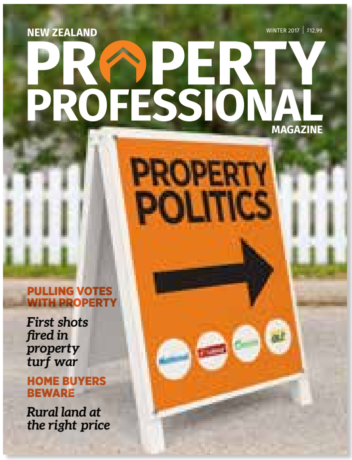

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CONTENTS

WINTER 2017

FROM THE CEO

01 *Ashley Church*

COVER ARTICLE

05 **Pulling votes with property in 2017**
Diana Clement

PROPERTY POLITICS FEATURE

12 **Tackling long-term housing issues**
Nick Smith

14 **Labour's 4-point plan to fix the housing crisis**
Phil Twyford

16 **Green light for affordable housing and liveable cities**
Metiria Turei

18 **ACT's plan to get New Zealand building again**
David Seymour

19 **He kāinga āhuru – warm homes for all**
Te Ururoa Flavell

20 **NZ First housing policy extends a helping hand**
Denis O'Rourke

22 **United Future housing position**
Peter Dunne

23 **The Opportunities Party (TOP)**
Gareth Morgan

GENERAL ARTICLES

24 **Opening shots fired in property turf war**

25 **Unexpected jump in property students**

26 **Challenges facing the purchase, ownership and disposal of residential property**
Vaughan Wilson

PROFILE

32 ***Iona McCarthy***

LEGAL & TECHNICAL

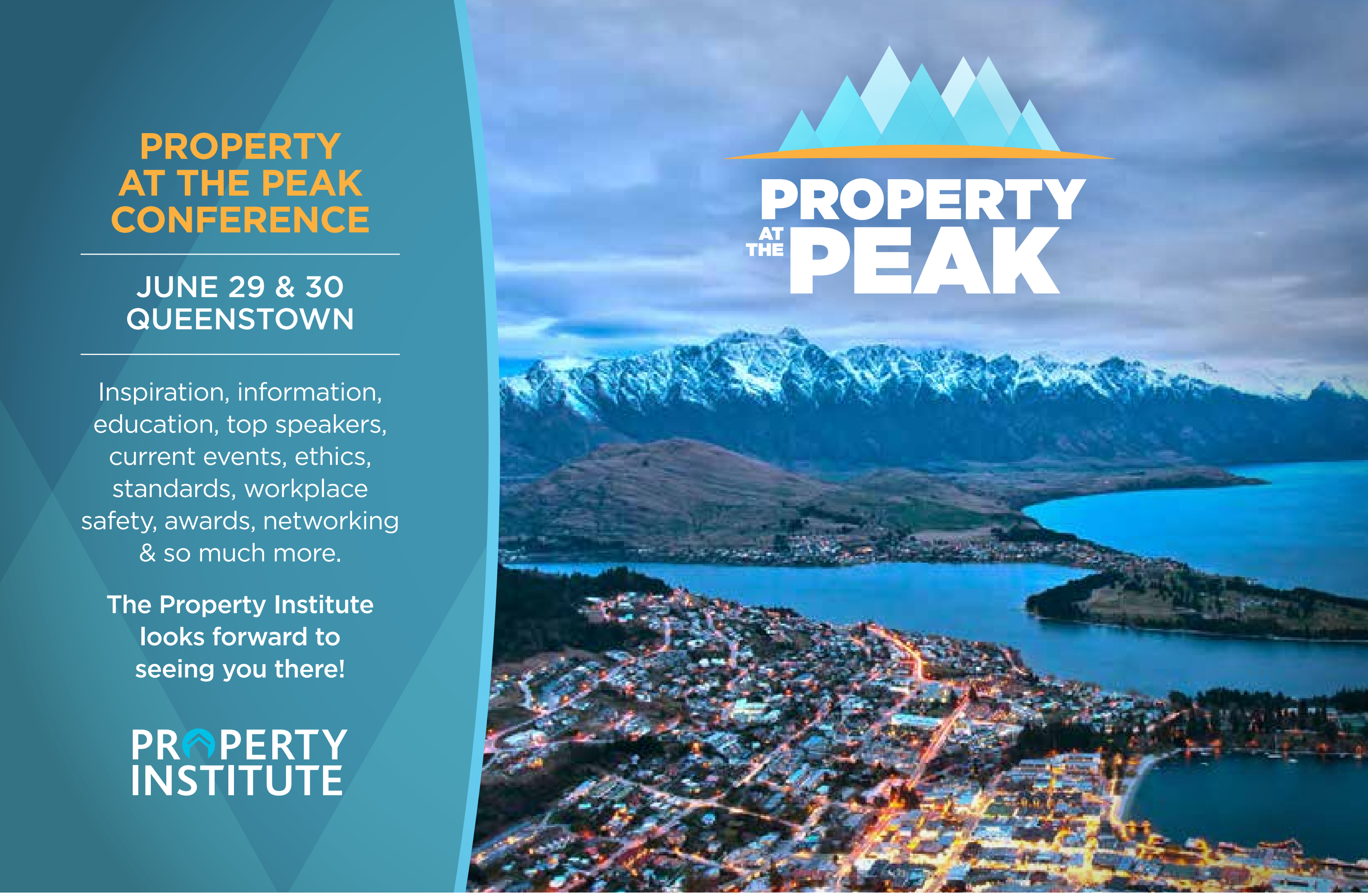
34 **New overseas investment exemptions: foreign investment in sensitive land now easier**
Nick Wilson and Winsome Tam

37 **Insurance update**
Tim Grafton

40 **Avoid paying too much or offering too little for rural land**
Greg Petersen

PINZ NOTICES

42 **PINZ branch events**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PULLING VOTES WITH PROPERTY in 2017

DIANA CLEMENT

It's the issue that will not go away. It dominates news headlines, day, after day, after day. For a politician, it's either gold, or poison, depending on which side of the picket fence you're trying to sit on. Property, and the politics of it, have become a vote deciding issue for nearly one in 10 New Zealanders.

According to a poll conducted by the Property Institute and released exclusively in this magazine, two-thirds of Kiwis will cast their vote on September 23 considering housing policy to be important, very important, or a vote decider.

That's 66% of New Zealanders who think the issues around our property market are a big enough issue to sway their vote this year. Those are numbers that no party can ignore. And they're not.

> **Property is no longer a third rail issue relegated to the 'fairly interesting' basket; it will be front and centre of each party manifesto.**

Property Professional wrote to all the major parties in (and out) of Parliament offering them an open opportunity to contribute to this magazine – none refused.

And the polling is instructive, property is no longer a third rail issue relegated to the 'fairly interesting' basket; it will be front and centre of each party manifesto.

But the politics are fraught, and the parties in Parliament are treading desperately fine lines trying to give the impression they know the answer.

With more than 60% of Kiwis owning their own property, advocacy of a comprehensive capital gains tax on the family home (as promoted by Treasury) remains off limits to all serious contenders for government.

Comments from some, including commentators and former Reserve Bank Governors, about 'seeing house prices drop' are toxic for those who are aspiring to public office. But their constituencies crave for solutions that will allow their children and grandchildren to achieve the pavlova paradise of a quarter acre section, with a back yard, a rotary washing line, and a vege garden.

Some numbers

In April, the Property Institute commissioned Curia Research to conduct a poll of 1,000 voting age New Zealanders and asked: 'In determining your vote for the upcoming general election, how important is housing policy – will it determine your vote, be very important in your vote, important in your vote, or not an issue in your vote?'

- Some 58% of respondents said it was important or very important
- A further 8% (nearly one in 10) said it would determine their vote
- One-third (32%) did not think it was an issue.

Rural areas (40%) were least likely to rate house prices as an issue, as well as National voters (43%), NZ First voters (34%), and undecided voters (34%), while 18% of both Labour and Green voters didn't think house prices were an issue.

But at the other end of the spectrum, a massive 63% of undecided voters think property matters.

While only 5% rate it as a vote decider, 33% say it's very important, and 25% rate property politics as important.

For political parties in election year, these numbers matter – a lot.

And so *Property Professional* asked political parties to give us their spin on housing, and they have. You can read their responses later in this magazine and perhaps judge them on their success should they become the government on September 23.

According to the International Monetary Fund (IMF) New Zealand's real house price inflation exceeded that of 60 countries.

A global issue

According to the International Monetary Fund (IMF) New Zealand's real house price inflation exceeded that of 60 countries.

But New Zealand is not the only country with what some see as an out of control residential property market. The Paris-based IMF warned Australians in March to brace themselves for the possibility of a crash. It said: 'The market may not ease gently but develop into a rout on prices and demand with significant macroeconomic implications.' Newspapers across the ditch regularly report on their 'property crisis'.

And in Canada the regulator, the Canada Mortgage and Housing Corporation, issued a warning that there was 'strong evidence of overall problematic conditions' in the market. Local media there are calling it a 'bubble', as they are in cities like London, Stockholm and Munich.

So where does New Zealand's solution lie? *Property Professional* sought some opinions.

The academic

Professor John Tookey, AUT Head of Department Built Environment

Tookey sees a crisis looming in the building industry thanks to a lack of skills and education in the workforce. He is also concerned about significant issues in the supply chain. New Zealand has very small demands by world standards, which means that there is a lot of duplication in construction and efficiencies are very low. Overseas, he says, governments are using their size to broker sourcing strategies.

Likewise, Tookey sees issues with the planning and consenting process. Despite streamlining, New Zealand councils are far from being the fastest in the world, a problem that is exacerbated by the fact that currently every single property has to be consented individually.

At the same time, the type of mass-produced/prefabricated housing that could solve some of New Zealand's supply problems is difficult to source or there are restrictions on its use. 'Every single house we build is unique and bespoke,' says Tookey. 'There needs to be more prefabrication.' He also believes the government needs to front foot the (housing) problem and leverage the outcomes. 'Private enterprise isn't able to do that. The market isn't going to step up and deliver the housing needed. Everyone is expecting the next crash to come.'

Tookey feels that in order to increase capacity a public/private partnership to build the type of housing we need would probably be the optimal way to go. That would help government to get ahead of the game, by forcing the outcome.

The economist

Gareth Kiernan, Chief Forecaster at Infometrics

Unsurprisingly, housing affordably looms large for Kiernan in his hit list of housing/property issues for the incoming government to tackle. He says that while political commentators point their finger at policy, and others blame everything from migration to land banking, Kiwis also need a re-think of how we expect to be housed. In part, he feels this involves changing home-buyer's mindsets. First home buyers, for example, are still looking for the 'pavlova paradise' of a free-standing house on a quarter acre section in the suburbs.

The reality is that there needs to be a change in the thinking on density that Kiwis can expect, and especially in Auckland on how much land home-

An incoming government will need to look at mechanisms to financially incentivise developers to move more quickly and disincentivise land bankers from sitting on that land.

buyers can realistically expect to own. Also up for tackling, says Kiernan, is the NIMBY (Not In My Back Yard) approach from people who don't want dense housing built next door. He notes that in Auckland the new Unitary Plan is helping by making increased densification easier, and price inflation is proving to be a mechanism pushing people in the right direction to reconsider what is a viable option for their housing needs.

Another issue for Kiernan is supply constraints. He believes that issues around the supply of housing are biggest in Auckland, but these constraints also affect other parts of the country. It's a multi-faceted problem that encompasses issues ranging from the workforce, availability of land, finance and migration numbers. 'An incoming government will need to look at mechanisms to financially incentivise developers to move more quickly and disincentivise land bankers from sitting on that land,' he says.

About migration, Kieran says that net migration has a big impact on property markets. The issue is that what's driving migration isn't well understood. While much of the rhetoric centres around residence and work visa approval numbers, New Zealand's population growth has a lot to do with Kiwis not leaving for Australia as they did in the past and ex-pats returning home. In his view, political parties have not been factoring in these flows of New Zealanders into their decision-making.

'There's nothing wrong per se with migration,' says Kiernan. 'The problem is that we have an under-supplied housing market in Auckland, which is exacerbated by net migration numbers for the last three to four years. Although reduced arrival numbers, particularly on work visas, would have resulted in a tighter labour market and probably limited the economy's growth over the last couple of years, the accompaniment of tighter monetary policy and higher interest rates, along with slower population growth, would have also prevented the housing market getting so far out of balance. If you had been able to dampen migration earlier in the cycle we wouldn't be facing the critical pressure (on housing) in Auckland.'

Kiernan's solution would be to have a target for resident and work visa approvals related to overall population growth, reducing immigrant approval numbers when fewer New Zealanders are leaving, for example, and to understand what is a sustainable rate of population growth. 'If that's 1% or 1.2% we make decisions around that, rather than having a simplistic immigration target that leads to the wild swings in population growth we've had over the last 20 years, taking no account of the strength of the domestic economy and thereby intensifying the ups and downs of the housing market and economic cycle.'

The surveyor

Gérard Ball, Chartered and Registered Building Surveyor at Babbage, and former carpenter

About the skilled labour deficit, Ball says the biggest challenge for the incoming government is the lack of skilled tradespeople sufficient to meet future house building growth. 'It's a "ticking time bomb". The deficit is currently sitting around 30,000 workers. There is a shortage of trained tradespeople and typically when there is a construction boom and a shortage in the skills, construction quality suffers.'

The problem is exacerbated by a lack of supervision. It's not uncommon for one supervisor to be in charge of 10 ill-trained workers who may also struggle to communicate in English. 'It is a perfect storm and will cause a range of problems in the future,' he says.

