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April 2021

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[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

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[36] 9(2)(h) - to maintain legal professional privilege

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] Not in scope

[42] 18(d) - information requested is or will soon be publicly available

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Outline of measures to moderate house price growth

Date:	07 December 2020	Report No:	T2020/3529
		File Number:	SH-18-2-9

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** the recommendations of this report **Agree** to meet officials to discuss your preferences for further work **Refer** report to the Ministers of Housing, Revenue, Local Government, and Economic and Regional Development	11 December 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Bastiaan van der Scheer	Principal Advisor, Housing and Urban Growth	[39]	[35]	✓
John Beaglehole	Acting Manager, Housing and Urban Growth			

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Ministers of Housing and Revenue.

Note any feedback on the quality of the report

Enclosure: **Yes (attached)**
Combined housing measures A3's.docx
Graphs for housing A3 -- final version.pptx
201203_Housing demand and supply side influences.pptx

Executive Summary

You have asked for advice on what can be done to moderate house price growth, while also enabling higher levels of home ownership and improving rental outcomes. Speculative investor activity in housing has been identified as of concern, and the potential target of measures to give effect to your objectives.

This report provides preliminary advice on a set of options that should meet your objectives. While tax settings are not the root cause of housing problems, changes could moderate price appreciation by increasing neutrality between housing and other investments, and between the relative cost of owning a dwelling between an investor and an owner-occupier.

Our demand analysis also shows that expectations of future capital gains and rent increases have a disproportionate impact on decisions to buy houses today, and therefore on current house prices and house price growth. A critical influence on expectations of future gains is anticipated supply response to demand (of making increased returns or avoiding an even higher price to acquire a home in future for owner-occupiers).

Bringing house prices closer to their 'real' cost of production on an enduring basis, and thereby changing future house price expectations, requires a credible supply response:

- land for housing must be abundantly available,
- housing intensification and expansion must be encouraged,
- infrastructure must allow demand to be met in a flexible way, and
- development and construction capacity should not restrict demand being met.

For example, the Christchurch land release post-earthquake combined with infrastructure investment and workforce recruitment (through migration) has provided affordability relative to other urban centres in New Zealand while being subject to the same tax settings and monetary policy. Resource management reform is critical to the first three bullets above.

In respect of your specific requests, an extension of the 'bright line' rule is supported and could be progressed in the 1 April 2021 tax year. Disallowing interest deductibility for investors in residential property is feasible by the same time, but we recommend further work is done on it before announcing to be confident in the impact of the measure. We have also identified interest-only loans to investors as an area for immediate analysis.

Several other measures that should be progressed in the short term are identified in the report and annexes as 'green'. This includes tax measures that are unlikely to be ready for implementation in the next tax year. We have indicated in our recommendations where discussions with other Ministers may be the best way of progressing them.

We have also identified a wider range of 'orange' options that can go further in restricting investor purchases of existing residential properties, some with the potential to cause house price decreases rather than moderate growth. There are also orange measures focussed on resolving infrastructure shortfalls and potential construction sector constraints. We would not recommend these additional measures without further study of how they might be implemented and potential unintended consequences of some.

The combined impact and relationships between the orange measures also need further analysis, as some measures have similar effects (potentially either duplicative or reinforcing) or may cancel each-other out (e.g. measures looking to continue construction sector activity or protect tenants undermining those looking to discourage speculative investment). Measures to address the infrastructure gap also need to be considered in their totality.

In particular, recent owner-occupier purchasers may be badly affected by measures that (intentionally or not) decrease house prices. We have also highlighted some 'red' topical demand-side measures that we do not support for further consideration at this time.

Rent prices no longer reflect house prices, with the ability of tenants to pay increased levels of rent rather than landlord costs likely being the determinative factor. However, actions to moderate speculative investment may have a negative impact on the offered price and availability of rental housing. This report outlines ways in which the risk may be mitigated through encouraging continued investment in new residential housing supply and potentially taking short term measures to avoid additional burden on renters as the housing market adjusts to any new norm (such as rent control).

Further work is required on your preferred option set for announcement in the first quarter of 2021 and we would welcome the opportunity to meet with you to discuss this report and confirm the scope of our next steps.

Recommended Action

We recommend that you:

a. **agree** to progress as a priority:
   i. implementing an extension to the 'bright line' rule on taxing residential property gains for the 1 April 2021 tax year
   ii. placing limitations on interest-only loans to investors in residential property
   iii. elevating housing affordability in upcoming resource management reform and legislation for spatial planning
   iv. encouraging local government to give effect to the National Policy Statement for Urban Development and working closely with them to support the achievement of its objectives
   v. drafting temporary rent control measures to offset or limit negative impacts of adjustments to tax policy changes on rent prices

   Agree/disagree.

b. **agree** to commission further advice from Treasury on:
   i. developing or supporting alternative investment vehicles to reduce investor demand for existing housing stock
   ii. closing remaining infrastructure funding and financing gaps for growth areas (with the Infrastructure Commission)
   iii. revising Crown Financial Institutions' investment guidelines to better allow investment in housing

   Agree/disagree.

c. **agree** to commission further advice from Treasury (with Inland Revenue) on the following tax measures for implementation beyond 1 April 2021:
   i. deemed rate of return method for taxing investment housing
   ii. hypothecated local authority infrastructure levy on land value

   Agree/disagree.

d. **discuss** progressing advice on the following options with the Minister of Housing:
   i. reforming private covenants that restrict urban intensification
   ii. better integration of the range of public support available for housing demand and supply
   iii. [33]

   iv. how the Housing Act and Public Works Act can be used in a strategic way to reduce the incidence of land-banking (in consultation with Crown Law)
   v. strategic acquisitions of rural land with good transport links to major urban centres
   vi. an outright ban on investor acquisition of existing residential properties

   Agree/disagree.

e. **discuss** with the Minister of Revenue progressing further advice from Treasury and Inland Revenue on:
   i. vacant land tax
   ii. stamp duty
   iii. removing mortgage-interest deductions
   iv. [33]

   Agree/disagree.

f. **discuss** with the Minister of Local Government progressing further advice from her officials on requiring local government to move to a land-only ratings basis

   Agree/disagree.

g. **discuss** with the Minister of Labour progressing further advice from Ministry of Business, Innovation and Employment on construction sector capacity constraints that may become binding when planning and infrastructure constraints are addressed, along with options to address any potential constraints should they arise

   Agree/disagree.

h. **do not progress as a priority (at this stage) any advice on:**

   i. expanding or accelerating Kāinga Ora's Large-Scale Projects
   ii. a vacant house tax
   iii. inclusionary zoning
   iv. regulating sales practices (e.g. banning auctions)
   v. rebating GST to purchasers of new supply or local government
   vi. capitalising welfare payments for use as deposit on purchasing a house
   vii. [33]

   Agree/disagree.

i. **indicate** any further measures that you would like reviewed as part of the next stage of advice, before announcing the first stage of measures in the first quarter of 2021:

j. **note** officials will provide advice on how this work programme can best be governed in light of your decisions on these recommendations

Note.

k. **agree** to meet officials to discuss the contents of this report and confirm the scope of next steps

Meet/do not meet.

l. **refer** this report to the Ministers of Housing, Revenue, Local Government, and Economic and Regional Development

Refer/not referred.

John Beaglehole
Acting Manager

Hon Grant Robertson
Minister of Finance

Treasury Report: Outline of measures to moderate house price growth

Purpose of Report

1. You have requested urgent advice on the recent rapid increase in house prices (with effects on rentals), and what might be done in respect of Government objectives to increase home ownership and enable wider housing affordability while not having a negative impact on renters. In particular you have sought advice on extending the 'bright line' rule to ten or more years and on changing interest deductibility rules for property investors.

2. The tax measures outlined in this report and Appendices A and B have been developed with Inland Revenue and all of the measures discussed and included in Appendix B with input from the Ministry of Housing and Urban Development (MHUD). Due to drafting constraints MHUD has not been consulted on the report itself.

3. We have also appended contextual information (Appendix D) and our analysis of a wider range of measures as they may be useful for discussions with fellow Ministers (Appendices A and B). There is agreement between agencies on what is proposed in this report, but MHUD places greater emphasis on the need for, and effectiveness of, subsidies in meeting housing objectives in current market conditions (in particular, some we have 'red' rated).

4. You have asked for advice on monetary policy and macroprudential tools from the Reserve Bank of New Zealand (RBNZ), and Treasury can provide advice on these issues should you want it. An outline of possible macroprudential measures for discussion with RBNZ is included as Appendix C of this report.

Background

5. Before the election, most economists had forecast COVID-19 would result in a significant decrease in house prices in 2020/21 and into 2021/22 before returning to a pre-COVID growth trajectory and prices. It was expected that the development and construction sector would face a similar situation to that after the GFC, with a massive drop off in demand and finance for housing causing widespread unemployment. It was similarly thought on the basis of the GFC that new residential housing supply would not return to pre-COVID levels until well after the wider economy recovered.

6. To avoid the eventuation of downside scenarios in the housing market having a major impact on consumer confidence deepening economic decline, the RBNZ removed loan to value ratios (LVRs, of no more than 20 percent of their lending to 'owner-occupier' buyers with less than a 20 percent deposit, with no more than five percent of loans to property investors with less than a 30 percent deposit).

7. The price decrease forecast for post-lockdown has not materialised, with house sales across the country reaching record highs in consecutive months to October 2020. Nationally, house prices have increased 19.8 percent year-on-year to October 2020 with the median now at $725,000. Auckland's median house sale price for October was over $1 million for the first time. At $7.3 billion, September 2020 was the highest month of new mortgage lending on record.

8. Although owner-occupiers made up the greatest proportion of house purchasers in the period immediately following New Zealand's level-4 lockdown, investors now make up the single largest group of house purchasers (40% of purchases in September), many highly leveraged ($600m of lending to investors was for over 70% of house value in September, up 255% between March and September 2020). Banks report reintroducing LVR restrictions for investors ahead of any RBNZ move to require this. Investor bidding has nevertheless had a particularly negative effect on recent price escalation and the ability of owner-occupiers to purchase houses.

9. Of particular note is the proportion of residential property lending to those investors that is interest-only (e.g. no repayments of principle over mortgage period). This has averaged around 50% of investor lending in available data sets from RBNZ (at least the last five years). Coupled with generous rules on deductibility of expenses and low interest rates this supports a proposition of speculative activity by property investors.

10. The positive impacts of the RBNZ response to COVID-19 on interest rates and credit availability have been a lower increase in unemployment and shallower decline in economic activity, with the residential construction sector in particular nearing or at capacity in some areas (skilled labour shortages are now being reported). The 'wealth effect' from house price increases has also likely been positive for ongoing consumption in recent months (consumer confidence). A positive aspect of the investor-led purchasing mentioned above has been a 3% increase in houses available for rental in the year ended September 2020.

11. We do not consider recent house price growth a post-COVID anomaly, but instead reflective of housing market issues that existed pre-COVID (as discussed below).

Analysis of the status quo

Why are house prices going up?

12. In short, house prices are going up because 'effective' demand for housing exceeds supply, notwithstanding the actual and anticipated economic and migration impacts of COVID-19. This is a factor both of historic undershoot and in respect of expectations of a limited future supply response (refer Appendix D). That house prices have continued to rise over the past year reinforces market belief that investment in housing is a one-way bet. We simply haven't built enough houses to meet our population growth, and the current resource management system is a primary driver of the shortfall.

13. 'Effective' demand for housing can increase ahead of household formation when credit availability, interest rates and other tax settings are positive for investors and returns are expected to be greater, or at lower risk, than alternative investment. The scarcity value provided through restrictions on ability to add supply means that this effective demand bids up the prices of the existing housing stock rather than contributing to greater housing availability and potentially lower prices (or higher quality housing).

14. The upward trend in house prices in recent years also appears related to the reduction in real, long-term interest rates. Lower expected returns on bonds drives down required future returns on alternative assets, including rental yields. Lower interest rates appear to have increased asset prices generally, both domestically and globally. This largely benefits existing asset owners and therefore has significant distributional impacts.

15. In addition, our tax settings create distortions that tend to favour investment in housing when prices increase. The tax advantage for housing has the effect of further reducing the required pre-tax rental yield, all else equal. This puts additional upward pressure on property prices as alternatives to residential property investment are perceived to be higher risk and/or lower return. We need to create a situation where other investments are more attractive, or investment provides for additional supply rather than bidding up the price of the existing stock.

16. When the supply of housing is constrained, lower interest rates and tax distortions largely lead to higher property prices. If supply was unconstrained, lower interest rates would lead to a greater quantity of housing and lower rents. The importance of the regulatory environment can be illustrated through international experience. Cities experiencing high rates of population growth across the USA continue to provide a wide range of housing affordability for residents despite all experiencing the same low interest rates and other factors of production/construction being broadly comparable.

17. Growth cities in the USA that remain affordable typically have a supply response that is flexible enough to meet the needs of their resident population, even if this happens over time (new housing supply is never instant). A potential investor has no reason to expect that continued scarcity will result in continued capital appreciation and must look to rental yields alone. With lower house prices a reasonably sustainable balance can be struck where rental yields do allow for investment without requiring capital appreciation. This situation is more, rather than less, likely to attract institutional investment.

18. Christchurch is the domestic example of relative affordability with consumer credit conditions equivalent to the rest of New Zealand. In particular, the post-earthquake market in Christchurch shows what can be done when land is released in large amounts, coupled with infrastructure investment and construction sector workforce support (via work permits for foreign builders/labour).

19. Infrastructure funding and financing remains a key constraint to the market credibility of planning for growth by local government (and direction on this from central government, such as the National Policy Statement on Urban Development). Preliminary Treasury estimates provide an extremely wide range of potential cost for the amount of additional infrastructure required to bring housing affordability closer to 'real' or fundamental costs of supply (i.e. $20 to $50b above current intentions). Much of the variation comes from how value-capture and cost-recovery from beneficiaries operates, and ensuring the work is carried out efficiently and effectively.

20. There is nevertheless a large shortfall in infrastructure funding if we are to bring house prices back to more affordable levels. Several potential options are included in the measures outlined in this report and rated as 'orange' – including both local and central government initiatives. We are therefore recommending advice in the short term on how best to resolve this issue, including also known deficits in funding for Kāinga Ora's announced large-scale projects [38]

What affects demand for housing?

21. Demand to purchase a house will be influenced by renter and investor expectations of the future, including views on the:

    a Net number of households requiring accommodation (population growth or decline).

    b Relative cost of renting to the cost of owning.

    c Availability and cost of credit.

    d Ability to meet the conditions of credit and service the costs over time.

    e Income including transfers [affecting (b) and (d)], and other costs of living.

    f Availability of dwellings in preferred locations (fear of missing out and positive expectations of future capital gains), and related scarcity value.

    g Relative cost and reward of renting or owning to available alternative investments (including attractiveness to foreign investment where permitted).

22. Each of the factors above can increase or decrease demand. Several have also been identified as the primary driver of house price increases in New Zealand post-GFC. The expected supply response to the demand factors above is critical. In markets where there is an expectation that supply will meet demand, prices tend to trend much closer to fundamental costs of housing rather than a scarcity/speculative value. Where there is a view that shortage of supply in desired locations will continue into the future, the limiting factor for both rental and house price growth tends to be ability to pay.

23. Volatility in net migration levels has played a large part in previous housing cycles in New Zealand. The current environment of limited migration allows for a more considered approach to medium term immigration settings that should take into account national and regional housing impacts as a high priority (refer page 20 of Appendix B). Decisions on temporary migration should similarly consider impact on rental markets.

Option sets for meeting your housing objectives

Analytical framework for identifying a preliminary package of measures

24. Appendix B of this report includes a wide range of options. Those that we consider should be progressed in the short term are rated 'green'. 'Orange' rated measures require more detailed analysis of complementarity with 'green' or other 'orange' measures and for unintended consequences. In forming this preliminary package of 'green' and 'orange' measures (and the wider suite of options presented in the appendices to this report) we considered:

    a Impact on demand, supply and prices for owner-occupied housing, and first home buyers and investors in particular.

    b Impact on demand, supply and prices for rental housing, and impact on tenants.

    c Impact on combined housing demand, supply and prices.

    d Distributional impacts and equity.

    e Implementation and administration.

    f Fiscal implications.

    g Efficiency of the measure.

25. Adding cost or removing opportunities for investors can have negative impacts on rental stock availability and rent prices. Key motivations for the combined impact of initially proposed measures were therefore to moderate house price growth and rebalance demand away from investors while continuing, and if possible increasing, investment in new housing supply and to minimise or avoid rent increases.

26. Although changes have been signalled, and there is clearly a crisis here to be resolved, investor certainty is something that should be maintained where possible. This consideration is not as prominent as it has been in previous Treasury advice. This advice has also prioritised housing considerations and changing market expectations rather than taking a consistency and efficiency of system approach to tax.

Doubling down on supply reform is critical to moderate current demand

27. The conclusion of our analysis of the factors affecting demand was that even if supply changes will take time to implement, credible signals of change can affect current demand (especially from investors) and prices. This emphasises the importance of:

    a Prioritising housing affordability in upcoming resource management changes. Ensure local government gives effect to the National Policy Statement for Urban Development (NPS UD) in the interim and work closely with them to support the achievement of its objectives. Providing incentives for councils to promote growth and expansion beyond the strict requirements of the NPS UD and private channel investment towards infill housing and higher density typologies in particular. Reforming private covenants that restrict permitted intensification (likely requiring legislation).

b Agreeing how remaining infrastructure funding and financing gaps are closed for growth areas and aligned with spatial planning to enable sufficient supply to meet demand at affordable price points. [38] and recovering more of the cost of investment in growth infrastructure from its beneficiaries.

28. Measures in this area, are rated 'green' as needing advice in the short term [refer pages 3-5 of Appendix B].

You can also make changes to dampen investor demand in particular

29. The tax system affects incentives for housing investment and therefore affects house prices, rents and the rate of homeownership. It is also suited to addressing broader distributional objectives. While tax policy is a tool that can be used to mitigate the distributional effects of asset price changes, current tax settings may reinforce wealth inequality through inconsistent taxation of capital income.

30. Extending the bright-line rule would support your objectives of moderating investor demand in the short term. This could be implemented for the 2021 tax year. Extending the bright-line period for a much longer period than the current five years (e.g., to 15 years) would likely be needed to make a significant difference to investor behaviour, as investors hold property for around 7 years on average.

31. The measure would be expected to place downward pressure on house prices, although the effect is uncertain and likely to be modest. Even if the impact on prices is modest, extension would however result in more income that is currently untaxed being taxed. In forming final advice to you on this measure, we will also consider any possible perverse incentives caused by creating a large tax liability towards the end of the recommended period the rule is applied for. Further analysis of this measure in Appendix A.

32. There are a range of other tax reforms that could moderate property price growth and create incentives to better utilise land, several of which are discussed later in this report as their primary intent would not be to target investors. These are rated a combination of 'green' and orange' as we recommend that further analysis and more detailed design of them be undertaken as they are less certain that an extension of the current 'bright-line' rule.

33. Appendices A and B contain analysis of a broader range of tax policy options, including also changing the deductibility status of mortgage interest costs for investors. We have recommended any changes to interest deductibility be included in "Plan B" below rather than within the set of initial measures. If a large portion of interest is denied, and there is a sharp downward correction in housing prices as a result of forced sales, some investors may make a significant loss which may give rise to hardship or bankruptcy.

34. The additional investor-targeting measure we recommend providing more detail on in our next stage of advice is the introduction of a deemed rate of return method for taxing investor-held housing. This is unlikely to be implementation-ready by 1 April 2021.

35. We have also identified that around half of all lending to investors is interest-only. It has not formed part of our previous analysis or advice so we are unsure how limitations might be implemented. However, this would seem a clear enabler of speculative investment in the current tax-treatment regime, in particular with interest payments being deductible. [33]

36. Refer to pages 6 to 7 of Appendix B for more information on this section of the report.

Channel investment to continue to support the construction sector

37. Where possible we will look to develop options for tax and regulatory changes in a way that does not negatively impact new housing development and supply. In some instances this can be achieved through exemptions for investment restrictions, and in others it might be through supply-side incentives or reform to counter-balance them.

38. We consider there may also be a case to focus any additional measures on higher density construction where there may be some latent capacity in the sector due to lower activity in commercial and industrial property construction, and where we see recent decreases in consents and lending. At present consenting rates and sector activity reports do not indicate the need for broader construction sector support.

39. Positive incentives could include:

    a Relax Crown Financial Institution's (CFI) investment guidelines, to allow CFIs to co-invest in housing projects (in particular, remove the 'no controlling interests' constraint).

    b Develop or support existing investment vehicles to enable non-professional investors with few other options to access higher density new residential housing developments, [33] as an alternative to buying existing houses.

    c [33]

    d [33]

    e Reviewing compliance with rental regulations, assessing the effectiveness of any further increases to quality and tenure, and measures to increase the professionalism of landlords.

40. While we consider all of these measures have merit, they either require further work or have been relatively deprioritised because they will have a less immediate impact than the measures already outlined above (as discussed on pages 8 to 10 of Appendix B). Any of these can be prioritised should you wish.

Break land-banking to release supply and lower urban land prices

41. There is also a broader role the Crown could play in incentivising new supply and changing views on the value of holding rather than developing land:

    a Directing local government to move to a land-only assessment base for urban rates (rather than land and capital improvements). This will increase the holding cost of unimproved urban land, but may have the unintended consequence of also reducing rates for owners of expensive houses on small centrally-located sections.

    b A new levy on land value, possibly hypothecated to infrastructure expenditure. This may avoid the unintended consequence of the option above.

    c Acquire rural land, provide infrastructure and zoning for housing, and cost-recover for projects through value-uplift when sections are sold.

    d Provide key infrastructure for large private developments in return for public interest gains (complementing existing Crown land programmes).

e Consider use of the Public Works Act where hold-outs significantly increase the cost of providing infrastructure and/or delay the bringing to market of serviced-sections in order to extract higher prices (likely to have a high demonstration effect given how long it's been since such powers have been used by the Crown for housing).

42. While we consider all of these measures have merit, they either require further work to scope and assess for unintended consequences. The measures also have an increased risk of either duplicating or working against other measures being proposed. There may also be a broader programme of aligning Crown housing programmes and assessing the effectiveness of uncommitted or delayed infrastructure expenditure in providing for housing and allowing cost-recovery from beneficiaries. Refer to pages 11 to 14 of Appendix B for more information on this section.

