IPTI Xtracts

Property Tax and Assessment News from Around the World

NEW ZEALAND – January 2022

CONTENTS

NZ SUBURBS – PROPERTY PRICES REVEALED

One area's result was "a touch more surprising"

The New Zealand property market ended 2021 positively – with the latest CoreLogic New Zealand (CoreLogic NZ) Mapping the Market Report revealing an increase in property price growth.

The report, updated quarterly and compiled using CoreLogic NZ's comprehensive property data, showed every suburb's median value soared in 2021, with seven of the 966 suburbs on the interactive map having recorded median increases of at least 40%.

As CoreLogic NZ economists predicted, the highest increases were in and around the regions of Tararua, Whangarei, Waikato, and Napier.

"The broad-based upturn across all suburbs has reflected a set of common drivers, including low mortgage rates and historically tight supply of listings across the country," said CoreLogic NZ chief property economist Kelvin Davidson.

CoreLogic NZ economists considered the areas around the central and lower North Island as the recent "hottest" markets, reflecting their lower starting price points and better affordability compared to other areas.

Meanwhile, Rolleston's (in Selwyn) 41.7% increase in median values to $834,200 surprised the economists, considering a mountain of construction work in the area in the past year.

"While it's had a flatter performance in the past, at the moment, people are recognising better affordability and looking to buy, and that demand has begun to flow through to prices," Davidson said.

By New Year's Eve, CoreLogic NZ saw that New Zealand officially had 31 suburbs with median values of $2 million or more: 28 in Auckland, one in Wellington (Seatoun), and two in Queenstown. Additionally, only 36 suburbs had a median value of less than $400,000, while median values under $300,000 can only be found in eight suburbs – most of those located on the West Coast.

Davidson claimed that it is becoming more challenging for first-home buyers (FHBs) to find areas with affordable homes, compelling them to use their KiwiSaver funds for a deposit or seek a compromise on property type, including purchasing a townhouse rather than a standalone house.

On the bright side, realestate.co.nz's latest data found that housing stock across New Zealand had jumped by nearly 30% since December 2020, an increase of around 4,000 properties. In addition, although December is usually a quiet month, new listings on the website saw a 5.6% increase compared to 2020, with several regions having experienced a year-on-year increase in new listings: Wairarapa (up 25.7%), Manawatu/Whanganui (up 22.8%), Hawke's Bay (up 18.6%), and Southland (up 18.2%).

BRENDON HARRE CONNECTS THE LESSONS FROM HENRY GEORGE TO THE OUTRAGEOUS HOUSING PRICE PROBLEMS OF TODAY. "Rocket scientists do not forget about gravity so why do planners forget about economic rent?"

I hate the messaging in media reports such as "Will the average house price in Christchurch hit $1m in 2022?". I believe it is a fecking disaster for the young, the poor, and anyone interested in New Zealand having a productive rather than speculative economy.

