

## Where is the love?

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### **The needle is poised. But is the bubble Michael Cullen wants to burst the right target? Greg Ninness looks at Kiwis' relationship with home sweet home.**

Rarely has a love affair been so much in the news or subject of so much comment by the powers that be.

“Our love affair with housing leaves us very exposed to a property slump,” says Reserve Bank governor Dr Alan Bollard.

The passion has reached such intensity that the Reserve Bank said on Thursday it would bolster the official cash rate's cooling effects.

A storm of protest resulted.

“It's clear he wants to pour cold water on the Kiwi love affair with home ownership,” National party finance spokesman John Key said of Finance Minister Michael Cullen last week.

New Zealanders have been told so often and for so long that they have an obsession with the property market it has become an article of faith.

The truth may be otherwise.

What has scandalised the Reserve Bank and rung alarm bells in Cullen's office is New Zealand's low household savings rate.

Reserve Bank figures show New Zealanders' net worth last year was 538% of net income. That means the combined value of our assets less all our liabilities is 5.38 times as much as our combined annual after-tax income.

At first glance, we compare well with other developed countries.

Our net worth is higher than that of Canada (5.23 times net income) and Germany (5.09), and we are not far behind the US (5.62).

But the devil is in the detail. One of the reasons the Reserve Bank has been so hot under the collar is that much more of New Zealand's net worth comes from the value of its homes than is the case in other countries.

The relative value of housing to net income is higher (5.05 times annual net income) than in any other country in the OECD survey -Canada (3.03), Germany (3.38), Japan (3.75), UK (4.53) and Japan (2.60).

That would not be a problem, but New Zealanders also tend to have few assets other than their homes.

The value of our homes is equivalent to 94% of our total net worth. In Canada the figure is 58%, Germany 67%, Japan 51%, the UK 63% and the US 46%.

As Bollard has pointed out, this leaves New Zealand more exposed to the price cycles of the residential property market than other countries, where investment eggs are spread among more baskets.

The danger for New Zealand is that when the next property market downturn arrives, it could tip the economy into recession.

But is it fair to blame this on Kiwis' so-called love affair with the housing market?

Probably not.

Statistics NZ estimates 68% of NZ households own their own homes, in line with Australia 69%, Canada 67% and the UK 69%.

This also suggests New Zealanders do not have a greater propensity to invest in rental properties than anyone else, because our rental market is no bigger than in other countries.

So, on the face of it, Kiwis appear to be no more inclined to own their own homes than their counterparts in Australia or the UK. Nor are we more inclined to invest in rental property.

Bollard has been quick to wag his finger at the public and the banks for a debt-funded house-buying spree, but perhaps his finger should wag in another direction.

The biggest driver of the housing market over the past 12 years has been immigration.

When immigration is strong, there is a housing boom. When it tails off, there's a slump.

So much for housing-obsessed New Zealanders fuelling a property boom. A more likely explanation is that sharply increased, immigration-driven demand has pushed prices up. And if people have to pay more to own their own home, they have to borrow more.

And perhaps the reason New Zealanders put so little money aside into other forms of saving is that they are having to put so much towards a house.

But despite the evidence pointing the blame at other culprits, Cullen has asked the Reserve Bank and Treasury to investigate options for imposing controls on the housing market.

While that investigation is going on, the housing market is likely to cool off on its own. Call that love? It's barely a fling.

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