

# Bayleys Research

**ELECTION** 2017  
INSIGHTS SERIES

## WILL THE ELECTION IMPACT THE RESIDENTIAL PROPERTY MARKET?

### INTRODUCTION

New Zealand's general election on Saturday 23rd of September adds a degree of uncertainty to a residential property market which, over recent months, has already seen a softening of activity in the face of tighter lending criteria.

Markets do not like uncertainty. Therefore it is likely that the upcoming election will impact

sales trends up to and, indeed, immediately after the election outcome is known. Or will it?

Analysis of sales trends surrounding the dates of the last five elections has been conducted by Bayleys Research to assess the degree of impact on the residential market of Election 2017 with some interesting results.

### NZ ELECTION DATES POST 2000

SINCE 2000 THERE HAVE BEEN FIVE ELECTIONS:

#1  
JUL  
2002

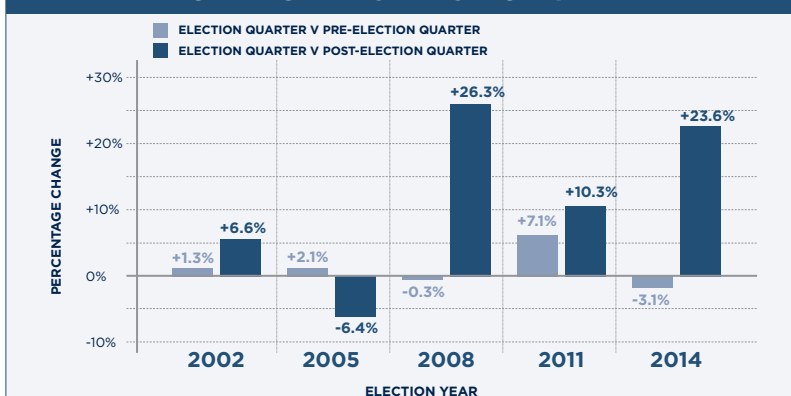
#2  
SEP  
2005

#3  
NOV  
2008

#4  
NOV  
2011

#5  
SEP  
2014

## CHANGE IN SALES ACTIVITY



Source: REINZ, Bayleys Research

## SALE ANALYSIS

Analysis of residential sales data released by the Real Estate Institute of New Zealand (REINZ) surrounding the dates of elections after 2000, show that quarterly sales activity during the election varies little in comparison with the previous quarter. Immediately post election however, sales numbers have lifted in four of the past five elections, significantly so in both 2008 and 2014.

## IMPACT OF ELECTIONS

In 2008 the election fell in November. This final quarter of 2008 marked a low point in sales activity following the Global Financial Crisis (GFC). There was a general rebound in activity from early 2009 as economic conditions improved and the availability of cheap credit impacted the market.

**Therefore it was, most likely, wider economic conditions, as opposed to the election which had the more significant impact upon buyer sentiment during this time.**

By 2014 the post GFC economic recovery was well established and the lift in sales, post that year's election would indicate that potential purchasers had delayed their buying decisions until the election outcome was known and a government was formed.

Our analysis indicates that **the majority of those choosing the 'wait and see' approach around election dates are property investors**, as it is this sector which is more likely to be impacted by changes in government policy.

**The decision by owner occupiers looking to enter the market or move home tends to be driven by changes in personal circumstances**, such as marriage, divorce, having a family, changing jobs, retiring, etc. Once these circumstances are in play, the decision to purchase a new home is less likely to be delayed solely because they coincide with the date of an election.

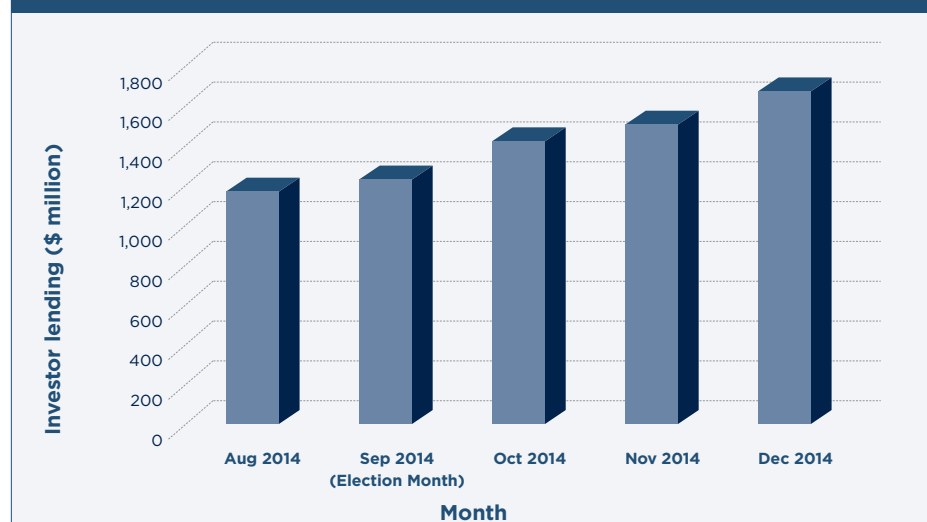
Analysing market trends over the last five elections also establishes that investors are less likely to be influenced by an upcoming election if the housing policies of the major parties are similar. Should, however, there be