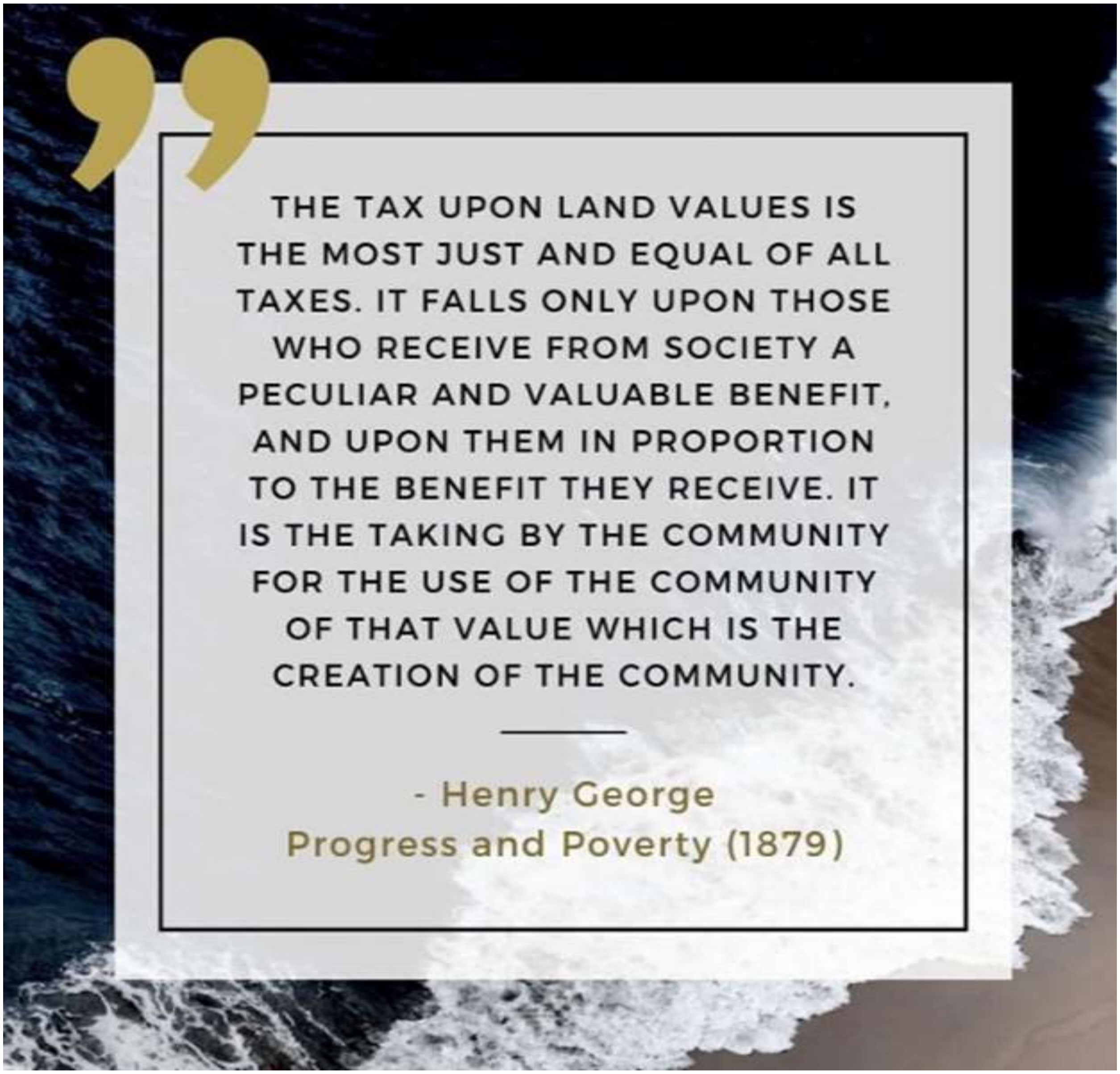
The economic effects are massive — everything from cost of living, to staff retention, and the homeless situation.

For those affected, for the young people wanting to understand why they cannot buy or even rent a house, workers interested in retaining their productivity, and society wanting to avoid a further ramping up of poverty and inequality they should make the effort to understand the underlying concepts of who profits from land.

Concepts of interest include fixed versus produced assets, economic rent, natural and extractive land rent, the unearned increment, and socialising versus privatising the gains from land.

Perhaps the best place to start is with unearned increment which is the increase in the value of land that occurs without the expenditure or effort of the landowner. Land being defined as a fixed in nature rather than a produced asset, such as a building. In New Zealand this definition of land corresponds to a properties unimproved rateable value not its improved capital value. The term unearned increment was coined by 19th century philosopher John Stuart Mill, who proposed taxing it so that it could benefit every member of society.

Mill's concept was refined and developed by the economist Henry George in his book Progress and Poverty (1879). George argued that the value of land increased as population growth expanded the division of labour. George believed that a landowner's exclusive claim on land granted them the ability to collect increasing productivity as economic rent.



George saw how technological and social advances (including education and public services) increased the value of land (natural resources, urban locations, etc.) and, thus, the amount of wealth that can be demanded by landowners from those who use the land. In other words: the better the public services, the higher the rent is (as more people value that land). Further, there is a tendency for speculators to increase land prices faster than wealth can be produced, resulting in less wealth being left over for labour, which finally leads to the collapse of enterprises at the margin, with a ripple effect that becomes a serious business depression entailing widespread unemployment, foreclosures, etc.

In the later part of the 19th century these concepts had a strong public following. George who did the most to explain these ideas to the public was a rock star economist of his day. His book Progress and Poverty (1879) sold millions of copies and arguably kicked off the progressive era of politics — not just in the US, but world-wide.

From the 1890s a series of transport and construction innovations — including the modern safety bicycle, electrified trains and trams, elevators, steel framing and reinforced concrete, and the internal combustion engine allowed cities to expand exponentially in size — both up and out.

