



Media release

Swiss army approach needed for knotty house price problem – leading economist

New Zealand's over-valued housing market requires major reforms, says NZEIR's principal economist Shamubeel Eaqub.

In a paper just published by the Journal of International Union for Housing Finance, Shamubeel Eaqub says there is no easy fix to the current over-valued housing market and long-term and complementary policy changes are needed. One key aspect is to make renting a home an attractive and viable option.

Shamubeel Eaqub is a keynote speaker at this week's *Making Community Housing Happen: The Impact Conference* being held in Nelson. About 150 delegates are attending the conference organised by Community Housing Aotearoa.

He identifies four areas needing change - reforms in the rental market, reforms in the banking/financial sectors around lending criteria, changes to tax rules for property investors and changes to land supply rules.

"The over-valued market is a complex problem and it only can be solved with changes in all four areas, as they are all tied together.

"Regulation overly favours mortgages over other types of lending – this needs to change. We need to remove the tax advantages, both perceived and real, of real estate investment. We need to ease rules slowing housing supply. We need to make renting a palatable and comparable alternative to owning."

Housing is the favoured investment choice with nearly 75% of all household assets in housing. The strong focus in property investment has been driven by a number of reasons.

"Housing is easy to access and there is a perception of safety and tangibility. New Zealand does not have a capital gains tax and bank financing is relatively easy. It is seen as a low risk, highly leveraged and untaxed investment option."

In contrast, Shamubeel Eaqub says renting is seen as a poor substitute to ownership, New Zealand and Australia are some of the most restrictive rental jurisdictions. Unless changes are made home ownership will continue to be favoured over renting.

"Lease terms are short, tenants can be asked to move with short notice, leases can be terminated on almost any condition as long as notice is given and personal customisation is often difficult, such as allowing pets or minor alterations."

He says the New Zealand dream of buying a house also needs to be challenged, along with what home ownership means.

“Investment in housing doesn’t have to be a bad thing, it is just now when housing prices are so high that there is a real risk that house prices will fall. Is it really a good thing for someone on a low income to buy in a market with inflated prices?

“If you are going to rent people still need an investment of another type and you can’t confuse housing as being both an investment and shelter – we have inflated housing into this dream of being everything, whereas saving for retirement should be in a different bucket.”

While Shamubeel Eaquad’s comments are linked to the broader housing market, he says there is a flow on effect to the social housing sector, which is an important part of the New Zealand housing landscape serving the needs of the most vulnerable in our community.

“If there is a distorted private market this will clearly have an impact on social housing. If houses are not a viable investment option because house prices are too high relative to rents, community housing supply – which operates with the same conditions – will be constrained.”

Community Housing Aotearoa Director Scott Fignshaw agrees. “It’s no mystery why the community housing sector is constrained. For the housing reforms to be truly effective, they need to work across all market segments, and work in the cities as well as provinces. We believe a long term investment plan is a good place to start – one that will address the very issues that NZEIR raises.”

For the full article of *Home Truths for NZ: A swarm of policy reforms needed*, see <http://www.housingfinance.org/>

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For more information contact:

Shamubeel Eaquad, NZEIR, 021 573 218

Scott Fignshaw, Community Housing Aotearoa 021 061 9664