Ball cites the example of a construction site he visited in Auckland's Flatbush where he identified very poor construction and problems in everything from fire-rating issues to structural problems. 'These were standalone dwellings,' says Ball. '$1.5 million houses being constructed on multiple sites.' There were issues around things like doors that didn't shut properly, floors that weren't level, walls that weren't plumbed, tiles not laid correctly and the sites were untidy. This was just one site. 'It is an epidemic.' He believes the issue could ultimately eclipse the 'leaky building issue', which was itself just one facet of a much wider building quality problem.

He feels the short-term solution would be to make tradespeople more accountable. Ball, who has worked in France, points out that insurance is compulsory there. 'That gives the tradesperson ownership over their work,' he says. 'This would be really easy for government to implement.'

Longer term he believes it is essential to invest far more heavily in apprentice trade programmes and address the stigma about the trades that exists in schools. 'People need to understand that a trade is something you can be proud of,' he says. The devaluing of trades is rife in the school system. Ball saw it with his own son who wanted to become a plumber. 'It means a vital part of the construction industry is being devalued. It is a huge error of judgement.'

The devaluing of trades is rife in the school system. It means a vital part of the construction industry is being devalued.

The think tank

Oliver Hartwich of the New Zealand Initiative

'New Zealand's property ladder is missing its bottom rungs,' says Hartwich. 'If the great Kiwi dream isn't restored soon many young people will be barred from the housing market for decades. After a decade of rampant housing inflation, restoring housing affordability must be a top priority for the government.'

The New Zealand Initiative has produced an election policy manifesto, which includes property-related policy. It sees the big problems to be:

- Planning restrictions make it difficult to increase population densities within cities and the planning system is hurting development
- Cities are also prevented from growing out because of rural-urban boundaries
- Any new development requires infrastructure investment, but councils find it onerous to finance such investment from new rates revenue.

One of the think tank's key recommendations for fixing affordability is to incentivise councils for development by letting them capture the GST component of new buildings. Hartwich says all rural-urban boundaries and height and density controls should be abolished as well. 'Our recommendations for restoring New Zealand's housing affordability are simple, but require political courage. It takes ages to draw up plans under the Resource Management Act, and probably even longer to amend them once they are in place. It also makes subdivisions difficult,' he says.

No quick fix

The simple truth is there is no quick fix to the situation. It will take a combined, coordinated and joined-up approach that involves the banks, the supply chain, as well as local and central government.

A change of this scale does not happen overnight, and by the time meaningful policies are put in place will the market make its own correction? Time will tell. But in a country where two-thirds of the voting public want a quick fix, the politicians have their work cut out for them

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Property POLITICS

With the upcoming September election, Property Professional asked eight parties about their housing/property-related policies so those in the industry and beyond can get a better idea of where each one stands on this important subject.

“The HomeStart grant scheme has helped 27,000 New Zealanders into their first home since being initiated two years ago.”

NICK SMITH
NATIONAL

“We are going to finance the building of 100,000 homes and we’ll sell them to first home buyers.”

PHIL TWYFORD
LABOUR

“We support state-led home building at a much greater scale than is currently happening.”

METIRIA TUREI
GREEN PARTY

“We would change the way building standards are upheld by introducing an insurance scheme in place of council responsibility (and liability) for building quality.”

DAVID SEYMOUR
ACT

Tackling LONG-TERM HOUSING ISSUES

NICK SMITH MP

It is clear that there is a significant shortage of housing, particularly in Auckland, caused by bad planning laws that have held back the development of new homes.

New Zealand is doing exceptionally well. Our economy is growing at one of the fastest rates in the world, employment is at record highs, the government is in surplus, debt is low, and we are being repeatedly rated as one of the safest and most stable countries in the world. A challenge from this success and growth is that we have problems with housing and infrastructure. National is systematically addressing these with a wide programme of reform and record investment.

The first issue we have addressed is the long-standing problem of land supply. This is crucial because in Auckland the price of an average section has increased over the past 25 years from an average of $53,000 to $530,000, a 10-fold increase, as compared to the cost of the new built home from $120,000 to $360,000, a three-fold increase. The Special Housing Areas, the new Urban Development National Policy Statement (NPS), the special process of the Auckland Unitary Plan, and the passage of the government's Resource Management Act reforms are solutions to fix this serious problem.

We have complemented this reform with pragmatic initiatives to grow housing supply. We are allocating $1 billion with the Housing Infrastructure Fund to help councils with the cost of servicing new houses. We have 10,000 homes planned or underway on under-utilised public land, with initiatives like Hobsonville, Northcote, Tāmaki, Point England and Weymouth in Auckland and Awatea, Riccarton Racecourse and Colombo & Welles Street in Christchurch. We have trebled the number of apprentices in building trades.

We have also stepped up support for first home buyers. The most difficult step is pulling together a deposit. The HomeStart grant scheme has helped 27,000 New Zealanders into their first home since being initiated two years ago and the changes to KiwiSaver have seen withdrawals for home ownership double to over $600 million per year. The momentum of both schemes is growing.

We are also reforming other laws to complement our housing programme. Apartments, townhouses and retirement villages will be part of the increasing mix of New Zealand housing so we are upgrading these laws and regulations to provide greater security, transparency and consumer protection for these types of housing.

Another area of reform is in building consenting and materials. We have reduced tariffs on imported building materials to increase competition. We are upgrading dozens of building standards to better encourage innovation and affordability. Our next step is reform of the Building Act to improve the consenting process and management of risk.

Tenancy law reform has also been a priority. We have required smoke alarms in all tenanted properties and insulation by 2019. We have also introduced a new compliance and enforcement unit to ensure minimum standards are met. The latest BRANZ report shows the quality of our housing stock has improved significantly over the past five years.

This approach recognises that there is no instant or one-off solution to New Zealand's housing challenges. House price increases

The past six years has seen the longest and strongest growth in housing investment ever, from 15,000 new homes in 2012 to over 30,000 currently.

are not new. Average house prices grew by 104% between 1999 and 2008 and have gone up by 51% during National's watch. The key is long-term sustainable solutions rather than gimmicks and scapegoats.

There is strong evidence the government's policies are working. New home construction had plummeted to an all-time low of less than 1,000 per month in 2008. The past six years has seen the longest and strongest growth in housing investment ever, from 15,000 new homes in 2012 to over 30,000 currently. You cannot grow a sector as large and as complex as the construction sector at a faster rate than about 20% compound per year without getting into quality problems. The combination of infrastructure, commercial and residential building activity is $37 billion per year, the highest ever in inflation adjusted terms. This building boom is forecast to be sustained for the next four years.

The success of our housing programme is evidenced by the results in Canterbury where we focused our initial efforts. We radically freed up land supply and good quality sections are available for $180,000 and quality three bedroom homes for $420,000. Rents in Canterbury have declined over the last past two years and house price inflation is only 2%. Auckland is a larger, more complex market and our initiative will take longer to succeed. House price inflation in Auckland has slowed significantly in the past year and is now down to single digits.

National has formed a plan for the next logical steps. We are currently consulting on legislative proposals for Urban Development Authorities based on best practice internationally on how we can redevelop large urban areas. We are also working with the sector on the Unit Titles Act changes to make apartment investments more secure. We have a bill and new standards being drafted to improve our tenancy laws and how we manage 'P' contamination and deal fairly with who pays for damage to properties. The next big piece of work will be on the Building Act to improve the consenting processes and how we manage risk.

National's comprehensive housing programme is systematically dealing with the long-standing supply issues around housing. The programme is showing increasing evidence of success. We are on track and need to stay the course.

Nick Smith is MP for Nelson. He is also Minister for the Environment and Minister for Building and Construction.
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LABOUR'S 4-POINT PLAN to fix the housing crisis

PHIL TWYFORD MP

Most people agree we have a housing crisis. Labour believes it is a moral issue. We cannot sit back and allow future generations to let go the dream of affordable home ownership. We must bring practical solutions to tackle the root causes of the housing crisis and fix it for the sake of the next generation. Here is Labour's plan.

First, we'll reform the planning system so our cities make room for growth

Our plan is to replace the urban growth boundary with more intensive spatial planning that provides signals as to where future development can occur. It will protect areas of special value, and public open spaces big and small for future communities.

Through the current designations process it will acquire land for roads and public transport. And then it will allow development to take place, as long as that development can carry the costs of the infrastructure and services the new communities need.

We'll get rid of the Auckland rural urban boundary that creates a massive differential between expensive urban land and cheap rural land just across the road. As you know, that differential triggers the land banking and speculation that drives up section prices. With Labour, that incentive for land banking will disappear.

It is not, as some might fear, a charter for unchecked sprawl without decent infrastructure. If we loosen some of the height and density restrictions in the city, and we deliberately encourage brown and greyfields development, and we require new developments to carry the cost of new infrastructure – it will in fact tilt the playing field in favour of development in the city.

Second, we will change the unfair, inefficient and expensive way infrastructure is financed

We have to find a way to unblock the massive infrastructure bottleneck. The current system is just not working. Our plan is to fund infrastructure for new developments through long-term bonds so the costs can be spread over the life of the asset.

It will be cheaper than what happens now when the developer passes the costs on to the price tag of the new home which is paid off on the mortgage, pushing up property values that are then capitalised into the values across the market. The bonds would be paid off through a targeted rate on the properties in the new development, ensuring infrastructure costs are not subsidised by the ratepayer or the taxpayer in places where it is not economic to build.

Of course not all urban infrastructure can be funded this way. When government decides to open up new areas for development – let's say a new satellite city – it should invest in transport and other infrastructure.

Third, Labour will cut through the red tape to enable bigger more ambitious private sector-led development

We will legislate to establish an Affordable Housing Authority that will manage the government's urban land holdings. We're following the lead of authorities like Places Victoria in this area. Our aim is to deliver a 30-year pipeline of land for residential, commercial and industrial development.

The Authority will be empowered to establish local development companies for specific development projects. Those development companies will partner with the likes of Panuku, Auckland Council's development agency, as well as iwi or other private sector investors. Their role will be to lead and master plan ambitious integrated mixed-use and mixed-income urban development projects that have homes, jobs and amenities. These mixed-use, mixed-income communities will have everything they need to be prosperous and thrive.

We are serious about doing this at scale. Imagine 10 or 15 developments in Auckland on the scale of a Hobsonville or a Tamaki. We see it as a vehicle for central government to partner with communities all over New Zealand on the built environment.

South Dunedin, for example, faces real challenges from low quality housing, flooding risk, a high water table and rising sea levels. An urban development approach that brings central and local government together could well be the way forward. In Canterbury, too, much of the pain and protracted delays in the rebuild have been a result of repeated failure by central government agencies to create opportunities for the private sector to invest and build. We have to learn from that.

Alongside our Affordable Housing Authority is KiwiBuild, our commitment to build 100,000 affordable homes over 10 years for first home buyers. For several decades, governments of all stripes stimulated a supply of affordable homes using State Advances Loans. In the process, those governments put generations of Kiwi families into their first homes. We can do that again.

We are going to finance the building of 100,000 homes and we'll sell them to first home buyers. We're going to cut through the productivity and scale problems of a construction industry that are a legacy of the boom and bust cycle. The homes will be designed and built by local firms that can scale up.

An average of 10,000 homes a year will allow the work to be tendered out to firms that can build hundreds of homes instead of dozens – or thousands instead of hundreds. Scale and certainty will allow firms to invest in the plant and technology of off-site manufacturing.

KiwiBuild homes will be just one supply line into the new developments of our Affordable Housing Authority – alongside open market homes, and non-profit affordable, and state and community housing.

The Affordable Housing Authority and KiwiBuild will not crowd out private sector opportunity. It will generate the opportunity for a bigger, more competitive development industry than we've ever seen. We'll run KiwiBuild in a counter cyclical way to ramp up production and maintain it there for a decade.

The Affordable Housing Authority will open up large new developments that the private sector on its own couldn't do. But the actual delivery of places to live work and play will be done by your industry.

Fourth, we are going to fix the tax and policy incentives that have made property speculation the country's number one industry

We're going to help investment capital return to productive businesses that build things and create value. The current government seems determined to ignore the effect of demand pressures on the housing market. We know that unless the current incentives are changed, runaway demand will stop us from ever building our way out of the housing crisis. Labour will immediately push the bright-line test out to five years. If you sell a rental property within five years you'll pay income tax on the capital gains.

We are currently designing our policy to shut down negative gearing tax breaks for speculators that last year saw investors write off $650 million in paper losses. Negative gearing is a harmful public subsidy for speculation and Labour will crack down on it.

We will also ban non-resident foreign buyers from buying existing homes. Australia, Canada, Hong Kong, Singapore and Malaysia all have policies to limit the impact of foreign buyers on local housing. It is time we got real too.

In our first term of government, we will initiate comprehensive tax reform by convening a Tax Working Group to look at making a fairer and more efficient system that promotes the productive economy as opposed to speculation.

Phil Twyford is the MP for Te Atatu. He is also Labour's Spokesperson on Housing, Building and Construction, and Auckland issues. *phil.twyford@parliament.govt.nz*

Green light for AFFORDABLE HOUSING and LIVEABLE CITIES

METIRIA TUREI MP

Whoever forms the next government will need to hit the ground running to fix the housing crisis. The Green Party's housing policies are based on the principle that all New Zealanders deserve a warm, dry, safe place to call home. And housing policy is not just about bricks and mortar – it's also about how we plan our communities and build our cities.

First, we support state-led home building at a much greater scale than is currently happening. That is good for the construction industry, good for creating jobs and, ultimately, good for people who need somewhere to live. There has to be a role for private sector innovation and especially for the community housing sector. The government does not have all the answers, but when it comes to fixing the housing crisis it does need to lead the way by building more houses.

