New Zealand Research Report

April 2021

New-Builds, Build-to-Rent and Commercial Property the winners from new housing policies?

The government has announced a raft of new housing policies aimed at cooling residential demand and boosting supply. While investors of existing residential properties look to be the target, discussion is mounting on the benefits the 'new-build' residential, Build-to-Rent (BTR) and commercial property sectors may receive.

We provide a review of the government's recent housing policy announcement and potential implications. A full version of the government announcement is available at beehive.govt.nz

First Home Buyers receive more support

First Home Buyers are to receive a lift in assistance via an extension of the First Home Grants scheme with income and house price caps to be lifted.

- Single buyers earning up to $95,000 will now be eligible for the scheme, up from $85,000 previously, while the limit for two or more people buying together is to rise from $130,000 to $150,000.

New-builds and BTR sector also get more support – probably

There is still a lot of consultation to be done in this area, but there are some expected outcomes that will likely boost residential new builds and BTR sectors.

- The purchase of new-build properties has been incentivised via the maximum value of the First Home Grant set at $10,000 versus $5,000 for existing premises.
- The eligibility value cap sits higher for new-builds than that for existing premises. See table below for values by region.
- The purchase of a new-build property, after March 27th 2021, seemingly also carries an additional incentive with the bright-line test period continuing to be capped at five years in comparison with 10 years for existing residential property.

First Home Buyer Grant Value Cap

Region	Existing Property Cap	New Build Property Cap
Auckland	**$625,000**	**$700,000**
Queenstown-Lakes District	**$600,000**	**$650,000**
Wellington City, Hutt City, Upper Hutt City, Porirua City, Kapiti Coast District	**$550,000**	**$650,000**
Nelson City, Tasman District, Tauranga City, Western Bay of Plenty District, Hamilton City, Waipa District, Hastings District, Napier City	**$525,000**	**$600,000**
Christchurch City, Selwyn District, Waimakariri District	**$500,000**	**$550,000**
Waikato District, Dunedin City	**$425,000**	**$550,000**
Rest of New Zealand	**$400,000**	**$500,000**

Source: Ministry of Housing and Urban Development, Colliers Research

- The treatment of interest deductibility with new-builds may, again, differ from the balance of the market, but this is reportedly up for further consultation.
- The BTR sector seems also likely to benefit – potentially both existing and new-builds – due to the government's desire to introduce more supply of higher quality rental accommodation. However, consultation is underway for more 'definitive' guidance.

Investment sector given pause for thought

The policy changes are likely to cool investor demand for existing residential property through the extension of the bright-line test and the removal of interest deductibility allowances. The impact will vary across the country, but it is likely that values are likely to flatten across most regions while value declines cannot be discounted.

