IPTI Xtracts

Property Tax and Assessment News from Around the World

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Cooling measures doing little to slow New Zealand's housing boom

Desperation among homebuyers is pushing New Zealand house prices to record highs, overpowering the government's efforts to rein in the red-hot market and putting in jeopardy a key policy promise by Prime Minister Jacinda Ardern.

Nearly 15,000 homes sold for more than NZ$1 million ($705,100) during the last 12 months, compared with just 5,500 in 2020, according to the Real Estate Institute of New Zealand's (REINZ) Million Dollar Price Report.

In the capital, Wellington, a 50-year-old derelict house deemed "too dangerous to enter" sold for almost NZ$1 million - a price far higher than expected.

"The new owners didn't step foot inside before purchasing it... even we could not enter," said Ben Atwill of real estate group Ray White, which made the sale. "From what I am seeing, there is no stopping the premium dollars from coming through."

Such runaway home prices have made New Zealand's property market one of the most unaffordable in the world, and measures introduced by the government and the central bank have so far done little to cool demand.

This is largely because of pandemic-inspired policies that have translated into cheaper mortgages, allowing affluent buyers and investors to upsize their homes and build up portfolios of rental investment properties, while locking out low and mid-income earners.

The government has tried to rein in the market with policy tweaks by applying new taxes for property investors and putting checks on "flipping" activity, in which investors buy a house, quickly renovate it and sell it for a large markup. Such investment has pushed house prices up by nearly 30% to a national average of NZ$820,000, on top of a 90% rise in the preceding decade.

Homebuyers don't want to miss out on what seems like a gold rush, and there is no evidence investors are leaving in a hurry, said independent economist Tony Alexander, who publishes a survey of real estate agents with REINZ.

"They (investors) know that if they stay longer they will come out better," Alexander told Reuters, adding that rising inflation was encouraging investment in real estate rather than in savings products.

New Zealand's central bank said this week that it was concerned about high-risk borrowing and that house prices were above sustainable levels. It is proposing tighter mortgage lending and debt-to-income restrictions.

Economists expect the bank to go further and raise interest rates at its policy meeting on Aug. 18.

"The Reserve Bank has highlighted that it's not seeing as much of a reaction to the changes made so far," said Brad Olsen, Principal Economist and Director at Infometrics. "The risk of having such a large pile of debt has continued to ring alarm bells."

Housing has become a policy headache for Ardern, who secured a second term in office last year on the back of her success in handling the coronavirus pandemic. New Zealand has had about 2,500 coronavirus cases, with the last one in February.

Opinion polls this week showed her party's popularity has dropped since the election, while her rivals were gaining support.

When she was elected in 2017, one of the issues in her platform was ending the free run of property investors and building affordable homes.

But her centre-left government's flagship affordable-housing project, Kiwibuild, foundered. The government has not been able to remove the red tape around land approval, making land artificially scarce. Private developers say the costs and consent process make properties unaffordable.

Ardern has so far been unwilling to introduce a capital gains tax to cool the market.

"Capital gains tax is a political dynamite," Olsen said. "A lot of people who vote also own homes so the housing issue is inextricable linked to politics."

The Human Rights Commission this week launched an inquiry into the housing crisis, saying it was causing a humanitarian crisis as young people were being deprived of their basic right to live in a decent home. read more

Revaluation 2021: Everything you need to know

Updated property values for all properties in the Auckland region will hit mailboxes, inboxes and online in October 2021.

We are proud of the rigorous process being undertaken to reach these values. Revaluation is exciting as it allows us to set rates fairly for the 2022/2023 rating year and crack on with the initiatives in the 10-year budget.

Auckland has seen significant population growth over the last few years and the pressures this has put on the housing market are well-known to all of us.

Our valuations only capture a moment in time and should not be viewed as a current market value but we know that there is still a huge amount of interest from Aucklanders in their new values.

Revaluation this year

Every three years, we revalue all properties in Auckland – all councils in New Zealand are required by law to do this. Our last revaluation was in 2017.

We were due to conduct a revaluation in 2020 but the COVID-19 pandemic made it difficult to accurately forecast sales data. Under these circumstances, the Valuer General granted the council a deferral of 12 months.

The new values we assign are based on the most likely selling price if the property had sold on 1 June 2021.

Why we revalue properties

The value of properties is one of the ways we calculate each ratepayer's share of rates so it is important we are using current figures to ensure a fair rating system. The property market is dynamic which is why these values change over time.

