

Mackay ON MONEY (AND OTHER THINGS)

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY



We do live in a pretty wonderful country in so many ways. At a function recently, I managed to have a quick conversation with the Prime Minister and hopefully I got my particular point across regarding NZ's home ownership issues. John Key has an elephantine memory and along with saying "Giddy Chris", he even rattled off some figures regarding the falling home ownership statistics. It wasn't a long chat but I later reflected, that where else in the world would anyone but the inner circle get to do this with the Commander in Chief.

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Disclosure statements are available on request and free of charge.

We attended a financial services conference in Vancouver in June. Concurrently, Canadian Prime Minister Justin Trudeau was having meetings at the same hotel and boy oh boy were there secret service men for Africa and huge black limousines sporting tinted windows and bull-bars parked up and down the street. Mrs Mac went up in the lift with some burly blokes donning hearing aids and Kevlar vests and restraining a large Alsatian (called "Spot"). They weren't very discreet because they had "bomb squad" embroidered on their sleeves. Kathryn asked them if she had anything to be concerned about, but they assured her "nothing to worry about mam. It's all precautionary".

I will bet you silver ferns to maple leaves my counterpart in British Columbia would never get within cooee of Justin.

Here's some of those ownership statistics I wanted to get John Key to note.

- In 1991, home ownership averaged an all-time high of 73.8 per cent.
- It averaged 68.8 per cent from 1991 until 2003.
- By 2006 it had dropped to 66.9 per cent.

- And in 2013 it has hit a record low of 64.8 per cent.

The trend is going the wrong way and for a prosperous, happy country, we need to have more Kiwis owning their own homes.

The Statistics NZ Website has a section labelled “Why home ownership is important.” It goes on to say: “Housing is a significant part of family wealth in New Zealand, with home-ownership providing a means to pass on resources between generations. Comparative studies show the amount of family wealth tied up in housing in New Zealand is greater than in many other countries, such as the United Kingdom (Thorns, 1995) ... Secondly, health research shows that regardless of cost, housing tenure type affects the health and life expectancy of occupants. This may be partly due to an increased sense of agency – having a sense of greater control over one’s circumstances – and to factors such as tenure insecurity and housing quality (Howden-Chapman & Wilson, 1999). Renting is associated with a greater residential mobility (Statistics NZ; 2008, 2015) and evidence shows that frequent moves are detrimental to health and well-being (Howden-Chapman & Wilson, 1999). Recent research from the Growing Up in New Zealand study (Morton et al, 2014) found that between birth and nine months, “children born into families residing in private rental accommodation were the most likely to have experienced early mobility, with nearly one in two (49%) having moved at least once, compared to fewer than one in five experiencing mobility if their families were home owners. Rental housing in New Zealand tends to be of poorer quality (BRANZ, 2010; Statistics NZ; 2013, 2015). Boston & Chapple (2014) note that living in poor quality housing particularly affects children because they spend much of their time at home. Older people and people who are immune-compromised are also more vulnerable to poor quality housing.”

And there’s heaps of other reasons too. Lawns mown, trees planted, no couches on the driveway and people feeling good about their home being their castle.

Jamie Kruger Director at Homes.Co.NZ has provided me with some other research. This is based on the Big Mac (no relation) index for the cost of an average home in the following countries. For the UK, the average home costs 45,498 Big Macs. For the US, 25,287 Big Macs. Now to the Antipodes. Australia 109,091 and New Zealand 109,122. (No fries thanks!).

We Australasianz are obviously out of kilter.

On my way back from Canada, I visited Las Vegas and here’s some research on their house prices. I had been aware from discussions with a property developer mate that before the GFC, he had visited Las Vegas and witnessed subdivisions of street after street of new houses being constructed. They were affordable at up to US \$300,000. After the GFC, they plummeted and the median house price dropped to US \$110K in October 2011. They are not yet back to their pre GFC level and the June 2017 median price was US \$198K. And of course \$200K or so is far more reasonable and affordable than our Kiwi homes. There’s so much empty land over there and this means the section price of their package is lower. Our building materials seem far dearer too.

In NZ in Jafa territory in particular, house prices didn’t drop like they did in the States after the GFC. However according to a recent Rod Oram *Sunday Star Times* article, “median house prices in Auckland have risen 66 per cent in the past four years and continue to rise. As recently as 2012, some builders were saying it was still possible to build a small home for \$300,000. Now the new ‘affordable’ is fast approaching \$600,000.”