Last year, I announced a housing policy package designed to work alongside Labour's KiwiBuild programme. We would make some KiwiBuild houses available in a progressive ownership 'rent-to-buy' system for low income families. And we would use the government's low cost of capital and ability to raise bonds from institutional and mum and dad investors to channel finance towards the community housing sector, including iwi, so the sector can ramp up the part it plays in social housing.

In the Green Party's vision for affordable cities with a high quality of life, medium-density housing plays an important role. When you ask people today, many say they'd prefer to live in a slightly smaller home close to where they work and socialise than a larger home further away which means sitting in traffic for a couple of hours every day. The Auckland Unitary Plan is a good step towards enabling this, but it's not a silver bullet for Auckland and it won't do anything for the rest of the country. The next steps are to modernise the Building Code and develop a National Policy Statement (NPS) on urban design.

An NPS would make sure new denser developments work for their communities and have local buy-in. Some key medium-density, mixed-use flagship projects in our cities could really help inspire people. People who are nervous about density often haven't seen it done well – and yet New Zealanders often return home from overseas raving in delight about the vibrant neighbourhoods they've discovered in big cities around the world. Those neighbourhoods tend to be mixed use and medium density.

Funding the infrastructure needed for our cities to grow is a key challenge. We are open to supporting Labour's plans for targeted rates and infrastructure bonds. Importantly, it's often much cheaper and more efficient from the infrastructure standpoint to build medium-density housing in existing urban and suburban areas than it is to undertake greenfields development. And communities benefit when people can live close to where they work and play.

We are also comfortable with the idea of Urban Development Authorities (UDAs) – as long as they aren't used to override local democracy. With the right policy settings, UDAs could be the engines of creating people-centred cities with high quality rail and bus networks, and affordable and energy efficient homes. But done badly, UDAs risk being just a sneaky way to override local communities and force more sprawl and pollution.

In their first term of government we worked with John Key's National Party on the hugely successful Warm Up New Zealand (WUNZ) home insulation programme. For

Metiria and Green Party Co-leader James Shaw at a Habitat for Humanity social house build

every dollar spent, $4 to $6 was saved in reduced health care costs and increased productivity. Despite warming up over 200,000 homes there is still work to be done. National has drastically cut insulation funding, so we are looking at ways to revitalise WUNZ and make sure it is targeted to the people and households who need it the most.

The Auckland Unitary Plan was originally going to include new standards for energy efficiency and weathertightness, but it was decided that it would be more appropriate to make these changes in the Building Code. So that's what we intend to do. In the rush to build more homes we must not sacrifice quality and warmth. The government built cheap, cold state homes in the 1970s that weren't meant to last – but until very recently they were still un-insulated and the families living in them were getting sick and paying huge power bills.

More energy efficient homes and buildings have huge indirect benefits too. Lower overall electricity consumption means billions of dollars do not have to be spent upgrading the national grid or building new power stations.

The Green Party is the only political party in Parliament that believes in the importance of a capital gains tax. Because of the tax advantages for property investment, investment in New Zealand is skewed away from businesses (who would create jobs) and into houses and land. That unbalances our whole economy. Otago University economist Andrew Coleman recently called New Zealand 'one of the most distortionary tax environments for housing in the OECD.' A capital gains tax (excluding the family home) wouldn't just help calm housing speculation and address investor demand and affordability, it would help rebalance the whole economy.

Finally, the Green Party is committed to tackling homelessness. We're moving into winter and seeing families forced to sleep in cars and garages yet again. This isn't the New Zealand any of us want. So let's debate the planning rules, the taxes, and the infrastructure funding to make sure we get the best solution. But let's not forget that every day that we argue over the solutions instead of doing something is another day a kid is sleeping in a car this winter. Fixing that must be our first priority.

Because of the tax advantages for property investment, investment in New Zealand is skewed away from businesses (who would create jobs) and into houses and land.

Metiria Turei is Green Party Co-leader and Building & Housing Spokesperson.
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ACT'S PLAN to get New Zealand building again

DAVID SEYMOUR MP

It is clear that there is a significant shortage of housing, particularly in Auckland, caused by bad planning laws that have held back the development of new homes.

ACT believes that the major cause of the housing shortage in our cities is the Resource Management Act. This Act requires councils to provide for environmental protection and conduct consultations, but doesn't require them to consider the property rights of owners, economic growth, or provide for an increasing supply of housing.

The number of new houses consented per capita is far below what it was in the 1970s. The government has tried to treat the symptoms with Housing Accords and Special Housing Areas, but it hasn't tried to solve the fundamental problem – our planning laws are preventing necessary development.

ACT believes that the shortage of housing will easily be filled by private developers when planning law stops holding them back. We would rewrite the Resource Management Act and introduce new supply-focused urban planning legislation for cities of 100,000 people or more. Urban environments, and areas at the edges of our cities, should not be regulated and protected in the same ways as pristine natural areas.

ACT would share a portion of GST revenue collected from the construction of new housing with the local council to incentivise them to approve planning of new homes. The shared revenue would help cover the cost of infrastructure like roads, water and sewerage which councils must build to support new development. The cost of this infrastructure currently disincentivises approval of new houses and subdivisions.

We would also change the way building standards are upheld by introducing an insurance scheme in place of council responsibility (and liability) for building quality. By cutting back the red tape around our housing market, ACT would get New Zealand building again, so that the market can return to normal levels and the social pressures of the housing shortage are eased.

ACT's full policy can be read at www.act.org.nz/housing.

David Seymour is Epsom electorate MP and Leader of the ACT Party. david.seymour@parliament.govt.nz

HE KĀINGA ĀHURU

Warm homes for all

TE URUROA FLAVELL MP

Everyone, no matter where they are in the country, no matter what their ethnicity, should live in a safe, healthy, affordable home. A warm and dry home benefits the health and wellbeing of whānau, especially children.

There is no quick fix to the housing issues we as a country are now facing. The goal of home ownership is a pipe dream for some living in our more expensive cities such as Auckland, and tenants are finding more and more of their income is being spent on rent.

It may be great for landlords, but not everyone can pay more to ensure they have a roof over their heads, especially as wage increases struggle to keep pace with rising housing costs. We need to plan better for the future, to ensure supply keeps pace with demand. We need buy-in and commitment from a range of stakeholders, including iwi, to get beneath the drivers of our housing woes, and provide a comprehensive, coordinated strategy to resolve our housing crisis.

Māori are over-represented when it comes to housing deprivation statistics and we believe He Whare Āhuru – the Māori Housing Strategy needs greater impetus to improve housing outcomes for Māori. The strategy aims to create an environment where government, local authorities and Māori can collaborate more effectively to develop Māori housing.

The Māori Housing Network, set up in October 2015 to deliver on that strategy and improve the quality, supply and capability in the Māori housing sector, is making a difference but more needs to be done.

The Māori Party wants:

- All rental properties to be subjected to a regular warrant of fitness
- More social and affordable housing
- Home ownership pathways
- Support for restoration of marae
- More funding for emergency and transition housing
- Continued support of the Warm Up New Zealand insulation programme
- Urgent steps to tackle substandard housing and infrastructure, particularly in rural areas
- More cooperation amongst government agencies and social service providers to help house vulnerable whanau.

Te Ururoa Flavell and Te Tuinga Whānau CEO, Tommy 'Kapai' Wilson, and Trustees outside Whare Awa, one of two newly-opened whare to assist homeless whānau. The homes are in addition to the first emergency house (Whare Tauranga) which was opened a year ago. These houses were achieved with assistance from the Māori Housing Network

Te Ururoa Flavell is Co-leader of the Māori Party. He is also MP for Waiariki, Minister for Māori Development, Minister for Whānau Ora and Associate Minister for Economic Development.
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NZ FIRST HOUSING POLICY extends a helping hand

DENIS O'ROURKE MP

The principal objectives of NZ First's housing policy are to:

- Urgently increase the supply of houses through direct and long-term government participation in the housing market, together with government financial assistance to first home buyers
- Provide more home ownership options, including shared ownership models, to assist low income people into their own homes.

Instead of blaming the Resource Management Act and the country's councils, as the current government does, NZ First would be proactive in long-term planning by establishing a new Housing Commission. Its role would be to consult with local government, housing developers, other stakeholders and the general public to develop a New Zealand Housing Strategy (NZHS). The Strategy would have national objectives covering:

- Housing and residential land availability and affordability
- Rental home supply and affordability
- Residential land development and redevelopment
- Home purchase finance
- Sustainable housing objectives, including energy efficiency and housing quality
- Integration of housing developments with sustainable transport systems.

To facilitate direct government investment in the housing market the Housing Commission would establish Kiwi Housing to acquire land to create a land bank, where appropriate using existing state-owned land. This is for areas where demand clearly exceeds supply and/or where a Special Housing Area has been designated under the Housing Accords and Special Housing Areas Act 2013. It would be for sustainable residential development aimed at delivering modest-sized high quality new family homes with appropriate land densities and excellent transport connections. NZ First believes that 140,000 new residential houses within seven years should be the target set for the Commission for Auckland, requiring an average build rate of 20,000 houses per year over that period.

Kiwi Housing would sell residential sections, or fully built homes, on the basis of long-term agreements for sale and purchase (up to 25 years) to first home buyers at low interest rates (probably 2%). There would be other terms and conditions to make home ownership financially possible for the widest range of income groups. A range of other options would be developed and implemented, including shared ownership models, to assist low income people into their own home. Kiwi Housing would also be empowered to compulsorily purchase vacant land already zoned residential, where the land has not actually being developed for that purpose, under the Public Works Act 1981.

NZ First is also developing a policy to assist first home buyers by offering them a state contribution of one-quarter of the home's purchase price, or $100,000 (whichever is the lowest), as a second priority loan to bank finance. This would be on the basis that the state contribution is interest free, repayable in full at any time, and otherwise repayable in full after 20 years or when the property is sold. The amount of repayment would be the highest of either: the amount of the original state contribution; or a proportion of the sale price equal to the proportion the state contribution was to the original purchase price.

The policy effectively provides the purchaser with a deposit of up to $100,000 as a means to get first home buyers into a home. The burden of making repayments of both interest and principal is removed for up to 20 years. Instead, the state effectively becomes an equity partner entitled to a proportion of any capital gain on sale or repayment. The other details and costing for this policy are currently being completed before a formal announcement is made.

NZ First would link housing policy to immigration, the rate of which would be reduced. This would make people who are neither permanent residents nor citizens ineligible for home ownership in New Zealand, except that any overseas purchaser would be able to apply to the Housing Commission for a permit to own a house in New Zealand if a genuine need to do so could be demonstrated.

For rental housing, NZ First would require territorial local councils to prepare and implement a social housing plan for their district. This is aimed at ensuring an adequate supply of high quality rental homes to meet local demand by encouraging private investment in them and by direct provision by councils. They would be supported in this with long-term loan finance for the establishment of both housing for elderly persons and public rental housing developments. These would be administered by local government owned and controlled housing business enterprises, which would be required to carry out councils' social housing policies and the national objectives of the NZHS. These enterprises would be required to earn a fair rate of return and would re-invest all profits back into achieving councils' and the NZHS's rental housing objectives.

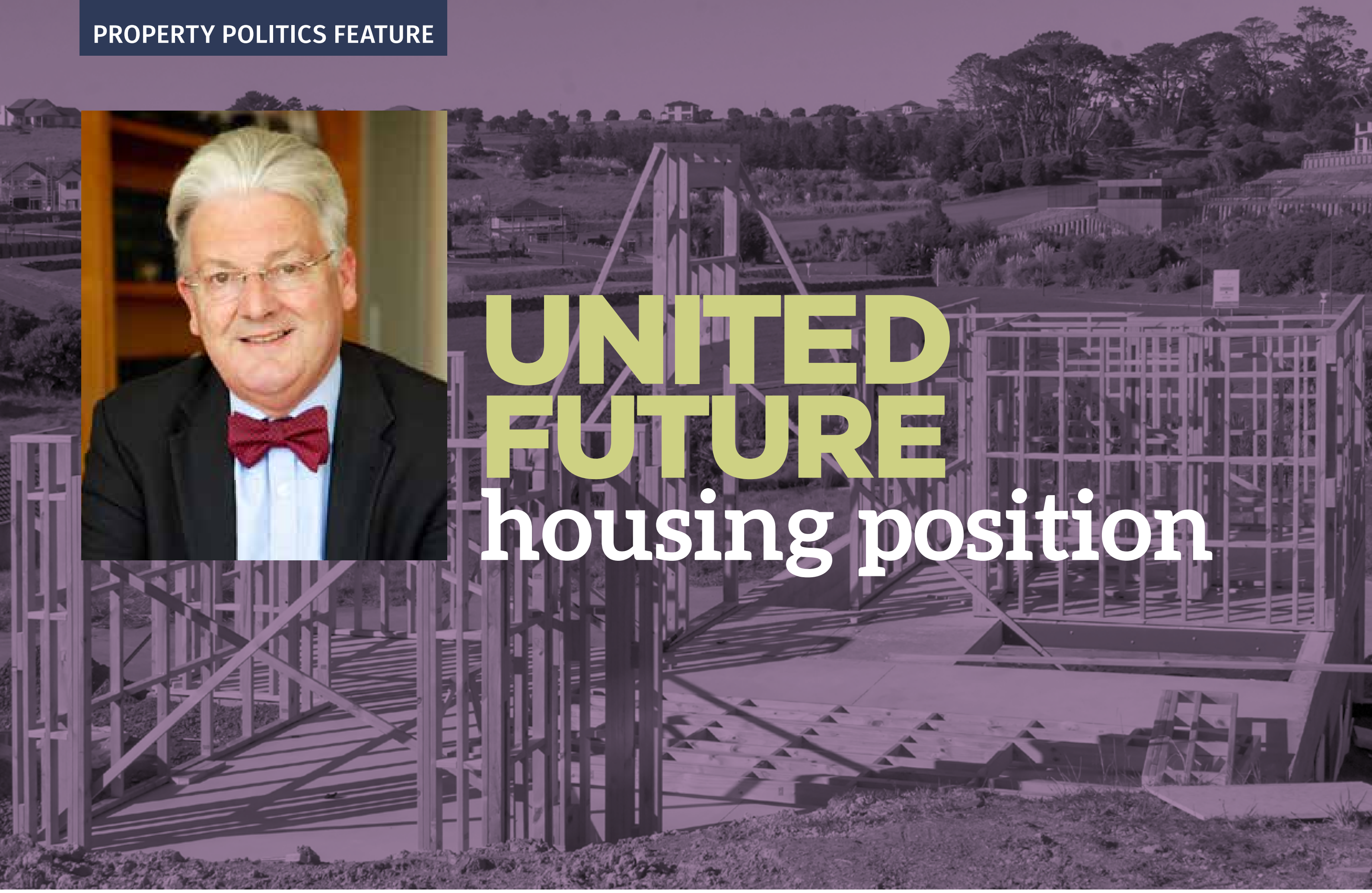
NZ First would also legislate to simplify and improve the security of tenancies. This would be to provide mechanisms to avoid large fluctuations in rents, and to implement policies to improve the quality and attractiveness of long-term tenancies as a desirable alternative to home ownership. Experience from other countries that have achieved stable and high quality home rental markets would be used to inform policies and measures to achieve these objectives.