a divergence of policy, then the incentive to delay purchase decisions increases. This latter point potentially explains the significant lift in sales following the 2014 election. A number of the Labour party's policies leading into the election would have acted, if implemented, as a disincentive to residential property investment. (See back page). In particular the party's proposal to introduce a capital gains tax of 15% would have been closely monitored by investors. Other policies promoted by the opposition at the time would have impacted both buyer demand and supply. The Labour Party was looking to restrict the ability of non-residents to purchase New Zealand houses. Through the proposed Kiwibuild programme Labour was looking to build 100,000 homes over 10 years. If implemented, it could be argued that demand would have been reduced at a time when supply was increasing, thereby limiting the potential for

capital growth. This would clearly be a major consideration for investors. In contrast, the National party's policies were more accommodative and viewed more favourably by the investment sector. While therefore it was, in all likelihood, **a number of factors which combined to drive the post election lift in sales in 2014, the removal of uncertainty around the government's attitude to the housing sector would certainly have been a significant one.**

Reserve Bank of New Zealand figures show that lending to investors increased by approximately 42% between August (the month preceding the election) and December rising to approximately \$1.7 billion from \$1.2 billion. Over the same period, lending to first home buyers and other owner occupiers increased by just 27%.

## RESIDENTIAL HOUSING INVESTOR LENDING



Source: REINZ, Bayleys Research

## MARKET DRIVERS DIFFER THIS TIME

When considering the upcoming election it needs to be acknowledged that **market conditions have, over recent months, softened.** Further tightening of lending restrictions imposed upon investors by the Reserve Bank, coupled with a more risk averse approach towards mortgage lending, has seen sales activity fall by between 20% and 30%. Given that we have entered a 'low sales volume environment', **it is difficult to assess what additional impact the upcoming poll will have.**

Replicating the situation seen at Election 2014 there is, once again, **a divergence in policies between the two major parties, leading into this years election, which will again, give investors pause for thought.**

While, on this occasion, Labour has not, to date, espoused a capital gains tax, it is

advocating for the extension of the current bright line test from two years to five, which would see investors paying tax on any capital gain arising from the sale of an investment property within five years of purchasing it.

Labour Party tax policy includes proposals to close what it describes as a loophole which allows investors to write off losses made on their rental properties against other sources of income.

In addition, Labour wishes to restrict foreign speculators from buying existing homes.

**Once again, National Party policy will be viewed as less onerous** by the investment sector. Therefore a lift in activity could be expected. However, the impact of tighter lending restrictions will continue to moderate sales activity even if National and its partners again form the government.



## OUTLOOK

**Although sentiment suggests that pre-election periods provide a slowdown in activity, this has not always been the case in reality,** according to our analysis. In the last five elections, either a major financial market correction or a perceived close election result with a potential restriction on house price gains have slowed market activity as sellers and buyers wait and see what the future holds.

The rise in post-election sales activity suggests that market certainty and accommodative housing campaign

policies along with a positive economic and lending environment provide the perfect positive storm for residential market activity, especially for the investment sector.

**While the 'wait and see approach' pre-election with a surge in market activity post-election may be the past trend, market drivers are different on this occasion.** Sales activity has already softened, tighter lending restrictions are in place, access to credit is less accommodative and interest rates are starting to rise, albeit slowly.

**Therefore, if a property to be sold is more likely to be purchased by an owner occupier then there would appear to be no reason to delay the listing of the property prior to the election to maximize vendor value. If however, the purchaser is more likely to be an investor, delaying the release of a property to market until immediately after the election result is known may prove to be a more successful strategy.**



# HOUSING POLICY

## MAJOR POLITICAL PARTIES

### HOUSING POLICIES IMPACTING SUPPLY

#### LABOUR

- Build 100,000 affordable homes across the country through the KiwiBuild programme with 50% in Auckland
- Create an affordable housing authority to fast-track development in our cities and cut through red tape.
- Remove the Auckland urban growth boundary and free up density controls. New developments, both in Auckland and the rest of New Zealand, will be funded through innovative infrastructure bonds
- Grow the building workforce through Labour's Dole for Apprenticeships policy that will subsidise employers to take on around 4,000 young people for on the job training in fields including building and construction

#### NATIONAL

- A \$1 billion Housing Infrastructure Fund to accelerate new housing in the high-demand areas where it's needed most
- Creating special housing areas in high demand areas across New Zealand to fast-track the building of homes
- Setting up independent Urban Development Authorities to speed up housing development in high-demand areas
- Reforming the Resource Management Act to make it easier for councils and developers to get houses consented and built
- Requiring Councils to ensure land supply for housing keeps pace with growth
- 42,000 apprentices currently in training and National are funding 8,000 more apprentices and trades training places across the country over the next four years

### HOUSING POLICIES IMPACTING DEMAND

#### LABOUR

- Ban foreign speculators from buying existing homes
- Extend the current bright-line test from two to five years
- Remove ability to use tax losses on rental properties to offset tax on other income

#### NATIONAL

- Tightened rules to ensure people buying and selling property for profit pay their fair share of tax



Note: The housing policies have been adapted from the respective housing policy information from the two major political parties as at July 2017.

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