



## NEW ZEALAND– July 2021

---

### CONTENTS

HOUSE WITH NO TOILET SELLS FOR \$2M AS NEW ZEALAND PROPERTY MARKET SOARS.....	1
TAX ON ALL HOUSING NEEDED TO FIX 'DISTORTION OF SOCIAL FABRIC' .....	2
NEW ZEALAND HOUSE PRICES CONTINUE TO SOAR DESPITE CURBS.....	4

---

### ***House with no toilet sells for \$2m as New Zealand property market soars***

*The decaying, rundown property in the Auckland suburb of Grey Lynn was prized because of its renovation potential*

A decaying three-bedroom house with no toilet or bathroom, missing walls and an overgrown garden has sold in New Zealand for more than \$2m (£1m), in the latest example of runaway property markets around the world.

The 1920s-era bungalow on Ariki Street, in Auckland's affluent suburb of Grey Lynn, sold at auction on Thursday for \$2.075m (£1.05m), after the bidding opened at \$1.75m, Stuff reported.

Auckland council's property valuation page estimates its value at \$1.65m and that the property requires \$200,000 worth of improvements.

The Barfoot & Thompson real estate agent listing described the house as a blank canvas in need of urgent attention and was "the most affordable character entry to home ownership available in Grey Lynn".

The property is classed in the "single house zone" under the city's unitary plan – the plan that determines how areas in the city are used, developed or protected – and is prevented from multi-unit development.

Barfoot and Thompson's auctioneer, Campbell Dunoon, told Stuff that such properties were highly sought after.

"People who I would call traditional retail buyers would in the previous years buy a property to move into are now buying a property to do up and then move into."

"There are certainly more people like that."

New Zealand has one of the hottest property markets in the world. The most recent data puts the average house price at a record-breaking \$943,000 – a 22% increase from June last year. Its figures show Auckland's market remains the hottest, with average prices now sitting at \$1.5m. Grey Lynn's average price is higher still – nearer to \$1.6m.

### **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

The country's housing affordability crisis has been building for over a decade, and has worsened significantly over the past year. Years of tax-free capital gains drove a thriving investor market that often priced out owner-occupiers. More recently, the issues with affordability and regulations that constrain urban supply have been compounded by ultra-low interest rates, and a faster-than-expected economic recovery from the pandemic. Auckland is now considered one of the world's least affordable housing markets, with median house prices around 10 times median income.

In March, the government announced a series of billion-dollar measures aimed at reining in the runaway market.

### ***Tax on all housing needed to fix 'distortion of social fabric'***

*A gulf between property owners and those without their own homes is threatening NZ's social fabric, researchers say.*

A new tax is needed to help right the increasing inequity between New Zealanders who own property and those who do not, two researchers say.

Tax expert Terry Baucher and Susan St John, director of the University of Auckland's Retirement Policy and Research Centre, have written a working paper calling for a fair economic return approach to be applied to housing, which they said could generate \$1 billion a year in tax.

They said housing had become the prime vehicle for wealth accumulation in New Zealand on the back of low interest rates, readily available loans and tax-free gains.

"Housing is viewed as a tradeable commodity and store of wealth, rather than a human right or a basic human necessity.

"Accumulated fortunes in real estate enable and entrench a landed gentry whose incentives to work and contribute in a meaningful way are blunted."

But, they said, the Government had taken the view that neither a capital gains tax, land tax, stamp duty nor a wealth tax was the answer.

"Yet the widespread unease that the growing wealth divide in housing is socially damaging makes doing nothing untenable. Other tools such as bright-line tests, loan to value ratios (LVRs), and non-deductibility of interest for some landlords can be helpful, but they are by no means sufficient on their own."

They said a capital gains tax could achieve horizontal equity in theory but only if capital gains were measured on an accruals basis. It was more likely that capital gain would only be measured at sale and there would be questions for Inland Revenue to define when a person had bought and sold outside the bright-line test.

"Any feasible future CGT has no impact on the accumulated untaxed capital gains in housing that have compounded over years of neglect to date, and is thus limited, if not impotent, to address the root harm of housing inequality."

A flat rate tax on land was likely to have more of an impact on those with cheaper houses on expensive sections.

