

# Property BULLETIN

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Hi and welcome to our June/July newsletter.

In this issue we have a quick look at the market up to the end of May 2018. We review the introduction of Loan to Value Ratios (LVRs) and the effect they have had on the market since their implementation in October 2014, and have a look at the possible effects of ring fencing of losses that the government wants to push through by 1 April 2019. We also look at the progress of the Overseas Investment Amendment Bill which is due to be enacted later this year. If you are thinking of selling it's a great time so give us a call to discuss.

Regards Malc, Elise and Evan



## Wellington region house prices continue to rise

The REINZ has just released the latest house price statistics which show Wellington's annual median house price has risen by 8% to \$567,000 for the year ending May 2018.

- A year-on-year price increase of \$27,000 has seen New Zealand achieve a new record median house price of \$562,000 – a 5.0% increase for the year;
- Wellington's current days to sell of 29 days is less than the 10-year average for May which is 38 days;
- Wellington has had the lowest level of stock across the whole country with

only 8 weeks' inventory available to those looking to purchase in the area.

There are more buyers than sellers which will continue to affect median prices and shows us that this is an excellent time to sell! With a shortage of listings we can expect that this situation will continue through the winter months. People often say that summer is the best time to sell even though this is not the case.

**If you are considering a sale we encourage you to market now to take advantage of the extremely low level of houses your home will be competing against with strong buyer interest across all price ranges.**

Source: REINZ

## What effect have the LVRs actually had on the market?

A research report written by three academics, Armstrong, Skilling and Yao, ([see here](#)) on the introduction of the LVRs in October 2013 and the subsequent adjustments to them (the last being January 2018) concludes that they have done a good job at reducing house price inflation.

The goal of the introduction of the LVRs was, in the words of the Governor at the time Graeme Wheeler "to slow the rate of housing related credit growth and house price inflation thereby reducing the risk of a substantial downward correction in house prices that would damage the financial sector and the broader economy".

### History

When first introduced in October 2013 banks were required to restrict new residential mortgage lending at over 80% to no more than 10% ("the Speed Limit") of the dollar value of their new lending.

This led to an immediate fall off in high value loans and eased house price pressures throughout 2014. From around October 2014 however there was a resurgence of house price inflation. In response to

this in November 2015 the Reserve Bank tightened restrictions for Auckland investors and loosened them for investors and owner occupiers outside of Auckland. It was seen at the time that the investor loans in Auckland posed a risk to financial stability.

Following this announcement the share of nationwide investor lending at an LVR exceeding 70% fell from around half to just under a third of investor lending. This caused house price inflation to slow significantly in Auckland but in other areas prices again increased sharply with areas such as Hamilton seeing a surge in prices which some attributed to Auckland investors looking elsewhere.

The third change introduced by the Reserve Bank in October 2016 expanded the investor rules to the rest of the country tightening the LVR restrictions and modifying the speed limit for owner occupiers. This entailed a 5% speed limit on nationwide investor lending at an LVR exceeding 60% and a 10% speed limit on nationwide owner occupier lending at an LVR exceeding 80%. These measures were introduced in October 2016. By October 2017 annual house price inflation

in Auckland had slowed to 0% and the rest of NZ overall inflation sat at 6.9 %.

In January 2018 with a small rise in interest rates and with further policies announced by the Labour government (ring fencing, OIA and extension of bright line – some now in force or still on the agenda) and prices losing their upward momentum, the Reserve Bank eased the allowance of each bank's new mortgage lending to owner occupiers at an LVR of more than 80%, from 10% to 15%.

Additionally, no more than 5% of each bank's new mortgage lending to residential property investors can now be at an LVR of more than 65% (currently 60%). They also reduced the deposit requirement from 40% for investor lending to 35%.

### Overall Effect

It took a while from the time the LVR policy was first announced to get things up and running but we believe this has been a very good example of the effectiveness of macroeconomic policy. It also indicates how responsive a policy can be if the banks have the ability to measure the parameters they are using and quickly enforce changes.

# Government turning the corner on foreign investor ban with exemptions being added as they consult

The Finance and Expenditure Select Committee, which has been considering the changes contained in the Overseas Investment Amendment Bill due to be in place over the next few months, seems to be moving around as interest groups apply pressure, and their perceived logic on who should be or will be captured by this Bill.