Ensure the construction sector can meet demand when planning and funding constraints are addressed

43. The measures already outlined look to address the two greatest current constraints on additional housing supply, but should they be resolved a third factor – the availability of skilled labour and building materials – will become binding. Any impending workforce and sector capacity constraint could be mitigated through:

    a Assessing peak workforce needs and implement training or migration measures to address any expected constraints.

    b Reducing supply chain risk for imported materials and confirming domestic capacity to meet anticipated demand for locally-manufactured products.

44. These measures should be considered for action in the short term as there are already reports of shortages in the sector.

45. A range of BAU projects could also be given greater emphasis and/or restarted where they've stalled in order to support sector efficiency, including:

    a Offsite manufacturing to reduce labour intensity [34]

    b Building Code application and compliance costs.

    c Proportionate construction sector liability and insurance.

    d Reducing construction materials costs (including a Commerce Commission Inquiry and any response).

46. These measures are important but can be accommodated on a longer timeframe than measures to be announced as the first step of market reform as they will have a less immediate or significant impact. Refer to pages 15 to 16 of Appendix B for more information on this section.

Be prepared to address any initial negative impact on the rental market

47. Adjustments to tax changes are most likely to affect the market via price changes rather than rent changes, in a similar manner to the observed impact of interest rate changes. We consider that this is because rent levels are currently more closely linked to tenant ability to pay than amount purchasers pay to acquire house.

48. The ability for landlords to pass on increased costs to tenants may therefore be limited if they are unwilling to risk having their property go vacant. As landlords sell houses in response to increased costs, there will be an offsetting increase in home ownership (potentially at lower cost than current levels) reducing rental demand. We do not expect it will necessarily be a 1:1 relationship as new households may form to acquire the houses or household composition may differ as use changes.

49. Despite the intent to offset or limit negative impacts on rent prices, there could therefore be a short term role for rent control as the market adjusts. As outlined on page 17 of Appendix B, we suggest this be developed as a back-up measure for rapid implementation if necessary or considered once the breadth and potential impact of initial measures to reduce investor demand has been confirmed.

50. Rather than an outright freeze we would recommend linking rent increases to the value of any additional improvements and a suitable index for reflecting broader (non-speculative) costs to landlords. There is a strong risk that any temporary measures (especially a freeze) may become permanent and have a negative impact on needed investment and distort allocative efficiency. The more restrictive and longer in duration any measure is the more likely it is to result in non-compliance and unintended consequences such as discrimination.

And get the scoping of 'Plan B' into work programmes

51. We recommend the policies set out on pages 18 and 19 of Appendix B be progressed on a longer timeframe once the impacts of initial measures are known. These are:

    a Denying mortgage-interest deductions to investors.

    b A time-limited ban on investors acquiring existing residential properties.

52. Given your particular objectives, timeframes, and risk appetite, you may also wish to seek advice on additional measures to further reduce investor demand. Such measures could include a vacant land tax or a stamp duty, or the wider range of options discussed in the appendices to this report.

53. These measures would involve either introducing greater distortions, complexity, or risk of unintended consequences. Careful thought would need to be given to the impact on holiday destinations and exemptions for renovation and redevelopment. However, depending on their design and implementation, they could have a large impact on the housing market, including putting significant downward pressure on house prices. Related policy should therefore also be prepared to address the issue of owners going into negative equity as the wider market shifts.

We do not support several topical proposals to address affordability

54. There are a range of red-rated initiatives on pages 21 to 24 of Appendix B that we do not support progressing at this time, these are:

    a Expanding or accelerating Kāinga Ora's Large-Scale Projects.

    b A vacant house tax.

    c Inclusionary zoning.

    d Regulating sales practices (e.g. banning auctions).

    e Rebating GST to purchasers of new supply or local government.

    f Capitalising welfare payments for use as deposit on purchasing a house.

    g [33]

Next Steps

55. We also consider there is a further role for macroprudential tools as outlined in Appendix C, but these require further discussions around implementation with Reserve Bank of New Zealand (RBNZ). [33]

    Pending the response from the RBNZ to your letter of 24 November 2020, there may also be benefit in further engagement on additional/higher LVRs and formal DTI restrictions for investors, including via section 68B of the Reserve Bank Act and in the context of related ongoing legislative reform.

56. Given its multifaceted nature, a concerted push on housing affordability raises the question of appropriate and effective governance, and we will provide advice on this in the new year after a discussion of options with relevant agencies.

57. Officials would welcome the opportunity to discuss this report with you.

Appendix A: Detailed analysis of extending the 'bright-line' rule and denying interest deductibility to residential property investors

Context

You have requested advice on potential measures to moderate pressures in the housing market to support first home buyers and discourage speculative property investment.

This annex contains advice on tax measures that could meet the Government's objectives.

You have indicated that you are interested in advice on:

a extending the existing bright-line test, potentially from 1 April 2021;

b changing interest deductibility rules for investors so as to deny some or all of their interest deductions; and

c other similar measures and measures the Treasury would advise.

You have asked officials to keep in mind that the Government has ruled out a comprehensive Capital Gains Tax (excluding the family home), the Green Party's wealth tax proposal, and new measures that would be outside the current tax framework. We have provided a broad range of options, whilst having regard to these constraints.

Impact of current tax settings on the housing market

Tax settings currently favour investment in housing

The inconsistent taxation of capital income under current tax settings distorts housing investment decisions and therefore impacts asset prices, rents and rates of home ownership. The inconsistent taxation of capital income also has significant equity and distributional implications, as some forms of income are taxed less than other forms of income.

A significant element of capital income – gains from the sale of capital assets (including residential property) – is not taxed on a consistent basis. If investors expect to make ongoing capital gains from investing in residential property, not taxing gains on the sale of capital assets has the effect of encouraging investment in housing. This incentive exists for both property investors and owner occupiers. Equity investment in owner-occupied housing has the additional tax advantage that 'imputed rents' are not taxed (that is, the equivalent to rental income that would be paid and taxed if the property was owned by a landlord). However, debt-financed owner-occupied housing receives less favourable tax treatment because owner-occupiers cannot deduct their mortgage interest expenses.

In combination with regulatory constraints on the supply of housing and land, favourable tax settings largely lead to higher property prices. If supply was not constrained, favourable tax settings would be expected to lead to a greater quantity of housing and lower rents.

While tax settings are not the primary cause of the problems in the housing market, they do have the effect of exacerbating the issue of excess demand by incentivising investors to invest in assets that generate large untaxed capital gains (such as housing) over other asset classes. Certain tax changes could be implemented that increase the tax paid by some or all property investors, reducing their incentive to invest in housing.[1]

[1] Alternatively, taxes on other forms of investment (e.g. interest-earning securities) could be reduced to increase the incentive for investors to shift their portfolio away from housing and into other assets. This would be a way of reducing the tax bias in favour of owner-occupied housing. Officials could provide advice on such reforms if requested.

Tax reform could therefore have some effect on the level of prices and rates of homeownership. However, tax changes that only affect investment properties may have modest effects on house prices because there would remain a bias in favour of owner-occupied housing investment. The impact on house prices will depend on the overall effects on housing demand. Moreover, these measures could also have the effect of putting upward pressure on rents (as the supply of rental properties decreases and the tax cost for landlords increases) for those households that continue to rent.

Current tax measures aimed at property investment include the bright-line rule and loss ring-fencing.

While under current tax settings, the gains on sale of most residential property is not taxed, there are some specific rules that do make these gains taxable income. Where a person buys and sells property with the intent of making profit from re-sale, then the gain in value will be taxable. The bright-line rule was originally aimed at providing a simple test to ascertain when a person would be considered to have intended to make profit on re-sale. The bright-line rule makes gains made on the sale of some residential property that is bought and sold within a specified time period taxable. This has the effect of increasing the total tax paid by some investors who make a capital gain on their investment.

The rule applies to rental properties and second homes/holiday homes, but excludes the "main home". It applies to property that was purchased:

a on or after 1 October 2015 through to 28 March 2018, and sold within 2 years; or

b on or after 29 March 2018 and sold within 5 years.

The bright-line rule applies in addition to the other rules for taxing the gains made on the sale of property. Even if a property is sold after the bright-line passes, the intention test (gains made from property bought with the intention of selling for a gain are taxable) and other property sale rules still apply.

There has also been a recent change to the treatment of losses made by residential property investors. From the 2019-20 income year, residential property deductions are being ring-fenced, meaning they can only be used to offset income from residential property. This prevents property investors from using losses they make from their property to offset their other tax liabilities. Any excess deductions must now be carried forward and used to offset future income derived from their residential property.

There is limited data on how these measures have affected the housing market

Bright-line rule

The 5-year period of the bright-line rule means it likely does not apply to the majority of residential property sales by investors. Table 1 below shows the holding periods for residential property sold in 2017 (this includes both owner occupied and rental properties). The median holding period for residential properties was around 7 years which is more than the current bright-line period.

Table 1. Holding periods for residential property sold in 2017.

	Held for 5 years or less	Held for 7 years or less	Held for 10 years or less	Held for 15 years or less
Proportion of residential sales in 2017	42%	51%	64%	83%

Note. Based on Corelogic data prepared for the Tax Working Group. This captures 103,000 sales of property classified as 'residential' or 'lifestyle'. Does not include 21,000 sales which Corelogic could not calculate holding periods for.

This is in line with other publicly available analysis from Corelogic, which shows that the median holding period for residential property in 2018 was 7.4 years. This analysis also shows that, at least in recent years, owners of multiple properties have tended to hold property for a slightly longer period of time than other owners of residential property.

There is no clear conclusions that can be drawn about what effect the bright-line test has had on holding periods. This is because multiple policies (including the implementation of LVRs) will have had an effect on holding periods. In addition, the full effect of the extension of the bright-line test to five years will not be visible until five years after its implementation.

Loss ring-fencing

Preliminary data indicates that the loss ring-fencing rules are impacting a reasonable proportion of the rental property market. For the 2020 income year approximately $300m of rental losses have been ring-fenced based on tax returns received so far. However, Inland Revenue has not yet received all the 2020 tax returns from property investors for and this number is provisional and subject to revision. For context, in 2019 there was approximately $2.6 billion of taxable rental profit and $970m of rental losses. However, these numbers are not directly comparable as the loss ring-fencing data is preliminary.

Extending the bright-line rule

Changes to the bright-line rule could be implemented by 1 April 2021

Extending the bright-line rule is a relatively simple measure to implement and can be done by 1 April 2021. This is because it is already an existing regime that taxpayers are already required to comply with. Extending the bright-line rule would simply increase the number of property sales that it applies to.

Extending the bright-line rule would increase the need to address current issues with how the bright-line rule applies to second homes that do not earn rental income. Specifically, there is currently some uncertainty around how holding costs (like mortgage interest costs) should be treated for second homes that are sold within the bright-line period. Extending the bright-line would make resolving this uncertainty more pertinent.

There is an open question as to how far the bright-line rule could be extended. Each possible length for the bright-line rule has its own pros and cons, with no one single length being ideal. Extending the bright-line period for a much longer period than the current five years (e.g., to 15 years) would likely be needed to make a significant difference to investor behaviour.

Extending the bright-line rule would reduce investor demand for housing

Extending the bright-line rule would increase the tax that some property investors expect to pay on their investment. This increase in expected tax liability will reduce the amount these investors would be prepared to pay for a given house. However, demand for housing from investors who either do not expect to make large capital gains or intend to hold their property for a significant period of time will be largely unaffected by this change.

The longer the period for the bright-line rule is set, the greater the number of property investors that will be impacted by the measure. Fewer investors will expect to be able to hold onto a property long enough to avoid the bright-line rule, resulting in more investors expecting to be subject to the bright-line rule. Hence a longer extension could be expected to reduce investor demand for housing.

In addition, more investors will be captured by the bright-line rule who did not expect to, due to unexpected circumstances forcing them to sell earlier than anticipated. While this may not impact on the price these investors are willing to pay, as they did not expect the tax, the increased tax will only be paid to the extent these investors have made income through capital gains.

The impact of this measure on both house prices and rents is expected to be limited. The impact on house prices will depend on the overall impact on demand for housing. While this measure will have some impact on reducing investor demand for housing (putting some downward pressure on house prices), it will not reduce demand from owner-occupiers. This will limit the effect that this measure can have on house prices overall. Extending the bright-line rule would alter the distribution of property owners, so that fewer investors and more owner-occupiers own the stock of residential property.

It is important to note that, if a further extension of the bright-line rule was to be implemented in a similar way as the previous extension to five years, then the extension would only impact investors who buy property after the extension comes into force. Investors who already hold property on that date will only be subject to the previous bright-line period. This will limit the impact that an extension of the bright-line will have on the housing market in the short term.

Extending the bright-line rule would change investors' behaviour, particularly around how long they hold their property

A key risk associated with the bright-line rule is the risk of 'lock-in', which impacts on the efficient allocation of residential property. Because the tax liability for a property owner can change significantly based on whether they sell a property before or after a certain date, there can be a significant incentive to hold off on selling a property in order to avoid paying the tax. This effectively locks them in to their investment.

The costs that flow from lock-in are difficult to quantify. However, these costs may affect the efficient allocation of resources within an economy. Lock-in discourages individuals and entities from reorganising how they hold assets. For example, in the absence of the bright-line rule some property investors may choose to sell their property and invest in a new business, but they may instead delay selling their property in order to avoid being captured by the bright-line rule.

While lock-in does not alter the actual number of dwellings in the overall housing stock, it may reduce the number of dwellings for sale at any given time as it will lead to longer holding periods and fewer transactions over time. If the fall in the number of dwellings for sale exceeds the reduced demand from speculators and investors then this could lead to increased competition for the housing stock available for purchase for a period of time. Because of the competing impact of these variables, the impact of lock-in on the housing market is ambiguous.

Extending the bright-line rule further would change the intent of the measure

The original policy intent for the two-year bright-line rule was to capture short-term speculative activity in the residential property market. The two-year period was set on the basis that buying and selling within a short window of time is likely to be indicative that the property was bought with the intent to make a profit on resale.

Extending the bright-line rule will increase the capture of sales of residential property that was not acquired with an intention of resale. It will, however, ensure that more income that is currently untaxed would be taxed

Enforcement of the existing bright-line rule

There are concerns about compliance with the existing bright-line rule. Inland Revenue advise that there appears to be approximately 25% non-compliance with the bright-line rule for the 1,700 persons Inland Revenue identified as subject to the bright-line test in 2019. Inland Revenue is undertaking a compliance campaign to address this non-compliance. This includes work on an additional 3,800 persons who sold property in 2019 potentially subject to the bright-line rule but further work is needed to determine whether an exemption applied to their sale of property.

There is a possibility that extending the period for the bright-line rule will require new measures in order to allow for stronger enforcement of the regime. What tools would be best placed to enable sufficient enforcement of an extended bright-line rule is something that we can advise on if you wish to progress with extending the period for the bright-line rule.

Disallowing interest deductions

Property investors, as with any other business, can deduct their expenses from taxable income

Property investors that earn taxable income (e.g. rental income) from their properties are currently able to deduct the full cost of the expenses they incur in earning this income. These expenses include mortgage interest expenses, maintenance costs, rates and insurance costs. Tax is then only charged against this net income (income less expenses). This is consistent with the standard approach to taxing business income.

Property investors can claim the full cost of these deductions (subject to ring-fencing) despite the fact that many of these investors are also making substantial gains on the sale of their properties that are currently untaxed. This results in some landlords paying little tax on their investment, despite making large untaxed capital gains.

Disallowing all or part of the interest cost of property investors would be one way to increase the tax paid by property investors that currently claim mortgage interest expenses. Those investors would face a higher net income on their investment, resulting in a higher tax liability.

It is important to note that property investors who make a loss in a particular year from their property portfolio are currently unable to use those losses to reduce their tax liabilities from earning other forms of income (e.g. salary and wages). This is because those losses are currently ring-fenced.

The non-taxation of most capital gains can provide a justification for denying some or all of a property investors interest deductions

To support economic efficiency, it is generally appropriate that businesses can deduct interest expenses. This supports neutrality between financing via debt and equity (since interest income is taxed when the interest is received).

The underlying problem is that income is not fully taxed. The most efficient way to address the under-taxation of income would be to reform the taxation of income, rather than deny deductions for expenses.

Nevertheless, a general principle of income tax is that expenses should only be deductible to the extent that they relate to taxable income. As property investors invest in housing, at least in part, in order to earn untaxed capital gains, it would follow that some of the expenses they experience in earning this untaxed income should be denied. By denying these deductions, it is possible that investment in property reduces in a way that improves the efficient allocation of resources.

There are two important caveats to this analysis. First, denying deductions for interest expenses would also create distortions in investor behaviour that is potentially unintended and unwanted. For example, denying deductions for interest expenses would disincentivise landlords from taking out larger mortgages to fund improvements and maintenance of their properties. Second, where equity is shifted from fully taxed assets (e.g. a term deposit) to housing, the effect of the foregone taxation of the fully taxed asset for the equity investor is economically equivalent to allowing interest deductions for debt investors. Therefore, we might expect that much of the debt is replaced with equity given the remaining benefits for those investors. This is why denying deductions is inferior to fully taxing income.

The effective tax rate that each property investor faces will be unrelated to their income, including capital gains

The denial of interest expenses will not affect equity investment in property, will create some distortions and raise questions of fairness. Heavily debt-financed investors will be most affected, while investors with less debt will be less affected. Yet there may be little relation between the interest expenses associated with each property and the size of the untaxed capital gain earned from the property. However presently the amount of tax property investors pay is not based on their full economic income due to untaxed capital gains.

Denying interest deductions is feasible by 1 April 2021, but would risk unintended consequences if progressed this fast

It is possible to implement a simple form of denying interest deductions by 1 April 2021. However, officials consider that, if this measure was to progress, sufficient time should be taken to design the rule and consult with the private sector, in order to minimise the risk of significant unintended consequences. While we are aware of some of the complexities that would need to be addressed in designing such a rule (for example, where a small business earns both rental income and other business income), there will be other issues that we have yet to consider. If designed at a rapid pace and without consultation, there is a risk that the measure will apply in a way that was unexpected. There is also a risk that some taxpayers will be able to avoid the rule in a way that was not intended, but undermines the purpose of the measure.

If a large portion of interest is denied, and there is a resulting sharp downward correction in housing prices, some investors may make a significant loss which may give rise to hardship or bankruptcy (particularly if prices fall below the level of equity they have in the properties).

Denying interest deductions would reduce investor demand for housing

Denial of interest expenses could have a significant impact on the housing market. This is because it would have a large impact on the after-tax returns of many leveraged investors. This would reduce the price that leveraged investors would be prepared to pay for a property and would lead to some landlords selling their properties. The measure would have the greatest effect on investors with large mortgages (and therefore large interest expenses).

Only leveraged property investors would face a higher tax burden (and therefore reduce demand) as a result of this measure. It will not reduce demand from equity-financed property investors or owner-occupiers.

The impact of this measure on both house prices and rents will depend on the proportion of interest deductions denied. Denying the full interest expense would have the largest downward impact on house prices, as more existing property investors will find holding their property uneconomic (and therefore exit the market). However, if a significant number of landlords exit the market, it would also risk disrupting the rental market which could put considerable upward pressure on rents. Only denying a portion of interest expenses (e.g. only denying the inflation component of interest expenses) would reduce the size of all of the impacts of the measure.

Denying the inflation component of interest expenses is one way to design the measure

One permutation of this measure is to only disallow deductions for the inflation component of interest expenses claimed by landlords and will form part of our next stage of recommended advice. In New Zealand, we tax nominal interest income and allow deductions for nominal interest expenses. However, some of this nominal interest is compensation for inflation and under an economic definition of income should not be taxed.

Inflation indexing even part of the tax system is complex. There are difficulties associated with both comprehensive indexation and partial indexation. The time it would take to analyse to various technical issues associated with the policy makes true inflation indexing of interest expenses for property investors infeasible as a short-term measure that could be implemented by 1 April 2021.

A practical option could be to deny a set proportion (e.g. 50%) or amount (e.g. one percentage point) of all interest deductions for property investors as a proxy for inflation. While not the same as denying the inflation component of interest, it would have a similar effect while avoiding much of the complexity.

Other tax policy options

The tables in Appendix B include a broader range of tax policy options for addressing pressures in the housing market. These options have been developed with regard to your objectives, in particular to focus on investor demand and not increasing taxes on the family home.

These measures are focussed on the objectives of:

a reducing investor demand for residential investment property; and

b improving supply-side incentives for intensification and the development of land.

Some of these potential measures would be effective in achieving your objectives, while coming at lower efficiency cost than extending the bright-line rule or denying mortgage interest expenses (e.g., do not have the same distortions and lock-in effects of the bright-line rule). In particular, the deemed rate of return tax and greater use of local council land value rating are our preferred options for further consideration. These options would require further analysis and a longer timeframe for implementation than 1 April 2021.

