Softly softly is correct approach to housing issues

The NZ Property Investors’ Federation applauds the Government’s stance on tackling the perceived problem of housing affordability.

The Government has reacted appropriately to the Productivity Commissions report into Housing Affordability by focussing on land supply issues and consent costs.

NZPIF President, Andrew King, says that housing is a complex issue that plays a critical role in people’s lives whether they are home owners or renters.

It is difficult for Government to make legislative changes aimed at changing people’s behaviour. It is usually doomed to failure as preconceived ideas get in the way of sound problem analysis and the implementation of well researched solutions.

The call by some quarters that Government missed an opportunity to introduce a Capital Gains Tax (CGT) on rental property is a good example of preconceived and poorly thought out solutions.

Proponents of a CGT on rental property believe it is the right thing to do because they believe property investors have been the cause of property price increases. They believe that Property Investors have a tax advantage over first home buyers and therefore have an advantage when bidding for property. This is clearly incorrect.

With rising rental prices and low mortgage interest rates, cash flow from rental property is currently the best it has been for many years. Yet to provide the average NZ property as a rental currently costs the owner around $2,000 per year, even with a 10% deposit. Because of this, rental property owners attempt to pay the lowest price they can for a property in order to reduce their costs. More often than not property investors are outbid by first home buyers who tend to be buying on emotion.

Owner occupied homes account for around 70% of all properties in New Zealand. This means that owner occupiers have a larger effect on the housing market than investors.

These points illustrate why attacking property investment would not help first home buyers to better afford their first home. In fact the opposite is true because increasing the cost of providing rental property would lead to higher rental prices which would make it harder for tenants to save a home deposit.

It would be clearly wrong implement a CGT just on rental property and the Government is correct in rejecting the idea. They know that it will not help first home buyers because it has not made homes more affordable in countries that already have a CGT.

While the cost of consents, building materials, labour and land are arguably too expensive in New Zealand we must also look at our own aspirations for home ownership. King says that “perhaps the simplest notion for housing affordability is that you cannot have your cake and eat it to. Is housing unaffordable because many young first home buyers cannot afford a brand new property on a good sized section near the centre of town? Are property Investors to blame for the majority of first home buyers not being able to buy such a property or is an old do-up property more appropriate and affordable for a first home buyer?”