Sporadic

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Chinese House Buying

Sporadic 14

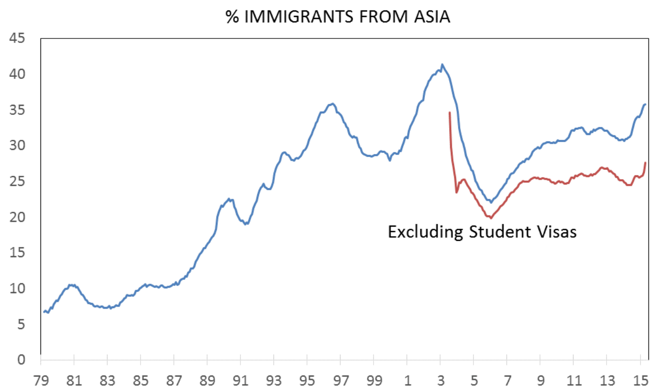
My names Alexander, but I ain't Greek, so don't give me euros if you see me on the street.

What is in a name? Apparently a lot according to one real estate firm which whilst refusing to identify itself has apparently "leaked" data on the last names of home buyers in Auckland. According to their unverifiable data 39.5% of some 4,000 home sales they completed in Auckland between February and April were to people with last names which look Chinese. Comparing that with the 9% of Auckland's population identifying as Chinese at the last census we get the view that offshore Chinese buyers are scooping up Auckland properties.

Firstly, good on someone for trying to throw more light on an issue which I have highlighted in the past with a recommendation that we adopt Australia's rules of banning sales of existing houses to foreigners. See for instance my last BNZ-REINZ Residential Market Survey from March 2014. I do not fault Labour's Housing Spokesman Phil Twyford for releasing the data. But as with my own efforts to estimate offshore buying last year and in 2013 the data simply do not allow us yet to truly know what proportion of our housing stock is being sold to people who will never live here - be they Chinese, Albanian or whatever.

The real estate agency data released this week suffer a huge flaw in that one cannot identify whether the person with the Chinese name is in fact located offshore having no intention of living in New Zealand. Their family could have been in New Zealand since the Otago gold rush days of the 1860s. They might have migrated here in the wave from the late-1980s when we changed our migration rules to specifically reduce emphasis on English heritage and open the door instead to people based on measures of merit, regardless of where they were coming from.

Additionally, as pointed out in Sporadic 8 back in early-May, New Zealand is enjoying record levels of net immigration, the migrants may be the wealthiest group we have ever invited in, and migrants like to put down roots and make a house purchase as soon as they can. It is unsurprising then that with near 35% of our migrants coming from Asia we should see a lot of Chinese-sounding names in the list of home buyers. Here is the graph I put in Sporadic 13. I put it there for a reason, so you would be better informed as the Chinese buying debate heats up again.



In fact given that Chinese people have been spreading themselves out of southern parts of China to the rest of the world for over two centuries now (Chinatowns exist remember) it would be unsurprising if we did not have people migrating to NZ from the United States with Chinese names, or from Angola.

We do not know if the unnamed real estate agency with these unconfirmed data specialises in sales to Asian people, and/or specialises in sales in the suburbs containing favoured schools. Asian people place a far higher emphasis on their children receiving a good or at least expensive education than most of the rest of us who went to the likes of Mairehau High in Christchurch.

Foreign home-buying legislation is needed, but accurate data is essential

So we remain in the dark about the extent to which Auckland's housing market is truly being driven by offshore buying. But as emphasised previously, there are three key points which I shall keep repeating regarding Auckland housing and house price pressures.

1. The fundamental cause of rising prices in Auckland is a shortage of supply and until that gets addressed prices will stay highly elevated and perhaps keep rising out to late-2017 this cycle.

2. Whatever the true magnitude of Chinese buying has been these past few years it will get much greater. Chinese families are growing wealthier, so naturally they will seek offshore assets. Chinese people wish to get assets off the mainland and this week's massive intervention in sharemarkets by the Beijing authorities illustrates why people have high distrust of the environment on the mainland in which they would hold assets. And Chinese authorities have yet to relax hefty restrictions on people getting their funds offshore. When they do, well then you will see something entirely new hit the world's residential property markets.

