



NEW ZEALAND BUSINESS & PARLIAMENT TRUST
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Address given by

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"HOW DO WE GET PEOPLE INTO AFFORDABLE HOUSING?"



Last month I opened Barfoot and Thompson's Annual Convention with the words "it's a good number of years since I've opened this convention against the backdrop of such a positive Auckland property market". To be more precise, I should have substituted the words 'a good number of years' with 'five years'.

The simple fact is that until 13 months ago, the Auckland housing market had been going through five relatively lean years.

As a profession, incomes had fallen and jobs had been lost. Prices during those five years had increased by about 9 per cent, which, give or take, was probably in line with inflation.

The reason for the market being subdued was obvious. Following the financial meltdown globally, economic confidence was low, and the banks and the public were cautious.

Then in May 2012 the real estate market in Auckland changed.

We went from selling around 700 to 750 homes a month to selling 1000; and

In 12 months, our average sale price has increased by 10 per cent.

Add the 9 and 10 per cents together and you get a rise in prices of a little over 3 per cent a year over 6 years. An increase of that size across that time span does not constitute a price blowout.

What we have in Auckland is a market that got out of balance, and is going through readjustment after being suppressed.

And let's remember, it is only in the Auckland and Christchurch markets where prices are on the increase. Across the rest of New Zealand there is little price movement.

What changed in May 2012 to cause prices to start to rise again in Auckland?

The single biggest factor was a change in public sentiment. Aucklanders started to regain their economic confidence.

There was a growing sense that the economy was starting to come right ... individuals felt more secure in their employment ... there was a realisation that house prices would never be lower, and the time to act was now.

And perhaps the biggest motivator ... was acceptance by Aucklanders ... that their City was on course for the biggest growth spurt in its 170 year history.

One statistic alone tells the story. To house its growing population Auckland needs 13,000 new homes a year. In 2012 the number of new builds was less than 3000.

When too many people chase too few homes, there is only one result. **Prices go up.**

Before going any further, I would like to give you a quick overview of Barfoot & Thompson, so that you can put the

comments I make into context.

We operate from the Bombay Hills north, making us a specialist Auckland real estate company. We have been operating for 90 years ... and ownership and management remain with the two founding families. We are Auckland's largest real estate company with a market share currently around 40%

We are also Auckland's largest private property management company, representing more than 10,000 owners and manage close to 11,000 properties.

We have a good feel for what is happening in the residential, commercial, rural lifestyle and property management sectors of Auckland real estate.

In this address I intend to cover affordability under three broad headings

These are

The realities of the Auckland housing market,

Key myths that need challenging, and

Suggestions as to how to get people into affordable housing.

I also want to make the point upfront that as a business which makes its living out of taking a commission from assisting people to sell and manage their investment in property, it is in the best interests of the real estate profession for the property market to be active but stable. Runaway house prices and house price bubbles have the potential to hurt us as much as anyone else.

Let me set the scene by covering what I see as **the realities of the Auckland housing market.**

The majority of people buying houses can make the current situation work for them. People can ... and are prepared to pay ... current market prices.

The reason is that while we talk about houses ... people talk about homes.

A home is more than a house. A home is a dream ... a lifestyle ... a place where the family grows ... a neighbourhood where the children go to school ... and where communities are formed. And people are prepared to make incredible sacrifices to secure the home of their choice.

Let me give you an example of the attitude people bring to buying a home.

In Remuera you would expect to pay around \$950,000 for a three bedroom home. Glenfield ... on the North Shore ... is a well-established area with modern homes and excellent schools. There you would expect to pay around \$500,000 for a three bedroom home.

In Papakura ... a nice middle of the road community within 32 kilometres of the centre of Auckland ... also with good schools ... you would pay \$335,000 for your three bedroom home.

While some people will choose Remuera because they are

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seeking capital gain and others may see the suburb in status terms ... the vast majority choose Remuera on the basis of lifestyle choice.

It's their money, and lifestyle is what they are prepared to spend their money on.

Another factor not often spoken about when the subject of increased prices comes up, is the changing size of the homes we buy.

Looking back to my father's time in the sixties, the majority of new homes being built in Auckland were for Housing Corporation assisted first home buyers who in those days had to be married. The cap on the size of loan meant that the typical new house size in those sixties suburbs of Glenfield, Te Atatu, Blockhouse Bay, Mangere and Otara was 75 square metres for a 3 bedroom house and 85 square metres for a 4 bedroom house.

