



23rd January 2018

Steven Mitchell
Committee Secretariat
Finance and Expenditure Committee
Parliament Buildings
Wellington 6160

Dear Mr Mitchell,

RE: OVERSEAS INVESTMENT AMENDMENT BILL

Thank you for the opportunity to present our submission in relation to the abovementioned Bill.

This matter has been the subject of intense consideration, as the intention of the Bill to improve affordability for New Zealanders is definitely an issue that affects our District. We fully support moves to address this issue, but do not believe that the Bill in its current form will tackle this important problem effectively.

We contend that measures to improve affordability should not be undertaken at the expense of the significant economic and social value provided by overseas home buyers. Should this Bill progress in its current form, it would be to the detriment of our District, the nation and our reputation globally.

We have a number of recommendations, but our primary focus in this submission is to request a delay in proceedings to enable the collation of comprehensive research and assessment of the consequences. Ultimately we do not believe this approach will achieve its intended goals. The role of second home owners (regardless of nationality) should be considered in relation to any legislation addressing housing affordability.

We are keen to be heard in relation to our submission.

Yours sincerely,



Mike Theelen
Chief Executive
Queenstown Lakes District Council

Jim Boulton
Mayor
Queenstown Lakes District Council

1.0 INTRODUCTION

1.1 Queenstown Lakes District Council (QLDC) has had the opportunity to consider the amendment to the Overseas Investment Act 2005 and holds the position that at best, the Bill requires further research and development before progressing into legislation. The Treasury impact assessment outlines this clearly in section 1 (p5) of the Impact Statement¹, in listing key limitations and constraints:

1.1.1 **“Time constraints:** Ministers have directed officials to prepare this policy within the timeframes of the 100 day plan. Accordingly, this analysis has been prepared under tight time constraints. This has meant that there has not been any opportunity to consult with private sector organizations or the general public to inform the development of this policy.”

1.1.2 **“Range of options considered:** This analysis has been constrained by the Government’s commitment to implement this specific policy. As such, no other housing policy measures (for example policies that would support the broader objective of increasing the supply of residential property), or wider overseas investment regime issues have been analysed or evaluated.”

1.1.3 **“Assumptions underpinning impact analysis:** Analysis on the likely impact of this policy is constrained by a lack of empirical data, including around current levels of overseas investment in the housing market. Similarly, it is difficult to assess the extent and nature of the behavioural responses that will result from this policy.”

1.2 QLDC does not believe this approach will achieve its intended goals of improving housing affordability for New Zealanders.

1.3 The Bill was introduced in the House on the 14th December, receiving its first reading on the 19th December 2017. QLDC contends that the timing and duration of the submissions period over Xmas did not represent a fair and reasonable process. This has limited the ability of all parties to obtain an appropriate level of expert advice and minimised the opportunity to research and prepare submissions

1.4 QLDC is keen to improve affordability for all New Zealanders, as it provides our ratepayers with a significant challenge. However, QLDC on behalf of its highly international community does not support the Bill as it currently stands for the following reasons:

1.4.1 The Bill does not provide sufficient evidence to support the proposition that overseas buyers are pushing up house prices. The role played by second home ownership (irrespective of nationality) needs to be considered.

¹ <http://www.treasury.govt.nz/publications/informationreleases/ria/pdfs/ria-tsy-srl-dec17.pdf>

- 1.4.2 The Bill does not recognise the important distinction between the role of overseas buyers in the regular housing market and those in the luxury home market.
 - 1.4.3 The Bill will cut off the significant benefits, investments and philanthropic donations currently received from overseas buyers in the luxury home market.
 - 1.4.4 The Bill will detrimentally impact a thriving industry that supports the luxury home market.
 - 1.4.5 The Bill also fails to recognise that overseas buyers within the regular housing market are also a key part of our labour market and that home ownership is a critical factor in staff attraction and retention.
 - 1.4.6 The Bill proposes a complex and costly model for some residence visa holders, which is inconsistent with existing immigration strategies.
 - 1.4.7 The Bill places a high number of existing home owners at risk of negative equity.
 - 1.4.8 The Bill has the potential to damage the international reputation of New Zealand.
- 1.5 In addition to the points outlined above, QLDC finds the Bill to be inconsistent with several key migrant strategies, including the Investment Attraction Strategy (NZTE, 2015)² and the NZ Migrant Settlement and Integration Strategy (NZ Immigration, 2017)³.
- 1.6 The following submission provides further context and detail in relation to QLDC's concerns and a set of recommendations for the Select Committee's consideration.

