RESEARCH BULLETIN

Housing Stock Ownership Concentration 1986-2018: A Brief Comment on Trends, Transformation and Implications

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On 25 February 2021 the Minister of Finance directed the Reserve Bank of New Zealand to take account of the Government's policy to "support sustainable house prices, including by dampening investor demand for existing housing stock which would improve affordability for first-home buyers." The rationale is set out in the gazette notice as follows:

- "An effectively functioning housing market is a critical component of a sustainable and inclusive economy and promotes the maintenance of a sound and efficient financial system."
- "Unsustainable level of house prices suggests a risk of future large adjustment in house prices."
- "Rapid house price growth, without commensurate increases to income, raises the risk of house price correction that may affect the stability of New Zealand's financial system."
- "Access to affordable housing is a significant and growing concern for New Zealanders." [1]

How the Reserve Bank NZ will adjust its settings to improve housing affordability for first-home buyers remains unclear. However, the gazette notice signals an emerging recognition that housing demand and, therefore, house prices are shaped by investors rather than households.

The data in this Bulletin is drawn from successive censuses from 1986 to 2018 and relates to the occupied stock. It highlights the increasing power of property investors in housing markets. It is a preliminary note derived from a more detailed forthcoming analysis of financialization and the housing stock in New Zealand.

Trends in stock ownership suggest New Zealand has experienced a profound transformation by which the housing market has, in reality, become a property market. New Zealand's housing demand in the 20th century was driven primarily by households, but investors are increasingly critical players in shaping demand.

While research into the imperatives, logics, motivations and decision-making of investors is fragmentary, this Bulletin identifies a range of ways in which housing may function for investors. It suggests, too, that the increasing concentration of housing stock in the hands of investors:

- Has been accomplished by predating on the existing housing stock rather than through new builds.
- Was stimulated by a combination of:

[1] https://gazette.govt.nz/notice/id/2021-go662

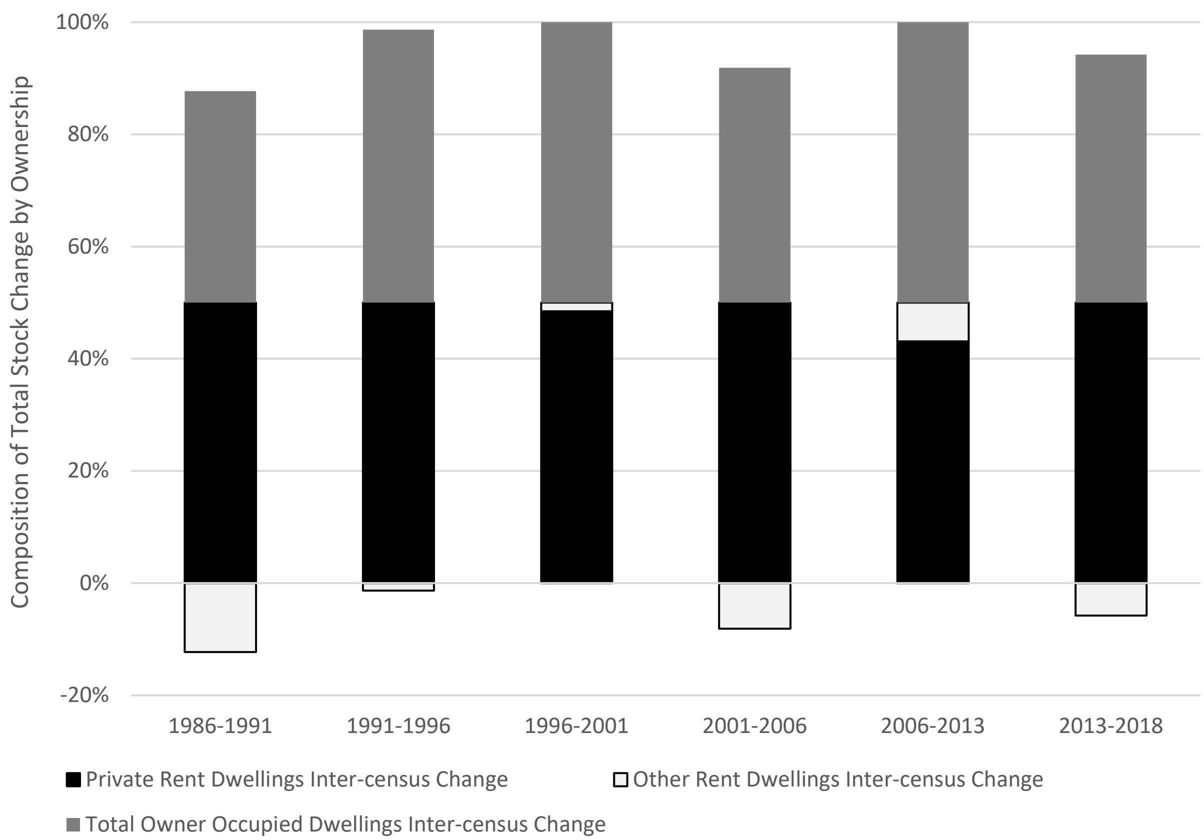
- expectations of significant Government subsidy being directed to the private rental market as a result of the housing reforms promoted by the 4th National Government in 1990;
- investors seeking alternatives in the wake of the 1987 financial crash; and
- banking deregulation.