Today, Auckland City's records show that in the last 10 years, the average size of a new dwelling has increased by 50 per cent and is now 220 square metres.

Most of the homes built in the past 10 years have four bedrooms, and 10 per cent of them have five bedrooms. Three quarters of the homes of past generations had no more than three bedrooms.

Cast your mind back to your own teenage years, and I would suggest that most of us were brought up in three bedroom homes with one lounge and one bathroom. There was no ensuite for the parents ... no family or games room ... no fourth bedroom. Indoor / outdoor living was a term yet to be invented.

Many first time home buyers today see the start point in terms of the standard for their first home as the end point they enjoyed when living at home with their parents.

The reality is if people can afford their dreams they will go for it ... if they see a 50 year old 3-bedroom home with development potential ... they will go for it.

The combination of these factors has ... and will continue ... to push up house prices.

The **second point** is the determination and sacrifices people are prepared to make to get the home of their choice.

Earlier generations of buyers resorted to second and third mortgages to get their foot on the property ladder.

This generation now looks at additional options such as two incomes ... young mothers going back to work within months of having a child ... couples taking in flat mates, boarders or overseas students, to help pay the mortgage.

So while commentators may say the Auckland market is overheated, the majority of the public, however, is firmly fixed on living their dreams. They are buying homes at current prices with their eyes wide open.

The **third reality** of the housing market is coming to grips with what “affordable housing” means.

For a start, common sense tells us one person's ‘affordable home’ will always be another's ‘impossible dream’. Finding a definition eluded 2012's *Housing Affordability Inquiry*, which stated “there is no one agreed measure of affordability”.

I find it hard to accept that affordability can be defined in straight dollar terms, or as a percentage of a person's income. What is more important than the concept of affordability is that we come to grips with the dramatic

change taking place in Auckland.

When Auckland hits a population of 2.5 million, we are talking about a City which will have in the space of two generations, absorbed the equivalent populations of Wellington, Hamilton and Christchurch.

To accommodate such growth we have no option but to go up as well as out in terms of the future shape of our City. There will be greater density housing, in the form of semi-detached and attached dwellings ... units ... town houses ... terraced housing ... and apartment buildings ... all clustered around town centres.

We need to stop seeing a house in terms of being a bungalow on a quarter acre section.

The quarter acre section disappeared years ago, and many of our highly mobile, career focused citizens dread the thought of having to spend their weekends mowing lawns. And my **final point** about the reality of housing is that Auckland is not alone in facing up to the challenges of rising house prices. Like us, London house prices have increased by 10 per cent in the past year ... while the United States is reporting that in 20 cities, house prices have grown by 9 per cent. In Australia, where the economy is starting to enter a sticky patch ... Sydney and Melbourne house prices have risen by 4 per cent in the past year.

My first message therefore is, in trying to achieve affordability, let us not make changes that will undermine the existing market.

The next aspect I want to cover off is some of the **myths** about Auckland housing which really do have to be challenged. If they're not, they become perception ... and get in the way of good decision making.

The **first** myth is the impact foreign ... particularly Asian buyers ... are having on house prices.

A joint BNZ and Real Estate Institute survey has laid this myth to bed, with the estimate that 95 per cent of all properties are bought by people residing or intending to reside in New Zealand. And of that 5 per cent who are foreigners, only 15 per cent come from China. It means that of the 1000 homes we will sell this month, 50 will go to foreigners, and of that 50, 8 will go to offshore Chinese buyers.

The **next group** that is regularly blamed for putting pressure on prices, is people who invest in residential housing.

At the heart of the argument against residential property investors, is the claim that they have an unfair advantage over owner occupiers as they can claim tax deductions.

I've seen the claim made in the media that investors own up to 45 percent of New Zealand's housing. That figure is drastically over estimated. According to Auckland City's figures, a little over two thirds of all the City's houses are owner occupied.

As I said earlier ... Barfoot & Thompson manages 11,000 homes on behalf of 10,000 landlords. On that basis the average property portfolio of our landlords is just over one house each.

Property investors are in the main, individual Kiwis, who are following the sound advice of looking to diversify their modest investments, across a range of options to protect themselves against the under performance of any one asset group.

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Linked to personal investors is the myth that with no **capital gains tax** on housing ... people invest in housing simply for capital gain.