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Doubling down on supply reform to moderate demand

Measure	Description	Housing market impacts	Fiscal and distributional effects	Administration	Wider efficiency and equity impacts	Treasury recommendation Green – action in short term Orange – needs work Red – do not focus resources
Strong commitment to supply reform to change current expectations of future capital appreciation and increased rental yields	Current demand for housing is strongly influenced by expectations of rent levels and capital appreciation in the future. Significantly increasing housing supply will lower those expectations. Changing expectations will require credible commitments to release more land and airspace to build up and out. The commitment would have to cover planning permissions, and the ability to connect to network infrastructure, and typologies the current workforce has the capacity to build at scale. Planning rules that suppress a supply response to demand include: view shafts, height restrictions in central locations, urban containment, blanket heritage protections, and low-density zoning in places near and/or well connected to city centres. Changing these rules would require Resource Management reform that prioritised housing affordability above the concerns that led to the restrictive rules. Implementation of the new NPS on Urban Development could be a strong interim step, as it is designed to require councils to enable housing supply. Many local governments have signalled a desire to circumvent requirements and a reluctance to invest in growth infrastructure (as discussed below).	Supply reform is a fundamental requirement for a greater level of affordability and reversing a trend of declining affordability. Demand measures will be more effective if supply can respond. People looking for housing and landowners are not yet expecting the NPS UD to enable significantly more supply. Visible monitoring and enforcement combined with support for councils is likely the best way to change this. While increasing unaffordable, rents appear to be too low to support current house prices on a discounted cash-flow valuation basis. We suspect that current rents are set by limits to the ability of households to pay. A housing supply response would help moderate rents in all time periods and provide more choices for renters.	An increase in housing supply and its impact on the price of shelter can be expected to have a positive fiscal impact as the need to provide homeownership, rent, and emergency supports reduces. Access to expensive cities can be expected to increase productivity and GDP. Increased building activity would support economic activity. Distributional effects -Positive for renters and those who own less housing than they need in the future -Neutral for those whose housing ownership meets their future needs -Negative for those who have more housing than they need in the future. A supply led response can moderate house prices initially through a change in expectations, and then at a similar pace as building activity.	Will require strong and focussed governance to carry through resource management reform given the number of competing objectives, the role of local government, and the complexity of resource management. Enforcement of the NPS-UD will require: -Messaging and support to councils -Monitoring of district plan processes and outcomes -New revenue sources, or increased use of existing tools. Infrastructure gap will not be closed without new revenue sources, or substantially increasing use of existing funding sources (potentially Crown finance and funding).	Positive economic efficiency and equity impacts, the more effective the reform the greater the level of benefit. Without this reform the risk of a housing collapse triggering a deep recession will increase. Inequality will continue to increase as a greater economic divide grows between those who own houses and those who don't. Note intergenerational wealth impacts of house ownership (exacerbated by steep rents because of lack of supply). A significant shift in resource management regulation, and timely and effective implementation will be one of the few ways to decrease house prices over time without having a large negative economic impact/recession. In the long-run as supply increases and the perception of affordability in the housing market is achieved internal migration is likely to increase. This has positive implications for job mobility.	The most effective measure to increase the supply of housing in all ownership forms and moderate further increases in house prices and rents. Impact is over a variable timeframe, with short, medium and long-term options available. Impact skews to the longer term. Distributional impacts are mixed, favouring low and middle incomes and young and future generations. Implementation will require strong and focused governance, including influencing local government actions. **Recommendation**: Critical to progress as an absolute priority

Remove or sunset restrictive private land covenants in urban areas where they restrict permitted intensification	Reasonable body of evidence that restrictions via private (negative) covenants will be a binding constraint in many urban areas that can/will be zoned for increased density. Are able to be overridden by public planning documents, e.g. in NSW.	Around a fifth of titles in New Zealand have a land covenant. 19% of titles in Auckland's residential areas has a covenant – accounting for 23% of residential land. Will have moderate level of impact in moderating house prices as infill or redevelopment is enabled in existing urban areas of high housing demand.	Distributional impact positive, will be localised opposition to changing 'character' and perceived amenity of neighbourhoods.	May be difficult to describe legal standard for an 'undue' negative covenant restricting land use. Risk that private litigation will increase unless clear legislative reform/removal.	Housing market efficiency will improve, with commensurate benefits. Will be overriding covenants that may have had an influence on buyer decisions, nullifies private property right. Productivity Commission did not support outright removal in 2015 but suggested reform. Limited to no heritage or cultural impact as affected areas more likely to be more recent subdivisions (e.g. post-1970s, esp. 1990s onwards).	Increases housing supply though enabling intensification. Expect to have more impact over time as covenants sunset in areas with redevelopment demand. **Recommendation**: Progress reform, could also look at issues related to cross-leases at the same time.
Direct central government funding of growth infrastructure	Central government could pay for a greater proportion of growth infrastructure, especially if local government is directed to better meet current needs (refer tax measures slide). Should include requirement for local government co-funding. Recommend implementing this on the condition additional feasible development capacity is serviced by the infrastructure. Possible link with spatial planning work and could leverage existing urban growth partnerships with local government. Should form part of broader advice on the amount of additional infrastructure required to enable affordable housing and how best to fund and finance it in a timely and efficient way.	Was a key component of greater relative affordability in Christchurch post-earthquake (along with land release and inward migration of construction workforce). Indication that large amounts of infrastructure going into housing developments are having localised price effects in Auckland.	Very large fiscal impact to make meaningful difference. Distributional impacts will need to be worked through as part of any implementation.	Management of large scale increased expenditure likely to be complex and expensive if it is to be efficient. Could be possible to leverage existing processes, such as assessment and approval of Housing Infrastructure Fund projects, or through Waka Kotahi NZTA project approval processes.	Efficiency depends on how it's structured, what physical works result, and how it's repaid. Will need careful design and implementation given large amounts of recently committed infrastructure spend (although not all growth infrastructure) and continued house price appreciation over same period. Likely positive for inter-generational equity and to reduce current imbalances.	Increases housing supply by enabling land for housing and intensification in the short term. Over time may reduce developer and local government investment as they wait for Crown finance and funding. Significant fiscal cost with an uncertain distributional incidence. Some risk infrastructure cost is internalised in land prices. **Recommendation:** Worth looking at as an infrastructure funding option.

Pay local government for each additional dwelling	Reward positive behaviour, could be equivalent to GST received on average per new dwelling and require this to be spent on infrastructure. Should form part of broader advice on the amount of additional infrastructure required and how best to fund and finance it in a timely and efficient way.	A variant on direct Crown funding of infrastructure and creates better incentives in the system so may have an increased impact over that option.	Direct cost relative to generosity of payment and number of additional dwellings built. Fiscal impact offset if this approach redirects direct Government investment.	Relatively low cost as will be based off administrative data.	Positive efficiency and distributional costs. This links council revenue to economic growth/productivity. Councils are financially incentivised to invest in agglomeration infrastructure and fast track planning and consenting decisions for housing	Increases housing supply by incentivising more enabling local government decisions. May increase community support for growth initiatives. Fiscal cost likely to be high, depends on level of payment and approach to existing activity. May be offset if this approach diverts direct Government investment. **Recommendation:** Worth looking at as an infrastructure funding option.
Subsidise the provision of new residential property or infrastructure for local authorities (e.g. direct payment, GST rebate to developers of new builds)	You could provide some form of subsidy to private enterprise to encourage the provision of new residential property or infrastructure for local authorities. This payment could be targeted broadly (e.g. at all forms of residential property or infrastructure) or narrowly (e.g. to the provision of new multi-unit residential buildings). For projects that will largely benefit a single developer, support could be contingent upon agreement to specified housing outcomes in a similar manner to the existing Land for Housing programme. This subsidy could be delivered via a direct payment/grant, or via the tax system (through either accelerated depreciation or a refund of GST) Should form part of broader advice on the amount of additional infrastructure required and how best to fund and finance it in a timely and efficient way.	A subsidy for the provision of new residential property would increase supply of housing. The impact on housing supply would take time, given lags and capacity constraints in the sector. A subsidy for local authority infrastructure would allow local authorities to supply more infrastructure for both new and existing properties. To the extent that it allows local authorities to support the construction of new housing developments, this measure will increase the supply of housing. The impact on housing supply would take time, given lags and capacity constraints in the sector.	The cost of the subsidy will depend on both the scope and the level of the subsidy. The initial beneficiaries of the subsidy would be the entities that provide the new residential property or infrastructure for local authorities. Would provide wider benefit to renters and first home buyers in the form of lower rents and houses prices over time.	How quickly a subsidy can be delivered will depend on the scope and design of the subsidy.	The most efficient way in which to deliver a subsidy for the provision of new residential property or infrastructure for local authorities would be via a direct payment that is tied to the delivery of these assets. Using the tax system is a less efficient way of delivering the subsidy, risks undermining coherence in the tax system and reducing transparency in government spending. Treasury's preference is, if a subsidy is to be provided, it is delivered via a direct payment rather that via the tax system.	Increases housing supply by subsidising new dwellings and/or growth infrastructure. Some risk the value of the subsidy is captured in increasing land values. Implementation considerations include eligibility and subsidy delivery. Would require legislation if implemented as a tax measure. **Recommendation:** Worth looking at as a more targeted infrastructure funding option.

Measures to target investor demand

Measure	Description	Housing market impacts	Fiscal and distributional effects	Administration	Wider efficiency and equity impacts	Treasury recommendation
Extended bright-line rule	Extend the existing bright-line rule from the current five years to a longer period (e.g., 10 or 15 years). Capital gains on residential investment properties would be subject to income tax if sold within the longer bright-line period.	Would reduce property investor demand for housing, putting downward pressure on house prices. The size of the impact on house prices is likely to be limited. May put upward pressure on rents. The main downside of the policy is that it would increase "lock-in" for owners of in-scope property. By extending the bright-line period, some owners may hold property for even longer to escape paying the tax. This could have negative impacts on economic efficiency e.g. if a landlord wants to sell a property in order to invest in a new business or move location, but waits in order to avoid the bright-line.	Would increase tax revenue (the extension of the bright-line to 5 years was forecast to raise an additional $50m per annum). Under current design, the bright-line does not apply to owner-occupiers. The tax is paid by investors who have benefited from an increase in wealth due to a rise in the value of their residential investment property. Likely small benefits to first home buyers through putting downward pressure on prices but could increase rent paid by renters	Feasible to implement from 1 April 2021, as is a change to an existing regime. There will be some detailed design issues (e.g. deductibility of holding costs) that will need to be considered.	Will reduce the extent to which income earned in the form of capital gains is untaxed. However, as the bright-line period extends further, the policy becomes less focussed on its original policy intent (to capture investors who intend to profit from re-sale).	Discourages investor demand which may moderate house price increases. Expect a small decrease in rental supply which may lead to a small increase in rents. Distributional impact in favour of owner-occupiers as there is less competition from investors. Positive revenue impact. **Recommendation:** Consider progressing in the short term
Deemed rate of return tax on investment property	Apply a set rate of tax (that could proxy total economic income) to the equity that investors have invested in residential property. This would be similar to the "fair dividend rate" method currently used for taxing foreign investment income. Could be used to ensure a "minimum level" of tax is paid by property investors, or could entirely replace income tax for property investors.	Assuming that the "deemed return" is set at a rate that is, on average, higher than the tax currently being paid by the average property investor would reduce property investor demand for housing, putting downward pressure on house prices and put some upward pressure on rents.	If applied at a high enough rate, would increase total tax revenue. Would benefit first home buyers through putting downward pressure on prices but could increase rent by renters. Would provide a relatively stable source of tax revenue (compared to taxing capital gains).	Would require work on detailed design issues. Would be relatively novel and would benefit from significant consultation before implementation. Relatively easy to administer and comply with. Unlikely to be feasible to implement by 1 April 2021.	In principle, this tax is efficient and relatively non-distortionary. It could be applied broadly across all residential investment property. Would result in some property investors paying tax even when they made no profit. This could particularly impact property investors that are cash flow constrained. The public could view it as inequitable as property investors pay tax unrelated to their actual returns.	Decreases investor demand, favouring owner-occupier purchasers. May increase rents. Would provide a relatively stable source of tax revenue. **Recommendation**: Consider progressing in the medium term.

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Channel investment to continue to support the construction sector

Measure	Description	Housing market impacts	Fiscal and distributional effects	Administration	Wider efficiency and equity impacts	Treasury recommendation
Crown Financial Institutions (CFIs) investments	Enabling or incentivising the Crown Financial Institutions (CFIs) to more readily engage in projects that help with positive housing market outcomes (i.e. large scale property developments or supporting infrastructure). These large pools of capital (>$100 billion) could be encouraged to invest in projects which support increased housing supply if mandate constraints removed or incentives offered: • Remove the 'no controlling interests' constraint. This is a key constraint, limiting the partners and capital available for projects of scale, but policy should be tested for unintended consequences. • Consider consistency of tax approach with ACC.	Would need significant increase in supply to be funded to impact housing market prices. Only known CFI investment in residential property was the NZ Super Fund's property development at Hobsonville Point which was $54m (48% stake) and built 208 new homes.	Limited fiscal impact. The CFI funding is already in place.	Large scale infrastructure or housing investments are a good match for the CFIs. The NZ Super Fund has already expressed interest in housing investments, including a KiwiBuild proposal utilising its PPI model and the existing Hobsonville Point investment. ACC likes long-dated exposure that provides steady returns that meet its long-term inflation assumptions. Legislative change required to modify CFI investment constraints. However, the 'no controlling interests' provision could be scheduled for a review in 2021.	Competitive neutrality needs to be considered on any tax changes. Broadening the attractiveness of build to rent and other 'preferred' typologies for investment in general should increase potential for CFI investment (steady rental yield as opposed to speculating on capital appreciation).	Large scale infrastructure or housing investments are a good match for the CFIs. Expect to increase supply at the margin, helping to moderate house prices and rents. Low cost for government, yet a potentially large investment by CFIs. Implementation: requires legislative change. **Recommendation:** Investigate – it's worth considering the confluence of interests between the CFIs and the Government priorities on housing and potential to lead wider investment activity.
Review investment vehicles to pool demand from 'mum and dad' property investors into preferred typologies	Develop new, or support existing, investment vehicles to enable non-professional investors with few other options to access higher density new residential housing developments, including for 'build to rent', as an alternative to buying existing houses (potentially bonds).	Would need significant increase in supply to be funded to impact housing market prices.	Limited fiscal impact, would only create distributional impact if it channels large amount of investment.	Dependant on outcome of review but unlikely to be complex.	May make a positive impact to rental affordability and quality as part of the wider suite of measures outlined in the main report, unlikely to have much impact by itself.	Supports residential investment and increased supply without distributional impacts or Crown capital. **Recommendation**: Investigate in short term.

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Further rental market reform, increasing the minimum quality	Further increase security and length of tenure, strengthen acceptable quality standards, license landlords.	Will result in some houses being sold to owner-occupiers. Will increase rents if landlords are able to pass the cost on to tenants. Both the cost of bringing up rental properties to standard and the relative shortage of rental properties (as some are sold) put upward pressure on prices.	Neutral/limited fiscal impact. Shift tenancy law more in favour of tenants, allowing longer planning, stronger communities, and potentially flowing through to greater engagement with education and public services. In locations with high rental demand the cost of improvements can be passed onto tenants (typically low income). Therefore, displacement and or a decrease in discretional income is a risk.	Would require legislative change, some relatively minor expenditure to enforce would increase benefit to tenants.	Not clear benefits would outweigh costs, would require further investigation. More effort into detection and enforcement of current requirements may be a better initiative. Healthier and warmer homes have positive health externalities for people who live in low quality housing (typically low income households). A decrease in illness leads to more productive workers and students. Hospital visits for respiratory issues i.e. rheumatic fever is likely to decrease. Most importantly, the wellbeing of individuals in low quality housing will increase.	May reduce investor demand at the margin, with some potential for the costs of higher standards leading to higher rents. **Recommendation:** Potential for further review. Alternative could be to better fund promotion (and prosecution) of recent expansion of tenant rights.

Break land-banking to release supply and lower urban land prices						
Measure	**Description**	**Housing market impacts**	**Fiscal and distributional effects**	**Administration**	**Wider efficiency and equity impacts**	**Treasury recommendation**
Local government rating base – require the use of land value	Require local authorities to use land value, rather than capital value (value of land plus improvements), when distributing rates liabilities. Most local authorities currently have a choice as to which rating base to use (roughly 70% use capital value).	Increases the holding costs of developable land, incentivising increased building at the margin. Slight benefit to owners of dwellings with high improvement to land price ratio, with offsetting impact for low improvement tot land value owners. May also incentivise housing quality improvements, as there will be no rating impact.	Would have no fiscal impact on central government. Should also have no impact on local authorities' finances as they can continue to collect the same total revenue. Will shift the burden of rates away from the owners of capital intensive land onto the holders of less developed land.	Will have administrative impacts for local government. Would require consultation to determine what impact this would have on local authorities and how quickly this change could be made.	The Productivity Commission advised that a switch to land value taxation for rates would improve productivity and economic efficiency.	Incentivises increased building at the margin. Potentially a small supply impact. Implementation would require legislation and consultation with local authorities to determine the best way to implement. **Recommendation**: Consider progressing but would require consultation with local authorities.
Align Crown Build Programme to be more complementary and increase impact.	Take a more strategic and complementary approach to the multitude of housing-related assistance, underwrites, development and procurement activity across Central government and Kāinga Ora. Reinforce links with infrastructure expenditure. Better alignment will be even more important if additional support is introduced for Build to Rent and the Residential Response Fund is reoriented to housing affordability. Better links might also be made to some of the demand-support products such as the Progressive Home Ownership Fund.	Although only a sub-set of the much larger private development and construction sector, the Crown and KO are by far its largest constituents. Together they may have the potential to change the wider market in a positive way.	Should improve the impact of existing expenditure, with a positive distributional effect for low and medium income households.	Will primarily fall upon MHUD and KO. Current status may reflect early age of MHUD, as well as the long history of fairly isolated housing initiatives that it inherited.	Will increase the impact of government-related residential construction activity, with a corresponding impact on efficiency and equity. Much of the Crown Build Programme is oriented to households and individuals who are in the greatest levels of housing need.	**Recommendation: I**mproving the impact of existing expenditure is worth looking at.

Implement an infrastructure-rate on land value	An annual liability on the unimproved value of land. Can be designed to exclude owner-occupied property. Could be directly rated by central government based on local authority rates so that all owners of qualifying properties that currently pay rates will also pay this additional liability. An alternative would be to legislate a new levy that local authorities are required to collect and may be used for infrastructure development. Under both delivery options, hypothecation of the resulting revenue could occur.	Would reduce property investor demand for housing and cause a one-off downward shift in land prices. Would put some upward pressure on rents. May incentivise cash flow constrained land owners to generate additional income from their land. If hypothecated would also provide a source of revenue to fund the infrastructure necessary to support the construction of new housing. This could lead to some local authorities supporting the construction of more new housing, which will put downward pressure on house prices.	Depending on design, could increase revenue for the Government. Would provide a relatively stable source of tax revenue. Economic incidence will largely be borne by current owners of land, through a one-off downward shock in land value. Would benefit first home buyers by reducing the price of land but could also increase rent paid by renters To the extent this measure results in an increase in the supply of housing, will also benefit renters and first home buyers through decreased rents and house prices.	A broad based central government rate on land value would be simple to administer, and difficult to avoid. However, assuming it does not apply to owner-occupied housing, there will be some enforcement issues. Unlikely to be feasible to implement by 1 April 2021. Would require consultation to determine what impact this would have on local authorities, as well as a feasible timeframe for implementation.	This would be a highly efficient tax as it is not expected to distort decisions, such as to work or save. Could raise some equity issues if not addressed through design. For example, if set at a high rate some land holders may lack the liquidity to pay increased rates. Would need to consider broader equity and distributional effects, including specific considerations for Māori. This option would have some overlap with local government rating base, potentially taxing the same base twice. Would require significant thinking around the permissible use of the funds from this levy by local authorities. Would arguably be undermining democratic input into the level of rates collected at the local authority level. May not be appropriate for all local government territories.	If based on unimproved value may have a small impact in incentivising increased housing supply. Revenue positive. Would require legislation. Unlikely to be feasible to implement by 1 April 2021. **Recommendation**: Consider progressing in the medium term.
Expand current KiwiBuild program	Increase subsidies in KiwiBuild, change eligibility parameters.	Some demand and supply response but capacity constraints likely to limit. At present KB is arguably supporting households on the cusp of a purchase into their first home, expanding means lower marginal additionality/wellbeing impact.	Likely to be limited to further draw on value of Kāinga Ora land, could provide a direct subsidy for lower income households unable to access the scheme to reduce regressive impact, but at greater fiscal cost.	Already in place. Without direct subsidies likely to exacerbate our concerns with the current programme (reported 20% 'discount' on land sold for KB to keep within price caps).	Positive impact on supply of medium/high density housing in urban centres but no wider affordability effect, expanding the programme without providing direct subsidies to include lower income households is likely to make more regressive and provide even less improvement to wellbeing.	Increase the supply of KiwiBuild dwellings at a set price, limited wider impact as can only scale with subsidy availability. **Recommendation:** Could be link to 'build to rent' projects constructed at KiwiBuild price points but would move programme away from focus on home ownership.

Acquire rural land near major urban centres for housing development	The Crown could acquire large tracts of undeveloped land at rural prices, change zoning and provide social and network infrastructure to deliver new suburbs and/or 'satellite cities'. Other investment will be required to support population growth in any case (e.g. schools), this proposal would require a coordinated central government response. A variant would be the Crown acquiring or supporting recent proposals for large scale private developments that have been rejected by the Environment Court for reasons that would no longer apply under the NPS UD or for infrastructure reasons that might be overcome in the context of expanded Crown support for housing-related infrastructure.	In combination with other supply reform initiatives could have a significant market impact. Incentives to land bank or speculate in property investment would be severely impacted if a model that largely cost-recovers land acquisition and development costs can be demonstrated.	High fiscal cost and substantial development risks. Would be channel for majority of additional land acquisition and infrastructure expenditure rather than additional. Much of the cost would be recovered when serviced sections or housing was then sold (if well planned). If done well it could be a major advance in solving NZ housing issues, if it fails it will be a very expensive mistake.	Very complex, requiring a high level of coordination of public and private investment. Could be role for KO, but they may not have capacity. Concept was initially proposed by Infrastructure NZ in 2017 as a better alternative to continued increases to demand support.	Potentially very large impacts, but all would hang off successful delivery.	Potential large improvement to supply with a significant market impact and demonstration effect. High implementation risk in the form of fiscal costs. **Recommendation:** To progress the next step would be a business case that updates the 2017 case. The case would test viability of a satellite city model, then resources put into expanding into full business case. Smaller-scale land acquisition and development proposals will need to be considered on their merits.

Use PWA to demonstrate Crown determination to see efficient use of land	There are in some instances large landholdings on transport corridors near urban centres that would form the 'natural' path for urban growth. Some anecdotally are open to development, but only in a way that draws out the release of individual sections in order to maintain high prices. Leapfrogging them may come at considerable additional infrastructure costs, a much greater cost in preparing sections due to inferior land conditions, or considerably reduced access to employment or amenity as a result of urban areas being fractured. Similarly there may be large pockets of empty or underutilised land within existing urban areas that might be cost-effectively acquired and developed. An option would be to use the Public Works Act where hold-outs or land bankers significantly increase the costs and/or reduce the benefits of planned urban growth.	Will have positive localised impacts for homeowners and renters. Will have national influence as part of a wider Crown land and infrastructure supply programme.	Fiscal costs largely borne within existing programmes. As with those programmes, much of the outlay will be cost-recovered as development rights are sold (or potentially serviced sections are sold depending on scale and approach).	High initial potential for litigation, after first acquisitions confirmed it's likely to have a high demonstration effect rather than require frequent use.	Will enhance the efficiency of local government zoning changes, infrastructure provision and Crown programmes looking to increase housing supply. Negative equity impact on owners who have held land for a long time, or acquired as a speculative purchase. We consider this outweighed by greater need to rapidly provide more housing and greater affordability. The history of Crown land acquisition is one of inequity and disenfranchisement, particular care must be taken to give effect to the exclusion from application of the PWA of māori land.	Potential to realise supply capacity of desirable locations. Use of PWA is likely to be controversial, expensive and slow. **Recommendation:** Worth doing if appropriate land has been identified by MHUD.
Better use Crown Land for housing outcomes	Has been a repeated focus of consecutive Governments. A current variant is where land has been acquired for a future public use and likely still needed (in time) for that purpose, place relocatable housing on it for temporary use during the current crisis.	Marginal if the current Land for Housing Program is indicative, cost recovery often possible. More expense with temporary housing but the Transitional Housing program's already in place to take advantage of suitable land. There are calls for an exhaustive or improved register of Crown land holdings, but most of the large parcels have been identified and potential for use for housing assessed.	Move Crown land records into the digital era and complement current tools with GPS and geospatial programmes that will more easily allow us to overlay areas of housing demand with land use and ownership.	Relatively minor extensions to existing programs. May be opportunity to streamline suite of government supply initiatives.	Unlikely to have much impact. Main constraint for temporary use of public land holdings is the need to have infrastructure in place, which often isn't economic if not there already. If it's only going to be used on a temporary basis it would usually be better spent on locations for permanent housing.	Several agencies have looked at public land holdings across major urban centres (and proximate to them) and turned over the stones in terms of temporary or permanent use for housing. Land acquisition for housing from other public entities has been problematic for years and appears to continue to be so. **Recommendation**: Could be worth ironing out once and for all.

