

Massey & PINZ Property Seminar

*Rural House Prices:
Capital Transfers or
Local Economic Growth?*

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- Associate Director, PwC Real Estate Advisory
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- Property Advisor of the Year (2021)
- PhD Urban Studies (underway)
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- The only dedicated Real Estate Advisory offering across the 'Big 4' consulting firms
- 25-strong team across our Auckland & Wellington offices
- Our work spans valuation, strategic advisory, transactions, property finance and much more...
- We're hiring!

Why does it matter?



National affordability

Increases the overall affordability challenges of housing, lowering choice



Rural affordability

Increases affordability challenges in rural areas specifically



Labour market challenges

Compounds existing challenges to attracting rural workers

BUSINESS

House prices now 10.5 times median disposable income, ANZ economists say

ANZ says it is a long road back to levels where houses will be considered "affordable".

29 Jul, 2021 05:12 PM

🕒 4 minutes to read 



House prices through the roof

Local News > House prices through the roof
by | 13 May, 2021 | Local News

Property experts across the region said people were increasingly choosing to move to Wairarapa. PHOTO/STOCK.ADOBE.COM Wairarapa property prices continue their relentless climb, with demand outstripping supply in all three districts as population increase puts pressure...



Getting to the core of the problem

Local News > Getting to the core of the problem
by | 18 Mar, 2021 | Local News

PHOTO/FILE 100 workers hand-picked for orchard Reprieve for dire worker shortage A Wairarapa orchard has received a boost of 100 new seasonal workers for the beginning of its harvest season through a Ministry of Social Development scheme. One hundred people, formerly...

Two perspectives...



Definitions

Rural House Prices:
Capital Transfers or
Local Economic Growth?

The price of residential property in regional areas, outside of major urban conurbations

The movement of financial assets outside of metropolitan areas for the purchase of housing

Organic growth in jobs, population and incomes within a rural area with limited causation from outside sources

Capital transfers

- Difficult (impossible?) to track!
- Constantly moving
- Multiple ('justifiable') reasons to move capital into residential property
- Definitions blurred by mixture of equity and debt
- Necessity of capital transfers for economic growth



Approach

$$\begin{array}{ccccc} \text{House} & & \text{Exogenous} & & \text{Endogenous} \\ \text{price} & & \text{factors} & & \text{factors} \\ \text{inflation} & = & \text{(capital} & + & \text{(local economic} \\ & & \text{transfers)} & & \text{growth)} \end{array}$$