At the time of writing this article, Reserve Bank Governor Wheeler has just brought in a 40 per cent deposit requirement for residential investment property purchasers. This is a step in the right direction. But some changes to the tax treatment of negative gearing, as I proposed in the last *Vibrant Hutt* issue would be good too.

This housing issue is not just an Auckland or NZ problem though.

While in Vancouver, I discovered the average price for a Metro Vancouver detached home has increased 26 per cent since last

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October, to a whopping CA \$1.5 million. According to the *Vancouver Sun*, Prime Minister Trudeau was told (possibly while we shared the same hotel) by a number of housing experts and activists to deal with the flood of money from China distorting the local market. Trudeau was reported as agreeing “that the influx of foreign cash into Vancouver’s real estate market may be making neighbourhoods ‘inhospitable’ to ordinary families.”

Sound familiar? Well guess what?

Starting in August, foreign investment in Vancouver residential real estate will face a new 15 per cent tax in a measure aimed at cooling one of North America’s hottest housing markets.

A statement from the provincial government said the additional property transfer tax will apply to foreign nationals and overseas corporations registering the purchase of residential property in the Metro Vancouver area.

And in another article I read while over there, Vancouver Mayor Gregor Robertson said he wants to see a punitive tax on the thousands of empty houses sitting vacant in Vancouver. The intent of the tax would be to encourage owners treating their home like an investment to put them on the rental market. “Speculative, absentee buyers have been blamed for contributing to Vancouver’s lofty home prices and low rental vacancy rate.”

My daughter is doing a bit of O.E. in Vancouver and is paying CA \$1,100 per month for a tiny one bedroom “basement suite”. This is a good deal apparently but prices would go down if the Mayor got his way. The same apartment in Las Vegas would

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SPIRITUALITY

FOLLOW AN INVISIBLE TRAIL HOME

BY ROS ANNALA

You could be forgiven for thinking I've just written the impossible. Follow an invisible trail home! Really. But that's essentially what faith is. It's the power we have to believe in the unseen.

You can, of course, decide to use your faith faculty to see the world through your five senses. Then you look at the economy, your bank balance, your life as it is and you try and make the best of it.

But the exciting news is you can use your faith faculty to accomplish all the things of which you've ever dreamed. If you've ever experienced that longing for something better, if you've ever had that question lurking in your head, "is this all there is?" then I'm here to say, "Don't settle!"

There is more to life than just making it through the day, the week, the month. You are meant to be fulfilling your dreams. Those grand ideas are meant to take flight. And that's exactly why you need to develop your faith faculty.

Your dreams, your desires come from the great longings of your soul and they would not be there if there wasn't some way to



fulfill them. But, you might be saying, how can they when I don't have the money, or the time to do them. It's an invisible trail because anything that is worthwhile achieving you can't see how it can be done.

Henry David Thoreau wrote about this in his book 'Walden': "I learned this, at least, by my experiment; that if one advances confidently in the direction of his dreams, and endeavours to live the life which he has imagined, he will meet with a success unexpected in common hours. He will put some things behind, will pass an invisible boundary; new, universal, and more liberal laws will begin to establish themselves around and within him; or the old laws be expanded, and interpreted in his favour in a more liberal sense, and he will live with the license of a higher order of beings.....If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them."

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be about US \$500 per month. A 1,200 square foot home with two bathrooms could cost US \$1,250 per month.

Closer to home, data from 2013 indicates over 22,000 Auckland properties are listed as empty. Renting or selling these would solve a lot of problems. In our own backyard, Martin Davis from Fairfield made a good observation in the July 5, 2016 *Hutt News*. He said "Why is it that there has been no building on housing land where buildings were demolished over two years ago – in particular, the corner of Taita Drive & High Street, and on Naenae Road, Seddon Street, Durham Crescent & Cambridge Terrace."

Excellent point! New houses on those sites would be snapped up and would take some demand out of the market.

In the meantime, encourage your stay at home or flattening kids to put up their KiwiSaver contributions to at least eight per cent. And make additional contributions too. If they need a hand, get them to talk to an Authorised Financial Adviser (AFA). They'll need every cracker they can get their hands on for a first home deposit and they can usually use their KiwiSaver account to do just this.

We still live in the world's best country. Let's just make sure we keep it that way!

These are generalised comments only and should not be taken as personalised advice. Disclosure Statements are available on request and free of charge.



The IRD have changed the tax rules on UK Pension transfers. If you have a Personal or Company UK Pension then you need to seek urgent advice if you want to reduce the risk of a large tax penalty.

Also, the NZ Superannuation Scheme rules are changing on 1 December 2016. You need to act now to avoid the effects of these changes.

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