Their new recommendations have seen foreign buyers being able to buy into larger, multi-unit housing developments such as apartment blocks or un-built standalone homes subject to certain conditions.

Where a new development has a minimum of 20 units, overseas investors would be able to buy a percentage of units off the plans and retain them as investment properties once construction was complete. Overseas buyers would not be allowed to occupy these units themselves and there would be restrictions on how many units in a new development could be sold to overseas buyers.

This would limit the number of units in a development that could be sold to overseas buyers. These changes have been made to make it easier for developers to secure development funding for new housing

projects and to increase the supply of rental housing.

Overseas buyers will still be able to buy residential land as long as they develop housing on it. And they would still have to sell the property once the development was complete. The thinking on this is that overseas buyers will become a significant source in the development of bare land and large residential developments in the future.

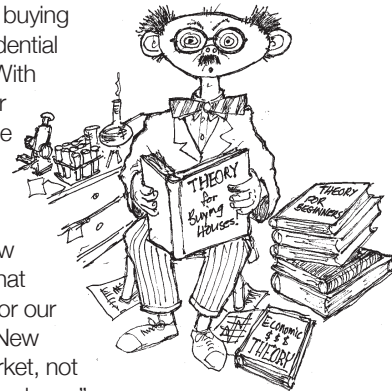
The Committee has also recommended relaxing the rules that define who is classed as an overseas buyer. Originally the Bill proposed restricting the ability to buy residential property to people with permanent residency. But it is now proposed that the ability to buy residential land be extended to people who hold any type of residency visa.

To encourage the development of more hotels, there is also likely to be an exemption for overseas investors buying individual unit title rooms within hotels provided they are leased to a hotel operator.

Traditionally these developments have always been hard to put together and they

might not be the best solution to increasing our tourist accommodation. Most hotels take about 2-3 years to break even and running a hotel with separate unit title ownership makes it very difficult to get things up and running with a return to the buyer on a unit title room required at the outset. Many developments set up under this framework have seen the initial operator go bust under the heavy fixed cost applied to them from day one.

Apart from that, the Committee has not recommended any changes to those parts of the Bill that would prevent overseas buyers from buying existing residential properties. With David Parker our associate minister noting in relation to this, "This law will ensure that the market for our homes is a New Zealand market, not an international one."



## Ring fencing of losses set for April 2019 introduction

As advised in our April/May newsletter, with submissions on the proposals for ring fencing on investment properties losses now closed, the Government has indicated they would like to have this in place by April 2019.

The effect of the legislation is to phase out the landlords' ability to use losses on rental properties to offset tax liabilities from other sources. Landlords will still be able to receive tax credits on any property losses against future tax payable on their property portfolio.

Westpac Bank has done a significant amount of research on the effects and has summarised the implementation which we discuss below:

1. Ring fencing will not affect investors who have positive cash flow. The higher the leverage over an individual property, the greater the impact ring fencing will have;
2. Westpac estimates that ring fencing for an investor running a property portfolio

with 65% debt and 35% equity in perpetuity, will reduce the value of the investment by up to 6% as a maximum. In their conclusion they say, "This seems like a sensible upper bound for the possible impact of ring fencing on house prices, but the actual impact could be smaller. The counter balancing factor of probable rental growth may limit this.";

3. With the introduction of ring fencing, we would expect to see fewer highly-leveraged property investors seeking to buy. This would allow less-leveraged property investors to win auctions/tenders more frequently.

From our perspective this may not have as big an effect as people would assume as the LVRs have already rebalanced many low equity investors out of the market when refinancing or adjusting their portfolio.

It has been noticeable that since the introduction of the LVRs in October 2013 we have seen new high equity investors quickly

entering the market to take advantage of less competition.

We have also been encouraged by these investors who are quite discerning, buying well-presented properties aware of the upcoming insulation and healthy home regulations coming in to force, and other possible regulations or Acts. These investors seem to want to operate at a different end of the market than those with less equity.

Investors buying accommodation for their relatives is also having a big effect on the investment market particularly in areas surrounding educational facilities such as universities in the short term and hold the investment past their use.

After seeing the exceptionally strong rental market and the overall poor standard of existing rental alternatives, many people are considering it a sound investment to purchase a property to accommodate their family member in the short term and hold the investment past their use.

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