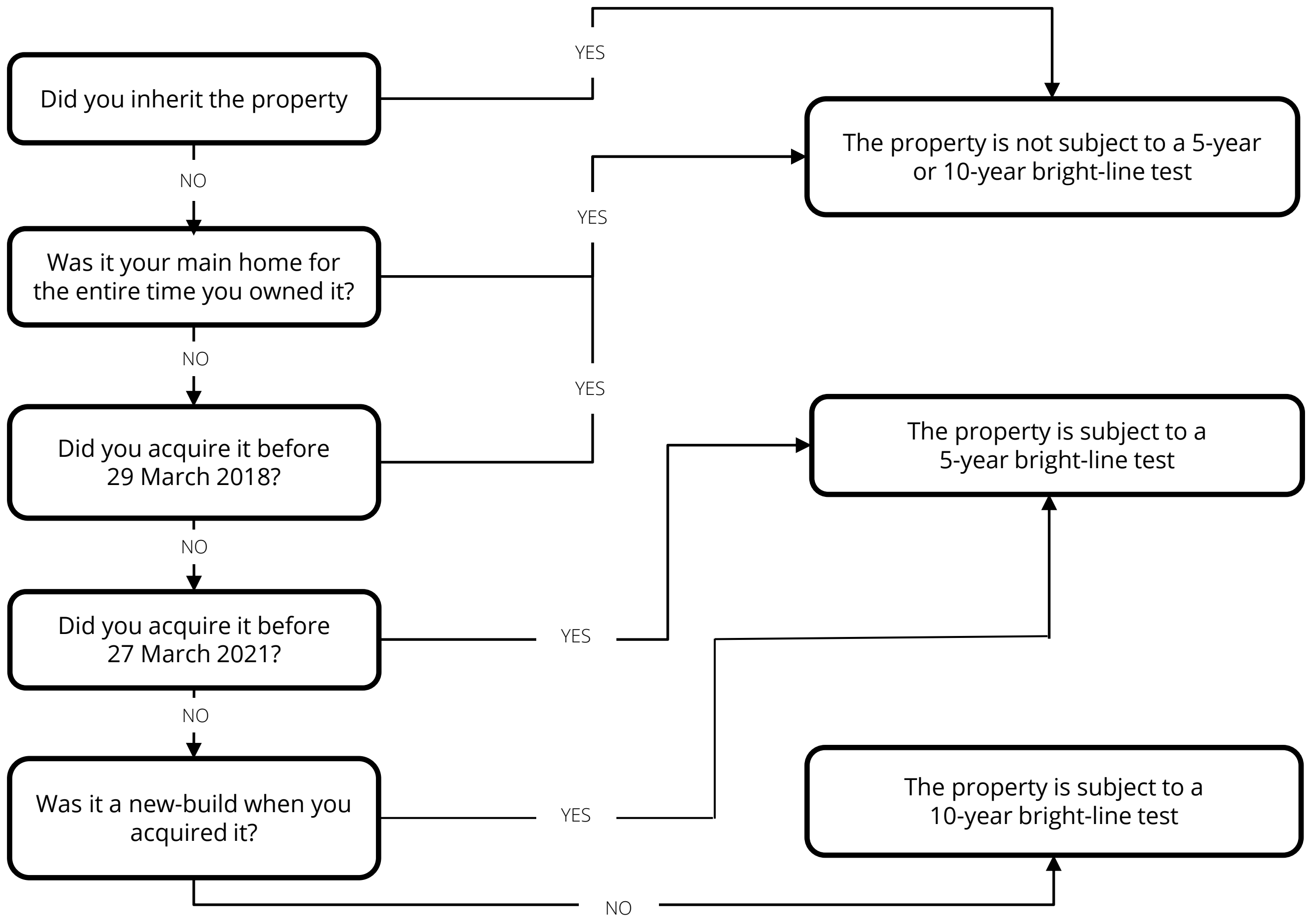
- One key change for investors is the bright-line test is to be extended from its current five years to 10 years for existing residential property.
- Those falling under one of the scenarios showcased in the accompanying flow diagram from IRD showing proposed changes are liable to pay tax on any capital gain at their marginal tax rate – reportedly a higher rate than almost every other country in the OECD.
- The tax position of investors will also change significantly with the right to offset interest costs against income derived from their property to be removed. The change comes into force immediately in respect of properties purchased after March 27th 2021, while it will be phased out over four years in relation to properties owned prior to this date.

New fund to boost the provision of infrastructure & supply

Almost $6 billion has been allocated to boost supply and training.

- The construction sector is to be incentivised to increase new housing supply via the introduction of a $3.8 billion Housing Acceleration Fund which is to be used to fast track the provision of infrastructure for development land.
- Government to support Kainga Ora to borrow $2 billion extra to begin land acquisition programme.
- The Apprenticeship Boost initiative is also to be extended in a bid to upskill workers and reduce capacity constraints

Bright-line Test Proposed Changes



Source: Internal Revenue Department, Colliers Research

Commercial property and syndication likely to be attractive alternative

The changes to the residential investment landscape will see alternative strategies explored by an increasing number of investors with commercial property and syndication likely to be beneficiaries.

- Commercial property sales are not subject to the bright-line test while depreciation can be claimed on the buildings themselves.
- The 'buy-in' cost may not be too dissimilar to what some residential investors are already committing. Approximately 65%* of all commercial and industrial assets nationally sell for $1 million or under.
- The industrial sector generally accounts for around 50% of all commercial sales by volume on an annual basis. This is a sector viewed as a safe haven for investors given the strong occupier fundamentals and stability in long-term returns.
- An alternative means of gaining exposure to the commercial property sector is syndicated property offerings. Lower entry prices of between $10,000 and $50,000 for retail investors, relatively hands-off investments and potential additional tax benefits with PIE schemes.

Other considerations:

- Further guidance will be required for how mixed-use properties will be treated under these new policies.
- Interest rates are likely to be lower for longer. A lower value growth trajectory for residential property prices may reduce the pressure on the Reserve Bank to increase interest rates.
- Retail property may feel the brunt of lower spending as the 'wealth-effect' from residential property price rises wanes.
- Residential rents could rise as many landlords relied upon capital gains and tax benefits to provide desired returns from their residential investments. With capital gains now likely to be limited and tax benefits curtailed, investors will be more reliant upon rental income. The government has not ruled out rent controls.
- With the family home carrying no bright-line test implications, there is an added incentive to maximise its value through upgrades, refurbishment and extensions.