We would also reform the Housing New Zealand Corporation (HNZC) so that it returns to its role as New Zealand's primary social housing provider. This would be done both by:

- The direct provision of high quality social housing and the continued use of market-related rents subsidised by income-related accommodation allowances, where needed, and
- Working with local government and professional private providers to ensure an adequate supply of high quality rental homes to meet the demand in all parts of New Zealand in accordance with the NZHS.

NZ First would allow the HNZC to issue long-term bonds as one of the means of financing its building programme. The bonds would be tradeable, government guaranteed and have a guaranteed interest rate.

Denis O'Rourke is NZ First Spokesperson for Housing. ***denis.orourke@parliament.govt.nz***



UNITED FUTURE housing position

PETER DUNNE MP

In 2009, the incoming government held a jobs summit in order to set the agenda on increasing job numbers, promoting economic growth and ensuring certainty in the business sector.

The government knew that it did not have a monopoly on the solutions to a stagnating economy, so they turned to the wider community to help design a successful and wide-ranging approach to a job-growth strategy. In 2017, United Future wants to see the same successes of that strategy replicated for housing by convening a national housing summit to establish a long-term strategy for the multiple issues facing our housing sector.

We would want representatives from central and local government, urban planners, banks, builders, social housing providers and more to come together and establish a plan for affordability, supply, provision of social housing and quality of rental accommodation. A housing summit would recognise that the best ideas come from these sectors and communities that will be needed to implement the solutions, rather than from the political posturing of political parties.

> We recognise the pressures faced by families in the current environment.

Further, we recognise the pressures faced by families in the current environment. We support providing an additional avenue for families to attain home security by allowing them to choose to withdraw their annual Working For Families entitlement in order to cover the costs of a home deposit. This is money the family is already entitled to; the policy simply provides an additional opportunity to get into the housing market.

United Future believes that people must be at the heart of policy-making, so a focus on getting a sound plan and protecting our nation's families must remain the priority for this election.

The Hon. Peter Dunne is Leader of the United Future Party.
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THE OPPORTUNITIES PARTY (TOP)

GARETH MORGAN

Currently our tax system favours owner-occupiers over renters, a distortion that is driving speculation.

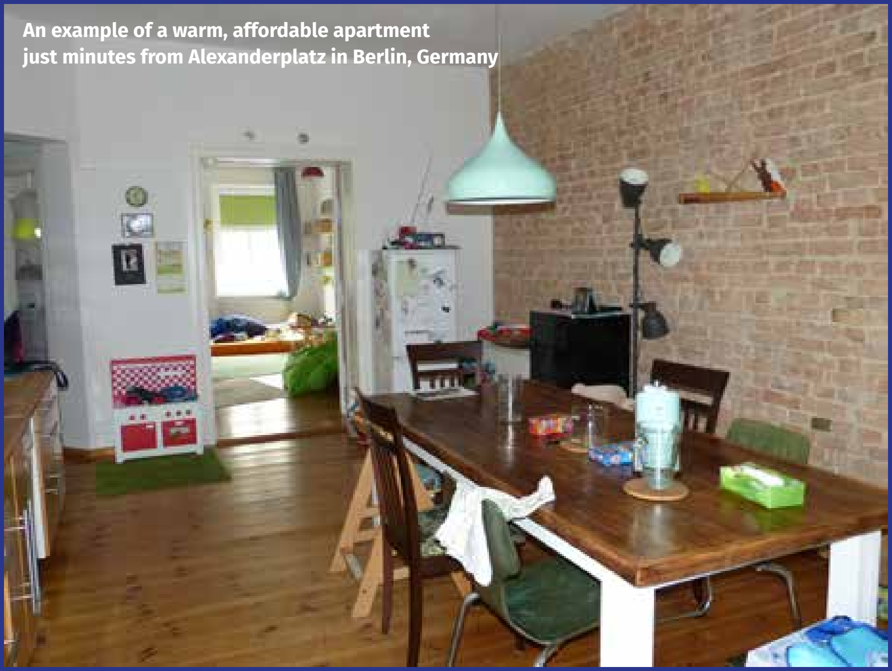
The Opportunities Party plans to restore housing affordability by closing the tax loopholes around the ownership of assets.

Under our proposal owners will need to pay a minimum level of tax on the equity in all assets, similar to what they would pay on a bank deposit. This would remove the incentive to speculate on land prices and encourage building. By gradually introducing this policy house prices can be held stable for 15 years, allowing incomes to catch up and restore affordability. As long as rental properties are giving a reasonable taxable return on investment, landlords will pay no more tax than they do now.

While we wait for housing affordability to be restored there will be generations that have no choice but to rent. We need to avoid the negative social impacts of raising families in poor quality, insecure rental housing. Decent people should have decent housing. People need to be secure in their homes, their communities and their schools in the knowledge that if they keep up their end of the deal, their rented accommodation will not be taken from them.

Germany has achieved this vision with more than half the population living in good quality, private rental housing stock. Long-term tenancies are the default setting; as long as the tenant pays the rent and doesn't trash the place it is difficult for the landlord to kick them out. Landlords there own property for the rental return, not for capital gain. Removing the incentive to speculate on land values encourages productive investment into improving the quality and quantity of the housing stock.

Whether you rent or buy should be a matter of personal choice, not because one has better tax breaks than the other. Likewise, housing should be a vital part of our social infrastructure, not a get-rich-quick scheme.



An example of a warm, affordable apartment just minutes from Alexanderplatz in Berlin, Germany

Gareth Morgan is a businessman, economist and Leader of The Opportunities Party.
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OPENING SHOTS FIRED in property turf war

Some of the guests at a pre-Budget housing announcement hosted by the Property Institute

The bidding war to win the hearts and minds of New Zealand voters employing the politics of property is now well and truly underway.

The first salvo was fired by Labour Party Leader Andrew Little at the Party's annual congress.

The policy, which is outlined earlier in this magazine, proposes to scrap negative gearing, or the ability of investors to claw back tax losses on properties. Labour says this policy would remove 'a tax loophole that speculators use to avoid paying tax.'

In its policy documents Labour says:

'It is time to end the subsidisation of speculators by taxpayers. Removing the speculators' tax loophole will put home buyers on a level playing field and give them a fair shot at buying a home.

'For a smooth transition, this change will be phased in over five years, with loss deductibility reducing by 20 per cent a year.

'Removing the speculators' tax loophole will save taxpayers around $150 million a year once fully implemented. Total savings in the first ten years will be $1.2 billion. Labour will use this money to help 600,000 families heat and insulate their homes to modern standards.'

However, this policy has drawn strong criticism from organisations like the Property Institute of New Zealand, which points out that the majority of property investors are in fact mum and dad investors, rather than 'speculators'.

It has also been pointed out that in order to make up the losses, landlords will increase rents to cover their costs. This will put further pressure on those who are struggling to find a decent place to live and save for a deposit on their first home.

On the other side of the political divide, the National-led Government has made a number of housing announcements in the Budget, including a programme to build 34,000 homes in Auckland on Crown land over the next decade.

That announcement was made by Social Housing Minister Amy Adams at a well-attended Property Institute event in Auckland. It included plans to build a mixture of social and private housing with an intention to ensure that some of those new homes will be aimed at first home buyers.

About 20,000 of these homes will be ear-marked for private owners. although it has been noted that the number still falls well short of the total new homes required to keep pace with Auckland's population growth and demand. The opening shots may have already been fired in the political turf war over property, but they certainly won't be the last.

The Hon. Amy Adams making a pre-Budget housing announcement at a well-attended Property Institute event

With Labour quoting poll results that mirror the Property Institute poll earlier in this magazine, no party will want to give up ground to their opponents when it comes to housing policy.

It promises to be a fascinating few months for our industry, and property professionals working on the front line who will have to pick up the pieces and make it work when the dust settles after the election in late September

UNEXPECTED JUMP IN PROPERTY STUDENTS

In the last edition of *Property Professional* magazine, the lead story featured comments from a very worried John McDonagh, the Associate Professor of Property Studies at Lincoln University.

In our Autumn edition, he told us the talent shortage in all corners of the industry was reaching ‘crisis point’ and too few people were signing up for degree courses, and said that potential students aren’t coming forward. Since then his tune has changed – a lot, in a good way.

Now, he expects teaching resources will be stretched because of a near doubling of numbers, with more than 70 students now enrolled to take property degrees at Lincoln.

He’s been quoted as saying, ‘It’s gone bonkers. It may have been because the Property Institute advertised the courses at careers expos where graduates manned them to talk about the course.’ Institute Chief Executive Ashley Church says the turnaround is great news, but with the average age of those working in the industry ageing, there is still much work to do.

So PINZ isn’t going to be taking the foot off the accelerator just yet. It regards the recruitment of fresh talent and the cultivation of the next generation of property professionals as one of its most important priorities.

‘Property is one of the biggest industries on the planet. A degree in property is a gateway to many different occupations – there is a global shortage of property professionals – and graduates can virtually pick and choose where they want to work right now. So, there’s a good story to tell to potential students, and that’s why we’ve invested more time and effort than ever before getting around the five major career expos in the past month or so.’

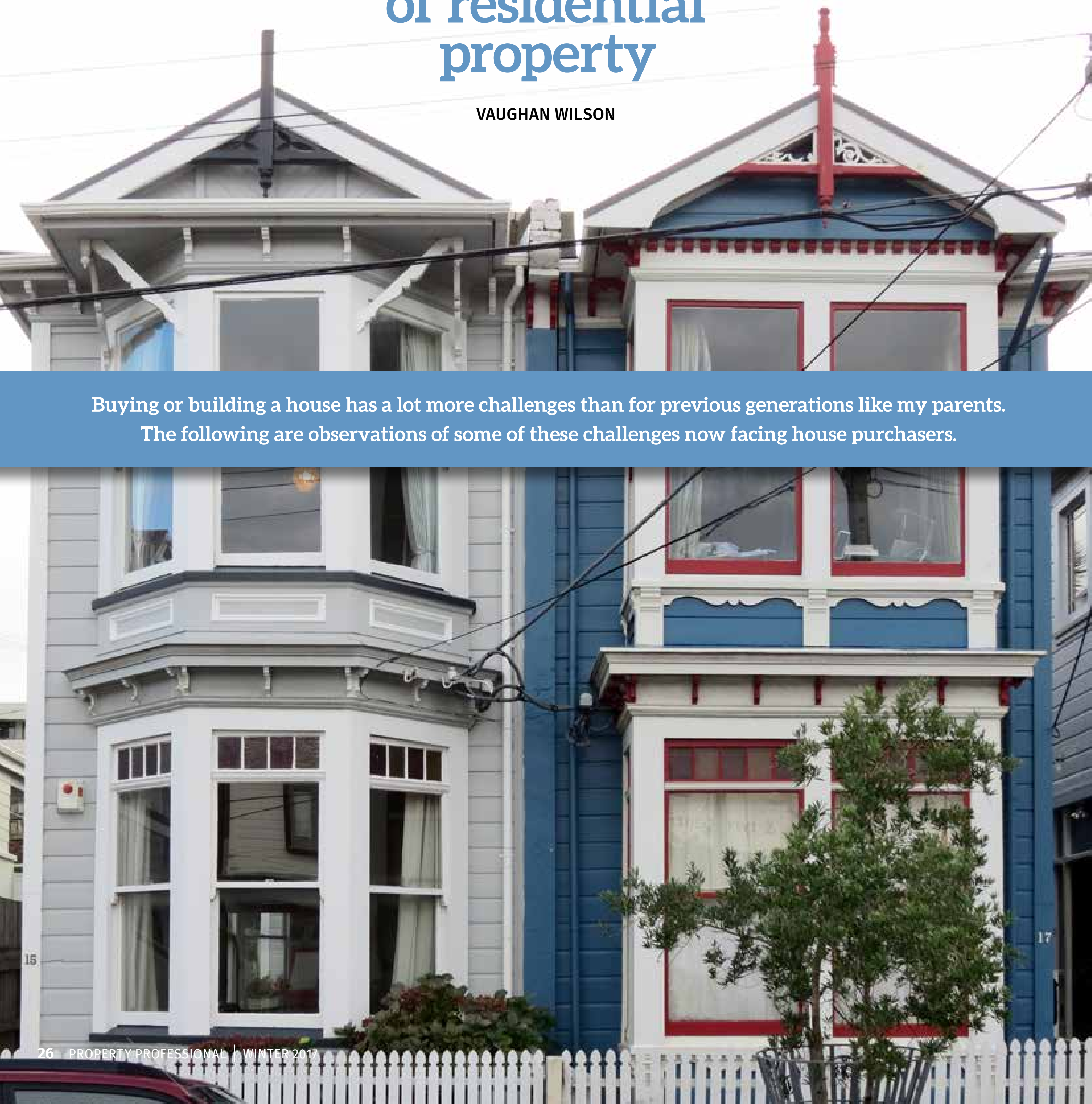
By the time you read this, the Property Institute will have attended careers expos in Christchurch, Manawatu, Auckland, Hamilton and Wellington.