There were also cross city and cross state technological and institutional changes supporting international trade of goods and services, the flow of labour, and investment capital. This includes refrigerated ships, containers, aircraft, long distance rail and highways, telecommunications, trade agreements, floating currencies, less war in places that previously had been ravaged by conflict, such as Europe, and so on. These inter-regional and international factors created a competitive network effect.

All else being equal, cities that were overpriced would lose population and investment growth relative to similar cities and regions that were more cost effective.

During the 20th century competition between expansion opportunities reduced the unearned increment problem meaning the Henry George economic rent concept lost its public following.

Simplified version of image sourced from — 2021 NZAE Conference paper on Uncompetitive urban land markets by Chris Parker — NZ Treasury

Land rent still existed — what this paper will call natural land rents. Favoured locations because of community growth or access to public services still had higher land values but increasingly in the early and middle parts of the 20th century that land was taxed or socialised in some form or other in a way that facilitated further community growth. The important point was the extractive rent component of land rent — the part that allowed landowners to claim the productivity of others — was contested away.

In more recent decades the political situation has swung away from city building and towards restricting community growth. So much so that the old foe of extractive land rents has returned. Unfortunately, this has not been recognised by many professional bodies as housing writer Phil Hayward notes in his article — Rocket scientists do not forget about gravity so why do planners forget about economic rent?

Restricting community growth is something that the black community in the US has long experienced. In the US the legal framework that underpins urban expansion has systematically discriminated against black peoples since the 1920s and 30s. See the book — The color of law a forgotten history of how our government segregated America

In the 1980s and 90s much of the world, including the Soviet Union and New Zealand, went through a 'free market' reform process. The promise of the period — of improving productivity, rising living standards and reducing inequality — has not been fulfilled to the level forecasted. The issue of land rent — the unearned income derived from land ownership and other free gifts of nature — may be a factor in this unfulfilled promise.

For Russia — the major constituent part of the now disbanded Soviet Union — the historic experience since the 1990s has been chaotic oligarchism followed by a re-centralisation of power under a populist, authoritarian and anti-democratic president. The economic advice detailed below about retaining natural land rent for the benefit of society was not implemented.

Over the last thirty years, for much of the world, wealth inequality has risen — most famously reported by Piketty. Yet a more detailed empirical examination of Piketty's claim that the return on capital has been greater than the rate of economic growth has indicated the problem is not with capitalism in general — but with the excessive rise in house and urban land values.

New Zealand compared to other countries has experienced one of the most dramatic transformations in house prices relative to incomes over this period. Going from a stable median house to income multiple of between three and four for most of last century to over nine in 2021. The on-the-ground reality of New Zealand's transformed housing environment has been widely recorded by the media — for instance in the podcast — The Impossible Dream of Homeownership.

The country went through substantial economic and political reforms in the 1980s and 90s, yet reforms to the issues pertaining to land rent was not part of that agenda. In fact, the institutional settings required for the acquisition of land to protect future trunk infrastructure corridors and for nation-building public works more generally have been neglected. This meant contestable natural land rents could not be unlocked.

In 1990 an open letter of economic advice was sent to President Gorbachev from a group of independent US and European economists warning of the danger of adopting features of our (Western) economies that constrains prosperity. In particular, the danger in following the West in allowing most of the rent of land to be collected privately.

Ignoring this advice was a missed opportunity — both for New Zealand and Russia.

A key concept in the advice is the natural sources of land rent.

"The rental value of land arises from three sources.

- *The first is the inherent natural productivity of land, combined with the fact that land is limited.*
- *The second source of land value is the growth of communities;*
- *The third is the provision of public services." (Note — bullet points added for emphasis)*