Make sure the construction sector has the capacity to meet demand post-reform						
Measure	**Description**	**Housing market impacts**	**Fiscal and distributional effects**	**Administration**	**Wider efficiency and equity impacts**	**Treasury recommendation**
Workforce capacity assessment	Training is underway, so likely more an expansion. Active overseas recruitment might be considered for skilled workers in critical areas expected to experience gaps.	Sector is reportedly at capacity, roles for skilled labour going unfilled. To the extent that the workforce is a constraint, the constraint can be eased, resulting in more supply, likely at slightly lower cost than if wider skill shortages occur.	Limited, training requires expenditure but expanded employment and potentially reduced benefit payments likely make positive.	Build from existing systems.	Not clear what the ongoing demand for construction workforce will be, if we're currently nearing a peak of activity it may be better to supplement domestic workforce with foreign workers (per Christchurch response). If we consider construction capacity is going to be a constraint for a long time then both may be required (as we can't train skilled or experienced workers overnight).	If supply measures are successful, then a larger future construction workforce will be needed. **Recommendation:** Support and seek estimates of future workforce requirements to match supply policies.
Offsite manufacturing (OSM)	Was gathering steam as an economic development and construction sector capacity initiative under KiwiBuild but seemingly stopped in favour of its existing programme once policy was transferred to Kāinga Ora.	Expected to be transformational but a recent history of promise with limited impact.	Positive fiscal and distribution impact to extent it increases capacity and lowers costs. If based on domestic manufacturing rather than importation it may also expand economic activity with positive fiscal results.	Would be relatively easy to either recommence or confirm current timeline for delivery. May require changes to building consent process (not a drop in standards).	Positive but likely limited. If successful beyond expectations uncertain effect on wages and employment in construction sector, but with capacity limits being reached unlikely to occur in next 5-10 years.	With high relative construction costs and industry near capacity, understanding the opportunities and barriers to OCM is increasing in importance. **Recommendation:** Support.
New/restarted KiwiBuild activity	The innovation workstream in KiwiBuild (KB) never launched, much of the current initiatives were intended to be the first/exploratory step but never progressed.	KB is having a level of impact for certain building typologies (medium-high density), looking at new initiatives (such as OSM) may increase impact in general housing supply.	It's likely there will be some costs that are unable to be met from KB recyclable capital appropriation but very small in comparison to level of expenditure by public agencies directly on housing and housing support. If successful, savings would likely far outweigh the costs.	Largely existing capability at the Ministry of Housing and Urban Development and Kāinga Ora, may be capacity issues requiring reprioritisation or additional resourcing.	Positive but likely limited.	Improvements in KiwiBuild can increase effectiveness of Crown spending and have a demonstration effect. **Recommendation:** Worth reviewing.
Reduce construction materials costs	Wide range of views on whether or not we pay too much for building materials and whether anti-competitive practices exist and/or are having a price effect.	Once serviced sections are available the next binding constraint will be the cost of construction. If prices are too high the impact for higher density construction in particular may be material.	Limited fiscal impact, may reduce construction costs with positive distributional effect.	Depends on what's discovered and what remedy, if any, is recommended.	Resolving any anti-competitive activity would have a positive efficiency impact and should greater affordability occur as a result it will have a positive equity impact.	If anti-competitive activity is present it will be reducing welfare and limiting housing supply. **Recommendation:** There's a Commerce Commission inquiry about to commence so best option is likely to await its outcome. Could push for inquiry to be put ahead of supermarkets.

Replace joint and several liability with proportional liability and mandatory construction insurance	Proportionate liability backed by mandatory insurance in order to protect customers may offer the benefits of customer protection without two drawbacks that could be lowering building productivity and therefore keeping prices high.	While joint and several liability has benefits for customers, it has two impacts that may increase the cost of building: 1. It deters competition for building consent authorities (BCA), which might lead to faster service and increased consideration of innovative approaches 2. It deters the formation of large construction companies that might be more productive, reducing costs.	Fiscal cost of developing new policy and implementation.	Low cost if willing reinsurers are found. A publicly funded insurance variant would be costly/complex.	Positive efficiency impacts. An MBIE study found that in 30 out of 62 cases BCAs were required to pay 100% of all damages awarded due to being the 'last man standing.' This uncontrollable cost likely makes the role of being a BCA uneconomic.	Increases to building productivity have the potential to reduce costs, increase wages and increase supply capacity. **Recommendation:** Investigate, however, MBIE has looked at this recently and a lack of reinsurance for construction insurance products may mean this is not resolvable in short term.

Be prepared should negative rental market impacts eventuate						
Measure	**Description**	**Housing market impacts**	**Fiscal and distributional effects**	**Administration**	**Wider efficiency and equity impacts**	**Treasury recommendation**
Temporary limitations to rent price increases	Limit ability to increase rental income to further leverage investment, potentially link to CPI or a new rental index to allow some growth.	Some houses sold to owner-occupiers. If wider measures to limit capital appreciation are successful rent controls will likely result in a decrease in current rental supply and less investment in new/improved rental supply. Without rent controls, however, those measures will see rent increases to existing tenants.	May be a minor impact on tax on rental incomes and construction activity, likely offset by positive impact on forecast Accommodation Supplement and IRRS payments. Transfer of wealth from investors to tenants. Short term benefit to Crown until the measure starts stymying economic activity. Long-run intergenerational transfer between future renters (paying higher rents due to lower supply) to renters living in a rent-controlled economy.	More difficult to introduce in a non- COVID environment. Likely that 'black-market' activity would occur to circumvent restrictions and that landlord discrimination between prospective tenants would increase.	Negative long-term externalities of rent control include the decay of housing stock, a mismatch between renters and rental dwellings and decreased labour mobility – especially when considering the unemployed population who are incentivised to maintain the security of low cost housing. Likely a negative equity impact through higher levels of discrimination by landlords in tenant selection. In the long term the negative impact on investment in new housing supply is likely to contribute to housing shortages. Risk that any future removal will be politically untenable given likely sudden increase in rents (and housing prices). This policy has been difficult to remove overseas even when negative impacts of policy become clear. Mitigating the risk of housing stock decay by allowing higher annual price increases for capital improvement.	Harms are less if this tool is only used for a short period. Risks of this temporary measure becoming semi-permanent. The long term harm is future renters being severely disadvantaged due to supply shortages, which will cause large rent increases (if the policy is removed) or will limit entry into rent controlled housing.

Get 'Plan B" into work programmes						
Measure	**Description**	**Housing market impacts**	**Fiscal and distributional effects**	**Administration**	**Wider efficiency and equity impacts**	**Treasury recommendation**
Disallow interest deductions for residential investment properties	Deny part or all of the interest deductions incurred in earning income from residential investment properties. A version of this measure would be to deny just the inflation component of interest deductions. This would effectively be a partial denial of interest deductions, but with some design issues around determining the correct inflation rate.	Would reduce demand for housing by leveraged property investors, putting downward pressure on house prices. Would place some upward pressure on rents. May reduce the incentive for property investors to take out larger mortgages to fund maintenance or improvement of rental stock. Would benefit first home buyers through putting downward pressure on prices but could increase rent by renters.	Would increase tax revenue Which property investors pay a higher tax rate will vary. Property investors with large mortgages would face a higher effective tax rate, while property investors that equity finance their properties will be unaffected. The increase in tax paid will be unrelated to any untaxed capital gain. There will be some property investors who do not earn large untaxed capital gains who would pay a higher (potentially over 100%) rate of tax.	Will be a number of complicated issues to resolve. For example, determining what interest deductions to allow for a small businesses that earns both rental income and other business income. Administratively, can be implemented by 1 April 2021. However, a longer period of implementation would be preferable to design, consult and minimise risks of unintended consequences.	Would introduce some inefficiencies by distorting investment and financing decisions. It does not address the source of the inefficiency in the tax system which is the under-taxation of capital income. It will be less effective and efficient than the measures discussed above. If this measure is progressed in addition to extending the bright-line further, it could result in some property investors paying tax on any increase in value of their property, while also being unable to claim deductions for interest.	Small decrease in housing supply from a decrease in investor demand. Increases tax paid by leveraged property investors. Will benefit first home buyers and increase rents for renters. Increase in Crown revenue. Implementation requires legislation. A simple version of this measure can be implemented by 1 April 2021, however there are significant risks with such a short period for design. Would reduce economic efficiency. **Recommendation:** Consider progressing, if the desire is to reduce investor demand for housing.

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Vacant land tax	A tax applied to vacant urban (zoned) land.	Incentivises vacant land owners to develop or sell the land. In theory, should help increase housing supply. However, the Productivity Commission concluded that a vacant land tax could slow housing supply and recommended against progressing such a tax. This was partly because they were concerned that it would negatively impact property developments, and therefore housing supply, in the long run.	Would provide a new source of tax revenue. However, would likely be difficult to enforce in some cases and create integrity issues. The economic incidence of the tax would be borne primarily by the holders of vacant land or housing. To the extent that a tax on vacant land reduces housing supply (as argued by the Productivity Commission), then part of the tax will also be borne by renters through higher rents.	High administration and compliance costs relative to other taxes. Difficult to enforce and can encourage gaming of the definitions and "token" uses of land in order to avoid the tax. Would require significant work in defining "vacant" and how to deal with edge cases. Would be difficult to implement by 1 April 2021.	In the past vacant land taxes were premised on certain cultural assumptions about 'appropriate' uses of land that had historically been used to justify the taking of Māori land and exclusions will be needed (potentially mirroring PWA restrictions on the taking of Māori land for a public purpose). There will likely be some instances where land is kept vacant for a valid, and possibly economic efficient, reason.	Could slow housing supply, increasing prices. Would require legislation as well as significant design work on definition of "vacant", as well as how to enforce. **Recommendation:** Consider as part of package to incentivise land release for development should preferred policies not be enough.
Stamp duty for residential investment properties	A transaction tax applied when a property is sold to a property investor. Could be a time-varying or temporary measure depending on economic conditions.	Would reduce property investor demand for housing, putting downward pressure on house prices. Will increase rents. The size of the impact will depend on the tax rate. Would incentivise property investors to hold onto property for longer (a lock-in effect, but weaker than for the bright-line).	Would generate revenue for the Government. Would benefit first home buyers through putting downward pressure on prices but could increase rent by renters.	Could require a significant amount of time to develop definitions of what properties and what forms of transfers are in and out of scope. Would be relatively simple to collect. As not connected to income tax, would not need to be enacted by 1 April 2021.	This is an economically inefficient tax as discourages transactions, and therefore reduces efficient re-allocation of resources. Targeting the duty to just property investors and periods of asset price booms will limit (but not completely remove) its economic inefficiency. Would impose a tax liability on property investors even when they have not experienced any increase in the value of their property.	Increase in tax paid by property investors. Would benefit first home buyers and increase rents for renters. Would require legislation and significant design work. Can be introduced any time in the year, as not connected to income tax system. **Recommendation**: Consider progressing as a temporary measure to reduce demand for housing by property investors. However, not recommended as a permanent measure as it would reduce efficiency by discouraging turnover.

Other policy considerations

Measure	Description	Housing market impacts	Fiscal and distributional effects	Administration	Wider efficiency and equity impacts	Treasury recommendation
Consider the effect of immigration	Consider how temporary and permanent immigration increases demand in the housing and rental market. New Zealand has gained global recognition of our response to COVID. It is likely that our country will experience an increase in demand to live, study and work here.	Pre-COVID migration in New Zealand was following a positive trend. Legal barriers to purchasing property to reside in is relatively moderate. Purchasing investment property or land to develop is easier. As people holding visas cannot buy to live, a large proportion will enter the rental market. This extra demand will increase demand, leading to higher rents and house prices.	A reduction in immigration is likely to cause a decrease in expected revenue for two reasons. 1) less taxes are collected from the migration workforce 2) a relatively smaller population leads to a reduction of GST and income tax (less workforce required to service population).	Not difficult to implement a policy reducing the number of migrants to New Zealand.	Potential loss of skilled workers from overseas potentially traded off with house price and rental affordability in areas they locate.	**This policy consideration is preventative rather than reactive.**

Measures that we do not support progressing at this time

Measure	Description	Housing market impacts	Fiscal and distributional effects	Administration	Wider efficiency and equity impacts	Treasury recommendation
Expand Kāinga Ora's existing Large Scale Projects	Ramp up scale or timing of redevelopment on KO landholdings.	May have localised market impact. Cost and scale of current LSP programme indicates considerable risk to acceleration or intensification. Cost of demolishing habitable structures, remediating to high standard, and infrastructure (where asbestos pipes uncovered or additional/new needed) means an average new public house in the Tāmaki renewal and Auckland Housing Plan has a total economic cost in excess of $1m. Similar should be expected for Porirua.	Large fiscal cost/risk. May make difference at margin but unlikely to move market prices or rents given relative size of public to private development. There have been increases to programme scope/ambition in respect of levels of intensification and providing improved amenity without business cases and it would be worth reconsidering those commitments before current expenditure decisions/requests are considered.	Not clear KO can take on additional redevelopment commitments, may be role in greenfield development or private sector redevelopments using legislated urban development powers.	Uncertain. If other measures break market expectations of future capital gains, leasehold options utilising KO land might become viable to help greater affordability without subsidy. Given banks are currently unwilling to lend as much for leasehold projects it is not worth progressing at this time.	Further policy in this area is constrained as KO is operating near capacity Delivery on current programme and infrastructure costs should be addressed before any expansion is considered.
Vacant housing tax	A tax applied to vacant urban houses, as determined by utility records or some other means.	Incentivises people to tenant vacant houses, or sell the property. In theory, this should help increase the stock of housing in a similarly way to additional supply, but in reality a punitive tax would need to be applied at a high rate in order to incentivise an action by an owner willing to forgo collecting a rent on the property.	Would provide a new source of tax revenue. However, would likely be difficult to enforce in some cases and create integrity issues. The economic incidence of the tax would be borne primarily by the holders of vacant housing.	High administration and compliance costs relative to other taxes due to reasonably high incidence of homes being held vacant for a valid reason (uninhabitable, redevelopment, renovation, legal dispute). Difficult to enforce and can encourage gaming of the definitions and "token" occupation of houses in order to avoid the tax. Would require significant work in defining "vacant" and how to deal with edge cases. Would be difficult to implement by 1 April 2021.	There will likely be instances where housing is kept vacant for a valid, and possibly economic efficient, reason.	Limited ability to incentivise homeowners who are already leaving housing vacant despite potential rental income. Significant implementation issues around definitions of 'vacant' and enforcement.

Inclusionary zoning	In return for permission to undertake a development, a certain amount of sections or dwellings must be set aside for a non-market purpose.	Could be a requirement for affordable housing or affordable rentals. This is effectively a tax on development. Marginal developments will not go ahead. The market houses in a development will go up in price as developers are likely to seek to maintain margins.	No direct fiscal cost but otherwise viable developments will not go ahead and the cost of market housing will increase as they subsidise other housing. In some instances developers may not be able to pass on costs of inclusionary zoning to the market housing.	Relatively easy for local government to enforce as part of consenting processes, has been done in Queenstown Lakes.	More efficient for government to provide direct subsidies for non-market housing. Equity effect will be positive as new developments will be more 'inclusionary'. The perverse outcomes seen in places like New York would need to be guarded against ('poor' doors and children not having access to 'community' playgrounds etc.).	To the extent that house prices are still responsive to costs, inclusionary zoning increases the cost of supplying new housing and the value of the exiting stock.
Regulate sales practices	Limit methods of sale and/or agent fees to reduce opportunities to inflate prices.	Unclear what impact this would have, if any. It is suggested that winning bids in sealed auctions are higher than they would have been under an open auction. However, there is also evidence that sealed bids attract more small bidders and shift the allocation towards these bidders.	Limited fiscal impact, if any. Reduce estate agent income, potentially reduce prices for purchaser and sellers.	Complex and potentially unintended consequences that need to be worked through.	Unclear. Providing bidders with more complete information is likely to increase allocative efficiency.	Likely to be a convoluted and difficult to administer scheme with limited impact.
GST rebates	GST is an easily identifiable part of the cost of acquiring a newly-built dwelling. There have been may proposals to return the GST component of a new home purchase to the purchaser. In the context of build to rent, this may be back to the developer if there is no sale of the finished building. Local government similarly identified GST as something that Central government free-rides on them off (as they 'do all the work' to enable it to happen). A common variant is to suggest a rebate of the equivalent amount to the authorising local government for infrastructure investment and to encourage pro-growth policies. Another variant would be to include major renovations to either scheme.	Rebate to purchaser would increase demand for new-built supply. Without wider changes likely to have an inflationary impact in similar way to current first home purchaser grants. Rebate to local government could be positive in its ability to support needed investment in growth infrastructure.	Reduction in revenue in proportion to generosity of rebate, partially offset by revenue from increased construction activity and reduction in need to co-fund infrastructure.	Unclear, should be relatively straight forward using available new-build data. More complex if major renovations also included. Would lead to calls for GST rebates in many other areas, risking significantly undermining the efficiency of the current system.	Negative impact on efficiency of GST system. Perceived negative impact/equity of taxing new housing supply could be offset by direct subsidies if desired.	Strong preference to provide direct subsidy rather than use GST system to seek public good outcomes.

Capitalise benefits for use as first home deposit	Calculate NPV of one or more benefit payment streams and provide that to an individual to use as deposit for house purchase. Worked in the 70s as the family benefit was fixed and affordability was greater (also Crown loans).	Further pressure in housing market where construction is already at capacity, negative impact (will bid up prices) unless offset by other changes. As there would be an offsetting decrease in income the net impact on ability to borrow may be limited due to the impact on mortgage serviceability assessment by banks.	Likely to be slight negative fiscal impact as unless they gain significant income growth, recipients are likely to need additional income to support the costs of home ownership (including mortgage repayments) unless we're prepared to allow them to be in greater hardship than they would have had as renters. Result in a transfer from beneficiaries to current homeowners and developers through higher sale prices.	As many benefits (and in particular the Accommodation Supplement) vary over time depending on household situation and location, calculation of an NPV will in many instances be difficult. NPV for many will be unlikely to be a large deposit.	A net negative from a welfare policy perspective, the impact of exogenous factors (higher interest rates) may also put households into financial pressure. Not efficient from a housing market perspective unless it's able to stimulate a supply response, which is unlikely with current constraints. If house price growth continues it will have a positive impact on the financial stability of recipients. Has the benefit of potentially shifting a proportion of property purchases to first home buyers as opposed to investors. However, people receiving benefits have substantially less buying power than investors or other bidders so are likely to get priced out.	Unlikely to be administratively feasible and to be able to offset future fiscal costs required to arrive at a positive Cost/Benefit Analysis.
Provide further grants for first home purchase-deposits	Increase grants currently available, or expand eligibility of recipient and/or house price limit.	Could be targeted to new supply (current grants differentiate already) to maintain demand for construction. Sector currently at capacity so likely to have inflationary impact on new and existing houses instead.	Direct fiscal cost in proportion to generosity of any increase. Due to the high up-front cost of this policy it is likely fund will be distributed via a ballot system. From a distribution perspective is essentially a lottery. The distribution effects are dependent on the criteria for those eligible and chance. Some low income households may have trouble servicing the debt so may require additional support.	Existing schemes are easy to change with funding availability (Cabinet approval). If the scheme moves to wider regional or sub-regional variability there will be a minor administrative cost.	Providing grants for deposits further inflates the market. The per capita efficiency of this policy is low and acts as a lottery, with few winners and no material change to the state of the market. This policy is unlikely to have a substantive impact on equity.	Relative VFM does not support further expenditure in this area. As a more limited change, consider reviewing secondary urban areas where settings might be adapted within the current program without having inflationary effect.

Provide loan repayment support or subsidise loans	Include shared equity, which delays and lowers cost of repayment.	Very limited impact on wider market given volume of commercial lending for residential housing. There is a direct trade-off with providing housing support to those most in need and limiting the fiscal costs of that support.	FMA was altered to allow 15 year loans for current scheme with no impact on capital allowances, concessionary costs and likely write-offs of loans need to be appropriated. Will impact Net Core Crown Debt irrespective of capital allowance treatment. Not scalable due to fiscal cost, so akin to a national lottery with a 'lucky few' winners.	Could be channelled through existing/soon to exist schemes	The current PHO has a regressive distributional impact as it seeks to limit fiscal cost and risk by being available to high income households. $400m of Crown capital will support a lucky few with incomes up to $130k into home ownership without wider market impact. If wider strategies to reduce house prices are successful recipients may end up with negative equity. If prices continue to appreciate the schemes will be sustainable.	This policy operates similarly to the PHO programme. The outcome of the PHO highlighted issues concerning spending efficiency, which are highly likely to occur here. [Average loan circa $250k per dwelling so $400m is distributed to 1,600 households via providers alone, over $30k support costs for rent to buy, not much variants for different dwelling sizes, not able to spend full $45m available to pilot]
Increase Accommodation Supplement	Increase AS payment to increase residual income after housing costs.	With rents increasingly linked to tenant ability to pay rather than the cost of acquiring and providing the house, we expect greater levels of pass through to landlords than may have been the case previously. If rent increases are limited through a new measure (as above) this would be an effective welfare policy but with limited housing market impact.	Direct fiscal cost in proportion to generosity of any increase. Would be positive in the short term for renters, but eventually pass through to landlords without wider housing system reform.	Existing scheme so administratively simple unless wider changes to the system are implemented.	Will have a positive initial impact for tenants, but without housing market reform will become a benefit for investors over time.	With rents increasingly linked to tenant ability to pay rather than the cost of acquiring and providing the house, we expect greater levels of pass through to landlords than may have been the case previously.