‘It's the first time we've had a really coordinated approach to this, and I really appreciate the branch efforts of last year, and all the volunteers who are stepping forward to help us out this year,’ Mr Church says.

‘We touched base with thousands upon thousands of school-aged kids who are weighing up their future career options, and hopefully we’ve helped put property on their radars.’

CHALLENGES facing the purchase, ownership and disposal of residential property

VAUGHAN WILSON



Buying or building a house has a lot more challenges than for previous generations like my parents. The following are observations of some of these challenges now facing house purchasers.

Changes since the 1960s

My parents built their first house in the 1960s in one of the ubiquitous subdivisions that were being developed, mimicking the all-American lifestyle. Back then my father secured a loan with the government allowing some ridiculously low interest rate to be paid back over about 30 years. The house couldn't be lived in until it was complete, but mum and dad were able to do a lot of the finishing themselves, knocking the section into shape later with lots of sweat and some beers.

> *My parents built their first house in the 1960s in one of the ubiquitous subdivisions that were being developed, mimicking the all-American lifestyle.*

During these times when New Zealand had not experienced true inflation (that came for the first time with the early 1970s oil shocks), owning your own home was seen as the 'done thing'. You got established before the wife stopped working to raise the kids, while the husband kept working. Most families could afford the mortgage off one wage, only had one car, and had to save to buy their first TV and no doubt their second TV when colour televisions came out just in time for the 1974 Commonwealth Games.

Houses were modest, small by modern standards, not well insulated, but generally well built with usually one bathroom, a separate laundry and small bedrooms. They had spacious sections, particularly compared to the older villas built close to the city 60 years prior. They would typically have a garage and driveway, a front yard and a backyard with enough room for the kids to play cricket and ride their bikes. Mum or dad might even have had a vegetable patch – living the Kiwi dream of the quarter acre section.

Meth – P

Last year the article I wrote for *Property Professional* focused on the issues around meth and its existence in residential dwellings, but I have subsequently learnt even more disturbing details about this problem.

Although dwellings being used as labs for manufacturing meth are rare, particularly as more of it is coming into the country as finished product rather than in its raw form, the number being contaminated by meth from smoking is increasing. The level of contamination is cumulative, meaning the more that is smoked the greater the level is. So, if you have carpet the cumulative contamination (due to the fabric holding the contaminants) will be much higher in the house than if you just have floorboards.

Often people who smoke or deal in meth have aggressive dogs, which can become even more aggressive if they are present when meth is being smoked, particularly given their body-to-weight ratio. Remember this the next time you have a tenant who you suspect is smoking P in your property and who possesses one of these types of dogs.

Reverse mortgages

These types of mortgages were popular for a while, then fell out of favour during the global financial crisis. Now they are back and are likely to be more popular than ever as baby boomers enter their 70s. Of course, this is not of concern if you are purchasing a house with a reverse mortgage held over it, but these types of mortgages will no doubt be popular with families looking to release capital/inheritance early so the younger generation can afford deposits in the current burgeoning house market. This is particularly so in Auckland where the cost of housing for some will mean a reverse mortgage is the only way to afford a house, often near the very parents who are taking out the reverse mortgage.

Capital gains tax

This old political chestnut is rolled out every three to six years with various politicians 'soap boxing' lyrical about how New Zealand is the only country in the world without a capital gains tax. Our tax system is not without tools to capture this type of gain, and although there is not a specific from of tax for capital gains the government has given the IRD teeth to obtain this form of revenue.

The test is if the IRD believes you are 'trading' property or other investments for a living, as it sees the capital gain as 'income' from your property trading 'business' and will tax it accordingly. Conversely, long-term investors make most of their profit from paying taxes only on the profits after deducting expenses.

In New Zealand, the general perception is that there is no capital gains tax and therefore buying and selling houses without paying additional tax is legal. The argument against this type of activity is that it fuels the fire of property value increases, with the Crown missing out on this revenue.

There is no formal capital gains tax, but following the lead of the US government prosecuting Al Capone the IRD will get their slice via income tax or tax evasion. New Zealand is quite possibly the most computerised and integrated land transfer country in the world. Whenever a property is transacted, it is instantly recorded and this information can be seen by the IRD. When purchasing or selling a property, purchasers and sellers now have to fill in a Residential

Land Withholding Tax (RLWT) declaration. This form confirms to the IRD whether the purchase and eventual disposal is potentially liable for tax.

The IRD concentrate on the intention of the buyer when purchasing the property (see www.ird.govt.nz/property/property-selling/selling-property.html). The IRD recognises that nearly everyone buying a property will sell it at some stage. It is accepted that most people will hope that their property will gain in value, and we know that an increase in value is common, particularly given that the general state of inflation increases the value or cost of things over time.

The IRD also accepts that in most cases you do not have to pay tax on the eventual sale of your family home. If you bought a property as a long-term rental, then you may not have to pay tax on the sale either. The IRD does state, however, that when a property has been bought with the firm intention of resale you will have to pay tax on any profit from the sale. Further, the intention to sell does not need to be the main reason for buying the property. It could, in fact, be one of a number of reasons for buying the property.

Due to the computerisation of LINZ, the IRD is easily able to see if you have a history of buying and selling (under your own name). Hence, seasoned purchasers and sellers making a profit this way already pay tax on their transactions, as do companies who follow the same practice. The IRD is particularly interested in those who have a track record of buying and selling properties and/or if you are a developer or builder. The law does not have a limit. and even properties purchased more than 10 years prior and now sold can be taxed if there is proof they were purchased for capital gain.

Quoting the IRD website:

> *If you buy and sell a residential property within two years, you'll pay tax on the income you earn from the sale, unless you're selling your family (main) home or another exclusion applies. This is regardless of your intention at the time of the purchase. A withholding tax may also be deducted at the time of sale.*

The IRD will utilise the bright-line test to determine if income tax is owed on a property transaction. This test only applies to residential properties bought and sold on or after 1 October 2015. The two-year period starts on the date the property transfer is registered with Land Information New Zealand (LINZ). If the property is in another country, it is the date the transfer was registered under that country's laws.

Exclusions to the bright-line test include:

1. It's your family/main home.
2. You inherited the property.
3. You're the executor or administrator of a deceased estate.

A property transferred to you under a relationship break-up is not excluded from the bright-line test.

Leaky buildings

This scourge of the 1990s, both here and in some places overseas such as eastern Canada, was brought on by poor construction, design and building materials, and it continues to plague the New Zealand housing market. Houses are still coming to the market heavily discounted due to their cladding type, which is generally monolithic, with body corporates still planning the re-clad and significant costs associated. People are still discovering that their house is leaking or that their prized possession is not worth as much as others around it due to the stigma of the construction materials used.

The Resolution Architects website (see www.resolutionarch.co.nz/faqs/) has a significant amount of information on the topic and the following summarises certain aspects.

For homeowners to avoid or prevent their properties leaking, it is absolutely imperative for all new buildings to incorporate the 4D's in their design and construction. These are:

- Deflection: Keeping rain away from moisture-sensitive areas with the use of correct detaining and the proper use of flashings and eaves.
- Drainage: Providing paths for water that gets behind cladding to drain away. Drained cavities are one example of this.
- Drying: Providing ventilation to spaces that would otherwise trap moisture, so that the moisture can escape and not cause rot.
- Durability: Specifying materials in areas such as roofs and walls to a suitable level for the situation and environment.

A report issued in July 2009 by Price Waterhouse Coopers estimates there may be over 80,000 homes affected by the leaky building syndrome and only a small number of these have been repaired. It is estimated that a further 9,000 are outside of the 10-year limitation period for legal liability. In British Columbia in Canada they faced a very similar problem with leaky homes from 1987 to 1997 and approximately the same number of dwellings were affected.

The leaky buildings disaster is expected to cost the government over $1 billion over the next five years and this significant cost is only to remedy some of the damaged homes. The government has estimated that at least 70% of the affected homeowners (who are within the 10-year liability limit) will take up the government assistance

A report issued in July 2009 by Price Waterhouse Coopers estimates there may be over 80,000 homes affected by the leaky building syndrome and only a small number of these have been repaired.

they are entitled to. Of course, there are also the health issues and associated costs to consider due to dampness in walls and floors. Leaky homes often create an environment for the growth of toxic varieties of mould, such as *stachbotrys* and *fusarium*, which can be very harmful to health.

Under the financial assistance package (FAP) offered by the New Zealand government, owners of qualifying leaking homes may be entitled to compensation in the form of a 50% contribution to the costs of repairs. The contribution is broken down as follows:

- Central government will contribute 25% toward repair costs
- Local authorities will contribute a further 25% of the cost (note that not all territorial authorities are participating in the FAP scheme)
- Affected homeowners will contribute the remaining 50% or 75%.

For homeowners to be eligible to claim, the Weathertight Homes Resolution Services (WHRS) Act 2006 requires the following:

- The dwelling/house was built within 10 years immediately before the day of the claim is filed and before 1 January 2012
- Water has penetrated the dwelling/house, and
- The dwelling/house was damaged as a result of the penetration of water.

It should be noted that mortgagees or lenders are not responsible for contributing to weathertightness-related costs. Unit title owners, however, will have to pay any contribution to weathertight remediation or repairs that their body corporate legitimately demands of them.

Lastly, homeowners need to be aware that anyone who uses this scheme relinquishes their rights to take legal action against local authorities and government.

Seismic issues

Seismic concerns cover a wide and varied number of aspects with regard to residential property, with everything from subsidence and landslides to broken infrastructure and poor quality party walls. Dwellings in earthquake-prone locations are now under the microscope and, like their commercial counterparts, will in the future likely incur issues in the form of upgrade requirements from councils, insurance issues from insurers, potential notification measures in the form of LIMs, and lending issues from banks.

Party walls are a particularly difficult issue, with a big number of these in our larger cities due to their prominence 80 to 100 years ago in construction. Often these are constructed of brick masonry and are susceptible to seismic events. They are incredibly expensive and invasive to replace whereby the old wall is removed and a new version is put in its place.

Sometimes these walls provide a structural edifice by which the adjoining dwellings are adhered to, and other times they are there mainly for weathertightness and sound deadening, so while still invasive their removal is easier. However, all removal requires some internal damage to one or usually both adjoining dwellings. Alternatives include strengthening the wall with items such as bolted steel, but while cheaper these are still invasive during the construction process.

Costs to construct, redevelop or alter

New Zealand's building costs are significant and have been increasing considerably in recent years. Many of the products common in this country are manufactured by the same parent company, providing a mini-monopoly and the associated pricing that goes with that. Wages and fees too have been increasing as demand for these types of skills (builders, plumbers, engineers etc) have increased since the Christchurch earthquake.

Likewise, council costs to subdivide, and obtain resource and building consents, have been increasing rapidly. Some councils would argue that this is in response to providing a better skill level, more robust administration and more resources to avoid a leaky building scenario.

Others might blame councils for overly-weighty consenting administration, requiring more fees to fund it.

Whatever the answer, the significant fee structure of most councils for resource and building consents creates substantial costs for homeowners and developers when wishing to build, redevelop or alter, and subdivide or create new subdivisions. These costs do not appear to be decreasing, unlike other taxation fee structures such as ACC charges, and with the current regime of councils being a monopoly New Zealand is currently without options or solutions. Perhaps changes to the Resource Management Act will result in a more streamlined and less costly process.

Points to look out for

In summary, things to be aware of when buying, selling or re-developing residential properties are:

1. Always get a building report and potentially include an engineering report for party walls, retaining walls and concerns over underground infrastructure. Be diligent when it comes to reviewing potential leak issues. Get a meth test done, especially if the house was a rental in recent years.
2. Check with your accountant about taxation if you are buying or selling in a relatively short period of time, particularly if it is not your prime residence and if a profit has been made between purchase and disposal.
3. Check with your insurance company on their current policy to issue new policies for new residences.
4. Check the local council fees if you are thinking of building, doing additions, re-developing, subdividing or similar. Council requirements and fees vary greatly.
5. Pay off as much of the debt as you can as quickly as you can and avoid niceties such as new cars, holidays and other material pleasures until the debt is reduced to a more manageable state, whatever that may be.
6. If you or someone close to you is considering taking out a reverse mortgage, get them to talk to someone independent of the provider of the financial mechanism such as an accountant. Reverse mortgages are well administered in New Zealand under a rigorous set of rules, but it pays to read the fine print.

Interest rates

Interest rates are at an all-time low and there are no reasons on the immediate horizon to suggest they will jump to levels seen only 10 years ago. But what happens when they do rise and rise quickly? What happens when people's interest rates double from today's sub-5% to around 9-10%? Due to the large levels of debt many people have taken on to afford to buy a house in say Auckland, the debt has been spread over 25 to 30 years.

