# Peter Thompson: Reserve Bank shows its resolve to tame house price rises

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Westpac Economic News

**The Reserve Bank's decision to require investors nationally to front with a 40% deposit when buying a property was a blunt reminder to the market that it is determined to dampen the rise in house prices.**

The move is no real surprise given the 'hard talk' from the Bank about its concerns that house price increases could have on the country's economic stability.

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What did catch most by surprise was, first its intention that the new rules would come into force from 1 September, and then for the trading banks to decide to implement it immediately.

Such rapid change to lending criteria is not common and it will undoubtedly lead to some intended transactions having to be unwound.

What it signals is that the Reserve Bank has accepted the viewpoint that investors are a significant contributor to prices rising, and it seems intent on eliminating all but the most liquid investors from the market.

Given the immediate implementation of this measure it will not take long for us to judge its effectiveness on the value of properties for sale.

I would have loved to see the Reserve Bank take the opportunity at the same time as announcing this measure to reduce the deposit requirement for first time buyers. The time is right for this group to receive some special assistance.

## Warnings of economic chaos intensifying

In the past month the level of dire warnings that house price rises could lead to economic chaos appear to have intensified.

Calls for new draconian measures to tame house price rises almost reached the point where it is impossible to have a reasoned discussion about it. Some have even moved the debate beyond taming price increases to calling for prices to be deliberately deflated.

I support the pragmatic approach the Government and Reserve Bank are taking. They are holding their nerve and progressively applying the handbrake - giving each measure they introduce time to have some effect.

During the past three years we have seen the imposition of minimum deposits, the fast tracking of land for housing, specific regulations relating to investors and non-residents, changes to the rules and regulations around resource and building consents, and in Auckland the rejuvenation and intensification of communities made up of old State houses.

## Britain, Canada and Australia no closer to finding silver bullet

To those that say ‘and such measures haven’t worked’ the answer is ‘nor have the draconian measures they are advocating in other countries’. Britain, Canada and Australia are faced with the same challenge as us, and they have introduced or already have some of the draconian measures being advocated. Yet they are no closer to finding the silver bullet than we are.

In Auckland, at the heart of the issue remains the fact that for a decade or more prior to 2012 there was massive under-investment in the building of new homes, and that since then building around 10,000 homes a year has barely kept pace with Auckland's growing population.

Hopefully, the tabling of the Auckland Unitary Plan will act as something of a safety valve, and release some of the intensity from the debate around rising house prices.

What we should never lose sight of is that the majority of houses being bought and sold at present involve individuals who see their property as their home.

Those that are selling are likely to have made many sacrifices over the years to acquire the home of their choice, while those about to buy are likely to be as prepared to make similar sacrifices in the future.

For them price is secondary to it being their home.