Macro-prudential tools (indirect measures that may moderate house price growth and reduce investor demand)

Measure	Description	Housing market impacts	Fiscal and distributional effects	Administration	Wider efficiency and equity impacts	Treasury recommendation
Provide input through the RBNZ's consultation process on its LVR decision	RBNZ is proposing to re-introduce the LVR restrictions (no more than 5% of banks' new lending to investors can be to those with less than 30% deposit; and no more than 20% of lending to owner occupiers can be to those with less than 20% deposit). You have already provided input to the RBNZ's consultation supporting a strong differentiation between owner-occupiers and investors, with further restrictions on investors. Refer to the section 68B option below as potential next step.	Primary purpose of LVRs is to mitigate rising systemic risks associated with housing market. Investor lending is riskier as investors have higher default rates and incentives to exit the market quicker than owner occupiers. Reintroducing LVR restrictions could dampen house price inflation but effects may be marginal (approx. 1-2% impact on prices). Banks are already reapplying LVR restrictions on investors ahead of the RBNZ decision, so any additional impact would be minimal.	Reinstating LVRs may limit the ability of first home buyers to enter the market if they have fewer savings and do not meet the 20% deposit requirements. However, higher LVR restrictions on investors would benefit first home buyers by reducing investor demand for housing. This may have unintended impacts on rental prices, but the effect is expected to be small. Over time there may be some reduction in the supply of rental property, in line with a relative shift from investor to owner occupier purchases. However, it may also reduce demand for rental properties as some renters become property owners.	Low administrative costs. Under the MOU which governs the use of macro-prudential tools, the RBNZ Governor alone makes the decision, but is required to consult MoF and the Treasury beforehand. RBNZ has signalled that LVR restrictions will be re-introduced by 1 March 2021.	LVRs can affect the wider economy via their impact on house prices and housing wealth, which in turn influences both consumption and residential investment. The overall economic impact of reinstating LVRs is uncertain, but may reduce consumption and residential investment. Any impact is likely to be minor given the expected small impact on house prices. LVRs can also support financial system efficiency through dampening the pace of future housing credit and house price growth. However effects are likely to be marginal. Reinstating LVRs could incentivise higher LVR lending to shift to non-bank sector, but overall the size of the sector is too small to significantly impact the stability of the financial system.	**Total housing supply:** N/A – new builds are excluded from all LVRs **Owner-occupier supply:** could increase, if stricter LVRs are imposed on investors, but may make it more difficult for FHBs to enter market (short-term). **Rental supply:** may decrease **Total housing demand:** may decrease marginally **Rental price:** may increase marginally Work is already underway in this area.

Invite the RBNZ to consider introducing other macro-prudential tools such as debt-to-income (DTI) ratios	DTIs limit the total amount of debt of the borrower as a ratio to gross income, commonly set at 4-5x of borrowers' income. DTI restrictions could complement the LVR policy by further mitigating housing credit risk.	The primary purpose of a DTI limit is to mitigate the effects of a future housing crisis. A DTI limit reduces credit growth during a housing boom and also reduces the severity of the decline in house prices and economic growth in a downturn, as fewer households would be forced to sharply constrain their consumption or sell their house. It could also reduce the level of house prices and consumption slightly. DTIs have a more durable impact than LVRs as the degree of constraint wouldn't change after a sharp increase in house prices (whereas LVRs have less impact on existing homeowners who have more equity). However, banks already have debt-to-income serviceability requirements in their internal credit assessments so any effect would likely be small (dependent on calibration).	DTI restrictions will constrain credit availability for some borrowers, which could also impact on credit demand and house price inflation. The size of the impact would depend on the design of any limit. While it constrains some households from being homeowners, it is also expected to raise the homeownership rate by disproportionately affecting investors (dependent on calibration).	Relatively low administrative costs. The RBNZ is required to develop any new macroprudential tools in consultation with the Treasury and you. The RBNZ has previously considered introducing this additional tool. The RBNZ estimates administrative costs should not be large as the RBNZ already collects DTI data for risk monitoring purposes and banks already maintain home loan origination policies.	As above, DTIs can influence consumption and residential investment in the broader economy. There may be a small negative impact on consumption in the short term, but could be outweighed by an increase in the resilience of households to worsening economic conditions, and reduce the likelihood they need to sell property during a downturn.	**Total housing supply:** N/A **Owner-occupier supply:** Could increase marginally but could also limit the ability of some first home buyers to purchase. Already applied practice by banks. **Rental supply:** May decrease marginally. **Total housing demand:** may decrease marginally **Rental price:** may increase marginally The RBNZ is considering further work on this tool in 2021, but unlikely to make big difference to housing market in short-term.
Exercise section 68B power to direct the RBNZ to give regard to a Government Policy	The Minister has the power to direct the RBNZ to have regard to a Government policy that relates to its (prudential) functions. However the RBNZ only needs to 'have regard' to a direction, it is not required to follow it.	May have limited impact as a standalone measure, but it could be useful in influencing the RBNZ's direction of travel on specific macro-prudential tools (e.g. LVR and DTI restrictions) and encouraging the RBNZ to align the calibration and objectives of their tools more closely with government policy on housing.	No direct fiscal or distributional impacts. However it could contribute to the RBNZ's calibration of macro-prudential policy in a way that favours first home buyers more strongly.	Relatively low administrative costs. This power has never been used to date. The Minister must consult with the RBNZ before giving a direction, and set this out in a written statement signed by the Minister. It needs to be presented to the House of Representatives and gazetted as soon as practicable after it is given.	No direct impacts on efficiency and equity. May contribute to aligning RBNZ macro-prudential tools more closely with broader government objectives.	Primarily a signalling tool similar to the letter the MoF has already sent to the RBNZ. May not have impact on the housing market, but could test how the RBNZ responds on macro-prudential policy to a direction on housing.

Overview of common baseline prudential & macro-prudential tools used by central banks that may impact on the housing market

(Note: this is a quick overview based on initial research from OECD and IMF information, we have not undertaken a proper assessment of the viability of each tool and their impacts)

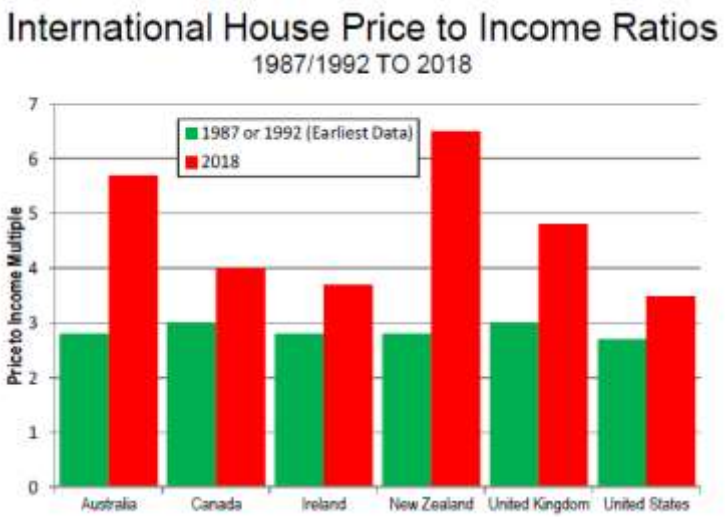
Type of tool	Description	Impacts and risks	Which countries use these tools?
Core funding ratio (Baseline prudential: Lender side Liquidity tool)	Banks are required to maintain a core funding ratio of 75% where core funding is retail deposits and wholesale deposits with maturities over 1 year. The aim of this policy is to reduce liquidity mismatch between bank assets (including housing loans) and financing.	A higher ratio drives higher funding costs for banks, which affects overall lending costs.	NZ: RBNZ temporarily lowered ratio to 50% from 75% to support liquidity in the system.
Minimum capital ratio (Baseline prudential: Lender side capital tool)	Set floors for the ratios of different measures of capital (core equity, equity, core Tier 1, Tier 1, total capital) over risk-weighted assets. A central part of the prudential policy framework. Broad tool aimed at ensuring resilience of banks.	Unlikely to have significant impacts on housing market but impacts on overall lending costs.	Most. NZ banks are well-capitalised relative to overseas banks.
Mortgage risk weights (Baseline prudential: Lender side capital tool)	Increase in risk weights for lending for mortgages which would require banks to hold more capital for mortgage lending, making it a slightly less attractive form of lending than it currently is. Main purpose is to protect the resilience of banks and financial system, but won't have much impact on individual borrowers.	Similar limiting effects on credit and house prices as tightening LVR caps, but residential construction declines more strongly – so tighter risk weights appear to slow down both GDP and consumption.	There is a considerable international variability in residential mortgage risk weights. They range from 5.25 through to 80% with a median risk weight of 17%. NZ banks are around 25%.
Loan to value ratio (Macro-prudential: Borrower side asset-based tool)	LVRs limit the mortgage amount relative to the value of the property. Limit borrowers' exposure to housing indebtedness.	Effective in containing the build up of credit risk, and tighter LVRs are associated with lower risk of severe downturns. However the denominator (house valuations) gets inflated during a housing bubble which lessens the effectiveness of the LVR tool during a prolonged housing boom.	NZ: refer to previous slide Sweden: LVR 85% Canada: LVR 90% for homes above CAD$0.5m Norway: 85% (60% for loans secured on secondary homes in Oslo)
Debt to income ratio (DTI) (Macro-prudential: Borrower side tool)	DTIs limit the total amount of debt of the borrower as a ratio to gross income, commonly set at 4-5x. DTIs can work as a speed limit, so that banks are able to deal with borrowers in special cases.	Helps to constrain credit-asset price cycle. Appropriate if house prices rise sharply further. Reduce likelihood of loan defaults in event of a sharp increase in interest rates or negative shock to borrower income.	Ireland: no more than 20% lending above 3.5x gross income, UK: no more than 15% of lending above 4.5, Norway: no more than 10% lending above 5
Debt servicing to income ratio (DSR) (Macro-prudential: Borrower based tool)	DSRs limit housing debt servicing costs as a ratio to disposable income. In some countries, DSRs are based on total rather than only housing debt servicing costs.	More complicated than DTIs and may require additional supporting rules and data collection. Necessary to specify how interest rates should be assumed to evolve.	France: 30%, Canada: 40%, Hong Kong: 50% for owner occupiers; 40% for investors Singapore: 60%
Prudential practice guide (Borrower based tool)	Regulator issues guidance on mortgage origination standards related to serviceability. Regulators can then benchmark banks against the guide and provide feedback on areas that need to be strengthened.	Intended to achieve same outcome as LVR and DTIs, but does this in a more granular, prescriptive manner, whereas the other tools are blunter. APRA's PPG interventions led to a significant tightening in origination standards for NZ big-4 in 2016.	Australia provides minimum standards for origination tests through supervisory guidance. Others: Switzerland, Germany, UK.
Sectoral capital requirements	An additional capital buffer that banks would be required to meet due to a build-up of credit in a specific sector. Main purpose is to protect the resilience of banks and the financial system, but won't have much impact on individual borrowers.	Similar impacts to adjusting mortgage risk weights, but done in a temporary way	Not available.

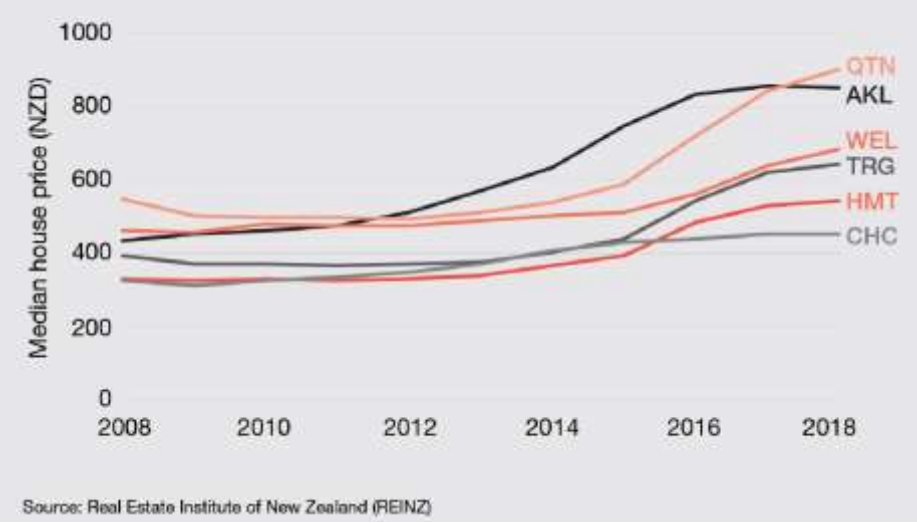
TE TAI ŌHANGA
THE TREASURY

Housing market – background information and context

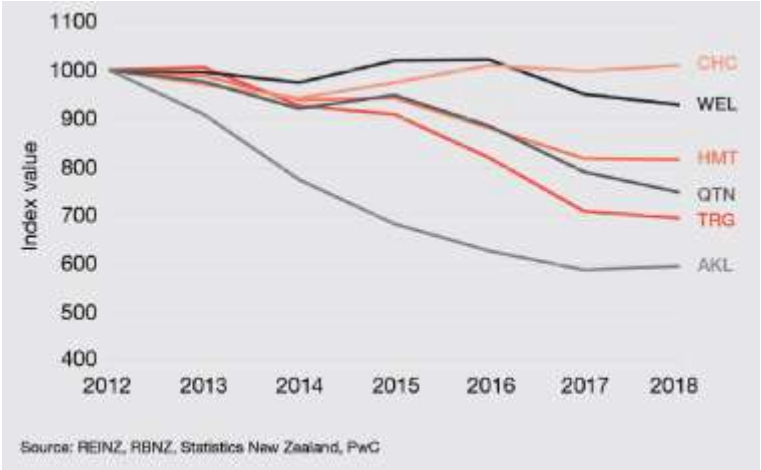
December 2020

Housing affordability is getting worse, as New Zealanders are spending more of their income on housing leaving little money for other needs

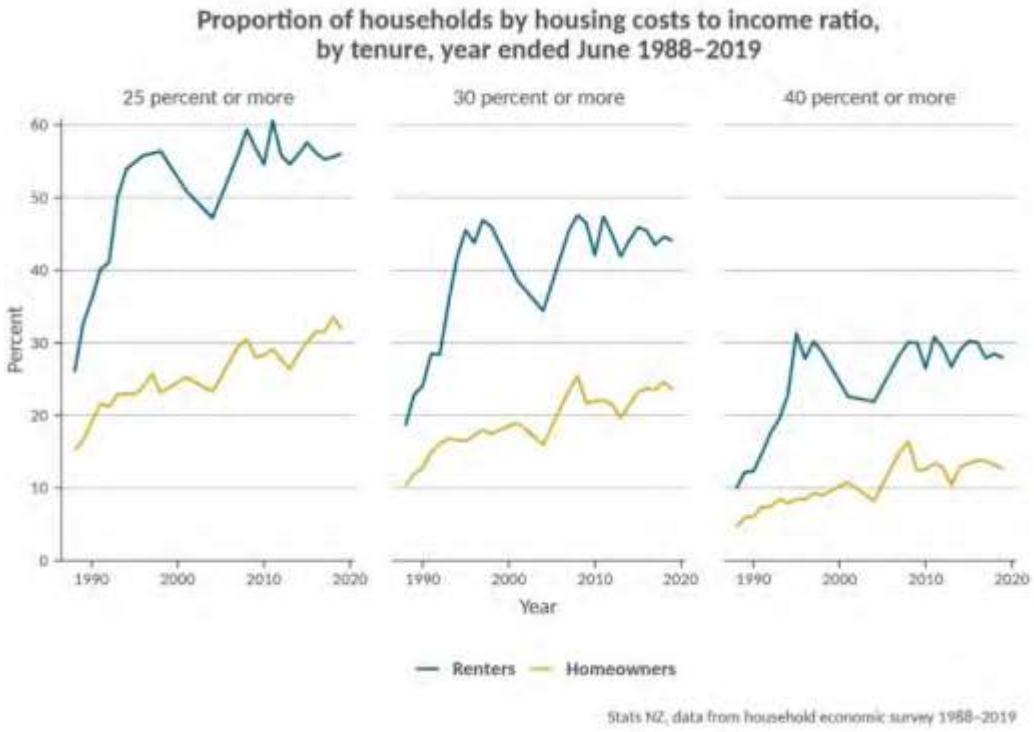


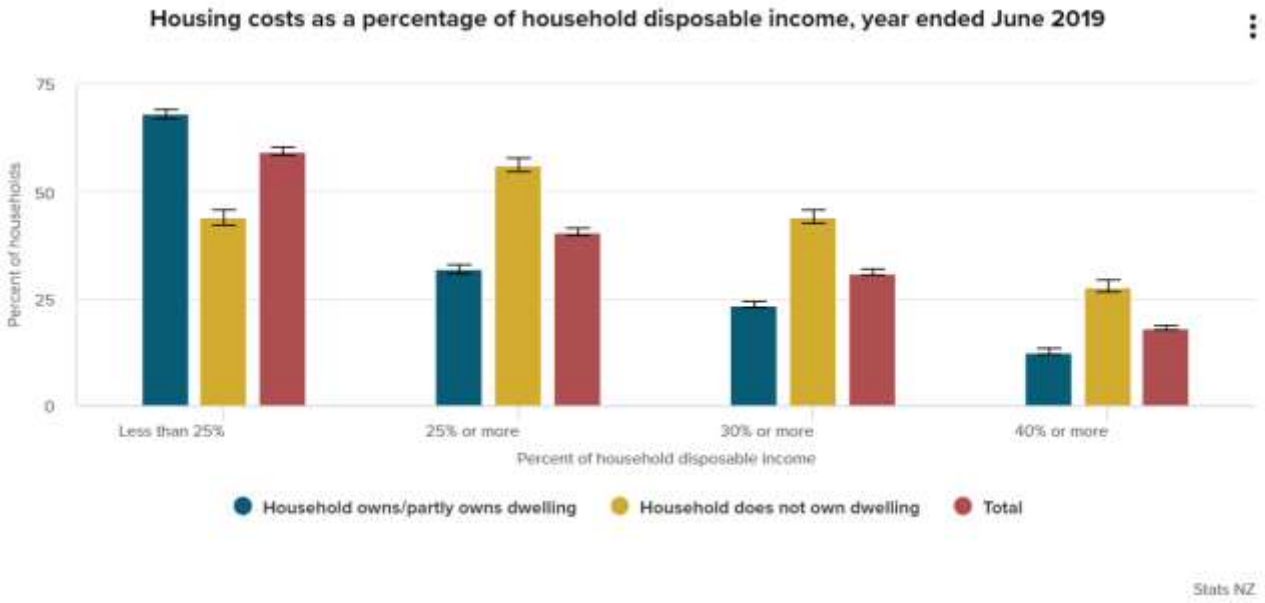


Discretionary income index, 2012-2018



And renters are spending their income on unaffordable housing without the benefit of accumulating an asset



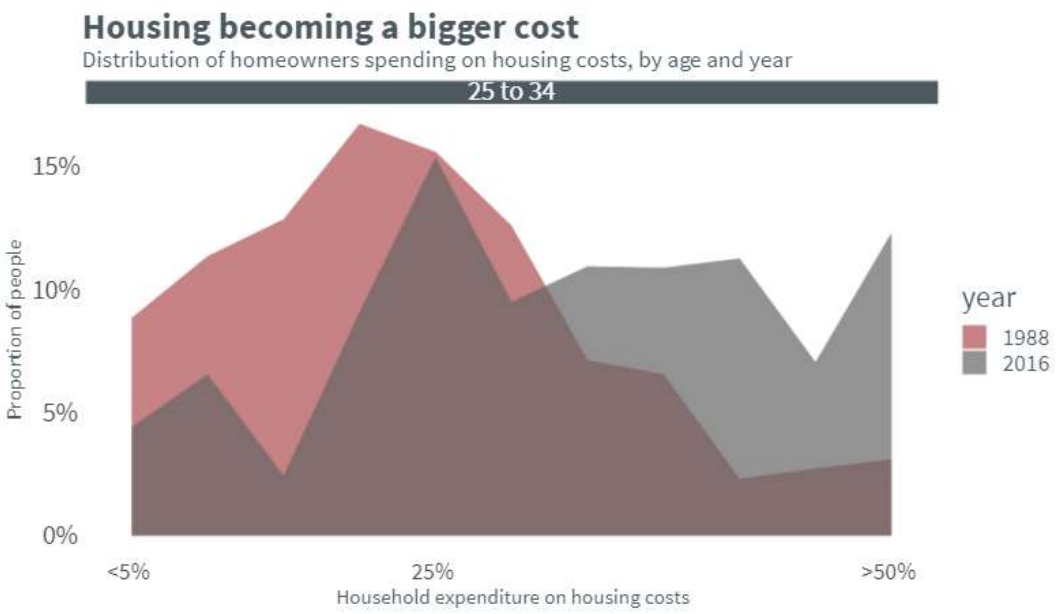


If a household spends more than 30% of their gross income on housing costs, the house is considered unaffordable.