- Has both fueled, and been sustained by, rapidly rising house prices.

Total Stock Growth Outstripped by Property Investors' Stock Growth

Between 1986 and 2018, the number of occupied dwellings in New Zealand increased by 53%. However, the increase of stock numbers owned by property investors either as individuals or some sort of company entity increased by 191% over the same period. Figure 1 shows changes in stock numbers over each inter-census period across different ownerships and the prominence of private rent and the decline of 'other rent', primarily state and council dwellings.

Figure 1 Ownership Composition of Stock Changes Inter-Census 1986-2018



Property Investors Concentrating Stock Ownership

Property investors and other landlords, primarily state and council rental housing, together increased their stock holdings by 111% between 1986 and 2018.

The concentration of stock in property investor hands for private rent was most significant, involving an increase of 288,714 units over the period 1986-2018.

By comparison, the stock units in state housing, council housing and other landlords fell by around 10,755 units (Figure 2). Most of the stock drawn into the portfolios of property investors over this time was existing stock. Accumulation of housing stock was so pronounced, however, even with an increase in house supply, property investors were dominant players in the market (Figure 3).

Figure 2: Rise of Property Investor-Owned Private Rented Dwellings 1986-2018

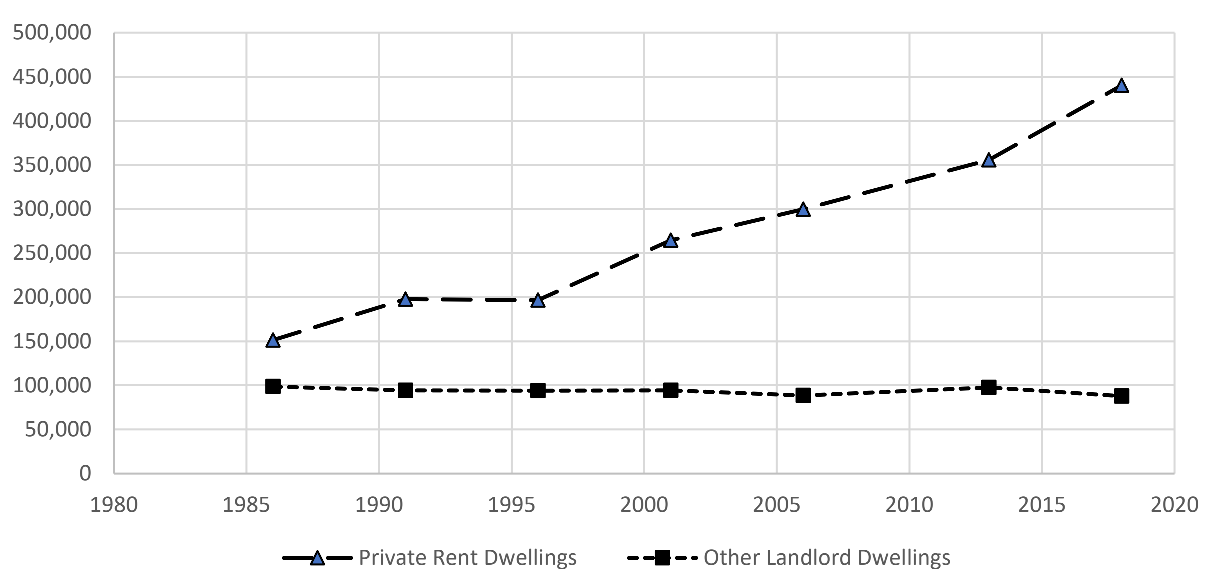
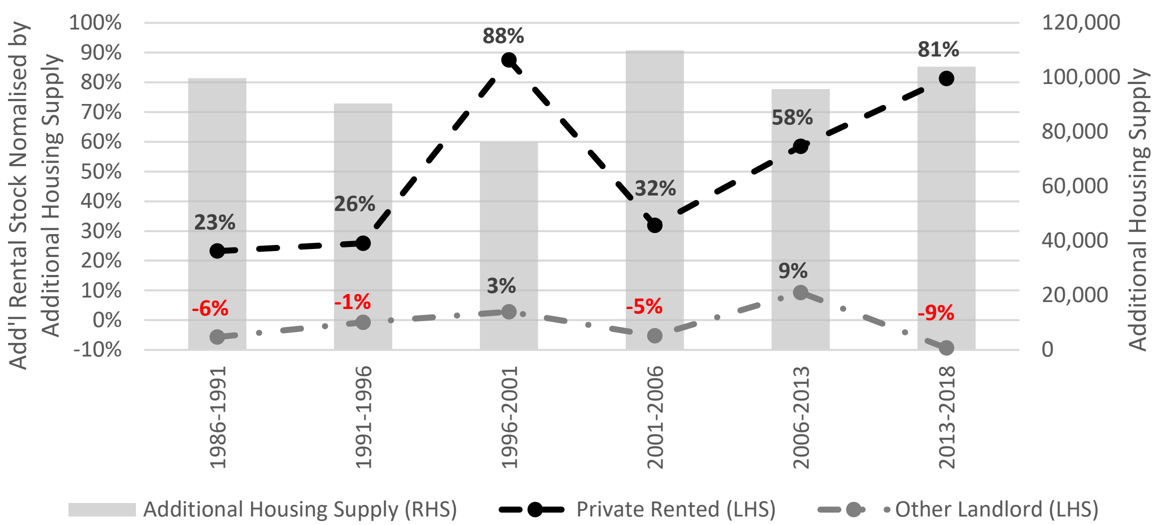


Figure 3 Additional Rental Stock Relative to Additional Housing Supply (prepared by Dr Michael Rehm, School of Business, University of Auckland)



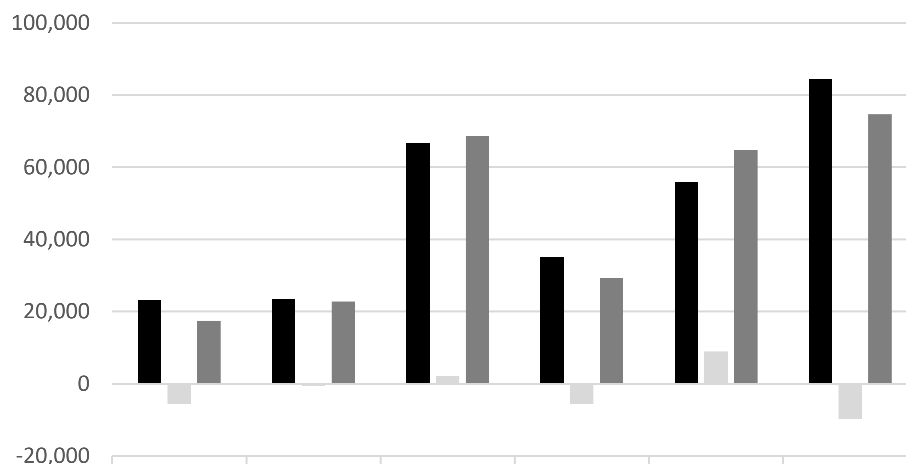
Property Investors vs Owner Occupiers

Around 575,787 occupied dwellings were added to the New Zealand housing stock between 1986 and 2018. The numbers of dwellings concentrated in the hands of private investors increased by almost 289,000 dwellings over the same period. That is, up from around 151,311 dwellings in 1986 to 440,025 dwellings in 2018.

