

# The New Zealand Herald

## Property Report: Migration helps fuel price boom



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Your Money and careers writer for the NZ Herald

**House-price explosion can't be blamed on foreign-based Asian buyers, experts tell Diana Clement.**



Tony Alexander.

Foreign buyers are pushing house prices out of the reach of ordinary Kiwis. Or are they?

The evidence on the ground of non-resident Chinese buyers snapping up property isn't as compelling as letter writers would have it.

White faces at auctions aren't questioned. Asian faces are considered to be non-residents snapping up our property. Yet 54 per cent of overseas buyers - according to the BNZ - come from Australia, Europe, UK and South Africa.

As BNZ economist Tony Alexander points out, few if any auction goers have an ability to distinguish Kiwi-Asians from visitors.

The Herald was told by a Long Bay resident that new million-dollar homes in the Vaughan Farm development were almost all vacant - "bought by rich Asians and left unoccupied to reap the capital gain".

The "evidence" was that there were no lights on the hillside at night. Yet when the Herald visited on a week night in May, most of the finished homes either had lights on, cars outside, or both.

The reality, says Barfoot & Thompson Torbay manager Tony Carter, is that the Long Bay homes have largely been bought by residents, not overseas buyers.

Carter has sold properties to New Zealand residents who hail from Korea, India, Australia, the UK, South Africa and China.

Views on foreign buyers in Auckland are often driven by xenophobia. The reality is that the last census showed 23 per cent of Auckland's population was Asian.

In a 2013 survey conducted with the Real Estate Institute (Reinz), Alexander found that only 4.6 per cent of Auckland dwelling sales were to offshore investors who had no intention of living here.

Massey University honours student XinPing (Peter) Yang studied the volatility of the Auckland market from 2000 to the third quarter of 2014 and concluded the house price boom was mainly driven by international migration, not by non-resident investors.

He concluded that, for Auckland, GDP growth, unemployment and CPI growth were not significant factors in volatility.

"The immigrant fluctuation is significant at 5 per cent level, and it turns out to be the main factor that drives up housing prices in Auckland."

The results were similar to a Canadian study, says Yang, where researchers found the housing prices in Toronto and Vancouver were highly correlated with net immigrant flows.

### **Asian buyers**

Although absolute numbers are relatively low, non-resident Chinese are buying homes in Auckland. Agencies such as Ray White have set up offices in China to sell to wealthy Chinese. And many agents list their homes on foreign language websites.

Auckland estate agents have a number of ways to engage overseas and/or non-English-speaking buyers. Last year Realestate.co.nz saw 18.09 per cent of its traffic come from overseas. In the year to date it has decreased to 15.95 per cent. Most properties are listed in Mandarin on the New Zealand-based HouGarden.com website, which is aimed at local and international Chinese. The site contains all the listings from Realestate.co.nz

HouGarden isn't the only Mandarin-language site accessed by offshore Chinese buyers. At the time of writing just over 9700 New Zealand residential properties were listed in China on the Juwai.com website, which is behind the Great Firewall of China. Juwai, which means "Live Abroad", has 4.8 million property listings in 58 nations.

Not all agents who list on these Mandarin language sites will be expecting to find a buyer. It's cheap to list, so worth the chance. The potential market, however, is huge. About 50 million Chinese people are living overseas, according to the Beijing-based Center for China and Globalization. Many more want to follow.

## **Foreign investment**

The sheer quantity of money available to Chinese people to buy property is staggering. By 2020, Chinese outbound investment will make up 5 per cent of global GDP, says Juwai's Hong Kong-based co-CEO Andrew Taylor.

Typical Juwai buyers will spend \$1.2 million on their first property investment. Many don't need mortgages.

There are 63 million upper-middle-class Chinese and that's expected to rise to 220 million by the year 2022.

Typically, says Taylor, Chinese-based buyers are not looking simply to invest. The main drivers are immigration and schooling for their children. Many parents buy property for their children to live in while at university here.