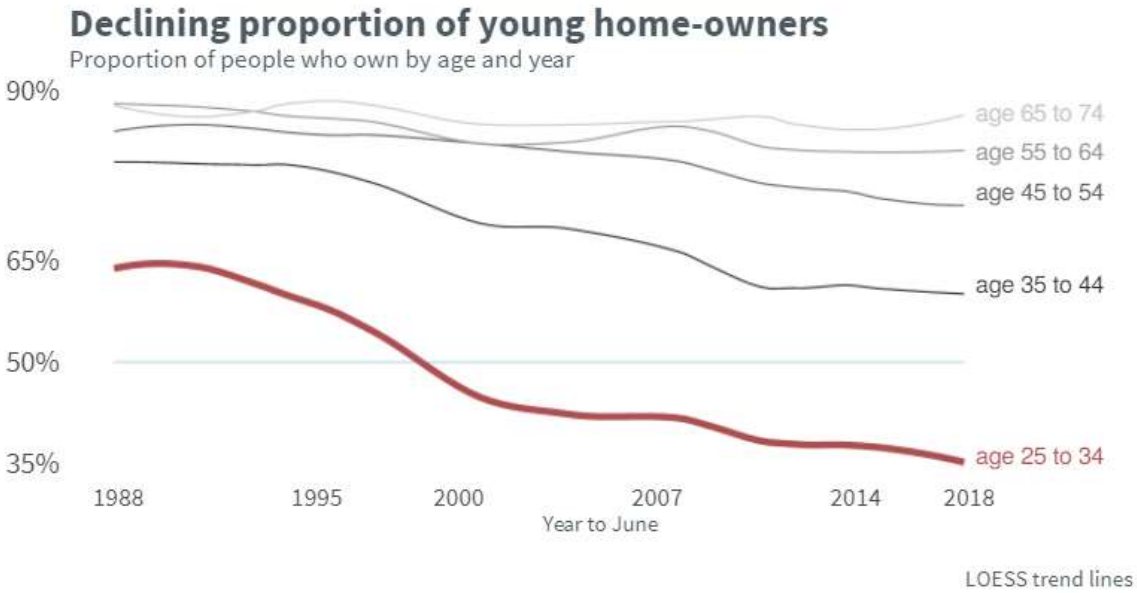
New Zealand's housing crisis is affecting the most vulnerable people, as they are being forced out of the market

Minority groups including Pacifica, Māori, Asian, Middle Eastern, Latin American, or African are more likely to live in public housing (Stats NZ)

The cost of buying a house is placing significant stress on households and having perverse effects on intergenerational equity



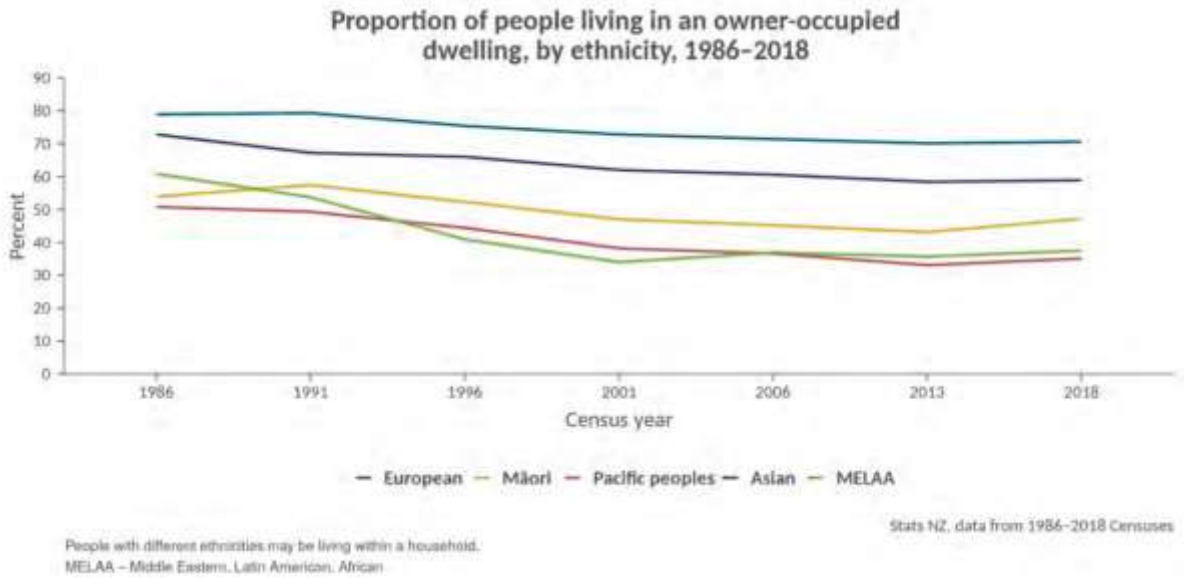
Source: Stats NZ, Household Economic Surveys 1988-2018

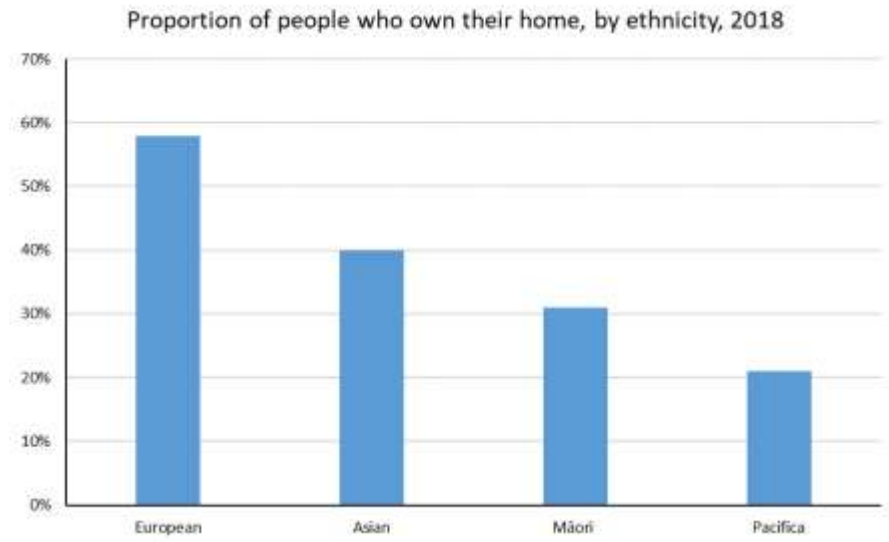


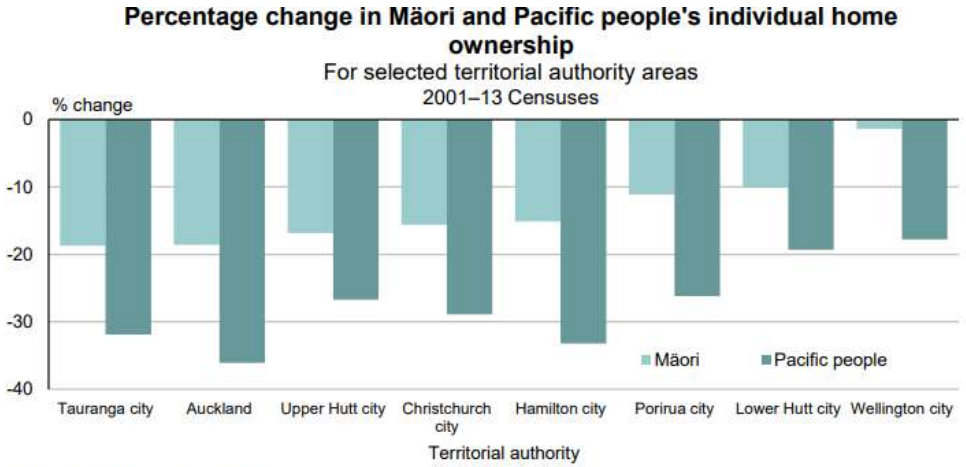
People who own: includes ownership by household, own with mortgage, and since 2007, in a family trust excludes people living with parents

Source: Stats NZ, Household Economic Surveys 1988-2018

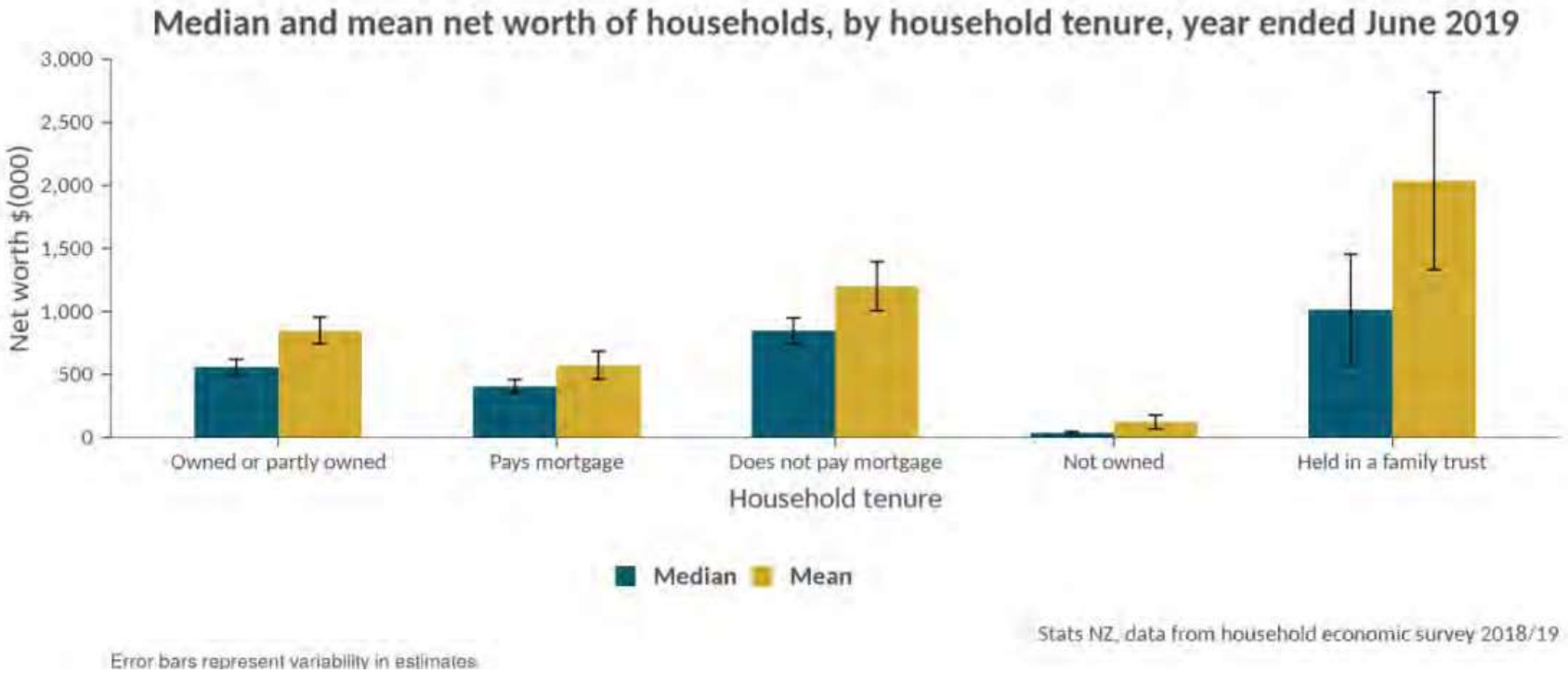
Homeownership rates have been decreasing over time, with minority groups experiencing the largest declines







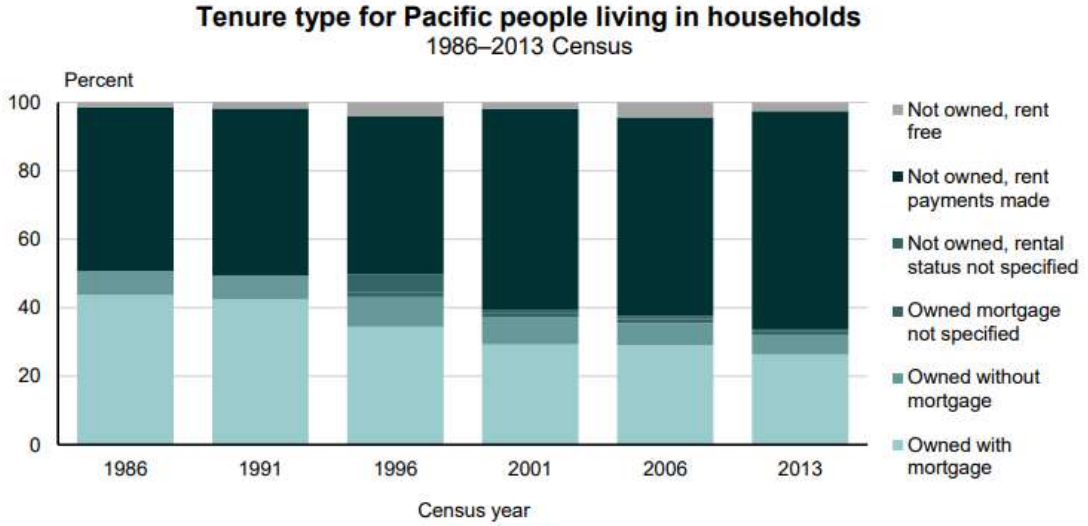
Decreasing rates of homeownership for young people and minorities are a key driver of wealth inequality



Stats NZ defines a household as one person usually living alone, or two or more people usually living together and sharing facilities (for example, eating facilities, cooking facilities, bathroom and toilet facilities, and a living area), in a private dwelling

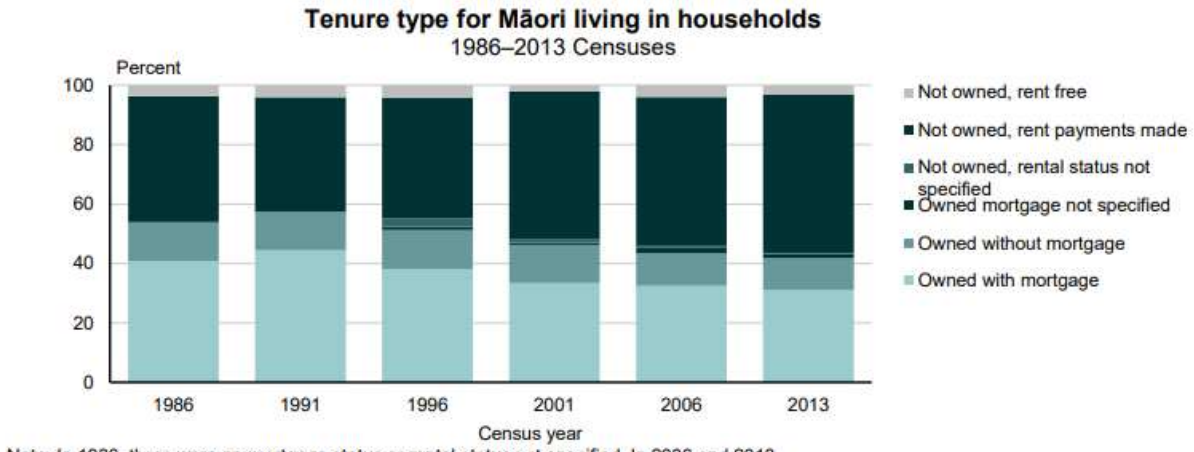
More New Zealanders are turning to rental properties, with minorities showing the largest shift

- Māori (20.5 percent) and Pacific (36.9 percent) renters were more likely to be tenants of Housing New Zealand, when compared with the total population (12.9 percent).
- The 2018 Census showed a 16.5 percent increase in the number of households renting since 2013 (from 453,135 in 2013, to 527,853 in 2018). This apparent increase, however, may partly reflect improved data quality due to the use of administrative data.



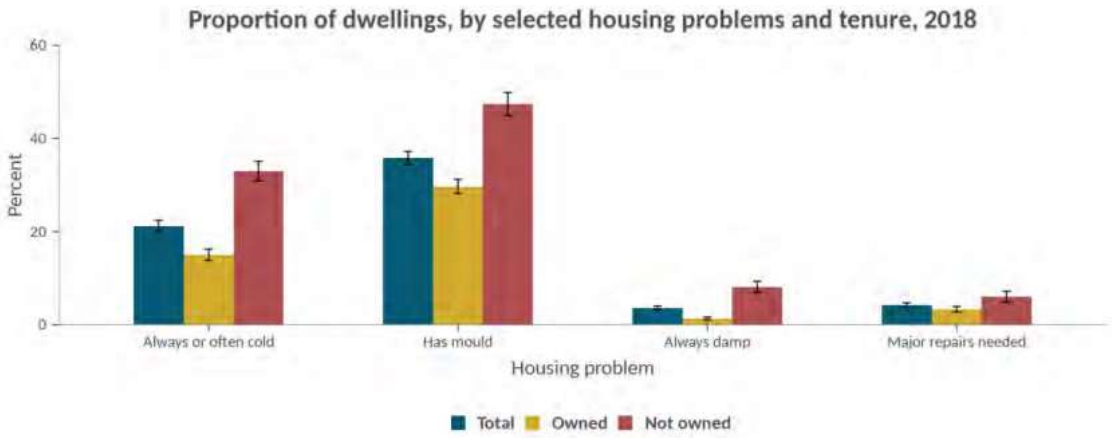
Note: In 2006 and 2013, dwellings held in a family trust are combined with owned dwellings.

Source: Statistics New Zealand



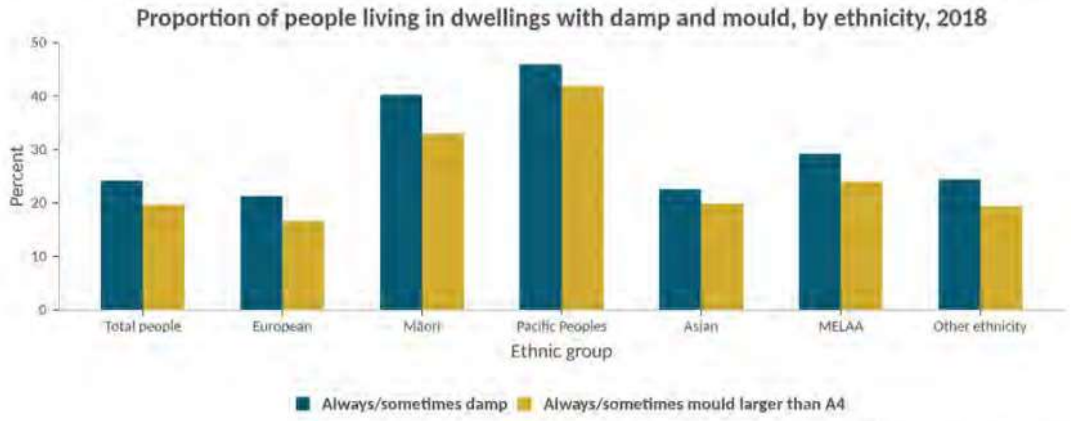
Note: In 1986, there were no mortgage status or rental status not specified. In 2006 and 2013, dwellings held in a family trust are combined with owned dwellings.
Source: Statistics New Zealand

Rented homes are more likely to be colder, smaller, have mould and be in need of major repairs



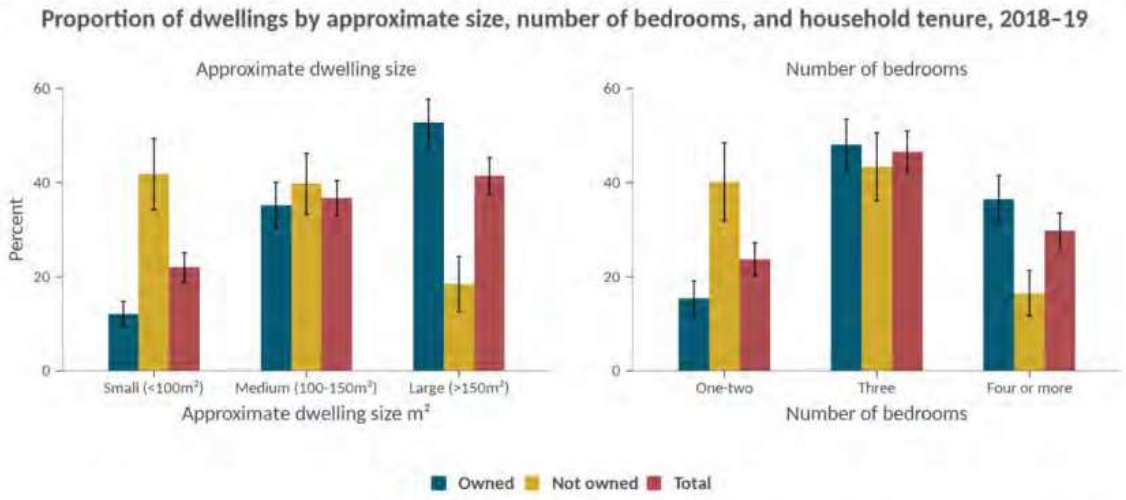
Stats NZ, data from general social survey 2018

Error bars represent variability in estimates.



Stats NZ, data from 2018 Census

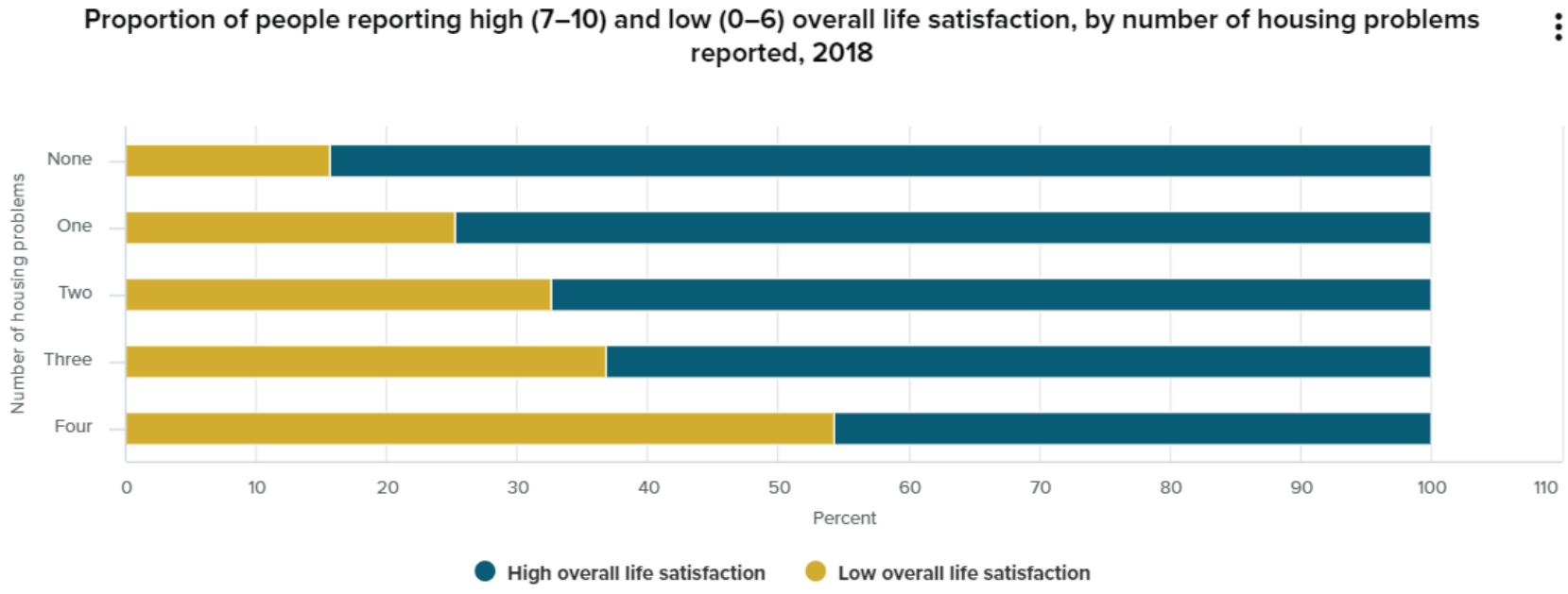
MELAA – Middle Eastern, Latin American, African



Stats NZ, data from BRANZ pilot housing survey 2018–19

Error bars represent variability in estimates.