2.0 CONTEXT – WHY THIS BILL MATTERS TO QLDC

- 2.1 Housing affordability is a major issue in the District and is particularly pronounced in Queenstown, where average house prices are in excess of \$1million. According to Statistics New Zealand, we have the fastest growing population in the country⁴ and our focus is on ensuring that we have the infrastructure and community support in place to accommodate these changes.
- 2.2 Due to the prevalence of affordability issues in the District, QLDC has undertaken considerable work to understand the nature of the problem in our region and is therefore well positioned to provide informed comment on the matter.
- 2.3 QLDC contends that overseas buyers are not a significant cause of house price increases and that further consideration should be given to the role played by second homes ownership, irrespective of the owner's nationality.

² New Zealand Trade and Enterprise (NZTE), "New Zealand's Investment Attraction Strategy," (2015). <http://www.mbie.govt.nz/info-services/business/business-growth-agenda/pdf-and-image-library/towards-2025/mb13078-bga-investment-a3-v2-5.pdf>

³ New Zealand Immigration, "Nz Migrant Settlement and Integration Strategy " (2017). <https://www.immigration.govt.nz/about-us/what-we-do/our-strategies-and-projects/settlement-strategy>

⁴ <https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/QuarterlyEconomicMonitor>

- 2.4 In April 2017, a Mayoral Taskforce was convened to address local issues of affordability. The Taskforce reported back in October 2017 with a programme for delivery across 6 key strategic areas⁵. The approach was innovative and tailored to our local communities and concerns. Working through the Queenstown Lakes Community Housing Trust a strategy is being prepared that will offer a range of affordable options. This piece of work has been positively received and is progressing well, including provision of a shared ownership scheme, a shared equity programme, plus changes to zoning and visitor accommodation rules. The aim is to provide an additional 1000 houses by 2028 with secure tenure.
- 2.5 International net migration has been consistently increasing in the District since 2012⁶. This is testament to the fact that being an inclusive, welcoming and friendly place for migrants is part of the DNA of our District.
- 2.6 This hospitable outlook isn't new, as residents of the Queenstown Lakes District have traditionally always been very international. An eclectic, multicultural community is part of our history and fabric, reflected in settlements at every corner of our District, from the Chinese gold-mining settlement in Arrowtown to the Scottish farmers in Kinloch.
- 2.7 Our vision for our 2018/28 Ten Year Plan is "vibrant communities, enduring landscapes, bold leadership". Inclusivity for all, including overseas migrants, is a key community outcome for QLDC.
- 2.8 We are keen to ensure that all who make the commitments required through a residency class visa are given the opportunity to settle, contribute and make the District their home. Being able to purchase homes and land is a central part of welcoming migrants into our community and into kiwi culture.
- 2.9 QLDC welcomed the second highest number of international buyers in the country⁷ according to the latest LINZ report. When considered in the context that we are the 32nd in the country when ranked by population size⁸ with a population base of just 32,410 people⁹, it is clear that the relative negative impact of this Bill will be disproportionately shouldered by our community.
- 2.10 We already have a highly pressured labour market in the District, with our largely small to medium enterprises struggling to attract and retain appropriate staff. Immigration arrangements already present challenges in this process and the impact of this Bill could be to exacerbate this issue further.
- 2.11 As a result of international buyers being a highly visible presence within our community, a dynamic industry has developed around this group, particularly those that have purchased in the luxury home market. This will be explored further below.