3. We should as soon as possible adopt Australia's rules restricting foreign buying of anything other than new housing unless resident for 12 months.

But here is the fourth point which to date I have not emphasised but now will do. Adopting Australia's rules as they stand won't be the panacea many are hoping for. In Australia's case people have been able to get around the restrictions quite easily. The regime is now being enforced more rigorously, but that does not necessarily alter what is being seen as a huge problem – something which people in Hong Kong have been seeing more and more of in recent years.

Many Chinese who buy properties never, or rarely, occupy them. They sit empty. This applies even to newly built apartments sold to Chinese buyers. Chinese simply want an asset away from any control by the CCP. There was an article on this in The Australian newspaper this weekend, page 6.

What this means is the following. As Auckland very slowly goes vertical in areas like New Lynn, developers will find they can very easily get offshore financing for their projects and hefty sales off the plan to Chinese investors (we Kiwis prefer to touch and feel before buying). These investors may never occupy or even rent out their investment. Thus while on the face of it the Aussie rule that a foreigner may only buy a newly built house or apartment sounds like a grand idea, it could leave the housing supply situation unchanged from a no-rule regime.

Thus, were we to adopt the Aussie regime we would need to add in an extra clause along the lines of apartments having to be made available for rent, actually rented, or something like that.

When might we see the adoption of some form of restriction on foreign home buying in New Zealand? Maybe within two or three years. About three years ago I recommended that we adopt the Australian regime. That was/is not because I feel Chinese buying is currently the big buying force people believe it is, but because the buying will grow and the eventual popular backlash against such buying and introduction of legislation in that heated environment would risk a backlash. The Chinese leadership may feel we were targeting them and getting above our station. Trade retaliation would be likely.

That is still the position I hold and the earlier we adopt Australia's rules with the extra twist noted above, the better for everyone, including exporters to China wanting good access for many years who may feel nothing needs to be done on foreign home buying. You are the ones most at risk should this situation turn bad in 5, 10, 15, or 20 years time.

Centrally Controlled?

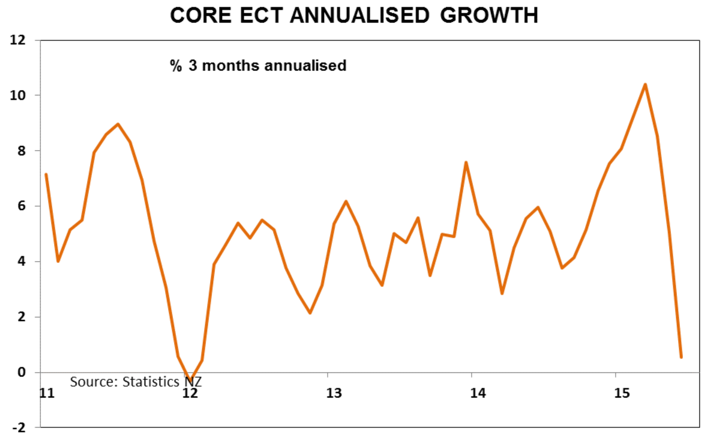
As an aside, just sit back for a moment and think about one view you might have in your head and how it is wrong. People erroneously believe in many instances that the Chinese economy is controlled and what Chinese people do offshore is at the behest of the Chinese government. In the case of large business purchases and investments this is true as permission is needed by the authorities before such investments can be made. But this is not true regarding whatever the actual extent is of Chinese residential property buying overseas.

The people doing the buying are not making their purchase because their government wants them to extend the tentacles of Chinese influence around the planet and therefore lengthen the time in power of the CCP. There is in fact a US$50,000 annual limit on people taking money out of China. The people doing the buying are making their best individual effort to preserve family wealth well away from the prying eyes and control of a totalitarian government. They are likely more like you and me in their desire for freedom – in this case asset freedom – which we take for granted, than part of some central conspiracy to price us out of our own homes.

Since The Last Sporadic….

China's sharemarket has stabilised with the help of extraordinary measures including banning holders of more than 5% of company stock from selling within the next six months. But any pretence for now of modernising China's role in international finance has gone out the window. This financial aspect is not hugely relevant to ourselves except to the extent that it places mild extra downward pressure on China's immediate growth prospects, lessens the chances of an imminent rebound in commodity prices, thus increases the chances of some further depreciation of the NZ dollar while making it more likely that the Reserve Bank will cut the cash rate a few more times.