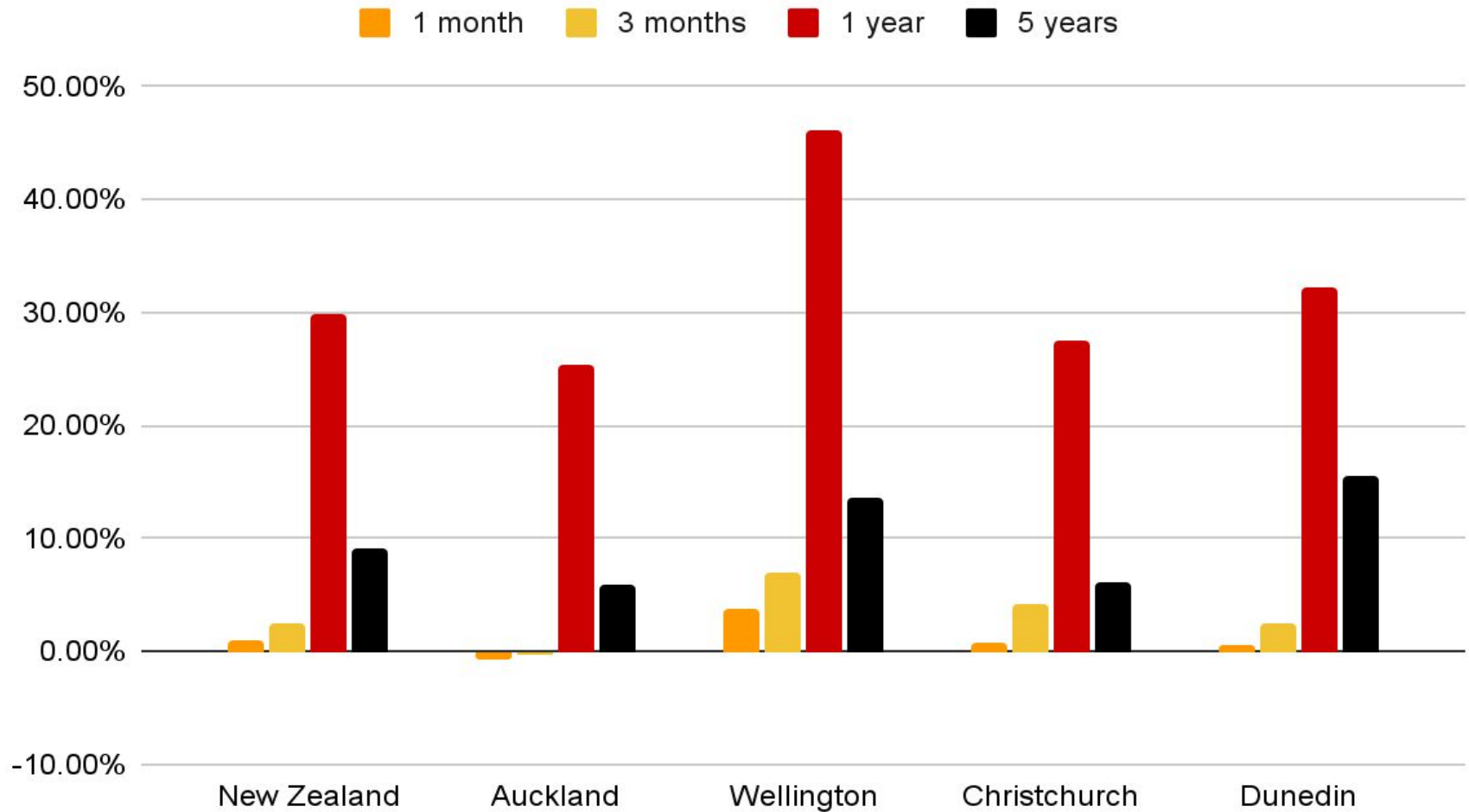


$$\begin{array}{ccccc} \text{Exogenous} & & \text{House price} & & \text{Endogenous factors} \\ \text{factors} & & \text{inflation} & - & \text{(local economic} \\ \text{(capital} & = & & & \text{growth)} \\ \text{transfers)} & & & & \end{array}$$

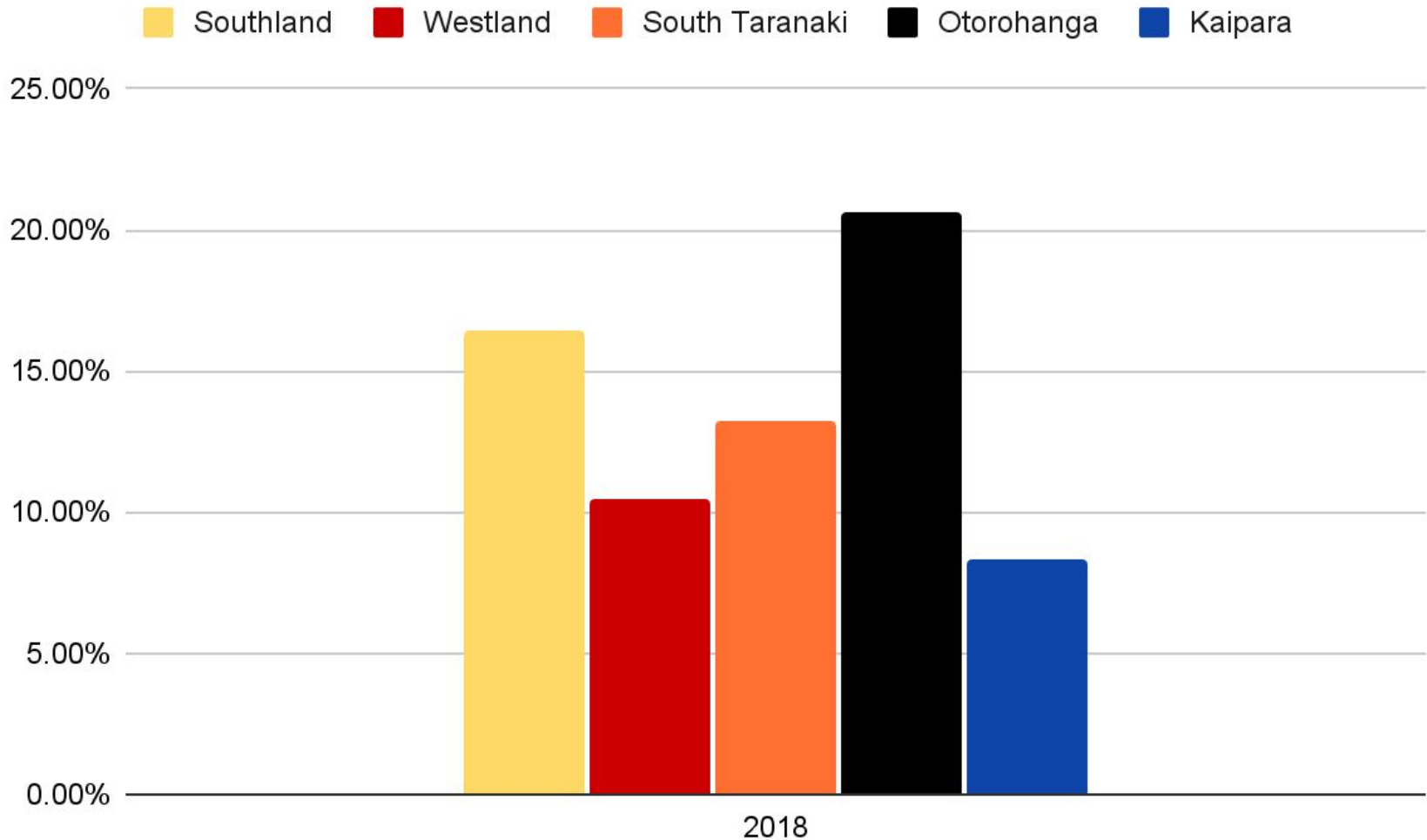
Other factors

<i>Transport links</i>	<i>Housing supply</i>	<i>Land supply</i>	<i>Change of use</i>
<i>Local planning</i>	<i>Building condition</i>	<i>Investment conditions</i>	<i>Interest rates</i>
<i>Rental market conditions</i>	<i>Credit availability</i>	<i>OIO regime</i>	<i>Intergenerational transfers</i>
<i>Savings & retirement policies</i>	<i>Alternate investments</i>	<i>Government policies</i>	<i>Construction market</i>