⁵ Queenstown Lakes District Council, "Mayoral Housing Affordability Taskforce," (2017). <http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Mayoral-Housing-Affordability-Taskforce/3.-Mayoral-Housing-Affordability-Taskforce-Report-October-2017.pdf>

⁶ <https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/QuarterlyEconomicMonitor/Migration> (accessed 19/1/18)

⁷ <https://www.linz.govt.nz/land/land-registration/prepare-and-submit-your-dealing/property-tax-compliance-requirements/property-transfers-and-tax-residency-data> (accessed 19/1/18)

⁸ https://en.wikipedia.org/wiki/Territorial_authorities_of_New_Zealand (accessed 19/1/18)

⁹ <http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Annual-Plans/2a.-QLDC-Annual-Plan-17-18-final.pdf>

- 2.12 QLDC has also had first-hand experience of the enormous potential for investment that some overseas migrants bring to the District. We have a number of high net worth individuals who have made considerable social impact investments and philanthropic donations to the indisputable benefit of the community. Their connection with the District is such that they work as informal ambassadors amongst their peers, positively representing New Zealand and helping to encourage further investment.

3.0 QLDC'S COMMENTS

- 3.1 *The Bill does not provide sufficient evidence to support the proposition that overseas buyers are pushing up house prices at this stage in the property market cycle. The role played by second home ownership (irrespective of nationality) needs to be considered.*

- 3.1.1 House price increases and affordability issues are complex matters that are dependent upon a network of economic factors. Opinions differ on the cause of the New Zealand housing market increases, but generally evidence points towards the role of construction and land costs, low interest rates, changing family dynamics, internal migration, holiday home ownership and a lack of supply.
- 3.1.2 Little evidence exists to suggest that overseas buyers have an effect on house prices¹⁰ and some studies even suggest that returning New Zealanders have a greater impact than international buyers.¹¹ Given the types of international buyers (i.e. excluding Australians) impacted by this Bill constituted less than 2.25% of property transactions between July and September 2017¹² it does not appear to convincingly warrant legislative change.
- 3.1.3 QLDC contends that the presence of a high number of second homes in the District have contributed more significantly to the increase in house prices than the role of overseas buyers. Anecdotally, buyers are typically based in Auckland and Australia. The Bill does not currently address the significant role these purchasers play in exacerbating affordability problems, but there is significant international evidence to suggest that this is the case.¹³
- 3.1.4 The Bill and the supporting Treasury Impact Statements did little to reassure QLDC that a strong evidence base exists to support the Bill. Many questions remain unanswered

¹⁰ Poot Cochrane, "Past Research on the Impact of International Migration on House Prices: Implications for Auckland," (National Institute of Demographic and Economic Analysis, University of Waikato, 2016). <http://www.mbie.govt.nz/publications-research/publications/housing-and-property/nidea-report-immigration-housing-literature-review.pdf>

¹¹ Marianna Kennedy, "Does Immigration Raise House Prices? A Question of Correlation and Causation.," *EcoNZ@Otago*2009. <https://motu.nz/assets/Documents/our-work/urban-and-regional/housing/Does-Immigration-Raise-House-Prices-A-Question-of-Correlation-and-Causation.pdf>

¹² <https://www.linz.govt.nz/land/land-registration/prepare-and-submit-your-dealing/property-tax-compliance-requirements/property-transfers-and-tax-residency-data> (accessed 19/1/18)

¹³ Olivier Schoni Christian AL Hilber, "The Housing Market Impacts of Banning Second Home Investments," (2016). http://personal.lse.ac.uk/hilber/hilber_wp/Hilber_Schoeni_2016_08.pdf

and little reassurance was provided. There appears to be more certainty around costs than benefits.

- 3.1.5 Whilst QLDC appreciates the need for the Bill to sit within the context of broader policy initiatives (i.e. CPTPP), proceeding without a thorough analysis of potential externalities and unexpected consequences would be a high risk approach.