In a recent article in Stuff (see www.stuff.co.nz/business/money/91542888/experts-decry-decade-of-missed-mortgage-opportunity) financial advisors were frustrated that banks were not providing better advice for their customers when taking on debt. They stated:

> *In 2008, Reserve Bank figures show mortgage rates peaked with the average floating rate home loan costing 10.7 per cent in interest, and the average two-year fixed rate costing 9 per cent. Then the global financial crisis struck, and by the end of 2010, floating rates were at 5.8 per cent, and two-year fixed rate loans were at 5.5 per cent.*

Given the way table mortgages (the most common sort found in New Zealand) are designed, borrowers have paid off little in the form of debt after five years on long-term loans. In fact, all they have done is pay the bank a high form of rental instead of paying it to a landlord. Under a 25-year table mortgage (and assuming the interest is hypothetically fixed for the length of the loan) the borrower has only paid off 50% of the principal by year 17 (and it takes until year 22 for a 30-year loan).

There seems to be a lack of education for younger borrowers entering into these large mortgages. They often state they believe they will simply sell the property should their situation change (reducing to one income for various reasons such as having a baby, losing a job etc). Whereas, in reality, if interest rates double there will be thousands who will want to exit the property market and the market prices will potentially drop significantly.

This could result in a situation where people end up owing more for their property than it is worth and be unable to sell in a reasonable timeframe, such as in Ireland after the global financial crisis. Foreclosures and mortgagee sales increase and the market corrects itself over time with lower property values.

Insurance

After the most recent earthquake, Wellingtonians could not obtain new insurance for dwellings for sale. That resulted in quite a number of sales falling over as prospective purchases could not obtain insurance cover and banks would not confirm funds without an insurance certificate. Soon a remedy was determined whereby purchasers took over the existing insurance for the dwelling they were purchasing from the current owners. This has certain drawbacks including that it may not be the insurance company of choice for the new owners and the policy may not be as convenient as a new policy would be, e.g. high excess rate etc

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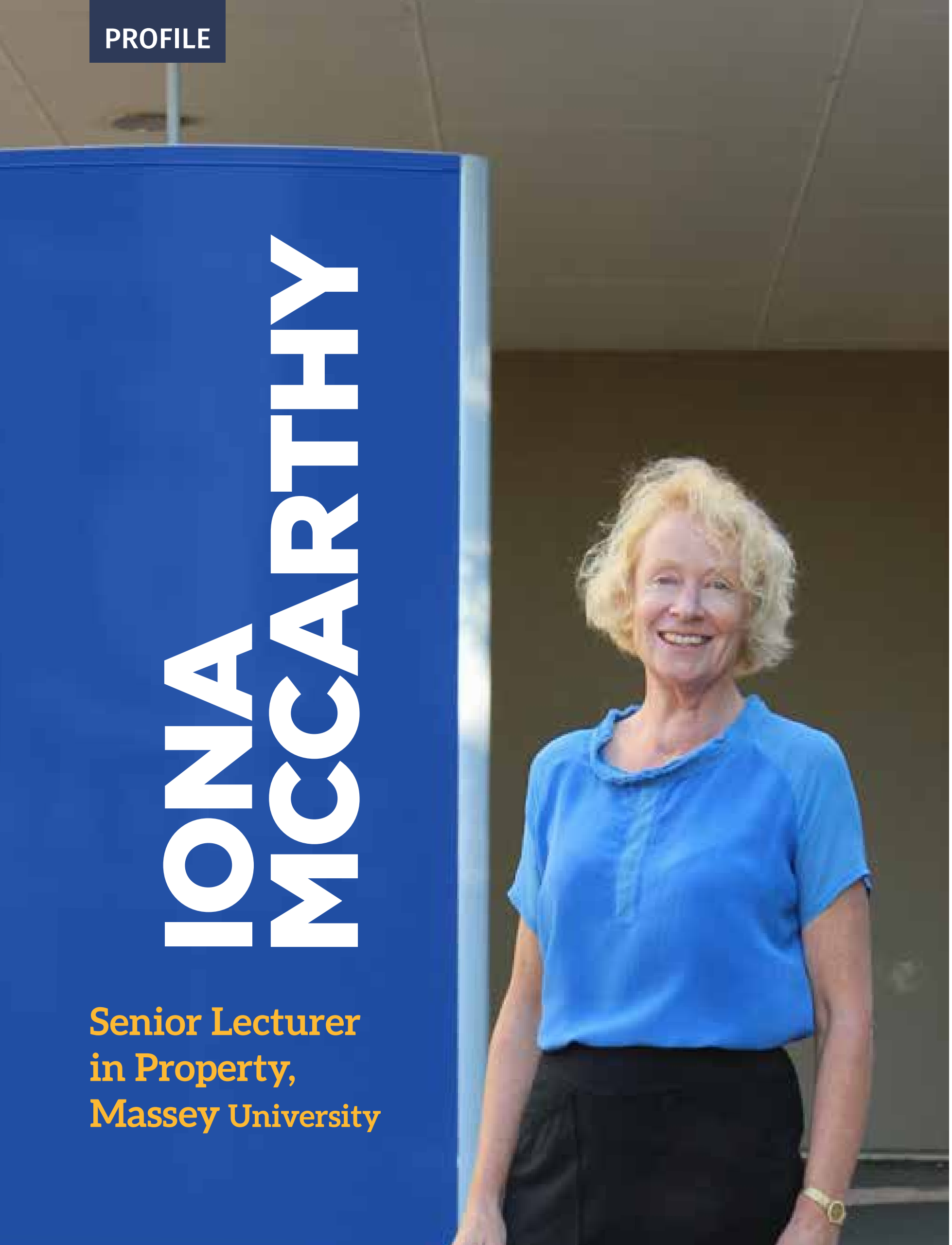

IONA MCCARTHY

Senior Lecturer in Property, Massey University

This profile looks at the career of Iona McCarthy, Senior Lecturer in Property at Massey University, who went from studying ag science into rural valuation, farm ownership and academic life.

Ag science beginnings

Iona grew up in central Wellington where her parents owned an apartment on The Terrace but went out to a large section at Waikanae each weekend. She enjoyed tramping and horse riding and was keen to find a career that allowed her to work outside and continue with those interests. She found out about the Massey agricultural science degree during her first year of a science intermediate at Victoria University and transferred there where she was one of the few 'townies' in the class.

It was a steep learning curve for a city girl with no farming background. Her first farm practical work was on the Gladstone hill country farm of a family friend. She remembers the young daughter commenting that her job was to open and close the gates – a fairly accurate observation by a four-year-old. She met her husband Peter (also a townie studying agricultural science) and they were married during her final year at university.

At that time the Bachelor of Agricultural Science was a four-year degree with options to major in the final year. Iona had no set idea for her major and chose rural valuation because her friend was doing it and they had heard that job prospects were good. In those days rural valuation graduates had the option of employment with the Rural Bank, Lands and Survey, Maori Affairs or the Valuation Department. She was keen to get into the Rural Bank but there were no openings for her in the Manawatu.

Rural valuation work and Massey career

Peter and Iona had purchased 120 cows and were sharemilking just out of Feilding. This did limit her options for employment, but Massey was expanding degree offerings in valuation and Bob Hargreaves offered her a junior lectureship in rural valuation. Iona took this on, dug out her lecture notes from the previous year, and proceeded to teach the next generation of rural valuers. She worked in this role for three years until her first son was born in 1983.

By then they were milking 300 cows with plans to increase the herd size to 600 over the next three years. They had one of the few large herds in the Manawatu in the 1980s. She hadn't planned to head straight back to paid employment but Rogernomics changed that. Interest rates were over 30% and the dairy payout was crashing. Iona and Peter had two young children, 600 cows and a large loan, so off-farm income was needed. She went around the local valuation firms and Don Brown at Property Brokers was keen to have some help. She worked at this firm valuing residential, lifestyle and rural property and registered as a valuer in 1990.

Iona combined valuation work and part-time lecturing with calf rearing and other farm jobs until 1990. The Massey role complemented her family and farming responsibilities and she decided that one off-farm job was enough. She now felt she had credibility with her students, as a registered valuer and a dairy farmer. It was time for post-graduate study and she slowly worked her way through an MBS (Valuation and Property Management).

Iona has now been teaching valuation at Massey for over 30 years. She has thought about getting back into the 'real world', but each time she comes close to it she realises how much she enjoys her role at the university. She likes her contact with bright young people from widely varying backgrounds and from all parts of the world. One of the most rewarding aspects of her job is seeing her former students enjoy life and succeed in their careers.

Iona has also had the freedom to research in areas that interest her. Her research has covered diverse topics including the conversion of forestry land to pastoral use, the impact of wind farms on property value, property education, farm succession, rural property cycles and the leaky home stigma. At present, she is most interested in the impact of changing nutrient regulations on farmland use and value. She has continually advocated the need to give consideration to the income approach when valuing farmland.

PINZ involvement

Iona is actively involved in the local branch of the Property Institute and was a committee member for a number of years. She has also been involved at the national level on the membership committee. She likes to maintain the connection between the profession and the university and is very grateful for the support that the Manawatu branch gives local students in the form of prizes and branch events.

She has been involved with organising the Massey Spring Seminar over a number of years and always enjoys the networking and friendly atmosphere at that event. She has recently been appointed as an additional member of the High Court: Land Valuation Proceedings and looks forward to serving the industry in this role.

Iona and Peter worked their way through sharemilking to farm ownership and ownership of shares in a large farming company. Neither of their sons was keen to farm so they sold their farming interests in 2004 – this has given them the time to 'get a life'. They have had some wonderful trips to Europe and are both very keen road cyclists. Iona aims to ride at least 150 kilometres a week, but this is very weather dependent and the Manawatu doesn't always oblige. She has recently tried mountain biking, and while totally lacking technical skills has enjoyed getting off road. Tramping is back in sight too and yoga has become a regular pastime.

Iona has recently been appointed as an additional member of the High Court: Land Valuation Proceedings and looks forward to serving the industry in this role.

A changing profession

Iona notes that commentary by the profession on a need for change in a changing world has been prevalent throughout her career, but she firmly believes that the challenges facing young graduates today are far greater than at any other time. Advances in technology mean that valuation practice will change rapidly as automation increases. Young people starting careers now will need to be highly adaptable, have a global understanding and focus on soft skills that cannot easily be automated. This provides a new challenge for education – the business degree at Massey has recently been redesigned and emphasises leadership, communication and critical thinking. The property major has a broadened focus and includes a capstone project.

Iona has thoroughly enjoyed her career as a property academic and would like to sincerely thank all those colleagues, students and property professionals she has worked with over the years

New overseas investment exemptions

FOREIGN INVESTMENT IN SENSITIVE LAND NOW EASIER

NICK WILSON AND WINSOME TAM

Acquisition of certain limited classes of sensitive land and the re-granting of leases of sensitive land to overseas persons has become simpler with the introduction of new exemptions.

Overview of the Act

The purpose of the Overseas Investment Act 2005 (the Act) is to acknowledge that it is a privilege for overseas persons to own or control sensitive New Zealand assets by:

(a) requiring overseas investments in such assets, before being made, to meet certain criteria for consent; and

(b) imposing conditions on such overseas investments.

To achieve this purpose, the Act and associated regulations stipulate restrictions and require overseas persons to seek consent from the Overseas Investment Office (OIO) for acquisition of an estate or interest (legal or equitable) in 'sensitive land', 'significant business assets' and fishing quota.

In order for an overseas person to obtain a consent to acquire an interest in sensitive land, they need to establish that the proposed investment will or is likely to benefit New Zealand and, where the sensitive land includes non-urban land of over five hectares, that benefit will be or is likely to be 'substantial and identifiable'.

The OIO has a broad discretion for granting consent and, where necessary, it will engage the Minister of Land Information or the Minister of Fisheries to assist with determining the outcome of an application.

Application of the Act

The Act applies to any transactions undertaken by an overseas person which either has a value of $100 million or more or involves an acquisition of an interest in 'sensitive land' as defined in the Act.

What is sensitive land?

Land is considered sensitive under the Act if it is of a particular type of land such as non-urban land (i.e. a farm), includes or adjoins the foreshore, the seabed, a lake, conservation land, particular reserves, land subject to a heritage order, a historic place or a wahi tapu area, and the size of the land (and the adjoining sensitive area) exceeds a particular threshold. The wide definition of sensitive land means that land which may not be of particular sensitivity itself can be caught if, for example, it adjoins a local purpose reserve that allows public access to a neighbouring sports field.

Who is an overseas person?

This definition is two-fold. The Act stipulates that an 'overseas person' is any natural person who is not a New Zealand citizen or who does not ordinarily reside in New Zealand. Generally, an entity is considered an 'overseas person' under the Act if it is incorporated outside of New Zealand or 25% or more of the entity is controlled by an overseas person(s).

For example if an investment vehicle is 25% or more owned or funded by an overseas person or entity (excluding a bank) then it will be considered an 'overseas person'.

The need for the exemptions

Due to a range of factors, including the significant consent fees, the complexity of the restrictions imposed by the Act, the scrutiny involved in screening an overseas investment application and the lack of personnel and resources at the OIO, the process of applying for consent from the OIO is often burdensome, expensive and time consuming. Awaiting a decision can also create significant delays in settling a sale of land or completing mergers and acquisitions. This cost and delay effectively decreases the attractiveness of New Zealand as a place for foreign investment.

The OIO has recently introduced five new exemptions which came into force on 1 February 2017 (and which only apply to transactions that occur after 1 February 2017), with the intention of removing some obstacles to foreign investment.

Five new exemptions

The five new exemptions were created by the Overseas Investment Amendment Regulations (No 2) 2016 and now form part of the Overseas Investment Regulations 2005. The newly enacted exemptions provide that OIO consent will not be required in the following circumstances:

1. Exemption for overseas custodians acquiring certain rights and interests in custodial property – Regulation 33A

This relates to when a custodial structure is used to effect the investment. If an overseas custodian which, in the ordinary course of its business, acquires certain rights or interests in property on the instructions of a customer, to hold those rights or interests in property on trust for its customer, OIO consent will not need to be obtained by the custodian.