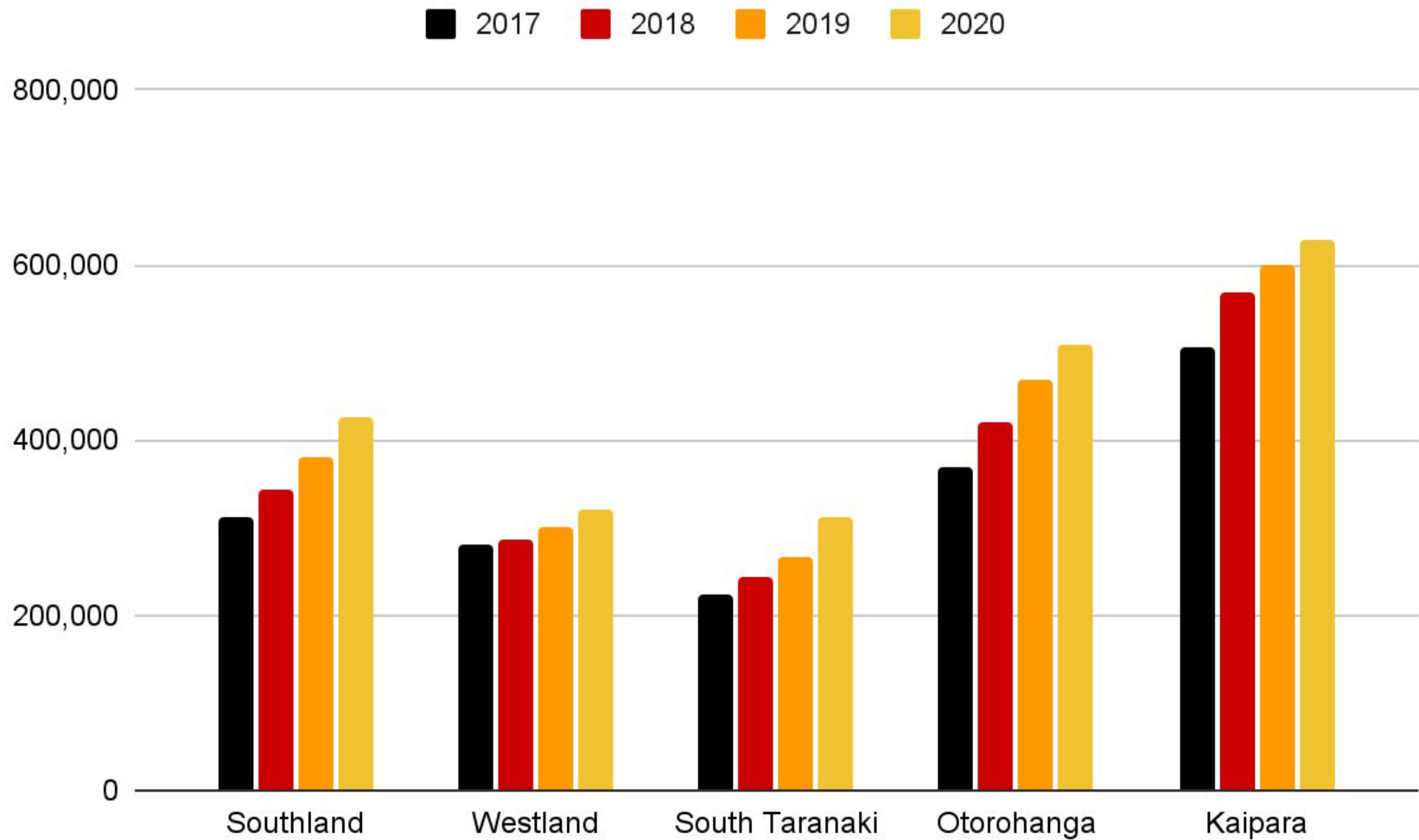
House prices - general trends



Rural areas - dairy farming %age of LA GDP

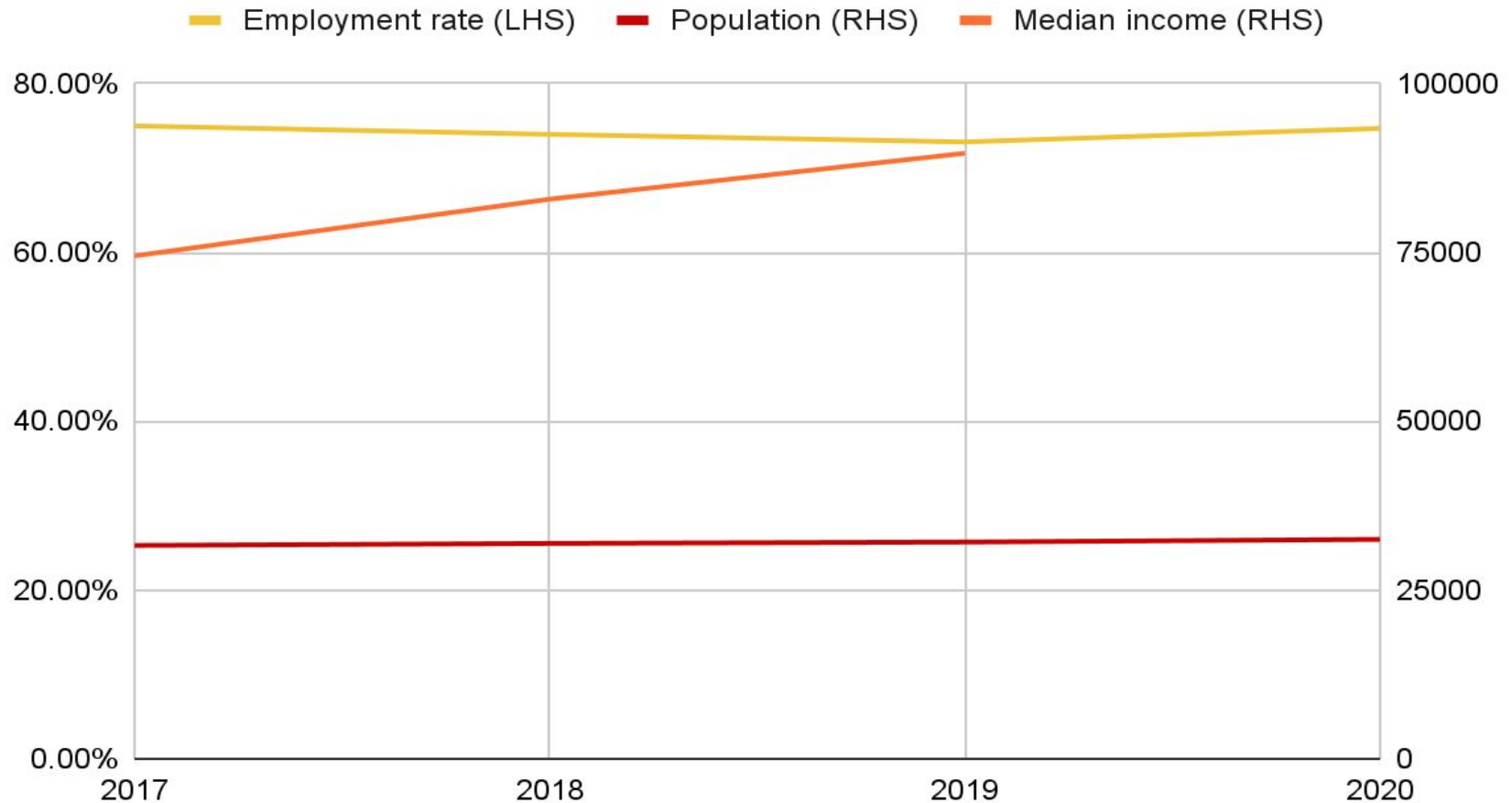


House prices - rural trends



