MacKay ON MONEY
(AND OTHER THINGS)

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY

I bought our first home in Whites Line West in 1977. I paid $20,500 and got a solicitor's mortgage for $10,500 to add to my $10,000 deposit. Older readers will recall how banks didn't want to know you in those days. Mortgages were sourced from lawyers, building societies and insurance companies. Solicitors had clients who wanted a better rate than the banks would offer, so would give their dough to their lawyers who would pool it with other punters, add a modest margin, do the conveyancing work for a standard Law Society fee and lend it out to a grateful client. It worked well, but they were usually interest only, so one didn't tend to reduce the principal at all, even at renewal dates. They were dearer than the building societies' and insurance companies' loans, but those guys only had limited money available. And the banks were noticeable by their absence.

Back in Muldoon's reign (1975 – 1984) the government would force insurance companies to invest a percentage of their assets in government and local body stock and a certain amount in mortgages. It was a total of around 30 per cent. Muldoon would tweak the figure if he needed a few extra bucks to fund a deficit.

Mortgage rates went from around nine per cent in 1975 to 17 per cent just after National was booted out in 1984, and then spiked around 1988 at over 20 per cent under Lange's reforms.

In June 1982, Muldoon brought in the wage and price freeze to try to curb the rampant inflation rate. It was like stepping on a partially filled balloon though. It didn't pop it and another bulge simply appeared somewhere else.

In 1982, Government stock rates were 13 per cent for one year and 14 per cent for three years. That year David Lange took over from Bill Rowling as Leader of the Opposition with two years to go to the election. Watch out Judith in 2021! Mark Mitchell, Shane Reti, Christopher Luxon or our very own Chris Bishop. Who will it be?

In 1982, the first Warehouse also opened in Takapuna. The official Information Act became law and *Simple on a Soapbox* author and former MP and introducer of Labour's State housing programme in the late 1930s John A Lee died. Some mature readers may remember the first state house being opened in 1937 in Miramar. John A Lee would take credit for this.

A year later in November 1983, Muldoon placed maximum limits on mortgage rates of 11 per cent for first mortgages and 14 per cent for second and subsequent mortgages.

If you could get a mortgage, it was amazing how the mortgagee would give you a very small first mortgage and a very large second mortgage.

Funny that!

Lange's Labour government abolished the wage and price freeze when they got in, in late 1984. The market found its own level and as mentioned, mortgage rates got to over 20 per cent which boomers are at great pains to point out to any millennials who are having a bitch about house prices in today's market.

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But I share the first home buyers' pain and anger. It's blimmin tough getting on the ladder, but it's not us boomers' fault. It's a combination of factors and I'll discuss them soon.

In the meantime, here's results of my survey of some mates' first home experiences.

As noted, I paid $20,500 for our first home and as a graduate accountant working for Gilfillan, Gentles, Pickles, Perkins & Co (now morphed into KPMG), I had been earning $6,100 in 1976 and earned about the same (after business expenses) as a rookie financial adviser in my second full year with National Mutual in 1977.

So, the house cost about three to four times my income. My survey of mates indicates similar multiples.

Cameron Bagrie from Bagrie Economics and ex ANZ Chief Economist, at a recent briefing put up a slide which showed since 1992, average income is up 122 per cent. House prices however are up a whopping 528 per cent. Inflation a modest 74 per cent.

He went on to show a 20 per cent deposit on a house used to be 75 per cent of annual income. It's now two years' annual income or 200 per cent.

But, at interest rates of 2.5 or 3.0 per cent, it's certainly less stressful than 20 per cent!

We all will agree though house prices are just getting silly.

We are doing a good job of transferring wealth into developers' pockets at the moment. There's a Christchurch crowd working in the Wellington region who will buy a large property, or two next door to each other if they can, pay way over the odds, demolish the existing house/s and put up as many new units as the council will allow. They often have only a Persian rug sized section and a small garage or a car pad. But they are getting snapped up for prices which a couple of years back would have encouraged a "tell 'im he's dreamin" response.

What's caused the price increases? Well, it's pretty simple. Supply and demand. Economics 101.