Now I don't want to get caught up in the broader pro's and con's of a capital gains tax, but I do want to comment on whether it would make housing more affordable.

If a capital gains tax was to exempt the family home ... with two thirds of Auckland's homes being owner occupied... the tax would apply to only one third of properties. Then there is the rather obvious fact that in those countries where a capital gains tax does operate ... those countries are also experiencing similar pressures on house prices.

Other thoughts I have on a capital gains tax are

The average residential property investor, with one property, had to wait six years to achieve a capital gain of 19 per cent. That is hardly an excessive return on capital.

If a person is trading in residential property, there are already measures in place to tax gains

We treat stock exchange investments in the same way as an investment in residential property ... with only the income side of the investment taxed. Why differentiate?

And perhaps the most important consideration of all ... rents will rise as landlords are likely to pass on the cost to tenants.

The **next myth** I want to challenge is that it is impossible for young people to get into the Auckland market.

We are regularly told of young couples who have been out bid at auctions ... or who had to compete with literally dozens of others ready to pay any price ... including Asians or property developers. But believe me ... we deal daily with far more young couples that are getting into their first home.

If you have limited means ... and want to live in an upmarket area close to the central business district ... then yes, you are faced with a major challenge. However daily, we are selling homes in Auckland's northern, western and southern dormitory suburbs for between \$300,000 and \$500,000.

Regrettably there is too much written in the media about the rise in house prices. And in some ways the talk adds fuel to the problem it seeks to highlight. The cold, hard fact about Auckland prices are that after increasing by 10 per cent in the space of 9 months, they have remained constant for the last three months.

The **final myth** I want to touch on is that sometime soon, property values will collapse.

While I believe in *never saying never*, the risk of a major collapse in house prices is remote.

Our economy is now well on the way to coming out of the longest and deepest downturn in the past 60 years ... yet between 2007 and 2008 residential house prices in Auckland fell 5 per cent. The next year they rose by 2 per cent. And they have risen every year since.

When the financial crisis hit us ... rather than sell at a price below what they considered fair value ... the average Kiwi just sat tight and waited for the market to come right. Past action gives me confidence that a collapse in property values any time soon is highly unlikely.

So far my comments on affordability have been around not under mining the market, and challenging myth.

I now want to turn my thoughts on improving affordability. I can not table one big idea or provide a silver bullet that will do that. What I can put forward, however, are concepts that are worth considering. Treat them as concepts ... and within them you might find ideas worth building on.

The first suggestion is that we should see affordability as a leadership issue.

My observation is that if central and local government ... regardless of political persuasion ... could reach a consensus ... then there would be greater certainty and consistency.

As a country we could then get on with developing and implementing a medium term plan to achieve the goal of getting people into affordable housing. For me, an example where we achieved such consensus was around superannuation in 2001, when four political parties reached agreement on the way forward ... and again on a less formal basis when KiwiSaver was introduced.

If we could develop such an accord, we could move forward regardless of the composition of Government.

My **second suggestion** is do not underestimate the impact the current regime around planning and consents has on housing costs.

Planning takes too long ... the complexity is a nightmare ... and the appeal process can go on forever. Within the need to do things properly ... and the rights of people to be consulted and their position protected ... common sense has gone out the window.

I have recently been involved with a project where the cost of renovations was increased by \$30,000 as a result of delays over planning and consents. Clear the bottlenecks ... simplify things ... and tighten up the appeal process ... and you will reduce costs.

The **third suggestion** is developing an array of schemes to assist people into housing

In the past we had schemes such as rent-to-buy, and capitalisation of the child benefit ... which were designed to get those without a sizeable deposit ... or the ability to save one ... to overcome the barrier of getting sufficient equity in a home to afford the mortgage repayments. Where are those equivalents today?

Surely it is not beyond our imagination and capabilities to devise schemes that cater for individual circumstances.

Is there that much difference in lending money to a family at minimal interest for 10 years than in building a State house, and letting a family live in it for 10 years while paying only a modest rent? Is there that much difference in the State acting in the same way many better off families do in going into partnership with their children to buy a house ... with the intention of one day the children buying their parents out?

Modern complexities means such schemes would need to cater for more than just young couples starting out. That helping hand should go to any Kiwi committed to getting into a commercial partnership with the State.

My **fourth suggestion** is that in helping people into affordable housing, the State should foster financial

prudence and realism. Home ownership in the area of your choice at the price you can afford is not a right.