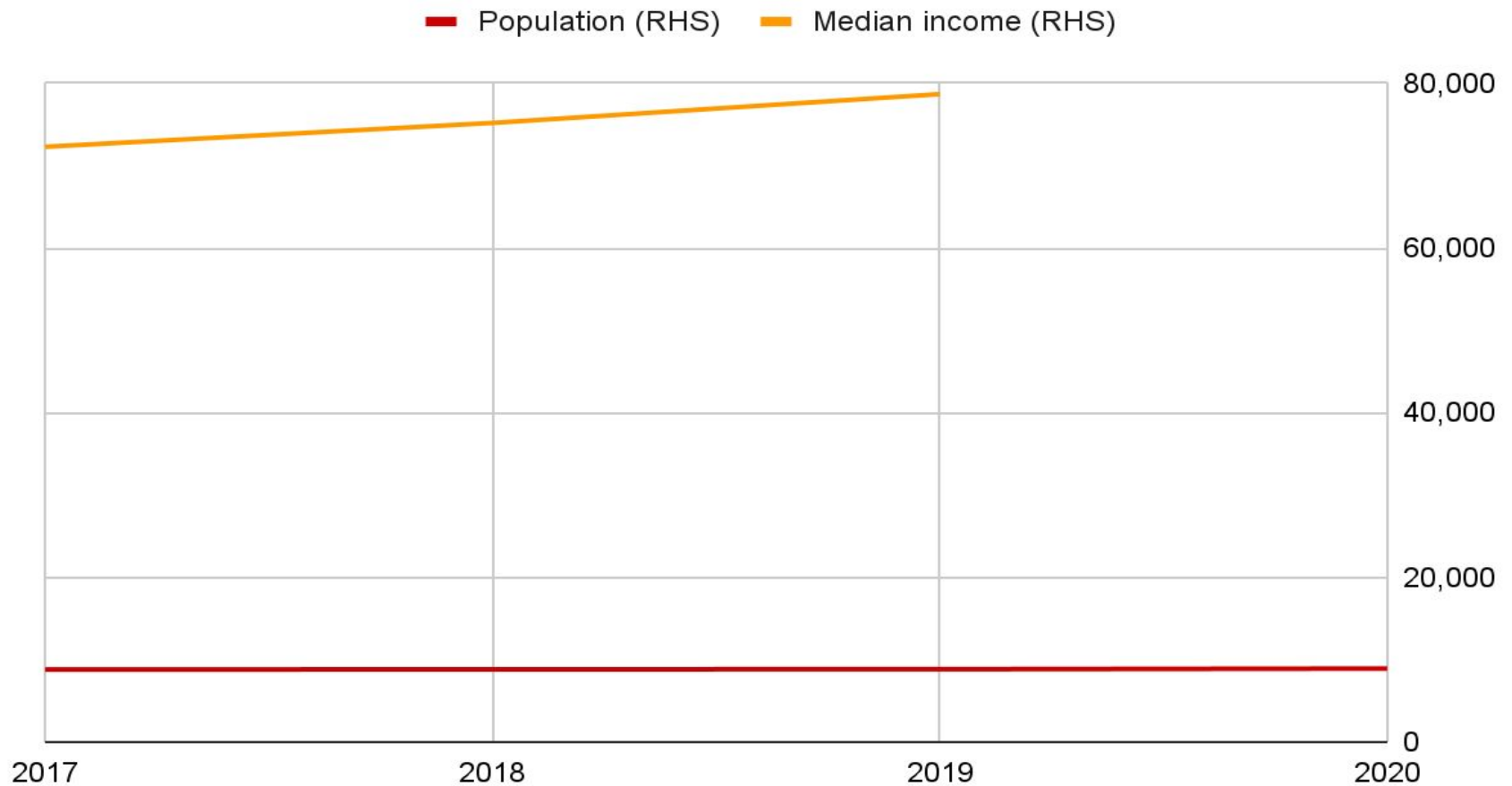
Local economic growth - Southland

12%



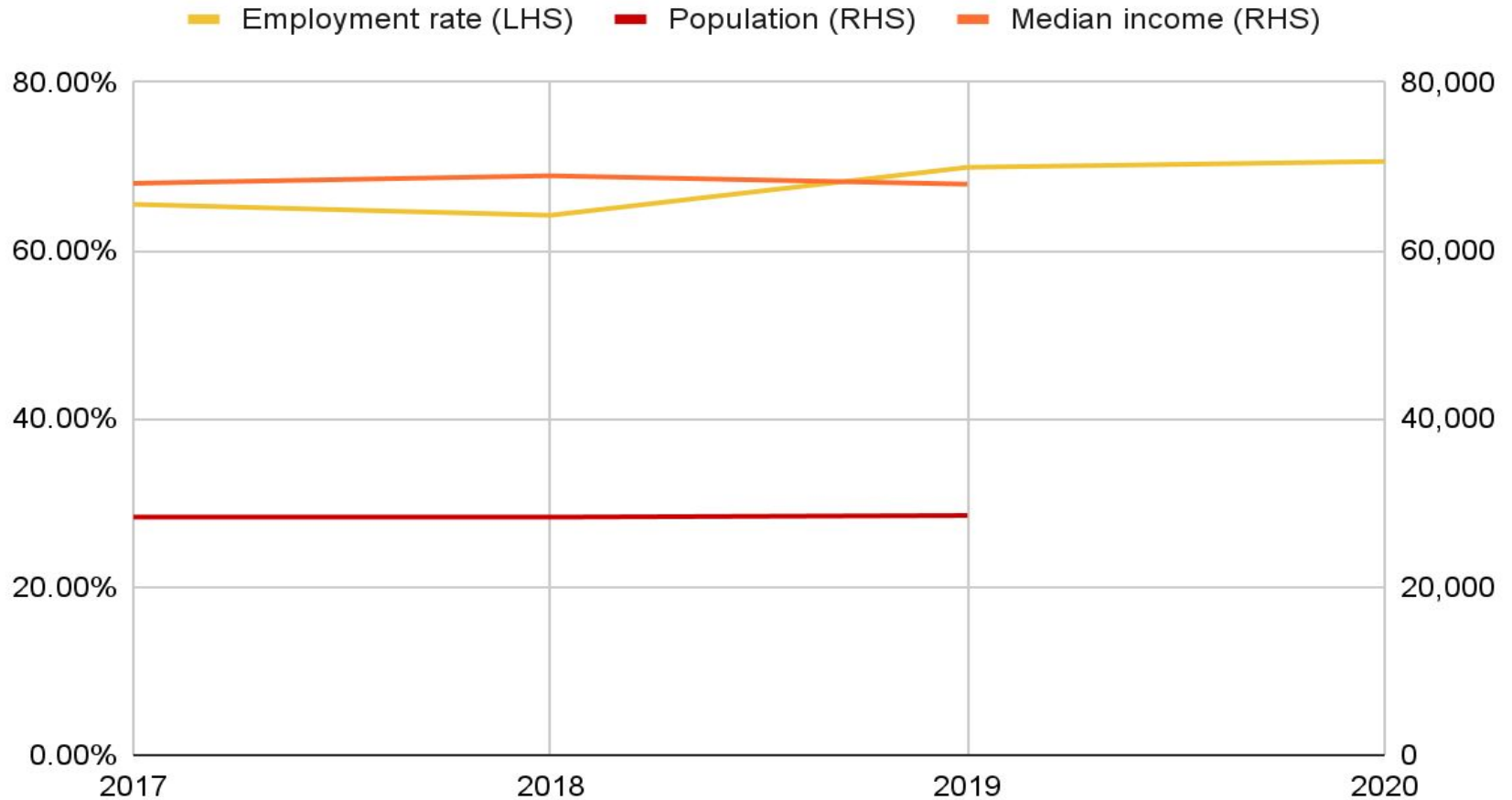
Local economic growth - Westland

4%



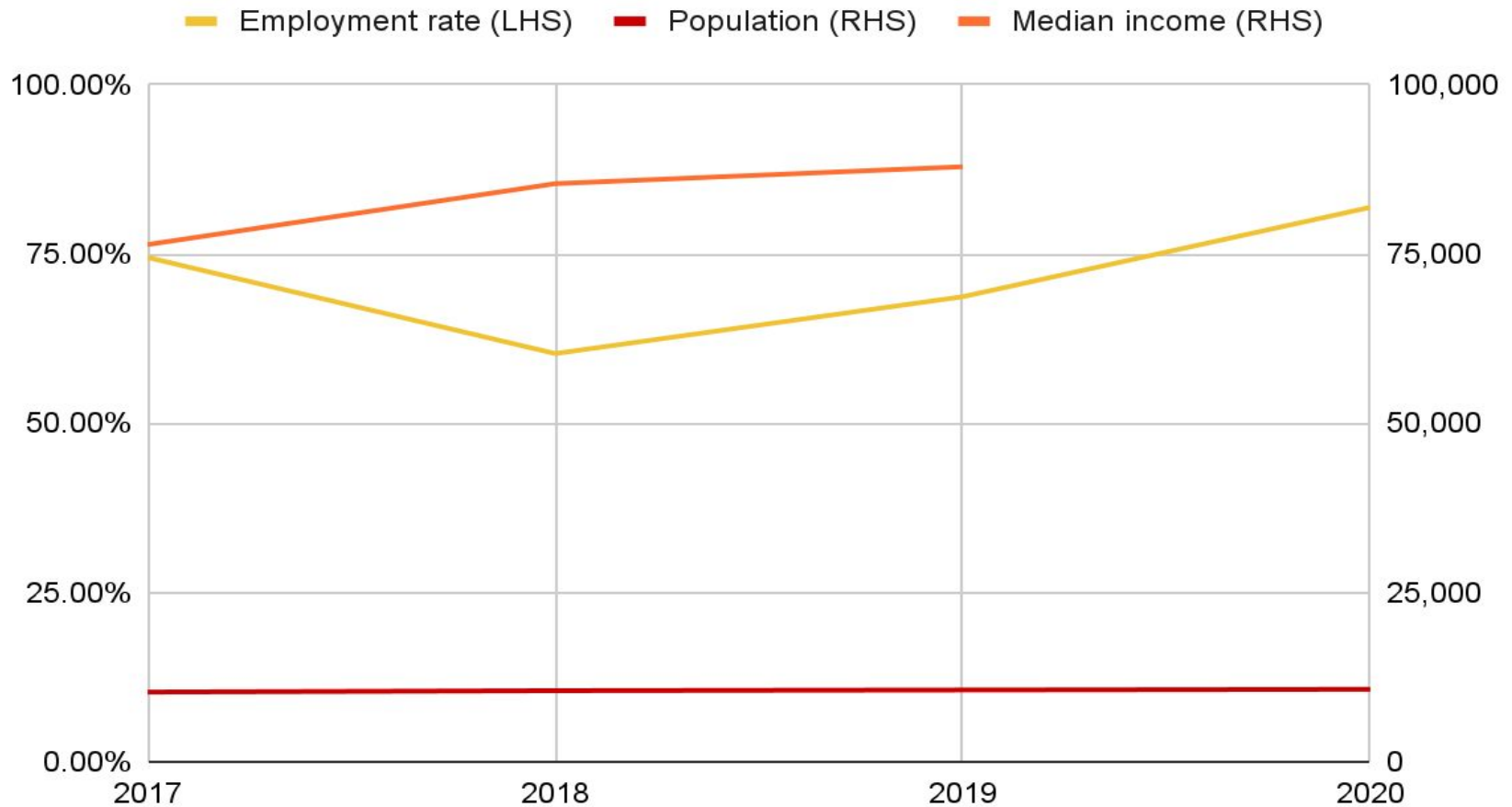