This exemption also allows for the custodian to acquire a beneficial interest or entitlement under a security arrangement with the customer (if any), but only to the extent to secure the customer's obligation to pay fees to the custodian for the custodian's services to the customer.

It is important to note that this exemption only applies to the custodian's acquisition of the rights or interests in property it holds as a custodian. In other words, the exemption does not extend to an ultimate investor who is classified as an overseas person under the Act. Where the ultimate investor (i.e. the custodian's customer) is an overseas person and is ultimately entitled to call for the right or interest in sensitive land to be held by itself, the customer will not be exempted from the requirement to obtain OIO consent for the acquisition of the sensitive land and so would need to obtain this consent itself.

2. Exemption for certain land transactions commonly known as re-grants – Regulation 36AA

This relates to when an overseas person is acquiring a re-grant of a previously consented leasehold interest in sensitive land which is expiring or has recently expired. This exemption will apply to situations where a lease or other non-freehold interest, in particular sensitive land, is effectively being re-granted to the same overseas person who will conduct the same or substantially the same activity on that land.

Prior to the commencement of the new exemptions, an overseas person would have needed to make a fresh application for OIO consent every time it intended to re-negotiate a new lease of its premises (where the premises comprised any sensitive land).

There is a back-stop to this exemption and it cannot be relied on to effect an unlimited amount of 're-grants' of lease. It only applies to leases that expire within 20 years of the date the overseas person acquired the lease (after it obtained the previous OIO consent). An overseas person is required to notify the OIO where it has relied on the exemption and provide specified information. The overseas person must continue to comply with all conditions set out in the previous OIO consent.

3. Exemption for certain transactions where relevant land of certain type and area is already in overseas ownership or control – Regulation 36AB

This relates to when an overseas person is acquiring interests in sensitive land which are already owned by an overseas person(s) and have been the subject of a previous OIO consent.

This exemption will make it easier for 'foreign to foreign' sales of sensitive land to occur, although generally speaking it will only apply to less significant parcels of sensitive land.

The exemption will not apply to sensitive land of a more significant class, such as rural land, a historic place, land that is subject to a heritage order, or land that includes or adjoins a foreshore, a seabed or a lake or where the total consideration payable under a transaction exceeds $100 million.

This exemption is probably the most significant of the new exemptions and could potentially loosen up 'foreign to foreign' sales of mid-market businesses and streamline the sale of less significant classes of sensitive land between overseas persons.

As with the exemption described above, the overseas person is required to notify the OIO where it has relied on the exemption and provide it with specified information. The overseas person must also continue to comply with all conditions set out in the previous OIO consent.

4. Exemption for transactions consequential on certain actions under Pubic Works Act 1981

This relates to when an overseas person acquires land in accordance with certain provisions of the Public Works Act 1981. An exemption for the requirement for obtaining an OIO consent will now apply if an overseas person:

(a) is granted land or a lease or licence of land as compensation for other land that has been acquired for a public work;

(b) acquires an area of stopped road; or

(c) is granted severance land that has resulted from a public work.

5. Exemption for certain bodies corporate who are overseas persons only because overseas custodians have custodial securities – Regulation 36B

A body corporate in which overseas person(s) who are custodians hold securities for other persons will now not require consent. The exemption provides that a body corporate will not be classified as an 'overseas person' under the Act if:

(a) some of the securities of the body corporate are held by an overseas custodian; and

(b) the ultimate investors in the custodian are not themselves overseas persons.

Concluding remarks

The OIO will continue to face a tough challenge in applying the purpose of the Act. There is a tension between protecting significant parcels of land in New Zealand ownership but not thwarting foreign investment. Overall, we consider the new exemptions will make it easier for overseas persons to invest in New Zealand, but do not go so far as to allow unchecked foreign ownership of sensitive land.

It is often not easy to identify if land is sensitive or whether or not a particular transaction will be exempted under the current regime. The OIO strongly recommends that any potential investors who are (or might be) overseas persons engage professional assistance from a lawyer with significant expertise in overseas investment.

Disclaimer

The information contained in this article is general in nature. It does not constitute legal advice and should not be relied on as such. Specialist advice should be sought in particular matters

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INSURANCE UPDATE

TIM GRAFTON

This article looks at how the domestic and commercial property insurance landscape in New Zealand has been changing over time since the Canterbury and Kaikoura earthquake events.

Kaikoura – a strong and expensive earthquake event

The M7.8 earthquake of 14 November 2016 was extraordinary on many levels. It was one of the strongest earthquakes and one of the most expensive insured events in the world last year. GNS tell us that it was possibly one of the most complex earthquakes ever as it triggered ruptures across 21 fault lines.

Few can forget the dramatic pictures that told the story of how a mountain range moved across the main trunk line and State Highway 1, how a seabed rose to dry land, how a new lake was formed and of the tens of thousands of landslips. Those who experienced the earthquake shortly after midnight will not forget how long the shaking went on for.

Had it not been for the Canterbury earthquake series in 2010-2011 it would have been the most expensive insured event in our country's history. We expect insured costs to exceed $2 billion and the total economic loss is likely to be more than double that. Sizeable though these figures are, the insured losses are substantially lower than what they would have been had there not been some significant changes to the insurance landscape after Canterbury.

Effect on domestic policies since Canterbury

Domestic property insurance since Canterbury shifted across most of the market to a 'sum insured', which provides a cap on the insurer amount insured and the reinsurer's liability. The reinsurer perspective is critical here because without offshore reinsurer support, New Zealand (one of the riskiest countries in the world to insure for natural catastrophe) would not be able to offer comprehensive cover.

The total replacement policies in place pre-Canterbury left an open-ended liability that reinsurers recoiled from and led them to require most of the market to move to a sum insured platform. Had that not occurred and we'd had the 14 November event, there would have been a clear risk of reinsurer withdrawal – an insurance catastrophe of its own.

So, critically, steps had already been taken to enable continuing support for the residential property market. However, the fact the most recent earthquake has added to the $20 billion paid out already for Canterbury (and that this far exceeds many years of paid premiums) suggests that each insurer will look at their appetite for risk and how they price it, particularly where there is heightened seismic activity.

Commercial insurance

Canterbury also brought about changes to commercial insurance that reduced the impact of the 14 November quake. Prior to Canterbury, commercial property owners' policies typically provided for them to pay an excess on their losses of 5-10% of the damage incurred. After Canterbury, many policies changed so the excess was a percentage of the sum insured.

So before Canterbury, if a building was insured for $10 million and suffered $1 million damage, the owner would have had to meet the first $50,000 to $100,000 of damage (5-10%). Changes since then mean they would have to meet the first $500,000 to $1 million of damage. The 14 November event reinforces that approach for the future.

Insurers will inevitably become more granular in their desire to understand the risks they are being asked to underwrite. Detail on a commercial building's construction type, age, the type of land it sits on and the quality of neighbouring properties become highly relevant to the risk assessment.

Life risk vs infrastructure damage

Experience has also shown that even buildings with a high National Building Standard (NBS) rating for life safety can sustain considerable damage. It is perfectly possible for a building with a 67% NBS to save lives but end up being a total loss. For this reason, high NBS ratings do not necessarily translate into a much lower insurance risk.

Compounding this, we believe that many of the non-structural, seismic restraints in buildings are non-compliant with standard NZ4219. Suspended ceilings, sprinkler systems, air-conditioning units and other infrastructure can cause over half the insurance loss in a building and disrupt businesses operating in it for up to a year.

So while New Zealand regulation rightly has a focus on life risk in buildings, it has a blind spot with respect to non-structural seismic issues that cause extensive damage in earthquakes. Apart from the physical damage, it can significantly disrupt business operations. The Insurance Council of New Zealand (ICNZ) will be organising a conference in Wellington mid-year to focus attention on the problem.

Post-earthquake procedures

The importance of retaining quality online records is critical to post-catastrophe settlements for business interruption. It is no use having records kept on-site when the building cannot be accessed for months.

Experience from Christchurch (and more recently Wellington) also shows that buildings may be undamaged, but cannot be accessed because cordons have been set up around buildings that need to be demolished. Denial of access is another insurance cover that building owners and those who rent need to consider as separate from business interruption insurance, which in its standard form is triggered by material damage to the occupied building.

Death, destruction and disruption

Property owners and regulators therefore need to look holistically across the three key risks that earthquakes bring: death, destruction and disruption. The NBS rating only addresses the first of these and then only partially. A major surprise from the 14 November earthquake was the extent of the damage incurred by modern buildings, while older unreinforced masonry buildings (that were expected to have suffered the most damage) were relatively unscathed.

We understand that part of the explanation rests with the duration and size of the quake. This made buildings between five to 10 storeys on soft soil particularly vulnerable to have their natural oscillation attenuated, therefore contributing to the damage. More will come to light about the cause of the damage, but it will heighten underwriting concerns.

Wellington buildings

Meanwhile commercial property owners remain committed to Wellington where most damage was incurred. Some are looking at using insurance proceeds from repairable buildings to demolish and rebuild a more resilient structure for the future. There was also speedy acknowledgement that unreinforced masonry buildings still pose a major risk in a future event. We have seen a 12-month requirement to fix risks posed by parapets and other structures in Wellington coupled with government grants to get the job done.

While that is the right thing to do, it is still one that focuses solely on life risk. It will not, however, do a lot to remove the risks that an underwriter sees when looking at old brick buildings at a time when GNS advises that the region is experiencing the highest level of seismic activity for many years.

Risk is under-priced

In addition, the scale of insured losses from earthquakes in the past six years or so from a country the size of New Zealand is phenomenally high. If we aggregate the Canterbury and Kaikoura losses for both private insurers and the EQC there would be little change out of $40 billion. That is the equivalent of a few decades of earthquake premiums. The obvious conclusion to draw is that the market has historically under-priced the risk. How the market responds in the future will depend on each insurer and reinsurer's appetite for risk and how they price it.

In the three years prior to Kaikoura, soft global capital markets have seen a surplus of capital seeking new returns and this has led to 'new capital' entering the reinsurance market, which depresses rates. There is some evidence to show that the soft capital market has bottomed out and that interest rates and returns in the US are on the rise. This, combined with a need to apply good underwriting discipline, may augur change for earthquake risk in New Zealand.

Keeping insurance affordable

The need to keep insurance available and affordable for all to enable the transfer of risk is critical for New Zealand. This is why applying taxes, such as the Fire Service Levy to property insurance to fund Fire and Emergency New Zealand, is the wrong thing to do.

From 1 July 2017, there will be a 40% increase in this tax applied to property insurance policies which provide for material damage. This will be uncapped for commercial property owners. The timing could not be worse

Tim Grafton is Chief Executive of the Insurance Council of New Zealand based in Wellington. tim@icnz.org.nz

AVOID PAYING TOO MUCH *or offering too little* FOR RURAL LAND

GREG PETERSEN

When purchasing rural property, you don't want to pay too much or offer too little and miss out. A registered valuer will help you ensure that your offer reflects market value and is supported by the land's productive capacity.

Productive capacity of land

The vast majo rity of rural properties are bought and sold on the basis of their productive capacity. But farming operations vary in both the physical resources and the level of management employed. When a rural property is sold, the physical land and buildings transfer to the new owner, but the managerial ability (good or bad) of the previous owner does not. There are of course always exceptions, particularly with iconic high country properties with x-factor appeal, distressed sales and sales of properties between family members or of properties to adjoining owners.

Irrigated, grass-based dairy production

In simplified terms the value of the land is represented as the present value of all future economic benefits attributable to the land. To make smart purchasing decisions, and as part of your due diligence process, it is wise to determine the average efficient production of the property under consideration. This will give you a comparative gauge on its productive capacity and will help you to isolate specific management factors when relating property values to a productive system.

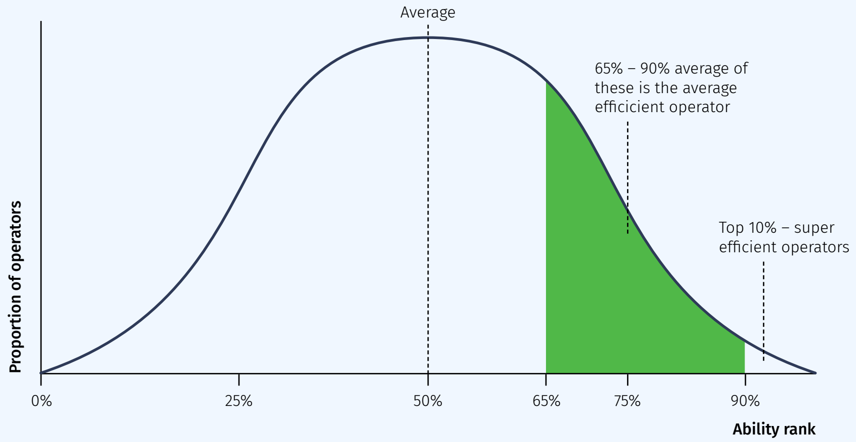
As with any business model there are a range of management abilities leading to vastly different results. This can be related to a number of factors from inherent managerial ability through to education and access of capital. The more efficient farm operators tend to produce greater profits than the less efficient operators. It is therefore logical to assume that the better farm operators can generate the greater profit and are thus more likely to be active in the property market. Competitive tension among the efficient operators creates the market price.