In essence, then, while owner occupiers still own the majority of the housing stock, their dominance has decreased. The property investor-owned stock increased by 191% between 1986 and 2018. By contrast, the growth in owner occupied stock numbers was only 37% over little more than three decades.

As Figure 4 shows, from 1986 to 1991, the growth in stock under the control of property investors out stripped the growth in stock numbers under the control of owner occupiers between 1986 and 1991, 1991-1996, 2006-2013 and 2013-2018 (Figure 4).

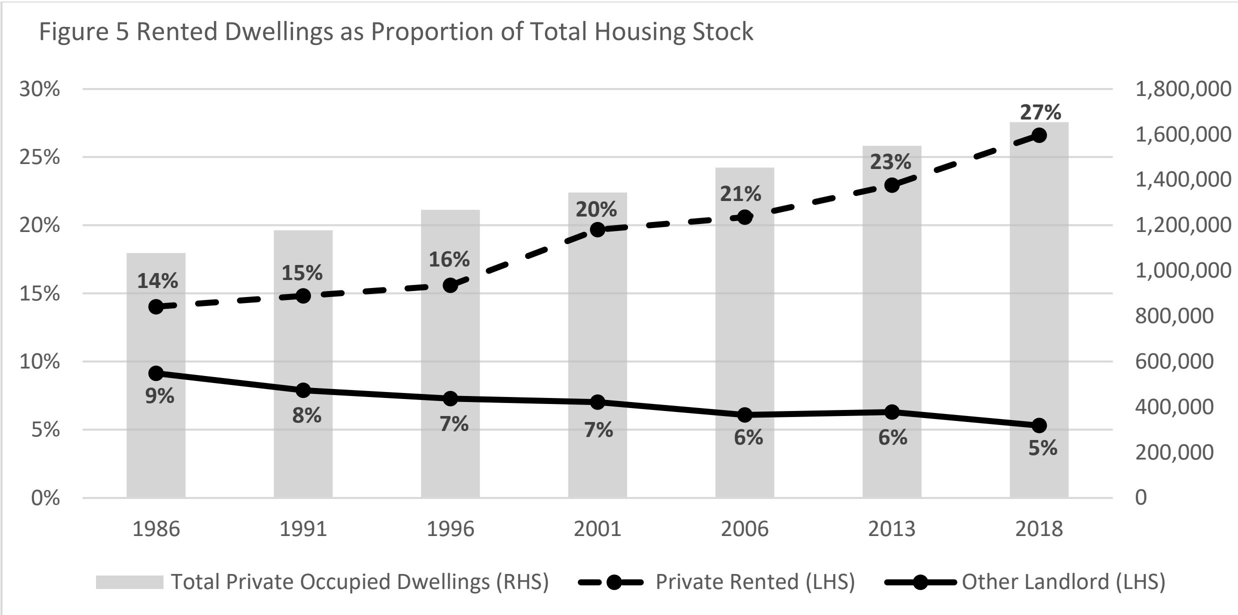
Figure 4 Inter-census Change in Ownership of Occupied Dwellings



	1986-1991	1991-1996	1996-2001	2001-2006	2006-2013	2013-2018
Private Rent Dwellings Inter-census Change	23,148	23,391	66,651	35,106	55,950	84,468
Other Rent Dwellings Inter-census Change	-5,697	-612	2,115	-5,721	8,910	-9,750
Total Owner Occupied Dwellings Inter-census Change	17,451	22,779	68,766	29,385	64,860	74,718

In 1986, only 14% of the occupied stock was owned by property investors. By 2018, over a quarter (27%) of the occupied stock was in private rent.

Figure 5 shows that this pattern represented two trends. First was a significant shift in the ownership of the housing stock from owner occupying households. Second, is the accumulation of stock in property investor portfolios and the falling away of other landlords, primarily state and council housing directed to low-income households.



Comment on Changing Stock Ownership and House Price Sustainability

It has long been argued by some economists that owner occupiers in New Zealand are advantaged by a tax system that ignores imputed rent. That is, where owner occupiers are treated as have an income benefit by not paying market rent on the value of their dwelling as if the dwellings were on the rental market.