Local economic growth - South Taranaki

13%



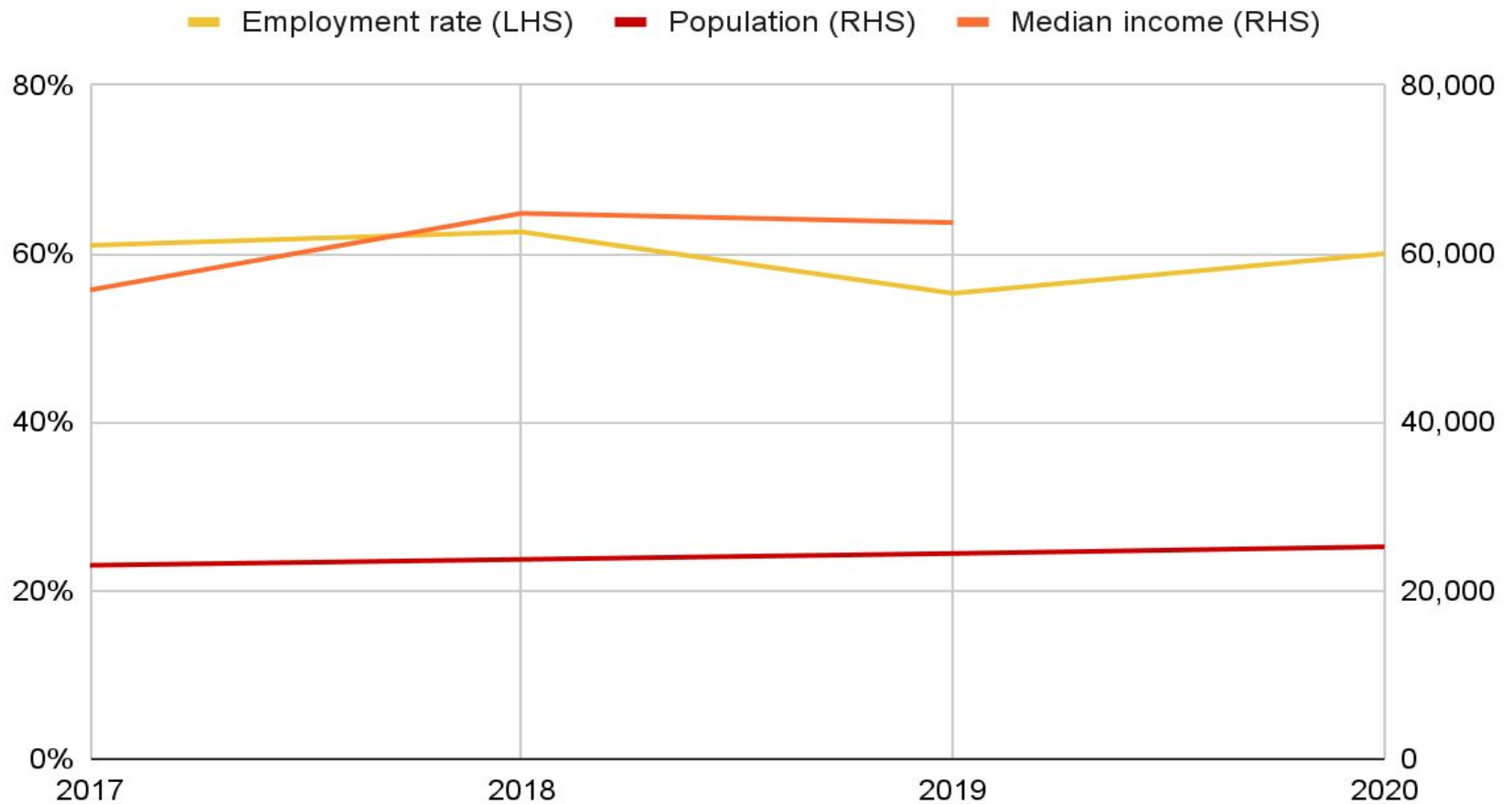
Local economic growth - Otorohonga

13%



Local economic growth - Kaipara

8%



Summary (correlation!)



Employment rate

- Weak correlation
- Tends to increase and decrease, so no clear correlation with strong increases in house prices



Population

- No correlation
- Population in rural areas flat to marginally positive, so no correlation with strong increases in house prices



Median income

- Some correlation
- Median income generally positive over time, but at lower rates of increase than house prices