3.2 *The Bill does not recognise the important distinction between the role of overseas buyers in the regular housing market and those in the luxury market.*

- 3.2.1 QLDC contends that the Bill conflates two distinct and discrete issues that should be addressed separately; the impact of overseas buyers on the general housing market and the impact of overseas buyers on the luxury market. Homes in the former category are generally owned by 'regular' working families, whilst those in the latter are owned by the exceptionally wealthy.
- 3.2.2 Luxury home buyers are not purchasing homes that would otherwise be available for regular families to purchase. They operate in an exclusive market that only a small international group are going to access. To legislate for both groups within the same Bill should be avoided.
- 3.2.3 QLDC recognises that in some parts of New Zealand, wealthy overseas buyers operate far more closely to the regular market, purchasing properties on a buy to let basis. However, this is not the case within our District and it's important that luxury buyers aren't the accidental by-product of tackling the challenges presented elsewhere.

3.3 *The Bill will cut off the significant benefits, investments and philanthropic donations currently received from overseas buyers in the luxury home market.*

- 3.3.1 Including the luxury home market within the Bill will lead to significant missed opportunities for New Zealand. Purchasing property within the country is often the start of a far deeper relationship with high net worth individuals that benefits the country in terms of expertise, connections, investment, development and philanthropy. A personal / home connection with New Zealand is generally the precursor to commercial investment and direct economic gain.
- 3.3.2 The Queenstown Lakes District has benefitted significantly from the presence in the District of people who have purchased in the luxury home market. Not only have we seen traditional investment in local business, but we have seen the launch of ground breaking social enterprises and incredible impact investment. By inhibiting such investment, the Bill is inconsistent with the advice of the DIA's Strategic Group on Social Enterprise and Social Finance.¹⁴ Two examples of such investment include significant

¹⁴ Strategic Group on Social Enterprise and Social Finance (DIA), "Social Enterprise and Social Finance: A Path to Growth " (2016). [https://www.dia.govt.nz/diawebsite.nsf/Files/SESF-Steering-Group/\\$file/SESF-Strategic-Group-report.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/SESF-Steering-Group/$file/SESF-Strategic-Group-report.pdf)

donations from the music producer Mutt Lang¹⁵ and the technology entrepreneurs Paul and Debbie Brainerd¹⁶.

3.3.3 The Bill will have a significant negative impact upon our ratepayers that have invested in property on the understanding that there will be an international market to sell it on in future. Some of the properties within the District may not viably sell if only available to New Zealanders.

3.3.4 This failure to acknowledge the value that high net worth individuals bring to the country through migration and property purchase is inconsistent with several existing strategies and government initiatives. This includes the work of the Investor Attraction Taskforce¹⁷ and the NZ Investment Attraction Strategy¹⁸, whose third specified objective is to "Attract Investor and Entrepreneur Migrants".

3.4 *The Bill will detrimentally impact a thriving industry that supports the luxury home market.*

3.4.1 Investment from luxury home buying migrants has led to the development of an extensive industry supporting a range of small and medium businesses in the District. From niche building firms and master craftsmen, through to furniture designers and artists; the presence of high net worth purchasers has provided a significant economic development and diversification opportunity. This contributes to achievement of key outcomes within the QLDC Economic Development Strategy.¹⁹

3.4.2 Similarly, the development of a luxury home industry has created excellent training and development opportunities for local tradespeople to develop skills to service a high quality and bespoke design market.

3.5 *The Bill also fails to recognise that many overseas buyer are ordinary working migrants. They play a key role in our labour market and home ownership may be a critical factor in staff attraction and retention.*

3.5.1 Whilst affordability is a challenge in the District, so too is maintaining an effective labour market. This is a challenge for QLDC as an organisation, as well as the broader economy.