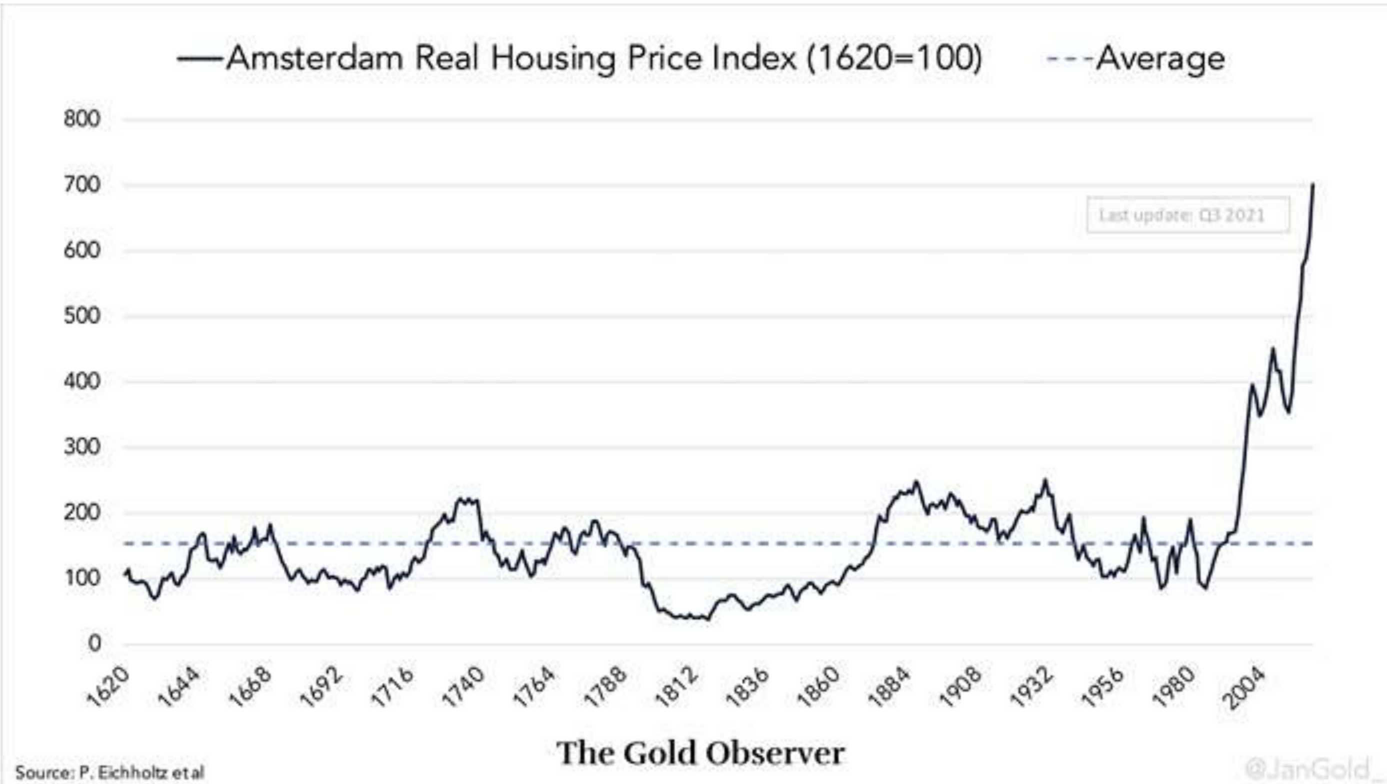
I would contend the above is true, but the experience of the last 30 years indicates there is a fourth source of extractive land rent, or perhaps better categorised as a subset of the second source — for the situation where community growth is restricted.

Importantly, unlike the first three natural sources of land rent it is possible to contest away extractive rent if public institutions enable it. This has been the underlying focus of many of my previous articles — such as.

- What is the secret to Tokyo's affordable housing?
- Tokyo does not subsidise its transport system!
- Japanese urbanism and its application to the Anglo-World
- Land Readjustment — Case Study: Kashiwonoha Campus Station

The above suggested approach to contesting away extractive rent has a strong Japanese focus — this is just one of many possible approaches, as the abundant housing series, or my Rack-Rent Housing Crisis series (which has a strong Austrian social housing focus), illustrates.

Restrictive growth can lead to uncompetitive urban land markets that allows private property owners to extract wealth and income from others. The degree that city land supply is fixed or flexible is a key determinant to the degree of extraction, as my paper What is the True Nature of Cities? notes.



Source — Amsterdam Real Housing Prices Highest in 400 Years. An Analysis of a Bubble

This paper does not contend that restrictive land supply is the only factor — a silver bullet — that determines land price inflation. Prices are set by a range of supply and demand factors. For instance, a cogent argument can be made that low interest rates have also fuelled land speculation and asset bubbles. This acknowledgment though shouldn't undermine the importance of land-use considerations. It is hard to imagine a solution to the housing crisis that doesn't include the supply of land (up and out) and the building of housing that is affordable for the regular person with a regular job.