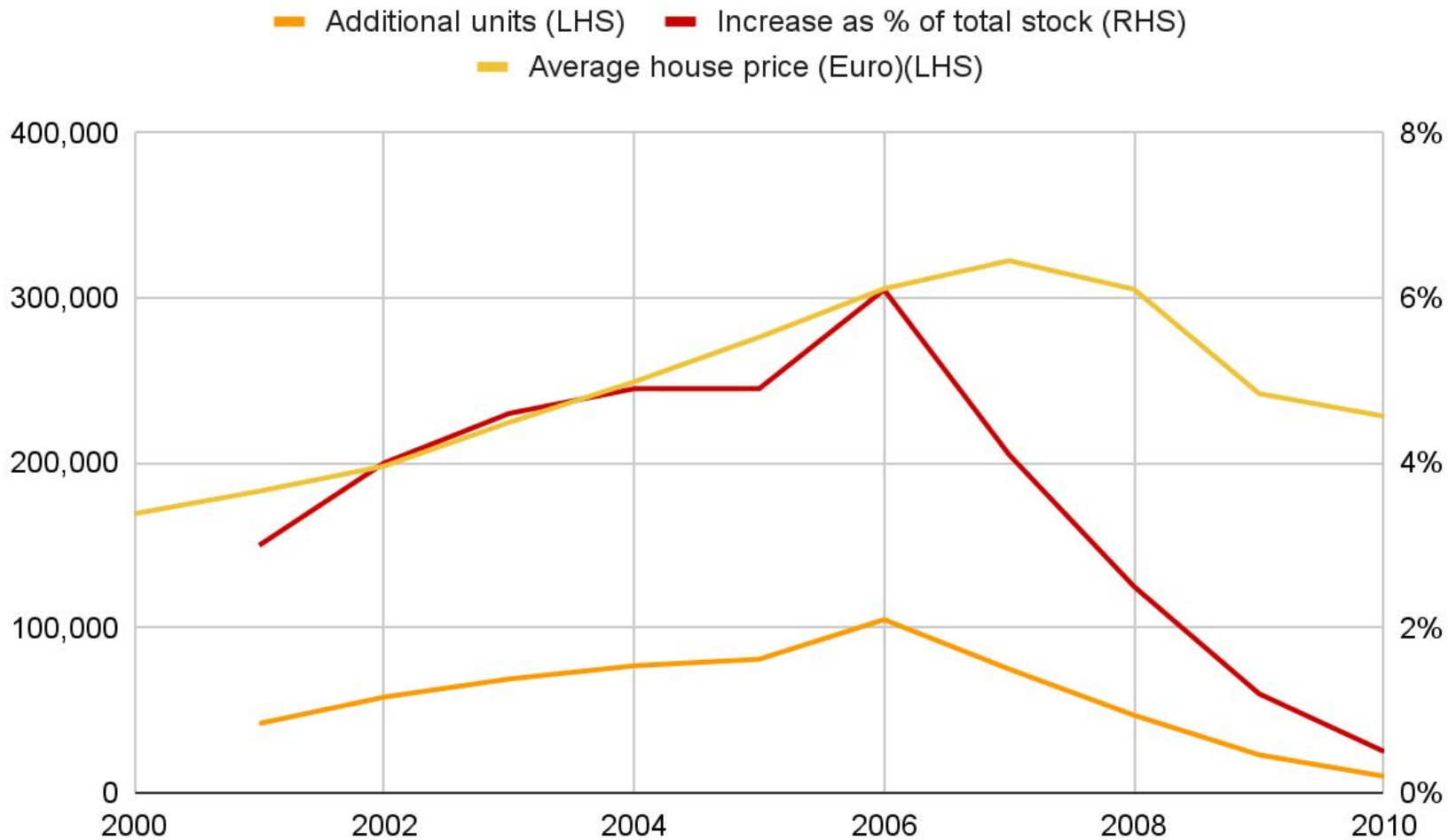
Solutions?

- Potential solutions for rural house prices mirror those for all housing
 - Increase housing supply
 - Constrain demand

But is there another way?



Increase housing supply...



Constrain demand...

New builds will be exempt from new tax rules



Miriam Bell · 17:16, Jun 10 2021



Government toughens OIO rules with 'national interest' test

7:01 pm on 19 November 2019

Share this



Interest rate rises - Reserve Bank has time, 'shouldn't go too early' - economist

11:08 am on 5 August 2021

Share this



Tighter mortgage lending rules will impact first-home buyers - economist

Another way?

Financing



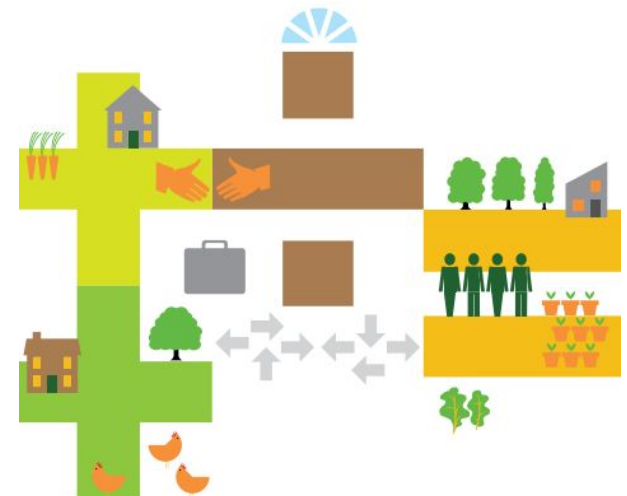
- The Farm Labor Housing Loan and Grant program provides capital financing for the development of housing for domestic farm laborers.
- Funds can be used to purchase a site or a leasehold interest in a site; to construct housing, day care facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction loan interest.

Product



Policies & guidance

**ESSENTIAL RURAL WORKERS'
ACCOMMODATION FOR
SMALL-SCALE AGRICULTURE
A GUIDE FOR LOCAL
AUTHORITIES**



Written by Dr Simon Ruston MRTPI

(SHARED ASSETS)