3.5.2 Last year, 74% of employers (mainly small – medium enterprises) at the Queenstown Chamber of Commerce reported hiring staff that were not NZ citizens or permanent residents²⁰. Professional Staff that are older and more experienced will typically travel with family, making the opportunity to invest in a home a key factor in attracting them

¹⁵ <https://www.tvnz.co.nz/one-news/new-zealand/-legendary-music-producer-gifts-unique-otago-land-to-new-zealand-6249530> (accessed 19/1/18)

¹⁶ <https://www.theheadwaters.co.nz/camp-glenorchy/> (accessed 19/1/18)

¹⁷ New Zealand Trade and Enterprise (NZTE), "Investment Attraction Taskforce, Update November 2016," (2016). <https://www.nzte.govt.nz/about/news/news-and-features/-/media/34A349D609F549C29E72841EC520F4DA.ashx>

¹⁸ "New Zealand's Investment Attraction Strategy." <http://www.mbie.govt.nz/info-services/business/business-growth-agenda/pdf-and-image-library/towards-2025/mb13078-bga-investment-a3-v2-5.pdf>

¹⁹ <http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Strategies-and-Publications/Queenstown-Lakes-Economic-Development-Strategy-Consultation-Documents.pdf>

²⁰ <https://www.queenstownchamber.org.nz/business-connect/news-advocacy/media-releases/queenstown-lakes-district-labour-and-accommodation-survey-report-2017-fact-sheet/> (accessed 19/1/18)

to the resort. If home ownership is impossible or requires a lengthy, costly assessment exercise, attracting staff will be more difficult. The Bill is going to create obstacles for new migrants that will make it difficult for them to commit and contribute to New Zealand.

3.6 The Bill proposes a complex and costly model for some residence visa holders, which is inconsistent with existing immigration strategies

- 3.6.1 The proposed model introduces a complex system, whereby some residence class visas will not require a consent and lengthy process to purchase residential property, but those who have not been resident for the requisite 12 months / 183 days will.
- 3.6.2 QLDC's position is that this approach is overly complicated and costly to administer, requiring a significant and unnecessary increase in the services of the OIO and conveyancers.
- 3.6.3 QLDC believes that all residence class visas should be exempted from the requirement to obtain a permit. On a philosophical level, residence class visas provide a pathway to citizenship and many are entitled to vote. Those who qualify for a residence class visa through an existing rigorous immigration process should be welcomed into our communities and considered valuable additions to our society. Home ownership, as vital part of kiwi culture, should not be withheld. Residence class visa holders should be treated in an inclusive and egalitarian fashion.
- 3.6.4 To discriminate between types of residence class visas creates unnecessary pressure on the OIO and builds a sense of two-tier discrimination for our resident migrants which will complicate settlement in our communities. Such discrimination is inconsistent with all Immigration NZ advice in relation to migrant settlement, including the New Zealand Migrant Settlement and Integration Strategy²¹ and the Welcoming Communities Standards (Dec 2017)²².

3.7 The Bill has the potential to damage the international reputation of New Zealand.

- 3.7.1 Freedom of transaction, rule of law and flexible immigration policies have contributed to New Zealand's reputation as being safe, liberal, free from corruption and globally connected; a good place to live and to do business. However, the Bill places this carefully crafted international reputation at risk, as the controls it promotes are counter to the values that have been promoted over the past thirty years.
- 3.7.2 Over nine out of ten recent migrants would recommend NZ to friends and family²³. Flexible, common-sense immigration provisions have helped build a diverse and

²¹ Immigration, "Nz Migrant Settlement and Integration Strategy ". <https://www.immigration.govt.nz/about-us/what-we-do/our-strategies-and-projects/settlement-strategy>

²² "Welcoming Communities Standard," (2017). <https://www.immigration.govt.nz/about-us/what-we-do/welcoming-communities/the-welcoming-communities-standard>

²³ <http://www.mbie.govt.nz/publications-research/research/migrants---monitoring/migrant-survey-report-2015.pdf>

international community in the Queenstown Lakes District and it's on the back of this that we are able to provide a welcoming visitor experience. The current Bill undermines this reputation and will significantly detract from New Zealand's tourism brand.