There two comparators. The first are tenants who have no tax relief from their rental payments, although around $2 billion annually is directed to assisting households, primarily tenants with housing affordability stress, by the albeit ineffective Accommodation Supplement.[2] The second comparator is with property investors who pay tax on their income from rents. However, as Rehm and Yang demonstrate, property speculation remains largely untaxed in New Zealand.[3] Moreover, while owner occupiers can not claim repair and maintenance, property, and tenant management costs nor the cost of mortgage interest, property investors have been able to do so. Only recently has the ability to offset property-secured interest payments against income been abolished for property investors. Notably in the few jurisdictions that do consider imputed rents as taxable income for owner occupiers, these costs are also typically recognized as tax deductions.[4]

[2] Saville-Smith, K., and I. Mitchell, March 2021, *Accommodation Supplement High Expenditure, Low Efficacy*, Affordable Housing for Generations, Building Better Home Towns and Cities National Science Challenge, https://www.buildingbetter.nz/publications/homes_spaces/Saville-Smith_Mitchell_Dec2020_accommodation_supplement_high_expenditure_low_efficacy.pdf

[3] Rehm, M. and Yang, Y., 2021, "Betting on capital gains: housing speculation in Auckland, New Zealand", *International Journal of Housing Markets and Analysis*, 14(1):72-96.

[4] Coleman, A, 2019, *Taxing capital income in New Zealand: an international perspective*, University of Otago Economics Discussion Papers No. 1902.

Whatever the tax treatment of rents for property investors relative to imputed rents for owner occupiers, residential property has become attractive to investors. The flush of investment in 1986-1991 was almost undoubtedly prompted by the 1987 stockmarket crash and the extended recession thereafter. Residential property not only provided an alternative to the sharemarket but also what became revealed as an over-capitalised and over-supplied commercial property sector. Commercial property prices slumped from significant highs in 1988 and only started to approach price increases in residential property in the mid-1990s.[5] It is likely, too, that investor interest in residential property was also stimulated by the 4th National Government's announcements that it intended to dispose of state housing stock, remove state rent subsidies and provide housing assistance by way of an untied Accommodation Supplement.[6]

Whether stock flows back into owner occupation is not yet clear, but it is clear that property investors present challenges to potential owner occupiers. First, the proportion of stock available for purchase by potential owner occupiers from existing owner occupiers has reduced and this exacerbates the existing problems of aggregate under-supply. Second, property investors, despite loan to value ratios, are advantaged when they can get cross-collateral finance.[7]

For those marginal to owner occupation, these conditions can generate over-bidding, a response to a sense that house prices will continue to rise and affordable owner occupation opportunities will continue to diminish. Those anxieties are heightened in New Zealand where housing services purchased through renting are significantly inferior across multiple dimensions including tenure security, amenity, stock condition, and tenant agency.

If we want to achieve housing price sustainability and promote better housing outcomes, we need to give attention to the ways investors shape housing demand and house prices. We need to explore how their different imperatives which may range from investment returns, short-term speculative capital gains, or accumulating assets to secure credit for other purposes. We need to be able to differentiate between different segments of investors including those acquiring dwellings to secure future development to deliver specific residential products. We need to better understand how investor imperatives shape the finance and banking industry's interest in house prices growth.

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[5] Hunt, C., 2009, The global financial crisis: historical perspectives and implications for New Zealand, *Reserve Bank of New Zealand Bulletin*, 72(4).

[6] Figenshow, S., and K. Saville-Smith, 2021, in G. Hassall and G. Karacaoglu, (eds) *Social Policy Practice and Processes in Aotearoa New Zealand*, Palmerston North, Massey University Press; Saville-Smith, K., and I. Mitchell, March 2021, *Accommodation Supplement High Expenditure, Low Efficacy*, Affordable Housing for Generations, Building Better Home Towns and Cities National Science Challenge, https://www.buildingbetter.nz/publications/homes_spaces/Saville-Smith_Mitchell_Dec2020_accommodation_supplement_high_expenditure_low_efficacy.pdf

[7] It is this issue that, among others, have prompted the RBNZ to add debt to income ratios into its toolkit for lending exposure.

Comment on the Census Data

Stock ownership is established by the self-reports of dwelling residents. In addition, the reported figures can also vary within a small range, typically because of reporting practices around small cell sizes. The latter is immaterial. The figures around 'other landlords' have been triangulated with separately reported data related to the state housing stock. There are minor differences in the aggregate figures reported for state housing over the years; these are too minor to impact on the analysis of trends presented in this Bulletin.

Acknowledgements

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