If people have unrealistic expectations based on their means, are we not better to temper their expectations rather than blame the wealthy ... speculators or foreigners? While I applaud the desire to make home ownership affordable ... and support the State getting into partnership with people on an individual basis ... the reality is that unless people have the means and the discipline to manage their money, the risk exists that they can get into repayment challenges.

For that reason I have been a supporter of requiring those buying a home, to have a significant deposit ... and in fact I've urged Treasury and the Reserve Bank to implement a measure along these lines for the past five years.

I firmly believe the decision that will require banks to restrict lending to around 80 per cent of the cost of a property, to be a good one.

The **fifth suggestion** is to think in terms of planned communities.

Rather than building large estates of medium to low cost housing, we need to think in terms of planned communities that cater for people at different stages of their life cycle ... and build into those communities accommodation that caters for those of different financial means.

I'm not talking about the old Housing Corporation initiative of putting a State house alongside a \$900,000 private home. The cost of land today is simply too prohibitive.

Within planned communities, however, the same concept can be achieved ... and one of the best examples of a planned community in Auckland at present is Stonefields ... which occupies the site of the old Mt Wellington quarry. Stonefields offers a mix of standalone houses ... terraced housing ... apartments ... and town houses. The need for the traditional large garden is catered for by multiple mini parks ... while the community has its own wetland ... primary school and ... in the near future ... local shops. In 110 hectares Stonefields will eventually have 2500 homes and a population of 6500 people.

From a social perspective, I would have thought it far more preferable to assist people to purchase a moderately priced home in a planned community, than to plan a community of moderately priced homes.

Developers say they can't afford to incorporate moderate cost housing into their estates at present because the cost of the land is too expensive. But if the pay back was the ability to achieve greater density ... that challenge might be overcome.

I need to add that Stonefields' moderately priced housing is not as modest as that which I'm advocating. Stonefields was approved under the existing consent process ... and the density sought had to be drastically reduced simply to get the green light to proceed. At Stonefields ... from the start of planning to when earthworks began on building sites... took 5 long years. That timeframe is far too long.

And my **final suggestion** is that rather than vilifying private residential investors, we should welcome them with open

arms.

We should ensure the taxation regime permits residential house investors achieve a fair return on their investment. That they are incentivised by the State into improving the quality of their investment ... rather than having to cut costs to achieve a realistic return.

We also need to ensure that the odds are not stacked against private investors when they have legitimate concerns about tenants. Just as landlords should not be permitted to rent sub-standard accommodation or act unreasonably ... tenants who do not pay their rent ... tenants that damage property ... tenants that behave in anti-social ways should not be immune from swift and reasonable actions on the part of the investor to protect their investment.

The perception that prevails at present is that private investors are not wanted in the residential housing market. That attitude needs to change. In itself, assisting investors will not assist families into their own affordable homes. It will, however, improve the quality and affordability of rental accommodation, and cater to the needs of the significant number of people who actually prefer to live in rented accommodation.

This year our company celebrated its 90th anniversary of being in business, and in preparation for that I reviewed the company's history. In doing that it dawned on me that there was never a golden time in the past when all, who wanted to own a home in the area of their choice, could afford to. Home ownership has always been a stretch ... a financial challenge ... and there has always been groups that would have liked to own a home, but did not have the financial means to achieve it. In planning to get people into affordable accommodation the best approach surely is to ensure we do not destroy what we have.

We need to accept Auckland is a special case. Price increases always happen in surges, so let us not misinterpret a situation where prices are readjusting after 5-years of modest increases, as one where prices are out of control. The **three most pragmatic actions** the State could take to assist the development of affordable homes, is to enforce the 20 per cent equity rule ... streamline the rules and regulations that add cost and slow down the building of homes ... and develop a portfolio of schemes to assist those with modest means ... or low equity ... by entering into a commercial partnership with them.

My closing thought is not around housing affordability ... it is around quality, long-term accommodation. As a country, affordable housing is important to us because we see it as part of the foundation on which we build family life.

Rather than affordable housing, perhaps the State's focus should be on accommodation. That accommodation could be in the form of a house, terraced house or apartment. That accommodation could be owner occupied or rented. What all should have is the peace of mind that comes from access to affordable, quality, long-term accommodation. That is what is non negotiable. ... that is our birth right.