

# New Zealand Monetary Policy and the Residential Housing Market

The residential housing market is a critical asset in the New Zealand economy. It requires a comprehensive framework to integrate (and interrogate) current data on housing, households and house building with information on long-term macroeconomic trends. This would involve a process to compile and systematically examine, report, monitor and evaluate data to better inform policy.

Based on research by PricewaterhouseCoopers (Suzanne Snively) into the key influences of monetary policy on the residential housing market over time. It is an initial scope of relevant policy issues, evidence-based research and other data. It identifies key influences, research priorities and data gaps. The research was commissioned by the Centre for Housing Research, Aotearoa New Zealand (CHRANZ).

## Key Findings

- Housing's overall importance to the economy needs to be recognised with a more systematic, rigorous approach that evaluates the macroeconomic and housing interface.
- New Zealand's residential housing market plays a critical role in the wealth of the nation and the health and wellbeing of its population.
- Housing has many important features. It is a consumption good, an asset, an investment good, an industry and part of New Zealand's infrastructure.
- Housing is a major asset class in the economy and the biggest asset (and liability) for most households.
- New Zealand and international literature confirms that the interactions of the residential housing market in the economy are complex.
- The availability of credit has a major relationship with house prices.
- Other countries (Australia, Canada, United Kingdom and USA) are also grappling with limited knowledge and analysis of housing and macroeconomic issues.
- New Zealand has considerable but disparate data about housing and lacks a comprehensive framework to systematically assess and rigorously interrogate this data.
- More information and analysis is needed on the long-term trends in the macroeconomic and housing interface.

## Purpose and Scope

New Zealand has experienced massive increases in residential house prices (a 200 percent rise between 2000–2007), falling home ownership rates, rising household debt and falling household savings. Housing is at the forefront of the global economic crisis, be it the cause or the brunt of the boom and bust cycle. This research is an initial scope and working paper on the relationship between New Zealand's monetary policy and the residential housing market, and the implications of monetary policy on that market over time.

This research considers policy (including the Official Cash Rate – OCR) and the various 'drivers' of the residential housing market (such as credit conditions, housing supply and demand, house prices and affordability as well as the impacts of local regional and national government measures). It scrutinises recent housing phenomena and trends and evidence-based research and experience in both New Zealand and overseas. This includes recent official select committee inquiries into the monetary policy framework and house affordability.

Four countries are explored in more detail (Australia, United Kingdom, USA and Canada). It scrutinises issues of price stability, exchange rates, interest rates, the business cycle, mortgage finance and credit surges, as well as boom and bust trends. Information gaps and future research priorities are identified.

## Why Residential Housing is Important

No-one is unaffected by housing. Approximately one-third of New Zealand households own their own home mortgage-free, one-third have a mortgage and one third rent. Houses are the repository of much of our wealth; a vital amenity at the centre of social activity and community life; the basis for schooling, education and employment; and the rationale for essential

infrastructure and services (including roading, electricity, telecommunications, water, sewerage and transport). Housing is also inextricably linked to our wellbeing – house condition is a major determinant of health.

The magnitude of the influence of the residential housing market in New Zealand's economy needs to be acknowledged.

- It is an essential good consumed by everyone in some form.
- It is the biggest asset owned by most households.
- For a third of all households, their house mortgage is most likely their biggest liability.
- It is the biggest asset in the New Zealand Inc. portfolio and the biggest liability of the New Zealand financial system.
- State housing is the third biggest asset owned by the government (after the electricity and roading infrastructure).

Specifically, New Zealand's residential housing asset class was valued at \$617 billion in 2008 (RBNZ 2008). In comparison, the capitalisation of the NZ Stock Exchange (NZX) was \$54 billion (NZX 2008), and funds under management were \$74 billion.

Mortgages and/or rentals are our most regular – and often most expensive – household expense. Most household debt (92 percent) is housing debt (RBNZ December 2008). Many self-employed and small business owners work from their homes. Homes (and, in particular, house mortgages) are often the financial backing for small businesses.

The total building and construction industry employs around 178,000 people – one person in every 12 in the workforce. It contributes approximately five percent to New Zealand's GDP – the same level as the agricultural sector.

However, we have no clear understanding of how the residential housing market actually interacts within the wider economy.

## Information Sources

New Zealand has good but disparate housing data. Various agencies collect and publish information but there is no single agency or systematic process that brings all this material together to comprehensively assess it.

Current available data sources and information types include the following:

- **Department of Building and Housing (DBH)** – the tenancy bond database (weekly rent, bond amount, number of bedrooms, landlord type, house or flat) from 1987 onwards.
- **Housing New Zealand Corporation (HNZC)** – tenant's demographic and socioeconomic status; dwelling data on type, size, age, condition and location; history of tenant rent/arrears data.
- **Reserve Bank of New Zealand** – bank asset composition (relating to housing), mortgage rate data.
- **Quotable Value New Zealand (QVNZ)** – residential property sale data.
- **Statistics New Zealand**
  - Census data includes household tenure, number of bedrooms, number of people living in the house, number of storeys, household characteristics and composition, household income, ownership (mortgage, non-mortgage or rent deciles)
  - building consents issued, value of building work put in place
  - housing quality report (predominantly based on 2001 Census data)
  - household savings survey 2001 – includes asset and debt data
  - household economic survey.
- **Terralink/Terranet** – house sale data.
- **Real Estate Institute New Zealand (REINZ)** – residential property sale data.
- **Massey University** – real estate market outlook survey.
- **Building Research Association of New Zealand (BRANZ)** – code and standards research for the building industry including healthy housing index, energy efficiency, building quality and performance.
- **Beacon Pathway** – science-based research aimed at significantly improving the sustainability of the residential built environment.
- **NZ Property Council** – data on commercial property only.

Data gaps identified include: profiles of house owners and buyers (resident and non-resident); profiles of immigrants and emigrants (especially wealth); mortgage trends; property price trends and the changing ratio of property prices to other housing costs; changes in the quality of housing stock; changes in credit markets, including a desegregation of trends in mortgage finances and loan-to-value ratios (LVR).

## Framework Required

New Zealand requires a framework for analysing and understanding long-term macroeconomic and housing trends. We routinely collect good but disparate data on housing trends, household trends, building and house prices, and various macroeconomic trends. Statistics New Zealand collects Census data and undertakes household economic surveys.

But the data we have is disconnected. There is no comprehensive framework to integrate and develop this information and no formal process to assess how this major asset class interacts with and impacts on macroeconomic conditions. New Zealand needs to rigorously 'interrogate' the data and deepen knowledge and prioritise:

- routine data analysis (examination, reporting, monitoring and evaluation) of the residential housing market
- developing a more comprehensive framework for analysis of macroeconomic trends.

# RESEARCH BULLETIN

## Further Information

This bulletin is based on the report *New Zealand Monetary Policy and the Residential Housing Market – A Scoping Study Working Paper*. A copy of the report and this bulletin can be found on the CHRANZ website under “Our Publications”.

Other useful papers include:

- *What is housing – (consumption good, investment good, asset class, industry, infrastructure), and, what role does it play as an automatic stabilizer?* (July 2009) Suzanne Snively, PricewaterhouseCoopers. A copy of this paper can be found on the CHRANZ website under “Links”.

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