### **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

But they said a fair economic return (FER) could provide a better result. It is based on the deemed rate of return approach, under which money invested in property is deemed to have provided a certain rate of return each year, whether that had been realised or not.

The tax would apply across all residential property.

Baucher and St John said funds held in housing should generate at least as much return as money in the bank.

Shane Jones claimed New Zealand First killed off the capital gains tax in June 2019.

Under the approach, net equity – the value of the property minus any mortgages against it – is treated as if it was on a term deposit earning a rate such as 2 per cent or 3 per cent.

That return is then added to the owner's taxable income and taxed at their marginal tax rate.

Baucher said there would be an exemption of \$1 million of equity per resident, which would mean only the wealthiest top 20 per cent of property owners and absentee landlords would be taxed.

Someone earning \$150,000 a year, with a \$2m house in only their name and no mortgage, would pay about \$7800 extra in tax a year.

The FER would use official CV valuations that captured capital gain in the equity base over time.

"The FER rate itself can also be a tool that can increase progressivity. It may for instance have a possible range of 1 per cent to 3 per cent under conditions prevailing in the early to mid-2020s. It could be introduced at a rate between 1 per cent and 2 per cent and then the rate gradually adjusted upwards."

Baucher and St John said the approach would mean holding empty land and houses for future gain would not be so profitable.

"By the same token, serious landlords may find themselves encouraged under a FER approach by a lower overall tax burden and simpler, cheaper compliance. This can mitigate any perceptions that the FER is designed to attack and undermine the rental market.

"By making explicit the imputed returns from housing investment, resources are likely to be diverted from luxury owner-occupied housing and second homes, and the culture of treating housing as an investment commodity traded for gain is undermined. A better use of the existing stock should follow."

Baucher said fixing taxation of housing was the most important thing to do for the economy.

"Housing is distorting our economy and our social fabric.

"I think housing is eating our young. It's a horrendous problem. We need to change the tax settings in a way outside the box we've been thinking about."

Government policies were increasing complexity and potentially creating unintended consequences, he said.

With a value of more than \$1 trillion, housing dwarfed other asset classes, he said. "If it's seen as the only game in town it becomes the only game in town and you're heading towards a bubble.

PWC tax partner Geof Nightingale said the main problem with deemed rate of return proposals was that people did not like to pay tax when they had not made a profit.

### **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

He preferred a capital gains tax because it applied when the transaction happened. People would know what they had sold a property for and would have the cashflow to pay the tax, he said

“At least you’ve got the cash there. In certain cases with the fair economic return method you might be paying cash in a year where you’ve had negative cash flow.”

A capital gains tax with appropriate carveouts, such as an exemption for KiwiSaver or family farms, should be sellable to the majority of New Zealanders, he said.

He said whatever taxes were applied, the money generated should be recycled into tax cuts for middle earners.

### ***New Zealand House Prices Continue to Soar Despite Curbs***

New Zealand house prices continued to rocket higher in June despite central bank and government measures intended to cool property speculation.

The median national sales price of 820,000 New Zealand dollars (\$573,000) was nearly 29% higher than a year earlier, the Real Estate Institute said Tuesday.

Fewer homes were sold in June than the previous month, but median days to sell—an indicator of the intensity of demand—of 31 days was 15 less than mid-2020, it said.

"The market is refusing to cool," said the real estate institute's chief executive Jen Baird. "Today's data really points to how important it is to address the housing supply issues we have."

Record-low borrowing rates brought on by the pandemic have fueled increases in property prices world-wide. Tight supply of new housing also has contributed to New Zealand's record increases in prices, worsening a problem of home ownership becoming unaffordable for some.

The handbrake effect of tax changes that targeted property investors, as well as the Reserve Bank of New Zealand's loan-to-value restrictions, has been much more muted than hoped, said Jeremy Couchman, an economist at Kiwibank.

But price increases appear to have peaked near 30% and should diminish as mortgage rates are likely to rise sooner than previously expected, he said.

An increase in home construction should boost supply of new properties, though builders are struggling to find the workers needed to keep the building boom going, Mr. Couchman said.

### **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.