Living in low-quality housing has adverse effects on wellbeing and health



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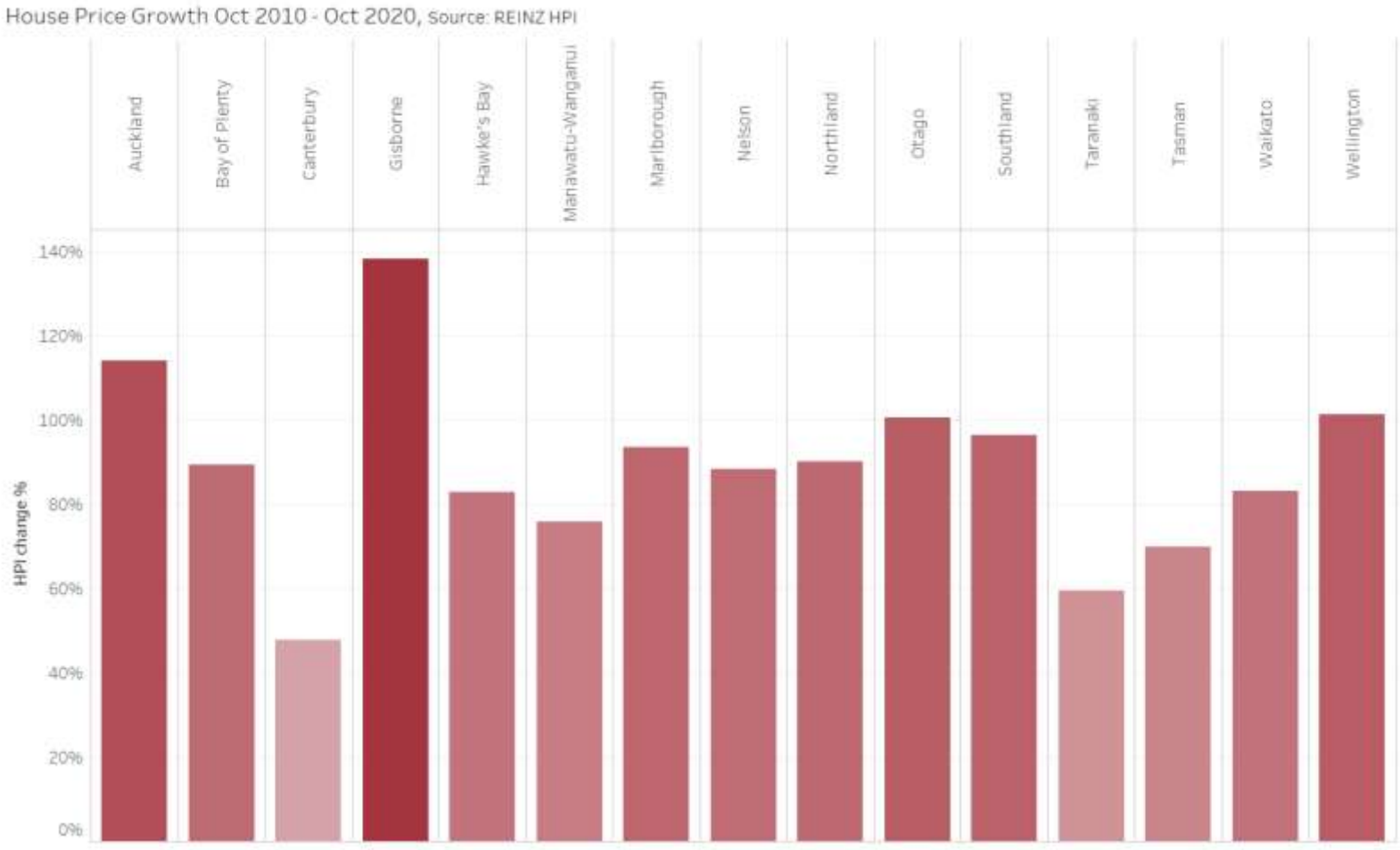
Stats NZ, data from general social survey 2018

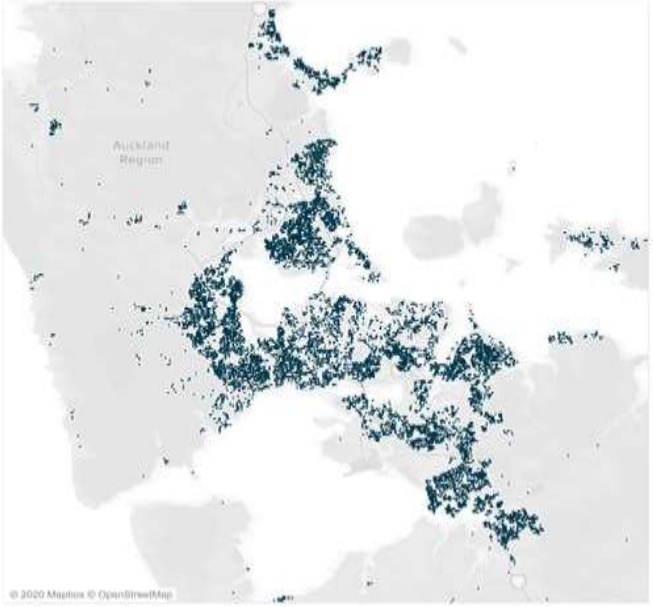
House prices in New Zealand continue to increase, meaning unaffordability and equity issues will worsen



Over time, less well-off buyers will continue to be pushed to urban fringes, or may be forced to leave the city

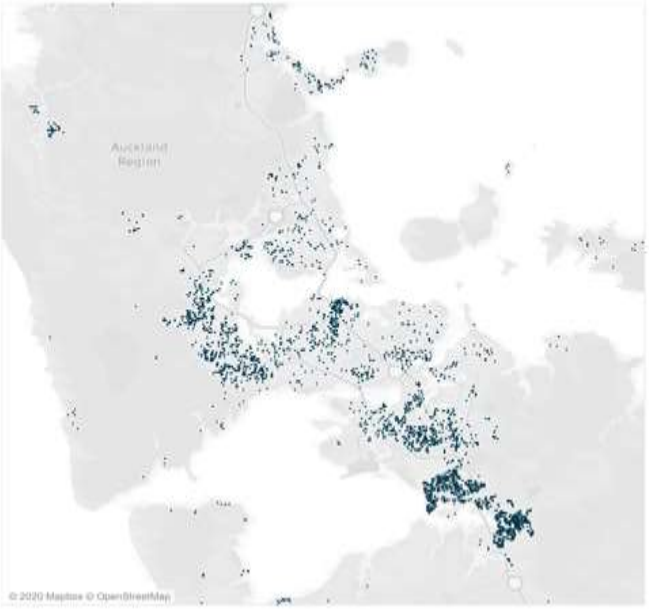
2010 Sales under $650k (CPI adjusted)

sale prices adjusted to Q4 2019 prices using CPI. Sources CoreLogic/Stats NZ/HUD



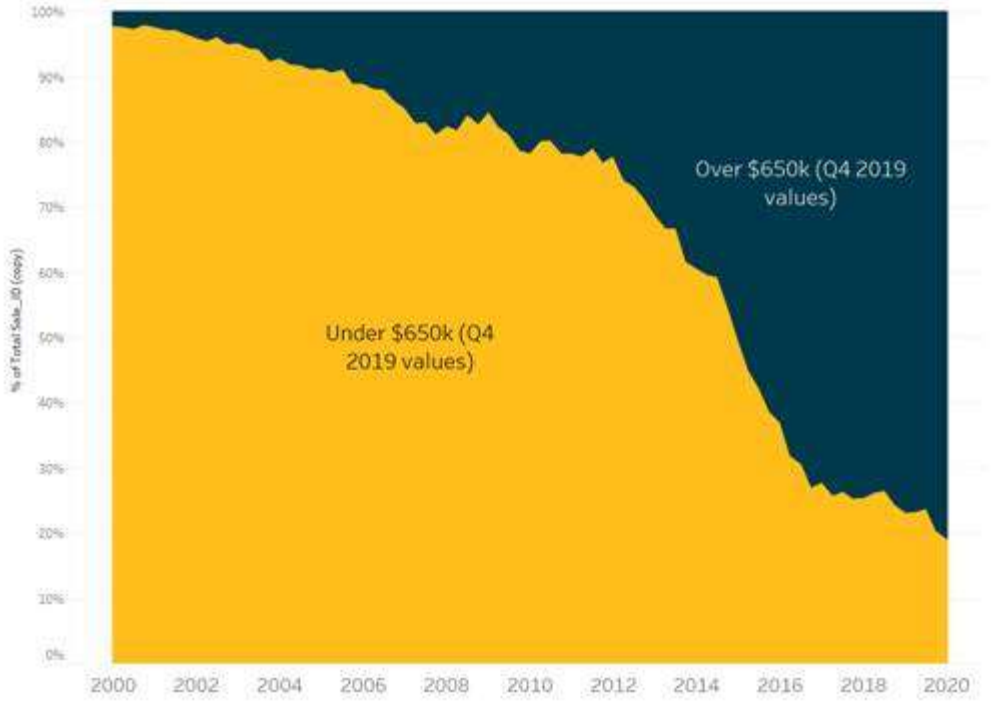
2019 Sales under $650k (CPI adjusted)

sale prices adjusted to Q4 2019 prices using CPI. Sources CoreLogic/Stats NZ/HUD

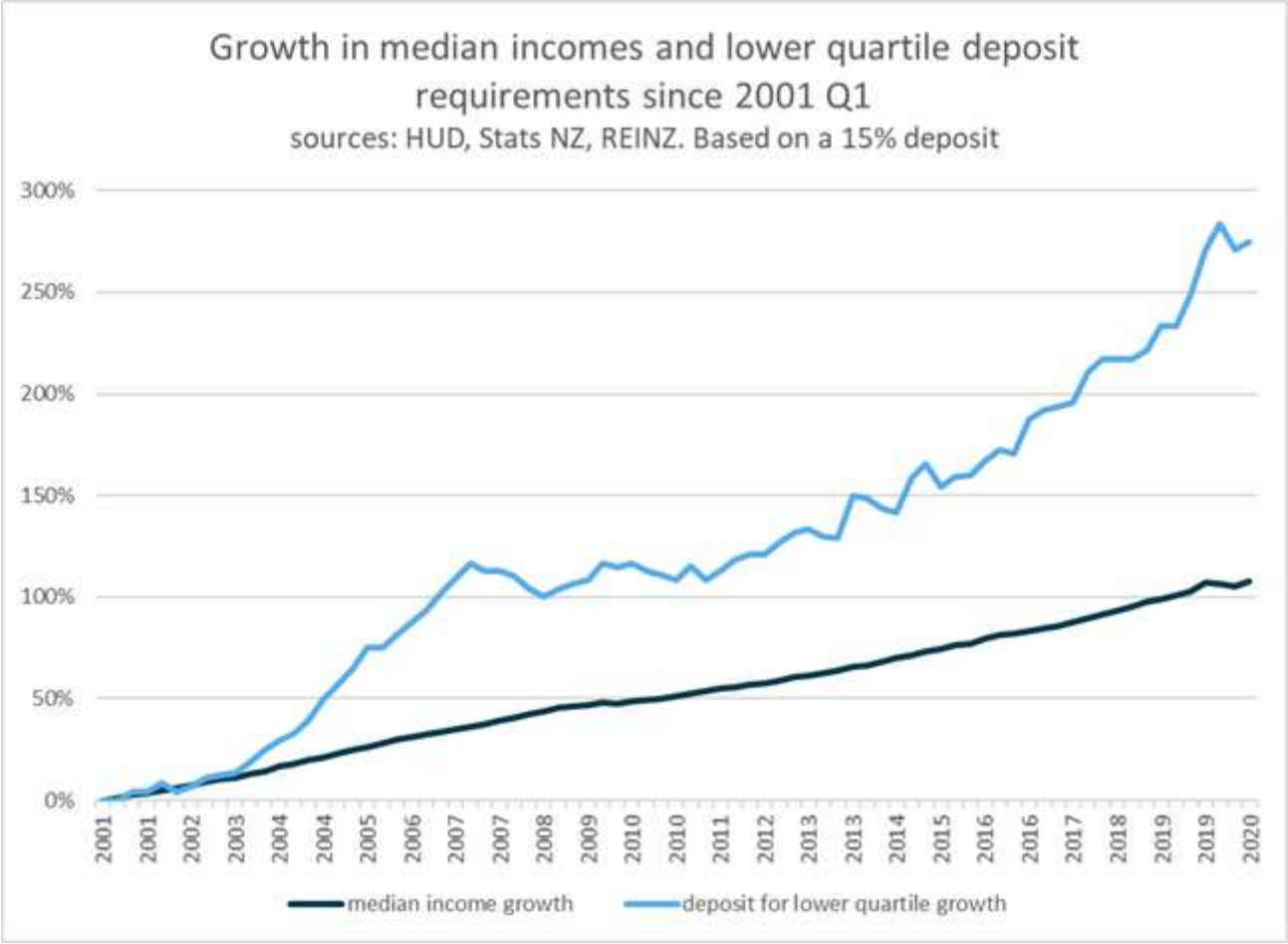


Auckland Residential Property Sales Below $650k (Q4 2019 prices*)

Source: CoreLogic/HUD *adjusted using CPI

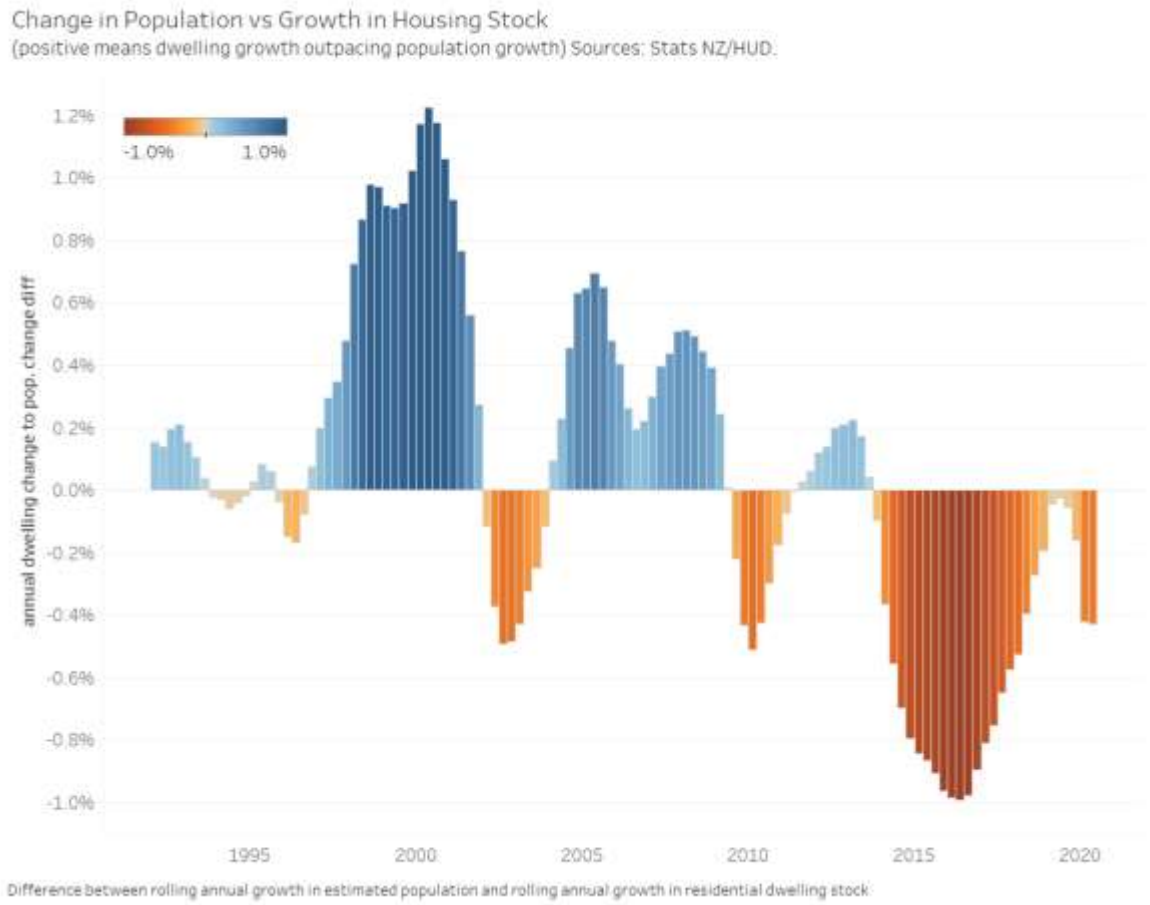


It is also much harder for the average income earner to put together a deposit – even for a modest home

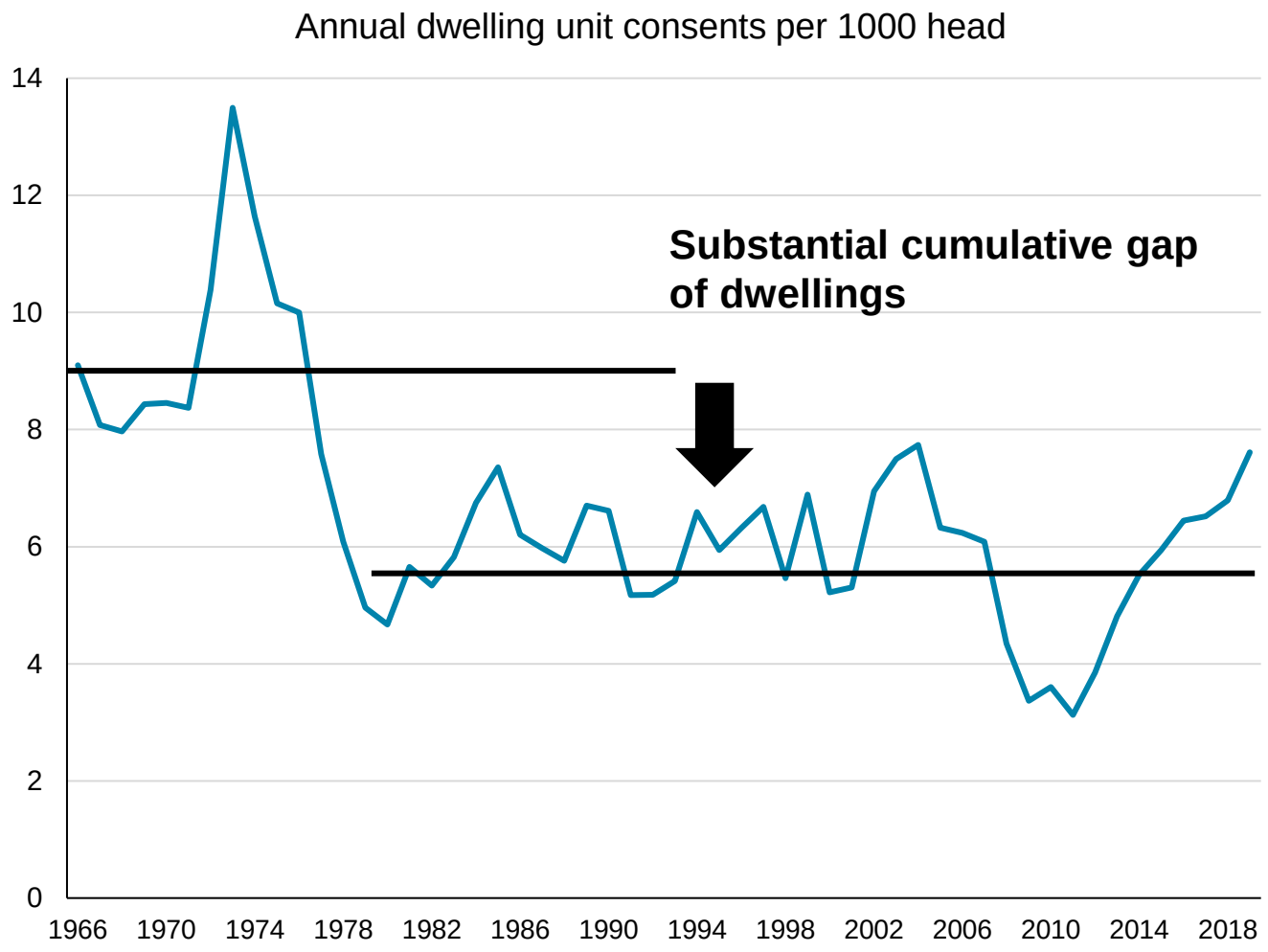


[34]

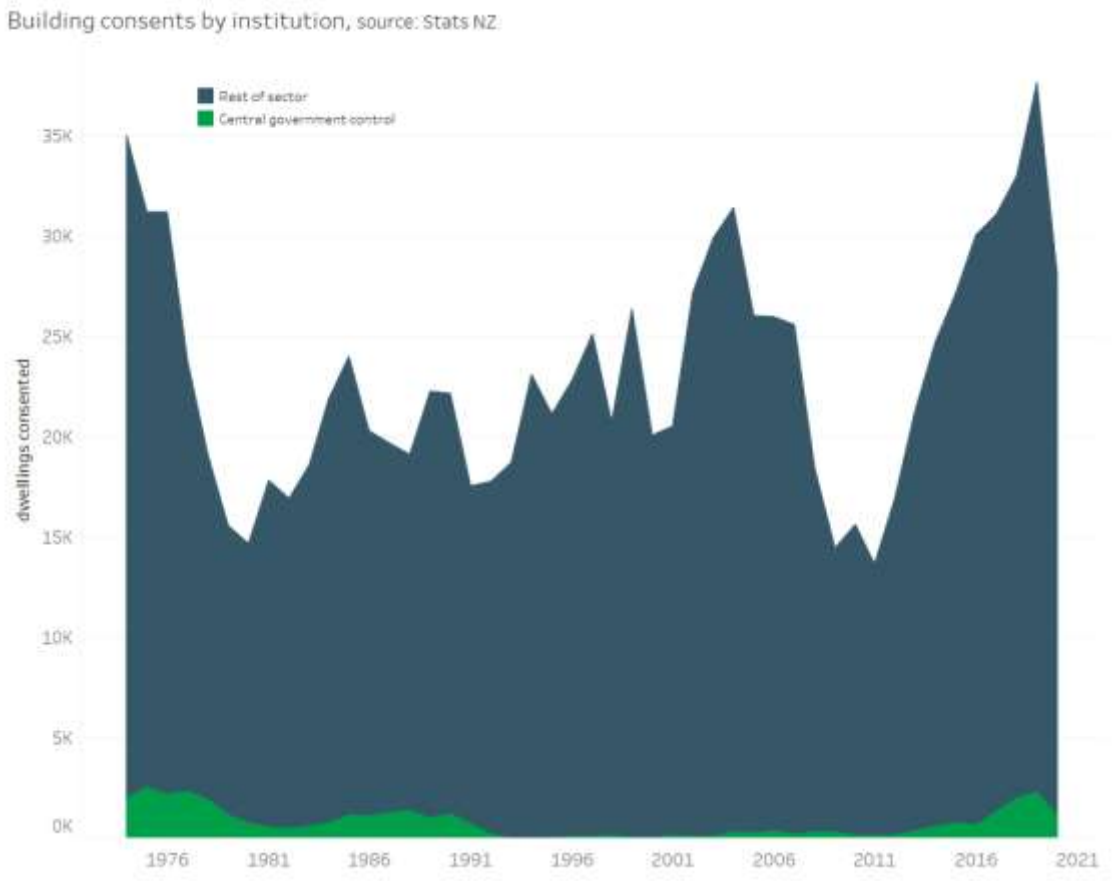
The key supply side driver of this crisis is unresponsive supply



