



**15 September 2008**

## **Housing policy treats symptoms not cause**

National has released their housing policy, which tinkers around the edges of housing availability, but does not address the reasons for our inflated house prices. The New Zealand Manufacturers and Exporters Association (NZMEA) say that the record breaking housing bubble in New Zealand is due to a mix of investment biases and easy credit flooding into New Zealand as a result of our single minded approach to monetary policy. The reaction to this combination of forces could see house prices slump by over 25%.

The policy focuses on the availability of land and state assistance for first homebuyers to try to increase housing affordability. While these initiatives will help, they do not address all the reasons for our housing boom. Property investors can simply claim a capital transaction to avoid being taxed, fuelling the housing bubble.

NZMEA Chief Executive John Walley says, "First home buyers have effectively been priced out of the market by property investors. Increased prices support inefficiencies and higher margins in the supply chain, and higher costs get locked in. House prices in New Zealand have risen by 70% relative to household income since 1999, which is the largest increase in the developed world.<sup>1</sup> We need to see more balance in our tax system to remove housing incentives. Investment in housing does little for the real economy as productive investment is starved and generally productivity falls."

As Alan Bollard has mentioned, demand for housing has dipped away substantially. He expects house prices to dip about 15% during this housing slump, however, the outlook could be much worse. Consumer spending is likely to dip further as people prefer to save or reduce debt.

"These conditions leave the conclusion that demand will fall. Graham Beale, Chief Executive of the Nationwide Building Society in Britain, has predicted a 25% dip in UK house prices, and their bubble was smaller than the one in New Zealand, so we might expect a larger drop here," says Mr. Walley.

"We need to see policy changes that provide balance and encourage investment in productive activity to create real and permanent benefits to our economy."

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<sup>1</sup> The Economist, 'Structural Cracks', May 22 2008