For New Zealand policy makers an overarching strategy to city land supply should include socialising the gains from natural land rents to fund the infrastructure required so that community growth is not restricted. The focus being ensuring fiscal incentives are aligned so locational land rents are maximised whilst preventing the growth of extractive land rents. Overall, people should be priced in not out.

4 Financing Transit-Oriented Development with Land Values

Table O.1 Selected land value capture instruments

	Instrument	Description
Tax- or fee-based	Property and land tax	Tax levied on estimated value of land or land and buildings combined, with revenues usually going into budgets for general purposes.
	Betterment charges and special assessments	Surtaxes imposed by governments on estimated benefits created by public investments, requiring property owners who benefit directly from public investments to pay for their costs.
	Tax increment financing	A surtax on properties within an area that will be redeveloped by public investment financed by municipal bonds against the expected increase in property taxes. Mainly used in the United States.
Development-based	Land sale or lease	Governments sell developers land or its development rights, whose values have increased thanks to a public investment or regulatory change, in return for an up-front payment, leasehold charge, or annual land rent payments through the term of the lease.
	Joint development	A well-coordinated development of transit station facilities and adjacent private properties between transit agencies and developers, where the latter usually contribute physically or financially to the construction of the station facilities, as their property value will increase thanks to the transit investment. Used in Japan, the United States, and other countries.
	Air rights sale	Governments sell development rights extended beyond the limits specified in land use regulations (such as floor area ratios [FARs]) or created by regulatory changes to raise funds to finance public infrastructure and services.
	Land readjustment	Landowners pool their land and contribute a portion of their land for sale to raise funds and partially defray public infrastructure development costs.
	Urban redevelopment schemes	Landowners and a developer establish a cooperative entity to consolidate piecemeal land parcels into a single site that they then develop (such as a high-rise mixed-use building) with new access roads and public open spaces. The local government modifies zoning codes and increases maximum FARs in the targeted redevelopment areas (typically around rail transit stations) and finances the infrastructure. Mainly used in Japan.

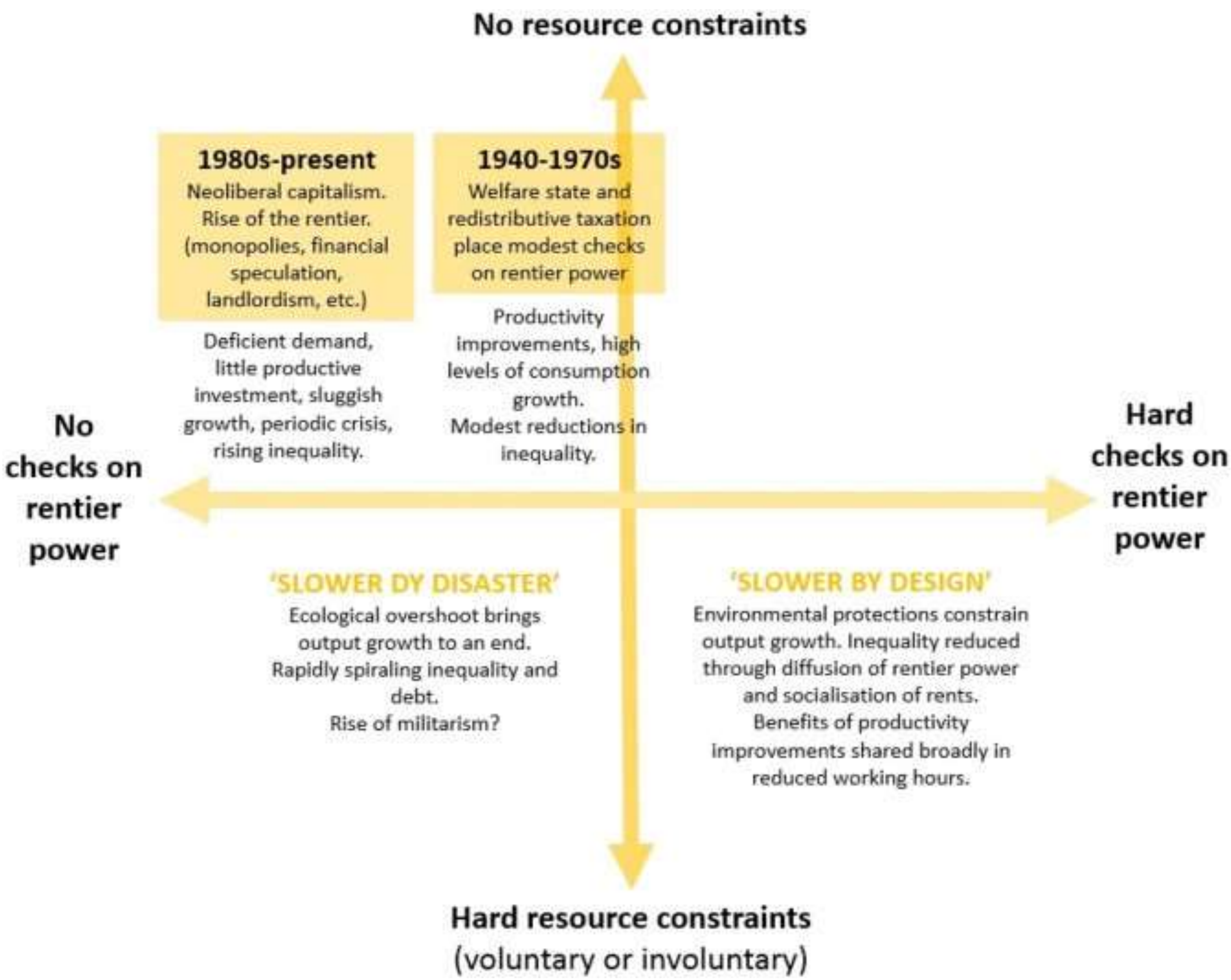
Source: Financing Transit-Oriented Development with Land Values — Adapting Land Value Capture in Developing Countries by Hiroaki Suzuki, Jin Murakami, Yu-Hung Hong, and Beth Tamayose