We received a relatively weak indicator of the **retail spending** you and I are doing in the form of debit and credit card transactions in seasonally adjusted terms remaining unchanged in June from May and rising at an annualised pace of only 0.5% in the June quarter from 10.4% in the March quarter. Does this mean we have closed our wallets? I would not make that conclusion yet as these numbers are volatile and the March quarter growth was clearly unsustainable. Smoothing over six months tells us growth is reasonable. But should July also be weak then we will start to talk in terms of the key driver of growth, household spending, becoming a non-contributor for a while.

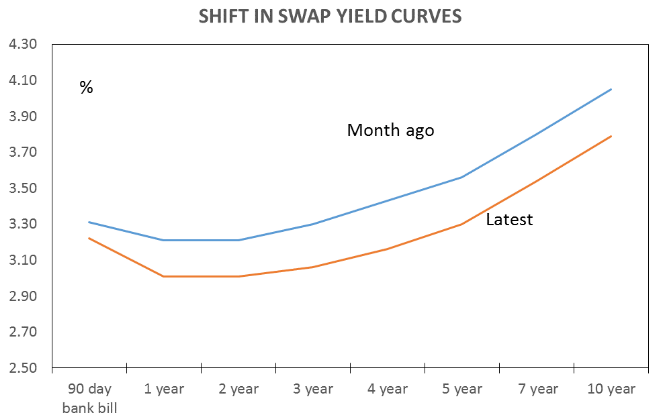


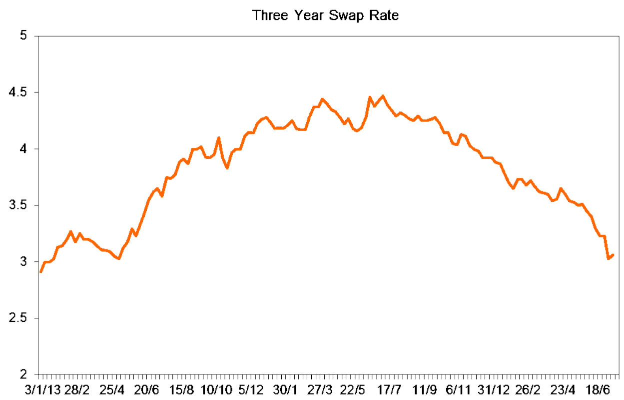
I could write about the **Crown accounts** here being almost $1bn ahead of Treasury forecasts for the first 11 months of last fiscal year and how this means a surplus may have in fact been recorded. But outside of political circles where people look for attack points it is meaningless to your business. Only if the data get a lot lot better or a lot lot worse should we start thinking in terms of fiscal policy changes with growth implications. We are nowhere near that point yet and talk of easing fiscal policy to offset the loss of dairy income is just plain ridiculous. One wonders if the same people calling for it could be the same ones criticising the lack of fiscal surplus. How on earth to reconcile those two positions?

In **Greece** the PM has this weekend delivered a set of proposals to the troika of bailout partners completely at odds with what Greek voters want as expressed in the referendum a week ago. His party is factionalising, and on the Eurozone side countries are sceptical that Greece would even honestly deliver on its promises to reform considering the lying they did in the past and backtracking on past bailout promises. The chances are high that Greece will be tossed out of the Eurozone but as there is no written procedure for doing this we could see a very messy situation in coming weeks and whatever the outcome prospects for growth and social cohesion in Greece in the coming year look truly abysmal. The direct impact on our economy of all this is minimal. But it does add to the current sliding of business and consumer sentiment so just might at a pinch make it easier for you to find staff – at the very extreme margin only though.

If I Were A Borrower What Would I Do?

Swap rates, the base cost to us banks of borrowing at fixed rates to lend to you at fixed rates, have fallen substantially since Sporadic 13 in response to a wave of global growth worries caused by the situations in Greece and China. I would watch for another round of bank lending rate cuts and see if my three and five year targets of 5% and 5.5% might be reached.





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Sporadic is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. It is a supplement to the monthly NZ Observer. Please sign up at www.tonyalexander.co.nz
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