"They think: 'what can I invest in to make my family stronger?'" says Taylor. "In China, my family comes first."

A report by Juwai found the drivers were:

- Immigration 40 per cent
- Investment 34 per cent
- Education 22 per cent
- Lifestyle 4 per cent

Potentially there could be an escalation in the numbers of Chinese buyers heading our way.

The China Daily newspaper reported in February that as the Chinese property market slumps, more wealthy Chinese investors will shift their focus to overseas property markets.

In a report in June 2014 the Hurun Research Institute found that New Zealand was the fifth most popular destination for Chinese people to emigrate to.

## **Emigration**

Taylor says motivators for emigration include cleaner air, and the ability to buy good quality food. What's more, he says, there are few investment opportunities for people within China.

Chinese have been able to buy property for only 16 years. Before then it was all owned by the government.

On the popular blog Tianya.cn, Shanghai resident "Apple Mommy" told her story. After two months' investigation, she and her husband got a tourist visa to buy a house in Auckland. The intention was to get work here eventually. But she was willing to buy property without a work visa.

One of the motivators was that it was cheaper to pay international student prices for her child to be educated at schools in New Zealand than pay for education at an international school in Shanghai.

Property, she added, was easier to buy in New Zealand than Australia, where non-resident foreigners can buy only new homes. Getting a loan in New Zealand was also more straightforward than in China.

She wrote: "After all, banks are not afraid if you do not pay. You do not pay, [the bank] can auction it off instantly."

Other advantages she noted at the time of investing included the lack of capital gains tax (which is to be introduced on 1 October), low interest rates, and that house prices have been rising by 14 per cent a year in 2014 (a trend that's predicted by BNZ's Tony Alexander to continue this year). In China, buyers pay a 20 per cent tax on gains on pre-owned house sales.

While in New Zealand the family bought a 370sq m property on a 710sq m land for \$910,000 in the Albany area.

Meanwhile, fellow Shanghai resident Yang Hui told the China Daily she wanted to emigrate because of the poor air quality in her city. She bought 60 face masks a month for the family and kept her 3-year-old daughter inside as much as possible because the air was filtered there.

Websites such as Fangnz.com highlight that overseas people can buy in New Zealand without the restrictions they face in other countries. New Zealand's lack of stamp duty is seen as an advantage.

## **Australians**

Last year, 20 per cent of foreign buyers were from Australia, compared to 25 per cent from China.

Sydney-based mortgage broker Mary O'Brien of New Zealand Mortgage Solutions, says many of her clients work in the mines and get good tax refunds which they want to invest in property. Many don't believe they will find suitably priced investment properties in Australia.

O'Brien says another factor driving property investment into New Zealand is the ability to buy coastal property at an affordable price. Australians typically can't believe that a home with a view of the sea can be affordable in the way it is in provincial towns such as Gisborne and Tauranga, she says.

Thanks to the Reserve Bank of New Zealand, Australian buyers have to pay a higher deposit in New Zealand than they would on their side of the Tasman.

On the other hand, the land tax alone would add up to about \$1500 for a \$600,000 property in Sydney.

Another factor drawing Australians to our property market is the cultural similarity, says O'Brien. Australian buyers don't see it as a risk investing in the New Zealand market.

About 90 per cent of purchases that O'Brien handles are for straight investment. Typically, getting mortgages in New Zealand is a fast process, says O'Brien. In one recent example it took 48 hours from start to finish for a client to secure a mortgage to buy property in Raglan.

Finally, as Alexander points out, the issue of foreign buyers, albeit small, does need to be more deeply investigated given the societal concern in play and the clear risk as this concern deepens in coming years.

As our trade dependence upon China grows, he says, we risk either kowtowing to keep exports up, or installing foreign property purchase controls and suffering a backlash from China.

- [NZ Herald](#)