I've tried to research our countrywide housing shortfall and it seems to be still around 50,000 to 60,000 units. And this isn't surprising when we have been bringing in about 60,000 net immigrants for the past few years. For the year ended June 30, 2020, and this includes Kiwis coming home because of COVID-19, according to Stats NZ, there were 153,900 migrant arrivals, 74,500 departures and a net migrant gain of 79,400. And 45,500 NZ citizens arrived and 28,500 Kiwis departed. The Kiwis returning since June also get a paid two weeks vacation in a flash hotel and was estimated to cost you and me $400 to $500 million up to December 2020. It costs us taxpaying Kiwis almost $2.5 million dollars a week to house these guys in managed isolation.

How crazy! I was at a seminar recently where Dr Alan Bollard, former Reserve Bank Governor and now economist, was speaking. He put this in perspective by reminding us that most of the time, returning Kiwis were educated here at great expense to the taxpayer, left NZ in search of more dough, paid taxes in their new country and not here and now are coming back because it's not safe where they've been. If they stay here and if they've got some great skills to share – fantastic! But what's to stop them heading off again once the vaccine issue is sorted! In the meantime, you and I have coughed up millions to welcome them home.

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Net figures (arrivals less departures) for the largest groups of non-Kiwi citizens are as follows: India 10,800 (16,200 – 5,400), China surprisingly only 1,500 (13,400 – 11,900), South Africa 10,300 (no big departure figures here), United Kingdom 3,700 (7,600 – 3,900), Australia 3,500 (7,000 – 3,500), Philippines 6,900 (no large departures), and United States 2,100 leaving (they didn't make the largest group of arrivals).

The guts is that from a housing perspective, we've been letting in too many migrants, whether they're Kiwis returning or newbies, and we haven't been building enough new houses to fit them in.

Looking at some Reserve Bank research, it seems to have started around 2005.

John Key's government dropped the ball and Aunty Cindy's lot have tried to pick it up. But butter fingers like Phil Twyford knocked it on. It's now trapped in a collapsed scrum. You'd think some public servants doing their job and getting paid far too much at that, would have blown the whistle before we mixed our metaphors and it all turned to custard.

It's pathetic. What do we pay these guys for?

This is the conversation the overpaid officials should have been having.

"Prime Minister, we've been doing some calculations on the back of an envelope. You are bringing in 60,000 net immigrants a year. This is making GDP growth look

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great. However, let's assume three people per household. That means we need 20,000 new houses. But we are only building less than 10,000 new homes or units each year.

"In other words, and Prime Minister I've had this verified by one of the big accounting firms at a fee of about a million dollars, so it must be right, New Zealand Inc is short of about 10,000 new houses per year. And for another million dollars, they confirmed this will create a shortage of (around 50,000 to 60,000 by 2020) houses and therefore prices will go through the roof if you'll excuse the pun Prime Minister. We need to either start building thousands of social housing units to take the pressure off, or drastically reduce immigration." I can only conclude our overpaid top public servants said nothing, or else the Nats simply didn't do their own calculations. Perhaps Paul Goldsmith was doing the numbers.

I've been reading an undated paper by Jane Thomson, Department of Social Welfare titled "The Policy of Land Sales Control: Sharing the Sacrifice". This has been the source of much of the following.

After the First World War, when our boys were coming home from Europe, there was uncontrolled inflation and much speculation in land causing a huge spike to prices. The government didn't want this to happen again when our troops came home in 1945 and 1946.

The official post Second World War housing shortage was 25,000 but was really much higher. State house applications numbered 48,000 in 1946 and [according to the NZ Year Book] 52,333 in 1947-48.

Jane Thomson quotes A. P. Postlewaite, president of the Auckland RSA who indignantly pointed out in 1946, 'men who had been decorated by the King were living in backyard hovels, and in some instances their wives came out of maternity hospitals and had to boil hot water on makeshift backyard fireplaces in order to bath their newborn babies'.

The government brought in fair rents legislation which prevented uncontrolled exploitation of tenants, but fair rents were still well above state house rentals and by 1948, about twice as high.

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Peter Fraser's Labour government also brought in a Muldoon type bit of legislation; the Servicemen's Settlement & Land Sales Act, which stabilised the price of residential land and houses at 1942 values. In other words, a price freeze for selling an existing house. You couldn't sell it for more than it was worth in 1942.