Socialising the gains from land rent to fund infrastructure does not have to be tax- or fee-based, such as, land value taxation or a targeted rate (local government property tax). There are many development-based land value capture tools too — land readjustment for instance, which is well used in Japan, and government land sales which funded some large colonial-era infrastructure projects in New Zealand. Another example is the successful Vienna social housing model which uses an active land bank decades in advance of actual construction. This means todays social houses are priced at yesteryear prices and future social housing will be priced at today's prices — thus the problem of speculative pricing chasing unearned income is reduced and perhaps eliminated for the most vulnerable communities in the housing market.

In the first instance, extractive land rent should be contested away. This is certainly possible in New Zealand which has plenty of contestable expansion options — both up and out. Only in situations where community growth is tightly constrained (e.g. Singapore) is there a need to fully socialise extractive land rent by the government owning the vast majority of the land in order to recycle the rent for the public benefit (see the above video link). An Australian economist has suggested for his country a hybrid Singaporean housing model could cut housing costs by 50%.

Governments should to be cautious about removing land price signals. Higher land prices from natural land rent leads to more built floor space being constructed in desirable locations if community growth is unrestricted. Urban planning theorist Alain Bertaud details examples in the Soviet Union and South Africa where governments ignored price signals leading to perversely shaped cities. Others have documented how social housing failed when governments favoured quantity over quality.

For New Zealand though the missed opportunity is allowing private interests to capture land rent pretty much entirely. Moving on from this practice would be a significant mind-shift for the country. Yet it is a strong recommendation of the author that New Zealand further investigates and analyses the issues pertaining to land rent.



Source —The Threat of Rent Extraction in a Resource-constrained Future by Beth Stratford in Ecological Economics, Volume 169, March 2020 (1)
Better understanding who profits from land (and other scarce fixed resources) has implications for the resource management system reform programme led by Environment Minister David Parker, local government reform led by Minister Nanaia Mahuta, and how this intersects with infrastructure funding and financing which is led by Finance and Infrastructure Minister Grant Robertson. In the long-term considering how rent extraction might interact with ecological resource constraints may also be important.

Foot Note:

(1) This article provides a useful and well researched perspective but it is important to note it is a UK political party aligned polemic, which the author Beth Stratford acknowledges in her paper. The use of language and the interpretation of history seems to blame the rise of rentier power onto the other side of the political spectrum. Certainly in New Zealand and probably elsewhere too, the re-emergence of extractive land rent and rentier power has been a long-term historic process that has occurred under both left and right leaning governments.