How we calculate the values

We compare recent sales in the area with the property being valued. We consider many factors, including the property type, location, land size, zoning, floor area and any consented work for renovations, new builds or subdivisions.

The property value is made up of three parts: the capital value, the land value and the value of improvements.

- Capital value (CV): the most likely selling price if the property had sold on 1 June 2021
- Land value (LV): the most likely selling price of the bare land on 1 June 2021
- Improvement value (IV): The CV minus LV. The IV does not represent the replacement value of the building(s) or other improvements on the land.

The revaluation is a 'point in time' exercise and is not meant to reflect the ongoing probable sales price of a property.

Keep in mind, the value of improvements is an indicative value and won't necessarily represent the value of any buildings currently on the land.

Revaluation and rates

We use property values to share the rates the city needs to raise between properties.

Revaluing Auckland's properties won't affect the amount of money the council collects from rates. It helps us make sure we are sharing the rates requirement fairly between properties as valuations move across the city.

Aucklanders already know that the council is increasing rates by 3.5 per cent in from June 2022. This was set through the council's 10-year budget process. These updated values help us determine how this increase will be shared across all ratepayers in the region.

Your property value is only one of the elements which help us determine your share, therefore if your property value has increased, this does not automatically mean you pay more in rates. What will determine a rates increase is if your property value has increased more than the average increase across the region. If your property increases in value but this increase is below the average, this may mean you will pay less in rates.

Revaluation won't affect rates until 2022

The impact of revaluation won't come into play until 1 July 2022. Your current rates will stay the same until then.

Time to 'rethink and reset' the land tax regime - tax expert

National leader Judith Collins says bigger bills for landlords will end with higher rents for tenants.

Controversial rules around the ring-fencing of losses on rental properties should be repealed when the Government's new tax policies come into effect, a tax expert says.

In March, the Government announced it would be removing the ability of investors to claim back the interest cost of a home loan against the rent received on the property and extending the bright-line test to 10 years.

Investors and property industry professionals have been critical of the proposed changes and now the Chartered Accountants Australia and New Zealand has revealed its concerns in its submission on them.

The association's New Zealand tax leader, John Cuthbertson, said there had been many piece-meal changes to land tax in recent years and this had made the requirements overly complex.

The ad hoc measures proposed did not accord with good public tax design, which should be drafted simply to achieve government policy objectives but so that taxpayers understood, he said.

"It's not a great idea to have tax legislation covering everyone and then make it complicated. You end up with multiple traps for the unwary and that doesn't add a lot to what you are trying to achieve."

The focus on levelling the playing field for first-home buyers by damping residential investor demand for existing housing stock was unduly narrow and would have unintended consequences, he said.

One big risk was widespread unintentional non-compliance from unsophisticated taxpayers, or people who could not afford accountants, which would include many "mum and dad" investors.

Cuthbertson said that if the interest limitation regime was introduced, there would be three very complex land tax regimes in place.

These would be the mixed use assets rules, the ring-fencing of tax losses for rental properties, and the denial of interest deductibility.

This combination would simply be a step too far for most taxpayers, he said.

"Given that the policy rationale for both the interest deductibility position and the rules for the ring-fencing of rental losses are essentially the same, we recommend the ring-fencing rules should be repealed."

It could be expected rental income would exceed allowable deductions on new property acquisitions, he said.

"For existing investments, there may still be losses as interest is phased out, but it is most likely that by the time only 50 per cent is allowed, there should be taxable income.

"If not, it will be due to other deductible items like repairs and maintenance, insurance and rates where there is no policy reason for denying loss offsets."

Cuthbertson said the ability to offset losses should also encourage further investment in new builds, which seemed to be the Government's overriding policy concern.

If the ring-fencing rules, which had always been opposed by investors, were repealed it would simplify the compliance process and increase taxpayer certainty, he said.

"A comprehensive and coherent review of the land taxing provisions is overdue and should be added to the tax work programme as a priority item. It's time for a rethink and a reset."

In its submission, the association raised a range of concerns, including issues around the extension of the bright-line test and the definition and levels of new build concessions.

It had previously pointed out that homeowners who spent more than a year away from home could be caught out by the new tax policies.

The consultation period on the proposed changes closed on July 12, but the new rules would be introduced into Parliament later this year, and they would apply from October 1.

Interest deductibility on existing investment properties would be gradually phased out from October 1 this year to March 2025.