Rural valuation assessments

On this basis, rural valuers assess a property on the level of production that a competent efficient manager can produce off the land using standardised levels of inputs. This allows us to compare properties on the basis of their physical resources rather than the skill of their current management. In our assessments, we use as a guide both historical farm production data from the property and our knowledge of what other similar properties can achieve. In our valuations we also analyse whether the current production under existing farm practices is achievable into the future, also taking into account the regulatory framework.

An average efficient operator

The 'average efficient' level of management is not formally defined, but the following graph indicates the range of ability within which the average efficient operator sits.



The distribution curve reflecting the managerial ability of farmers – an average efficient operator is a better farmer than at least 65% of their peers

In Canterbury, we have seen instances of dairy farm properties marketed for sale with artificially high levels of milk solid production, boosted by excessive levels of brought-in supplementary feed. While a high-input, high-cost farming system may work well with record farmgate milk solid payouts, this farming system may not produce the highest profits on a consistent basis. In this instance, we would consider that the average efficient level of production is sometimes less than the actual production.

On the other hand, where a property has been conservatively farmed, our assessment of average efficient production may be greater than actual production. This is where an incoming purchaser seeks to lift production by the adoption of modern average efficient management techniques.

Increasing regulation

Farmers throughout the country are currently coming to terms with an era of increasing regulation of farm management practices in order to address environmental concerns.

As the purchase price of a farm is guided by the present value of the future benefits, the assessment of average efficient production needs also to fully consider how planning regulations may impact on future farming systems and land use.

Some farmers will have to modify their farming system to comply with nutrient management regulations. These measures may include reducing the stocking rate, fertiliser use, the use of supplementary feed, and investing in infrastructure to mitigate nutrient losses, and can potentially have a great impact on farm profitability and thus on the property value.

The concept and assessment of 'average efficient' carrying capacity or production is fundamental to the valuation of rural farm land and should be an important part of your due diligence process. Engaging a registered rural valuer will help you avoid paying too much for an unsustainable operation and also identify farms with scope for improvement and adding value

Greg Petersen is an Associate Director and Registered Valuer at Colliers International Rural & Agribusiness.
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PINZ branch events

Northland
Branch Chair: Melody Richards
melody.richards@telferyoung.com

Auckland
Branch Chair: Patrick Foote
patrick@gctvaluers.co.nz

Upcoming events:
- 12 June, 7am–9am – Cross Lease and Unit Title Properties: Valuation Implications & Opportunities
- 22 August, 7am–9am – Bayleys Research – Auckland Commercial Market Update
- 13 September, 7am–9am – Wynyard Quarter Revitalisation Project
- 10 October, 7am–9am – How Do We Solve the Housing Crisis?.

Waikato
Branch Chair: Glenda Whitehead
glenda.whitehead@tetumupaeroa.co.nz

Rotorua
Branch Chair: Kendall Russ
kendall.russ@telferyoung.com

Tauranga
Branch Chair: Paul Higson
paul.higson@telferyoung.com

Gisborne
Branch Chair: Che Whitaker
cwhitaker@lewiswright.co.nz

Taranaki
Branch Chair: Stephen Hodge
stephen@taranakipropertyvaluers.nz

Hawke's Bay
Branch Chair: George Macmillan
george@morice.co.nz

Wanganui
Branch Chair: Rob Boyd
rob@morganval.co.nz

Manawatu
Branch Chair: Bruce Lavender
brucel@blackmores.co.nz

Upcoming events:
- June – Presentation on P and Substances
- June – Field Trip to FMG Building
- July – PNCC Planner on Changes to District Plan
- July – Manawatu Planners discussion re Plan Changes

Wellington
Branch Chair: Hamish Merriman
hamish.merriman@darroch.co.nz

Upcoming events:
- 15 June, 5.15pm–7.15pm – Wellington NZIV Branch Event: Can We Fix It?
- TBC, Rural Seminar (2 days in July)



Join the Institute to attend events, seminars & our annual conference at member rates

Nelson

Branch Chair: Simon Charles

simon@dukeandcooke.co.nz

Canterbury Westland

Branch Chair: Simon Newberry

simon@fordbaker.co.nz

Upcoming events:

- 1 & 2 September – All day Friday (from 9am) until 12.30pm Saturday – Lincoln Mainland Seminar

South/Mid-Canterbury

Branch Chair: Alistair Wing

awing@xtra.co.nz

Central Otago

Branch Chair: Heather Beard

heather.beard@colliersotago.com

Upcoming events:

- 6 June – Waketipu Study Group
- 8 June – Breakfast, Presentation from Peak Projects
- 3 July – Waketipu Study Group
- 7 August – Waketipu Study Group

Otago

Branch Chair: Adam Binns

adam.binns@abcommercial.nz

Upcoming events:

- 21 June – Dunedin Pedestrian Count

Southland

Branch Chair: Hunter Milne

hunter@hmvaluation.co.nz

Property Institute Annual Conference

QUEENSTOWN • 28-30 JUNE 2017

PROPERTY AT THE PEAK

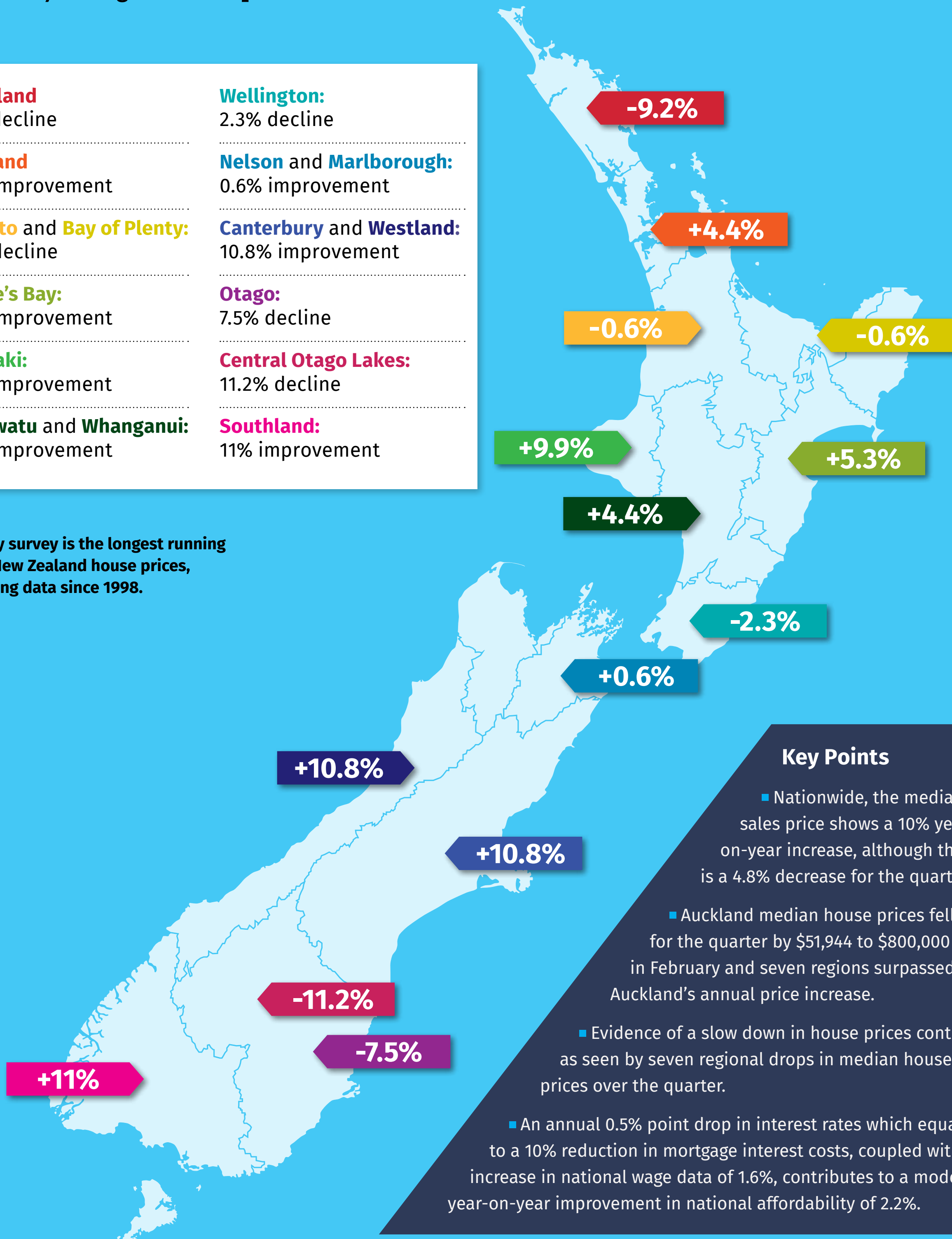
Queenstown – 29 & 30 June 2017

Home Affordability **UPDATE**

By comparing the average weekly earnings with the median dwelling price and mortgage rate, Massey University's quarterly survey for the year to March 2017 confirmed an overall 7% improvement in home affordability over the period. The following infographic shows the affordability changes for this period:

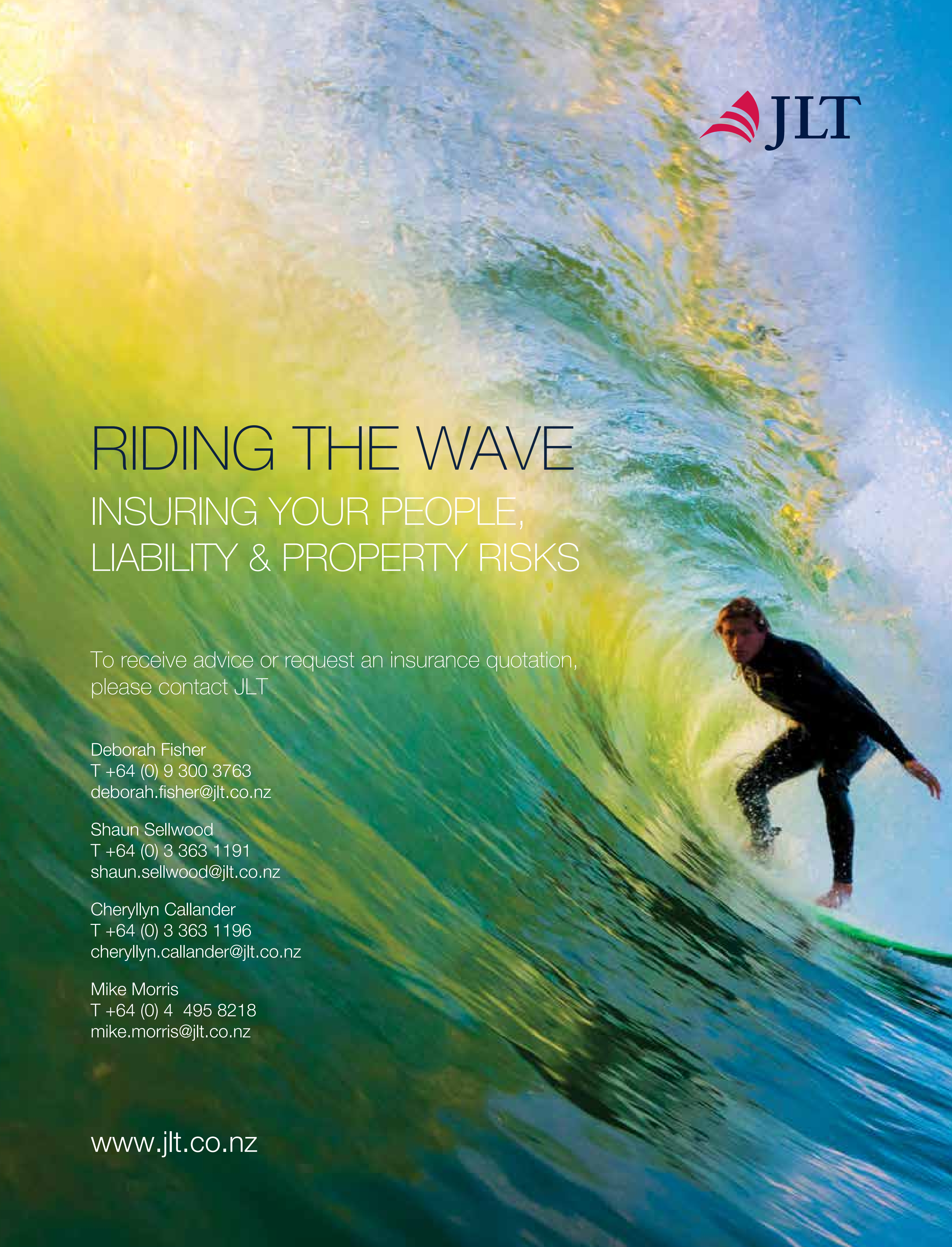
Northland 9.2% decline	**Wellington:** 2.3% decline
Auckland 4.4% improvement	**Nelson** and **Marlborough:** 0.6% improvement
Waikato and **Bay of Plenty:** 0.6% decline	**Canterbury** and **Westland:** 10.8% improvement
Hawke's Bay: 5.3% improvement	**Otago:** 7.5% decline
Taranaki: 9.9% improvement	**Central Otago Lakes:** 11.2% decline
Manawatu and **Whanganui:** 4.4% improvement	**Southland:** 11% improvement

The Massey survey is the longest running survey of New Zealand house prices, accumulating data since 1998.



Key Points

- Nationwide, the median sales price shows a 10% year-on-year increase, although there is a 4.8% decrease for the quarter.
- Auckland median house prices fell for the quarter by $51,944 to $800,000 in February and seven regions surpassed Auckland's annual price increase.
- Evidence of a slow down in house prices continues as seen by seven regional drops in median house prices over the quarter.
- An annual 0.5% point drop in interest rates which equates to a 10% reduction in mortgage interest costs, coupled with an increase in national wage data of 1.6%, contributes to a modest year-on-year improvement in national affordability of 2.2%.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