- 3.7.3 Our District is synonymous with New Zealand's international tourism reputation, which affords us the ability to understand wider issues that will impact the visitor experience. New Zealand brands itself under the '100% Pure' campaign, which tells the story of how the country's unique combination of landscapes, people and activities cannot be found anywhere else in the world.²⁴ Queenstown features heavily on the 100% Pure website, making up one-third of the recommended 'Things to Do'²⁵ and featuring in 80% of the 'Recommended trips'.²⁶
- 3.7.4 Central government frequently uses Queenstown to showcase New Zealand – for example, at the November 2017 Asia-Pacific Economic Cooperation Leaders' Meeting and the 2017 Commonwealth Heads of Government Meeting.
- 3.7.5 QLDC contends that this Bill contributes to a building perception that overseas visitors are unwelcome, whether they are arriving as visitors or migrants. It's important to note that migrants often move to New Zealand after a positive visitor experience. This level of reputational damage will impact New Zealand's tourism industry and its official international relationships.

4.0 QLDC'S RECOMMENDATIONS

4.1 In reference to the points outlined in section 3.0, QLDC recommends that the progress of the Bill is delayed in order to facilitate collation of comprehensive research and to engage in a dialogue with a broader range of stakeholders and interested parties. This will enable officers to explore potential impacts in greater detail.

4.2 Furthermore, QLDC recommends consideration of the following amendments:

- 4.2.1 Exemption from the implications of the Bill for all residence class visa holders, as listed on the Immigration NZ web page presenting options for living in NZ permanently²⁷.
- 4.2.2 Consideration of a price floor model, beyond which purchasers would be exempt from the requirements of the Bill. The intent of this would be to prevent inhibition of the luxury home industry and enable the small international residential market to continue. A similar model has recently been applied in Malaysia²⁸. Overseas buyers above the price floor could be obliged to also make a percentage contribution to a local philanthropic fund.
- 4.2.3 Limitation of the Bill to markets where empirical evidence suggests that overseas buyers are competing in the regular housing market and causing prices to increase.

²⁴ Tourism New Zealand <http://www.tourismnewzealand.com/about/what-we-do/campaign-and-activity/> (accessed 19/1/18)

²⁵ New Zealand website <https://www.newzealand.com/int/things-to-do/> (accessed 19/1/18)

²⁶ <https://www.newzealand.com/int/trips-and-driving-itineraries/top-nz-trips/> (accessed 19/1/18)

²⁷ <https://www.immigration.govt.nz/new-zealand-visas/options/live-permanently/all-resident-visas> (accessed 19/1/18)

²⁸ <http://www.straitstimes.com/asia/se-asia/landed-properties-penang-raises-entry-prices-for-foreigners> (accessed 19/1/18)

4.2.4 Work with key stakeholders to develop technical, expert adjustments that will soften the negative impacts of the Bill. These could include exemption of land where residential is an ancillary purpose, exempting existing overseas owners, refining the immigration process and exempting leasehold sales.

4.3 QLDC recommends that further research into the role that second home owners play within the market is required, irrespective of their nationality. QLDC understands that this may sit outside of the purview of the Overseas Investment Act, but considers this to be a cause of house price increases for New Zealanders.

4.3.1 Tourist areas in the UK are currently seeking to ban new properties from being built, unless they are to be owned and occupied full time²⁹ Similarly the UK increased Stamp Duty on second homes in 2016, New York reduced its tax abatements for second condos and France enabled districts with over-heated property markets to increase taxes on second homes by 20%. China and Singapore have also increased taxes across a range of mechanisms for second homes.³⁰

5.0 CONCLUSION

5.1 To conclude, QLDC fully supports the government in its endeavours to address issues of affordability for New Zealanders. However, it strongly recommends that the progress of the Bill be delayed in order to enable further research and dialogue to be conducted.

5.2 QLDC recommends that the Bill is returned to officials to develop a comprehensive understanding of the potential impacts across a range of markets will ensure that the Bill is subject to less risk.

5.3 QLDC considers the Bill as drafted to be inconsistent with several key government strategies. The implications of the Bill pose a threat to the reputation of New Zealand, the importance of our values and the spirit of our international relationships.

²⁹ <https://www.theguardian.com/money/2017/jul/01/holiday-homes-new-buy-to-let-property-investors> (accessed 19/1/18)

³⁰ Christian AL Hilber, "The Housing Market Impacts of Banning Second Home Investments." http://personal.lse.ac.uk/hilber/hilber_wp/Hilber_Schoeni_2016_08.pdf