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# *Keith Rankin:* Rental tax fairest way to dampen house sales

COMMENT

Much of New Zealand is going through a residential property boom that dates back to the end of 2001. While Waitakere City might not have house prices as high as Auckland and North Shore, it will, I believe, experience bigger percentage gains in median house prices over this decade than Auckland's other cities.

Waitakere City has two harbour coastlines - plus proximity to the now world-renowned west coast beaches. It is coastal properties that, nationwide, have experienced the greatest upward revaluation.

Further, the southwestern motorway will be completed one day. The result will be to create a commuter corridor between Waitakere and the job-rich locations in southeast Auckland.

Why would anyone choose to live in North Shore and commute through Spaghetti Junction if they could commute from Waitakere instead? In 2010 (or whenever State Highway 20 is finished), Waitakere will have better road access to both southern and central Auckland. In addition, it has a railway service to Newmarket and Britomart that can only improve. So what will be the impact of such growth on people who live in Waitakere today?

We already have ample evidence of the divisiveness of escalating residential property prices. Often the worst kind of poverty is to be poor in a community in which the richest half is becoming visibly more affluent. The capital gains of those with equity in property simply intensify the poverty traps of those without. And the process is self-fulfilling.

There is intense pressure on families to position themselves on the propertied side of the divide. They are competing with people, already with substantial equity in real estate, who are seeking to acquire additional properties. And they are competing with New Zealanders working abroad, for whom Waitakere properties are not at all expensive.

As the margin between the propertied and the non-propertied grows wider, those families without property feel the pressure to jump that divide by getting a mortgage as soon as possible at just about any cost. So long as property values continue to increase faster than the rate of interest, and so long as both mum and dad can keep their fulltime jobs, then those families will achieve their principal financial goal.

But at what cost to their children and to their family lives? Mortgage literally means "death pledge". The fear of losing one's house and land obliges parents to become workaholics.

When mortgage interest rates shot up in the 1980s, the response was a large growth in the numbers of women in their 30s and 40s in the fulltime workforce. How will we pay our now much larger mortgages if interest rates double once again?

Many families will require, once again, an additional income to service their mortgage. Will we send the children to work to ensure that the mortgage is paid? Increased teenage workforce participation is exactly what happened in the Great Depression of the 1930s and the Long Depression of the 1880s when an extra income was needed to balance the household books.

Those who remain unpropertied face rent increases that eat up increasing portions of household incomes. Further, tenants face more evictions since landlords are mainly in the market for capital gains, and will want to realise those gains in the medium rather than the long term.

Government assistance in the form of accommodation supplements can help some. But these have not kept up with inflation, and are quite inadequate as a means of making rental accommodation affordable.

Renters in Auckland are going backwards while the goalposts of home-ownership recede into the distance. This will be accentuated in Waitakere if property value growth does indeed prove to be more sustained than in other parts of New Zealand.

Can the Government act to bridge the chasm between the propertied and non-propertied in greater Auckland? Would it choose to, even if it could? A capital gains tax would slow down the appreciation of property values but it would target the growth in wealth rather than the level of wealth. A better policy option might be to tax all rental income, including the rental income on owner-occupied housing that is recognised as a part of a nation's income.

Last time this - or something like it - was seriously suggested it was howled down by the owner-occupiers to such an extent that the Government dismissed the proposal with indecent haste.

Yet it is this discrepancy in the way income is assessed by Inland Revenue compared with Statistics New Zealand that ensures that too much of New Zealand's capital is invested in inflated real estate rather than in new productive capacity.

It also ensures that home ownership will remain out of reach for a large and growing number of New Zealanders. The many rent-paying residents of Waitakere City will feel this pain more than most as Waitakere becomes a more up-market place to live.

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