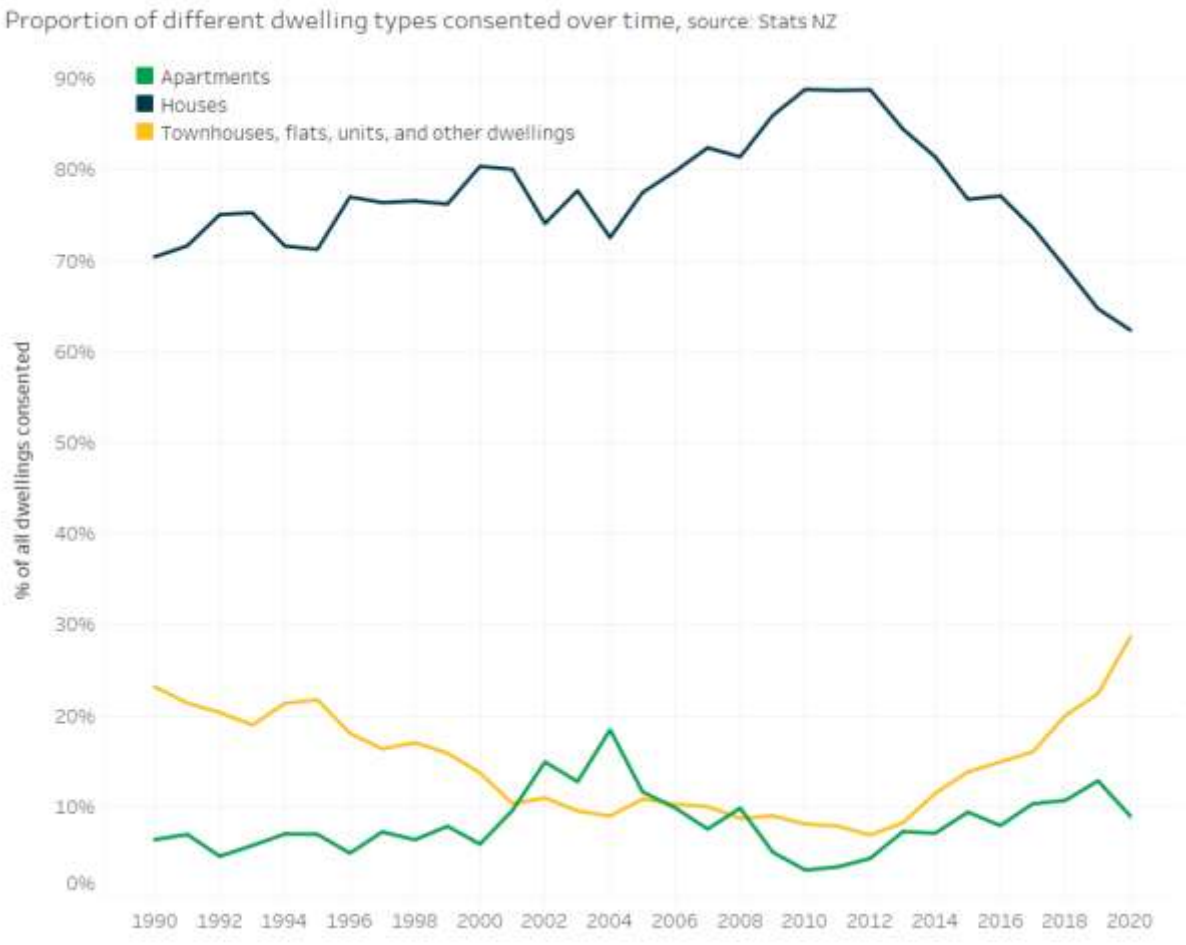
Long-term consenting figures suggest a substantial shortage in the number of dwellings



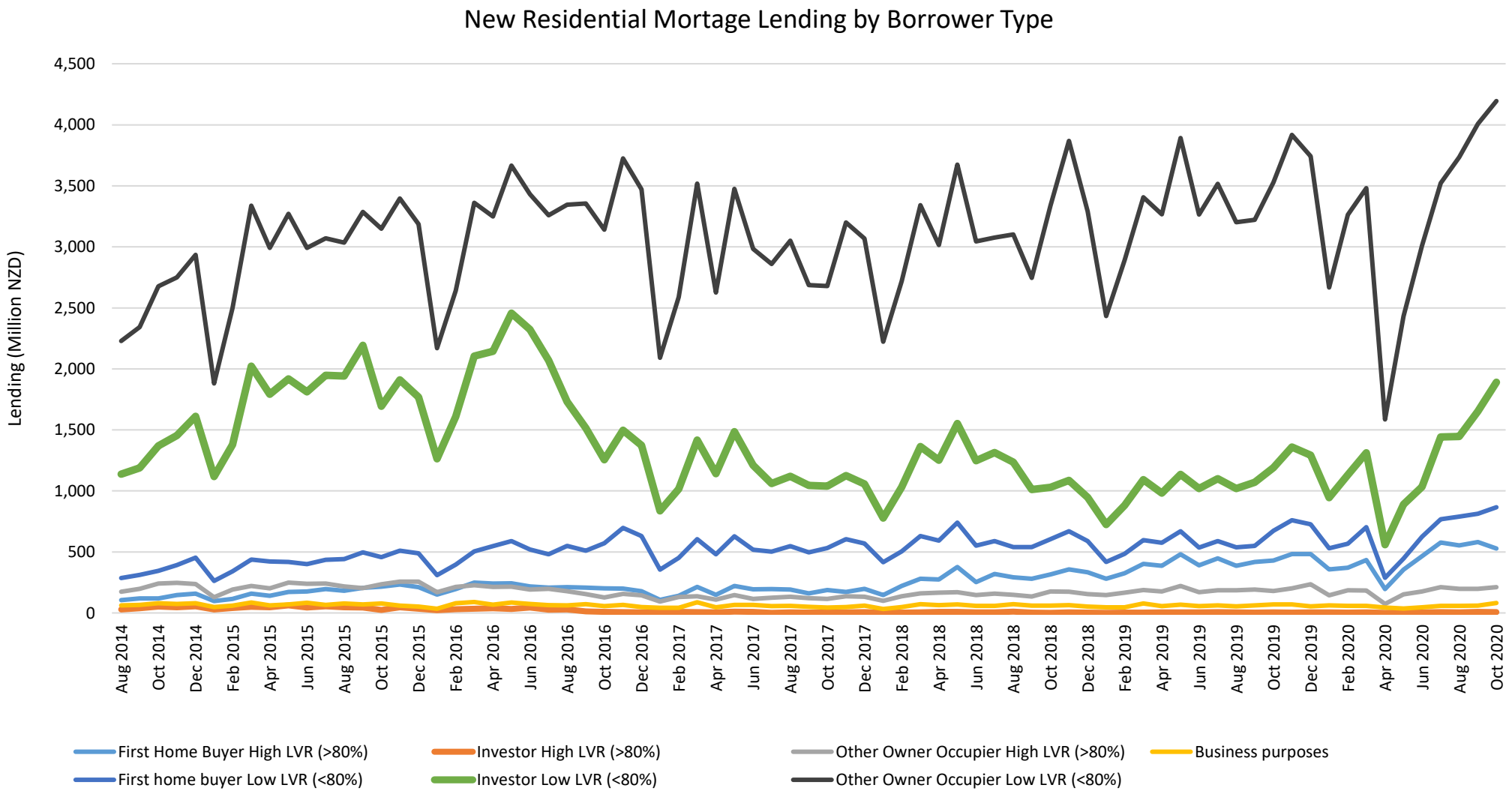
The government is building, but it does not have the scale to provide for the market in a cost-effective manner



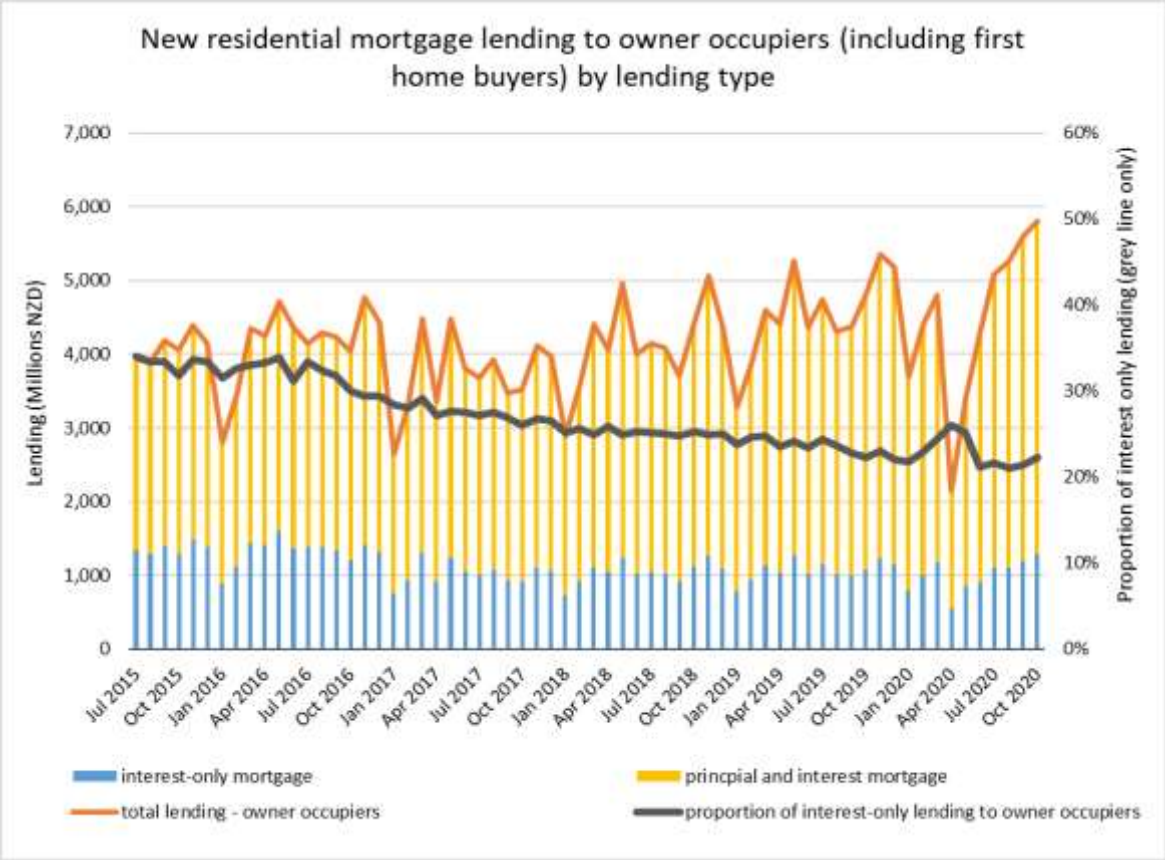
Stand-alone houses continue to dominate the market. However, there is a trend towards trading off houses for townhouses

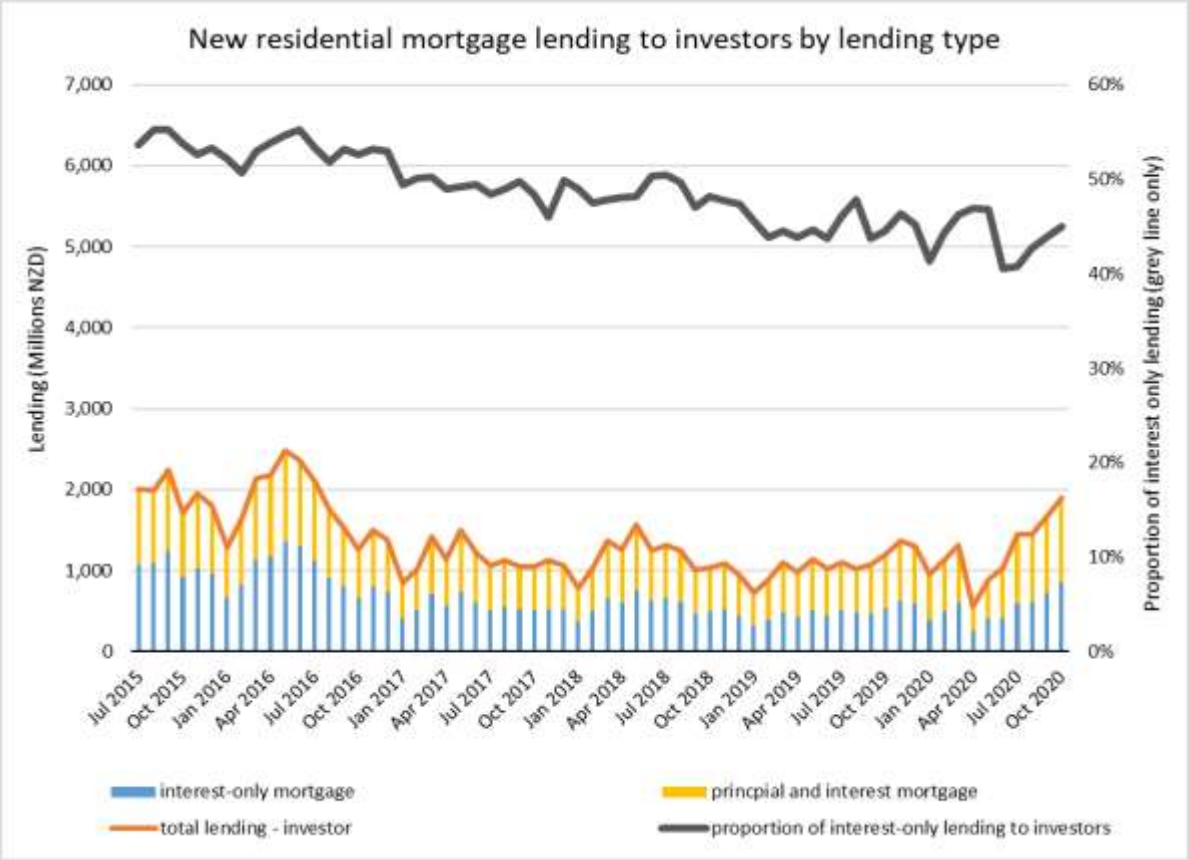


The key demand side driver of the crisis is New Zealanders using housing as their main form of investment

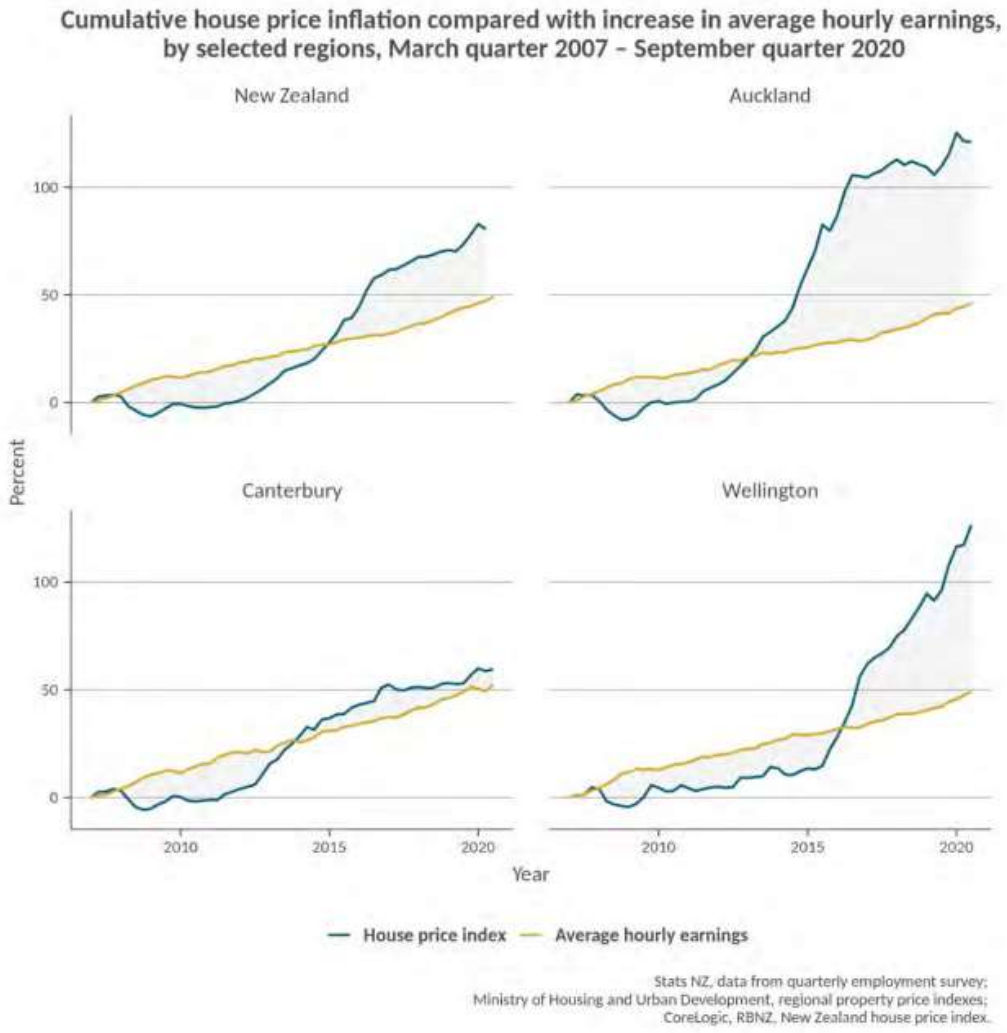


The incidence of interest-only mortgages, particularly from investors, suggests significant speculation in the market

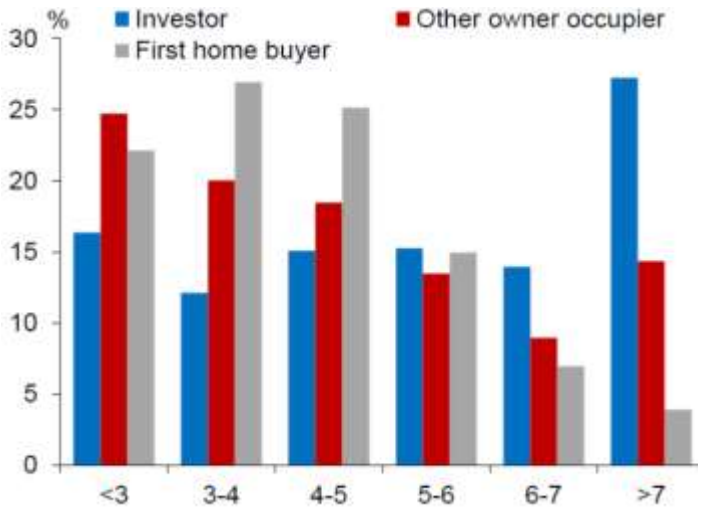




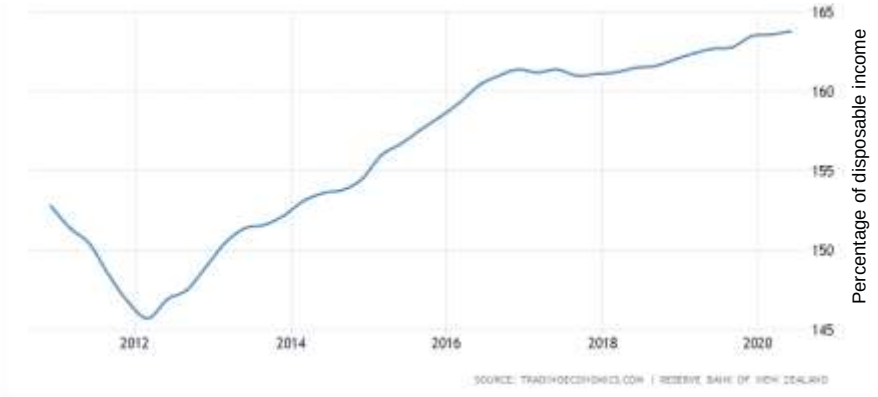
New Zealanders buy houses to benefit from capital gains, increasing demand and pushing up prices. This in turn makes housing as an investment more attractive. Repeat.



Total debt-to-income ratio by buyer type May 2014 to Sep 2015, % of lending to each buyer type



Household financial liabilities (including rental properties) as a percentage of household disposable income



Supply-side influences

LAND
Physical availability of land
Central Government policy & planning
Local Government policy & planning
Tax settings

INFRASTRUCTURE
Capacity of existing infrastructure
Cost of new infrastructure
Local Government ability to access finance

DEVELOPMENT MARKET
Cost and length of consenting
Fragmentation of land ownership
Legal challenges to development
Government build programmes

CONSTRUCTION MARKET
Cost of construction materials
Availability of construction materials
Cost of labour *(includes labour productivity)*
Availability of labour *(includes right skillsets)*
Legal and financial risks

Target housing outcomes

- Prices are **competitive** and **affordable** for all households (purchases and rent)
- Appropriate **quantity**, **quality** and **type** of supply
- **State support** for those **in need**

Demand-side influences

UNDERLYING DEMAND
Natural population growth
Net migration
Household size

PURCHASING POWER
Availability of finance *(Government or Private)*
Interest rates
Availability of Government support
Size of deposit required

PREFERENCES & EXPECTATIONS
Owner-occupiers
Preference for owning vs. renting *(influenced by view of future options, relative costs)*
House type, format, size and quality needs
Availability of amenities

Investors
Total investment yield *(capital gains, rents)*
Relative yield and availability of / range of products in other investment classes