



RAWA

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9 August 2016

Reserve Bank of New Zealand
PO Box 2498
Wellington 6140
Attention: Head, Macro Financial Department
Email: macroprudential@rbnz.govt.nz

Re: Submission on the Reserve Bank's Consultation Paper - Adjustments to restrictions on high-LVR residential mortgage lending

1. Executive summary

As set out above, we write to submit on behalf of Rawa Limited and its associated entities on the Reserve Bank's Consultation Paper regarding adjustments to restrictions on high loan-to-value ratio (LVR) bank lending (the **Consultation Paper**).

The submission focuses on paragraph 51 of the Consultation Paper regarding the exemption for high LVR mortgage lending to fund the construction of new dwellings (the **Construction Exemption**).

2. About Rawa Limited

Rawa Limited and its associated companies, RPV Rawa Limited and Rabo Build Limited (together **Rawa**), are involved in the development and building of residential housing. We are established with GJ Gardner as our build partner in delivering new housing to the market and have strong links to Housing New Zealand Corporation Limited and Tamaki Redevelopment Company Limited. GJ Gardner is the largest house builder in the country, building 1300 homes nationally last year and 500 in Auckland.

Over 2016 and 2017, Rawa will deliver 200 new houses to the Auckland market. Some houses are sold off the plans, however the remainder of houses are sold at varying stages of construction or upon completion. In our experience most buyers are owner occupiers.

3. The Construction Exemption

The current LVR policy includes a Construction Exemption for mortgage lending to fund the construction of new dwellings (set out in Document BS19 section 12.1(e)). Section 13.4 of BS19 outlines that the Construction Exemption applies where a person has purchased a house either:

- (a) prior to the commencement of the construction;
- (b) or during the early stages of construction.

The Construction Exemption does not apply to people who wish to purchase a newly built house if it is in the later stages of construction or has been completed.

Paragraph 51 of the Consultation Paper proposes that the Construction Exemption “will continue to apply under the proposed policy settings, and is available for both investors and owner occupiers”. It also indicates that the purpose of retaining the Construction Exemption is to “mitigate any negative effect of the policy on housing supply”. Thus the Construction Exemption is clearly not intended to inhibit residential developments, with a view to allowing housing supply to catch up with demand.

4. Issues with the Construction Exemption

Rawa supports the Reserve Bank’s intention to retain the Construction Exemption. However, we submit that the Construction Exemption should be amended to cover people wishing to purchase houses in the later stages of construction or already completed (**Newly Constructed Houses**). We submit that this amendment is necessary because as currently drafted, the Construction Exemption is likely to have an unintended negative effect on new housing supply, as detailed below.

- (a) As mentioned above, together Rawa and GJ Gardner fulfil the dual role of developer and builder on residential developments. In terms of sales, some houses in the development are sold off the plans or after construction has commenced, while the remaining houses are sold as Newly Constructed Houses. As set out above, Newly Constructed Houses do not come within the Construction Exemption as currently drafted.
- (b) This will mean potential purchasers, (who we note are commonly owner occupiers), will be largely priced out of purchasing Newly Constructed Houses as developers are unable to simply decrease sales prices due to high construction costs and bank funding facility obligations. This will mean these sales are much more difficult for developers and result in residential developments stalling. As evidence of this claim, we have noticed a serious drop in interest from prospective purchasers of new builds since the Reserve Bank’s announcement on 19 July 2016.
- (c) The stalling of residential developments is a serious issue for Auckland. Recommendations from the Auckland Unitary Plan Independent Hearings Panel (**IHP**) indicate that Auckland has a severe housing shortage, with a further 400,000 new houses required over the long term to 2041. Further anecdotal evidence of Auckland’s housing crisis is common knowledge and supports the IHP’s view.
- (d) As already indicated, Rawa and a select few developer/builders have the ability to remediate this housing shortage by delivering new residential dwellings. However, as set out in 4(c) above, if Newly Constructed Houses do not come within the Construction Exemption, residential developments are likely to simply stall. This runs counter to the purpose of the Construction Exemption which is to mitigate the potential negative effects of the LVR restrictions on housing supply.
- (e) By exempting purchasers of Newly Constructed Houses from the LVR restrictions, buyers will continue be able to purchase such houses. This will result in sustained demand for new houses, supporting developer/builders like Rawa to continue residential developments at a rate which will increase New Zealand housing supply. This is likely to mitigate the risk of negative effect on housing supply and fulfil the purpose of the Construction Exemption.

5. Proposed amendment to the Construction Exemption

We suggest that the Construction Exemption should be widened to apply to purchasers of all new builds, including purchasers of Newly Constructed Houses. In practice, this could be achieved by amending the Construction Exemption to align with the KiwiSaver HomeStart Grant definition of “newly built home” which, in addition to houses bought off the plans or under construction, includes:

A home which received its building code compliance fewer than six months before Housing New Zealand receives a KiwiSaver HomeStart grant application is considered a new home. The certificate must relate to the home as a whole and not only some building work on the home. Buying a vacant residential section and planning to relocate an existing/older house on the site does not constitute a new build property ...¹

6. Conclusion

The Consultation Paper notes that New Zealand house prices have increased by approximately 50% since 2010. This is driven by strong immigration, low mortgage rates and slow housing supply. The LVR restrictions are intended to slow housing demand, while the Construction Exemption is intended to mitigate the potential negative effects of the restrictions on housing supply.

However, as currently drafted, the Construction Exemption is unlikely to meet its purpose. By bringing purchasers of Newly Constructed Houses under the LVR restrictions, many purchasers will be priced out of such purchases. This will have negative flow on effects likely causing housing supply to stall. As a result, we submit the Construction Exemption should be amended to exclude purchasers of Newly Constructed Houses from the LVR restrictions, in the manner set out at section 5 above.

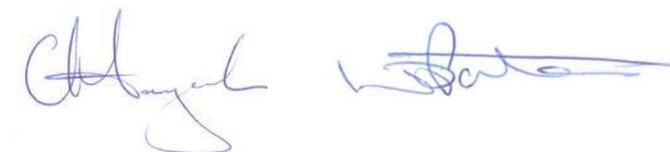
We also understand that Property Council New Zealand and Creating Communities Limited have submitted proposals on this issue and we wish to record our support for those submissions.

Lastly, we would welcome the opportunity to discuss these issues further if that would be helpful. Please contact the writers at craig@rawa.co.nz and dougal@rawa.co.nz.

Thank you for the opportunity to give this submission.

Yours sincerely,

Rawa Limited



Craig Haycock / Dougal Paterson

Director / Director

CC: Hon Bill English, Minister of Finance

¹ KiwiSaver HomeStart Grant criteria, published on 1 August 2016: <http://www.hnzc.co.nz/ways-we-can-help-you-to-own-a-home/kiwisaver-homestart-grant-and-savings-withdrawal/kiwisaver-homestart-grant/>