**5 – Year Average, Source: CoreLogic, Colliers Research*
Note: Investing in commercial property differs in many respects from the residential sector. Investors new to the sector should ensure that full due diligence and expert advice is sought prior to purchase.

New Zealand Economic Indicators Table

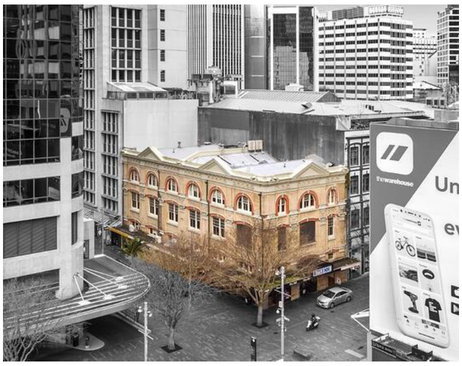
	Dec-20 (vs. previous quarter)	Sep-20 (vs. previous quarter)	Q-o-Q Change	Dec-20 Vs Dec-19	Dec-19 vs. Dec-18	Y-o-Y Change	March Quarter 2021F	2022F	2023F
GDP	-1.0%	13.9%	-14.8%	-0.9%	1.7%	-2.6%	1.2%	2.5%	3.4%
Current Account (% of GDP)	NA	NA	NA	-0.1%	-3.3%	3.2%	-0.4%	-2.7%	-3.8%
Retail Sales (ex-auto)	1.4%	24.7%	-23.3%	8.6%	3.9%	4.8%	3.6%	9.1%	4.2%
CPI Inflation	0.5%	0.7%	-0.2%	1.4%	1.9%	-0.4%	1.5%	1.3%	1.8%
Net Migration Change (000's)	2	3	-1	39	73	-34	8	9	15

	Dec-20	Sep-20	Q-o-Q Change	Average Year To Dec-20	Dec-19	Y-o-Y Change	March Quarter 2021F	2022F	2023F
Unemployment Rate	4.9%	5.3%	-0.4%	4.6%	4.1%	0.5%	4.8%	4.3%	3.9%

	Feb-21	Jan-21	M-o-M Change	Feb-20	Y-o-Y Change	10 -Year Average	March 2021F	2022F	2023F
Official Cash Rate	0.25%	0.25%	0 bps	1.0%	-75 bps	2.01%	0.25%	0.25%	0.25%
90 Day Bank Bill Rate	0.28%	0.28%	0 bps	1.2%	-90 bps	2.2%	0.4%	0.4%	0.4%
10 Year Government Bond	1.5%	1.0%	42 bps	1.3%	18 bps	2.9%	0.6%	1.3%	1.8%
Floating Mortgage Rate	4.4%	4.4%	0 bps	5.3%	-88 bps	5.8%	4.4%	4.4%	4.4%
3 Year Fixed Housing Rate	3.3%	3.3%	-1 bps	4.5%	-121 bps	5.5%	NA	NA	NA
Consumer Confidence	113	114	-1%	122	-7%	119	NA	NA	NA
NZD vs:									
US	0.72	0.72	1%	0.64	13%	0.74	0.71	0.69	0.67
UK	0.52	0.53	-1%	0.49	6%	0.51	0.52	0.50	0.47
Australia	0.93	0.93	0%	0.96	-3%	0.90	0.93	0.90	0.88
Japan	76	75	2%	70	8%	76	73	71	71
Euro	0.60	0.59	1%	0.59	2%	0.61	0.58	0.61	0.63

Source: NZIER, Colliers Research

Recent Commercial, Industrial and Vacant Land Transactions



8 Darby Street, Auckland Central

Auckland Region | $10,200,000| 4.8%

367 Moorhouse Avenue, Christchurch

Canterbury Region | $2,390,000 | 6.8%

76 De Havilland Drive, New Plymouth

Taranaki Region | $2,210,000 | 5.4%

10 Midas Place, Middleton

Canterbury Region | $2,100,000 | 5.7%

9 Wilmer Street, Christchurch Central

Canterbury Region | $3,620,000 | 5.2%

125-127 Central Park Drive, Henderson

Auckland Region | $3,655,000 | 4.8%

Unit M, 21 Poland Road, Wairau Valley

Auckland Region | $1,020,000 | 4.8%

70 Tamahere Drive, Hamilton

Waikato Region | $6,325,000

Unit 1, 367 Great North Road, Auckland

Auckland Region | $1,350,000

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