NELSON LAND VALUES JUMP 73 PER CENT IN NEW RATING VALUATIONS

Tony Alexander says his December real estate survey with REINZ shows there is reduced buyer demand, although house prices hit new records in November.

Nelson property owners should expect a big jump when they get their new rating valuations from Quotable Value (QV).

But, while values are going up since the last assessment in 2018, owners are being reassured they shouldn't see an equivalent jump in the rates bill.

The latest rating valuations for Nelson properties, which were assessed in September, are being sent to property owners, with the average house price increasing 42 per cent since 2018, taking the average value to $885,000.

Meanwhile, the average land value has increased by 73 per cent for an average of $508,000.

Rating values are reviewed every three years, and reflect the likely sales price of a property at the valuation date – in this case September 1, 2021 – excluding chattels.

The new valuations cover 22,831 properties for the Nelson City Council, and the city's total rateable value is now $22.82 billion, with the land value $12.53b.

But, while the council would use the values as the base to set rates from July 1, 2022, group manager corporate services Nikki Harrison said the increase did not necessarily mean rates bills would go up by the same amount.

That's because the amount of rates collected did not change just because rating values had gone up, she said.

"If everyone's land value went up 73 per cent and you're still collecting the same amount of rates then ... your proportion of the rates doesn't change ... We don't actually collect any more rates because of the revaluation."

What could change was the size of your proportion – so how much your rates changed would depend on how close to the average your increase was, she said.

Those whose values went up more than average could see an increase, while those who were below could pay less, she said.

QV Manager for Nelson/Marlborough, Craig Russell said the property market and lack of land for development had fuelled the large increases.

"We have seen significant growth in the residential sector since 2018 which has been fuelled by record low interest rates, a shortage of listings, and strong regional migration in addition to a number of ex-pats returning.

"The majority of value increases has stemmed from pressure on land with Nelson's geography making it difficult to develop land at scale. This has led to intensification with strong demand from developers for modest homes on larger easy to develop sites."

Lifestyle properties also saw large increases, with values going up 39 per cent to an average $1.12m, while the land value increased by 48 per cent to $650,000.

“There has been good demand for established lifestyle sections north of Nelson CBD as people seek to avoid the congested commute from Waimea/Tasman, with a shortage of listings causing stronger than expected prices,” Russell said.

The commercial and industrial sectors had moderate increases. Commercial property values increased by 14 per cent, and the industrial sector by 27 per cent, while land values increased by 31 per cent and 36 per cent respectively.

Because the valuations reflected sales prices in September changes in the market since then would not be reflected.

New rating values will soon be posted to property owners, who can then object to the valuation by March 10, 2022, if they do not agree.

AVERAGE PROPERTY VALUE IN NEW ZEALAND HITS RECORD HIGH OF OVER 1 MILLION NZD

The average value of a New Zealand home now exceeds 1 million New Zealand dollars for the first time, show statistics released by CoreLogic's House Price Index (HPI) on Wednesday.

The average price of the houses sits at 1,006,632 New Zealand dollars in December 2021, with 27.6 percent annual growth over the full calendar year, exceeding the previous record of 24.4 percent annual growth in 2003.

Among the top list cities, the average property value of Queenstown surpasses 1.5 million New Zealand dollars, the largest city Auckland sits at 1.42 million, and the capital city Wellington, 1.12 million.

CoreLogic says despite the persistently strong monthly property value increase, the annual rate of growth dropped for the second month in a row after peaking at 28.8 percent at the end of October 2021, indicating the impending market slowdown.

CoreLogic NZ Head of Research Nick Goodall contributed the remarkable year of 2021 in the property market to record-low interest rates and the easy access for most borrowers to get money from commercial banks, but he thought both these factors are changing now.

"Since the changes to the Credit Contract and Consumer Finance Act (CCCFA) on Dec. 1, 2021, which brings greater scrutiny of a potential borrower's expenses and ability to repay their loan, feedback from mortgage advisors has been very strong that the tightening has gone too far," Goodall said.

He said the changes haven't impacted all borrowers immediately, with values still rising at above-average rates, which are likely to be felt more widely throughout 2022 as rising interest rates and diminishing affordability combine to reduce borrowing capacity.

Besides the tightening financial measures for borrowers, the Reserve Bank of New Zealand started to lift the Official Cash Rate (OCR) from 0.25 percent to 0.75 percent in the past months to curb the record-high inflation. In addition, commercial banks forecast continued upward movement of OCR in the year 2022.