But the government couldn't hold building costs.

Here's what it cost to build a square foot of house in Lower Hutt in October 1946 – 35 shillings. That's about $35 per square metre.

In 2020, depending on where you look, it could be $2,200 per square metre for bottom of the range up to $6,000 for a house on a hillside (according to a colleague who has just built in Christchurch).

Back to the rising costs of building in the 1940s. An existing home was a lot cheaper because it had to sell at 1942 prices. Valuers must have had a ball in those days establishing 1942 values for any vendor.

We had a neighbour when I was a kid, who told me in order to buy his house in the late 1940s, he had to pay the vendor a few hundred quid under-the-table. The official price was the 1942 value.

According to Jane Thomson, 'In 1946 – amid revelations that people were paying hundreds of pounds for door mats and kitchen tables in order to secure a house at valuation – the government introduced draconian measures intended to stop black market payments… According to an 'authority' quoted in the *New Zealand Herald* in June 1947, under-the-table payments still took place in more than 90% of property transactions.'

Those returning diggers were a pragmatic lot!

Anyway, as we know, thousands of state houses were built and Lower Hutt was a beneficiary of huge developments in Naenae and Taita. All over New Zealand, this took the pressure off the house shortage and the market eventually stabilised.

National in the 1950s enabled tenants to buy the properties they had been renting. Labour is doing this now I understand and this is good. Ownership of your own home is so good for society. A country of renters is a great way to start a revolution.

Whether it's the price of houses, or interest rates, or multiple incomes, in 1991, home ownership was sitting at 73.8 per cent. In 1996, it was 70.7 per cent. In 2001, 67.8 per cent. I can't find the ones in the middle, but in 2020, it's estimated to be 64.29 per cent. So, this is a worrying trend.

The Reserve Bank's removal of LVRs earlier this year has been a dumb move. That and lots of cheap money has done first home buyers no good, as investors have pushed their way into that lower end of the market.

I wrote to the Reserve Bank back in April 2020 when they wanted some feedback and this is what I said:

"RBNZ is considering relaxing the current LVR rules for bank lending. If you are trying to increase the numbers of first home buyers entering the market, this is a great idea. But, don't extend the relaxation to investors. They are the ones predominantly who are competing with the first home buyers, and a relaxation, through more potential buyers in the market, will simply push up the prices of these entry level properties. If you want to

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make it even more difficult for young kiwis to buy their first homes, relax the rules for investors. If you want more first home buyers to be able to get in to their first home, relax the LVR rules for them."

I got a pleasant TIF reply; they obviously didn't listen and as a result have created a property boom. They are now backpedalling and from March 2021 are doing what I suggested earlier in the year.

Another thing the government could do would be to reduce the valuation cap on properties for first home buyers, so KiwiSaver buyers could access the $5,000 First Home Grant.

Repealing the Resource Management Act, relaxing various councils' onerous new build requirements, re-zoning land that would be suitable for subdividing and perhaps some land tax on those landbankers would be helpful too.

Some commentators believe rebating the GST component of new home builds for first home buyers would be beneficial. If the house were to be sold within say five years, the GST refunded would have to be paid back.

Some outside the square thinking and non pubic servant brain storming might be efficacious too.

Let's get more Kiwis into their first homes!

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P.S. In my last article, I noted ***the Hutt News*** hadn't done any investigative journalism regarding the events surrounding Mayor Barry's property purchase in Wainuiomata in March 2018. It is important voters know if he had been at any non-public meetings, briefings or presentations concerning a possible development of Upper Fitzherbert Road before he and the others bought the property.

It turns out the property he bought in Upper Fitzherbert Road, Wainuiomata was bought in April 2019, so I apologise for my error. What is annoying though, is ***the Hutt News***, our local rag has still not published any article regarding Mayor Barry's house purchase along with the three others, despite the *Dom Post's* very interesting piece of journalism published on September 5, 2020. *The Hutt News* normally regurgitates anything in the *Dom Post* that is vaguely related to any Hutt events, but for some reason has not done so on this topic.

It would be wonderful if the voters in Lower Hutt could definitely know whether there's anything they should be concerned about. Many people are suggesting that an independent investigation would be appropriate.

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