POLICY POINT

# Misdirection on housing affordability unhelpful

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## Introduction

New Zealand has long struggled with housing affordability. Since 2000, real house prices nearly trebled. House price growth in New Zealand over the last two decades has in fact been amongst the highest in the OECD.

The issue is complex, but a lot is known about how the housing market works. For instance, supply constraints are particularly important in New Zealand. Housing demand is also likely to be strong at the moment for various reasons.

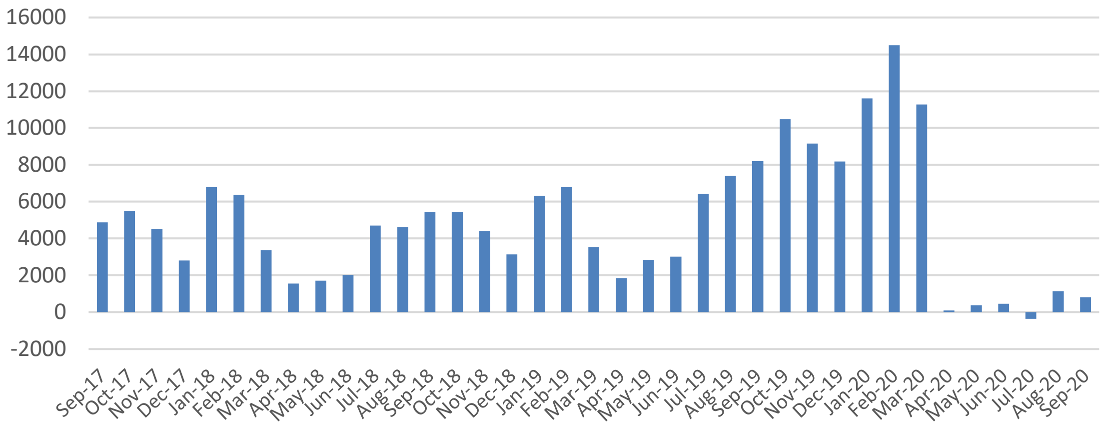
Prime minister Jacinda Ardern joined this debate in a recent interview with radio presenter Mike Hosking. Asked if she was worried about housing, Ardern pointed to the current record levels of home lending and suggested that "a lot of that will be, probably, New Zealanders coming home."

Ardern is correct that net migration can stimulate housing demand and increase house prices under certain circumstances. All else being equal, a growing population needs more homes. But new data released by Statistics New Zealand suggests the role of net migration in house pricing at present is overstated. More significant factors are pushing up demand. On top of this, Covid-19 restrictions have reduced the flow of new housing.

## What the data says

Figure 1 shows estimated monthly net migration flows between September 2017 and September 2020, as released on 12 November, 2020.

**Figure 1: Estimated monthly net migration, September 2017 - September 2020**




Source: Statistics New Zealand

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A migrant arrival is defined as a person who spends 12 of the next 16 months in New Zealand after arrival. The converse defines a migrant departure (those who spend 12 of the next 16 months outside New Zealand after departure). Short-term people flows are not included in the measure of net migration.

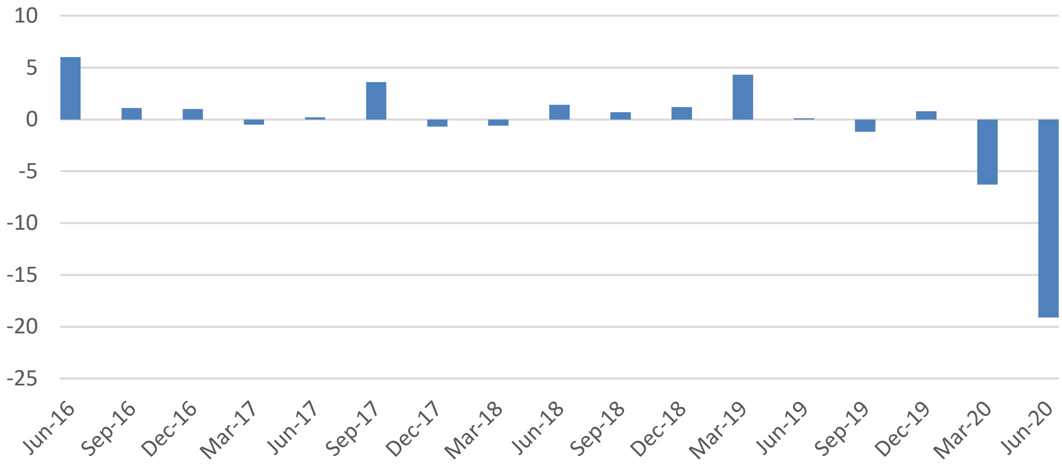
Net migration flows measure the movements of New Zealand citizens and non-citizens. Both groups need housing and can put upward pressure on house prices. Citizens are more likely to go on to own housing assets than non-citizens. But increased demand for rental accommodation also puts upward pressure on house prices.

Estimated net migration in the year ended September 2020 was 67,700. This was somewhat above average for the same period over the last few years. However, nearly all of this (65,200) took place in the six months leading up to border restrictions.[1]

Border restrictions and capacity constraints at managed isolation and quarantine (MIQ) facilities have led to a significant decline in net migration this year. In the six months from April-September 2020, total estimated net migration totalled only 2500. The figure was almost twelve times higher (29,700) for the same six-month period in 2019.

It therefore seems unlikely that net migration will have a significant effect on the housing market at present or in the near future.[2]

**Figure 2: Residential building work put in place, seasonally adjusted percentage change in quarterly volumes, June 2016 – June 2020**




Source: Statistics New Zealand

On the supply side of the equation, Covid-19 restrictions paused the construction of new houses and so reduced growth in overall housing supply. Figure 2 shows quarterly changes in residential building work between June 2016 and June 2020. In the latest two quarters of 2020, for which data are available, building work put in place fell by 6.3% and 19%, respectively.

[1] Due to how net migration is measured, migration for the end of 2019 and early 2020 may be overestimated. As those people who arrived before border and travel restrictions stay longer than anticipated they are more likely to be estimated as a migrant arrival. However, they may still end up leaving before reaching the cut-off point for classification. If not overestimated, the spike in net migration could still increase owner-occupied housing demand today. The extent depends upon the length of the lag between arrival and subsequent house purchase.

[2] Expectations of a large surge in net migration when border and travel restrictions ease, for example from returning New Zealanders, could increase housing demand in anticipation. Presumably this effect might also work in reverse for overseas-born people living in New Zealand.

The larger fall in the June quarter reflects 16 lost working days in April due to Level 4 restrictions. Level 3 restrictions were in place for a further 12 working days of the June quarter.

## Conclusion

House prices and housing costs more generally have grown rapidly for decades but income growth has not kept pace.

Many complex factors can influence the supply and demand of housing. But, most economists highlight supply constraints as the major concern. The Resource Management Act and urban planning rules constrain supply and increase the time and cost of housing development. New Zealand also has stringent restrictions on foreign direct investment which also limits construction.

It may be tempting to suggest net migration is a key driver of house price growth at the moment. After all, migration is only weakly influenced by policy makers.

However, it is far more likely that accommodative monetary policy is increasing housing demand. The Reserve Bank is undertaking a $100 billon programme of quantitative easing. The Official Cash Rate (OCR) is also now at a record low, reduced from 1% to 0.25% in March. These two decisions alone will raise the returns from investment in housing and increase pressure on house prices, particularly as supply is constrained.

If the New Zealand Government cares about fixing housing affordability, it best start by being clear on the reasons for those high prices.