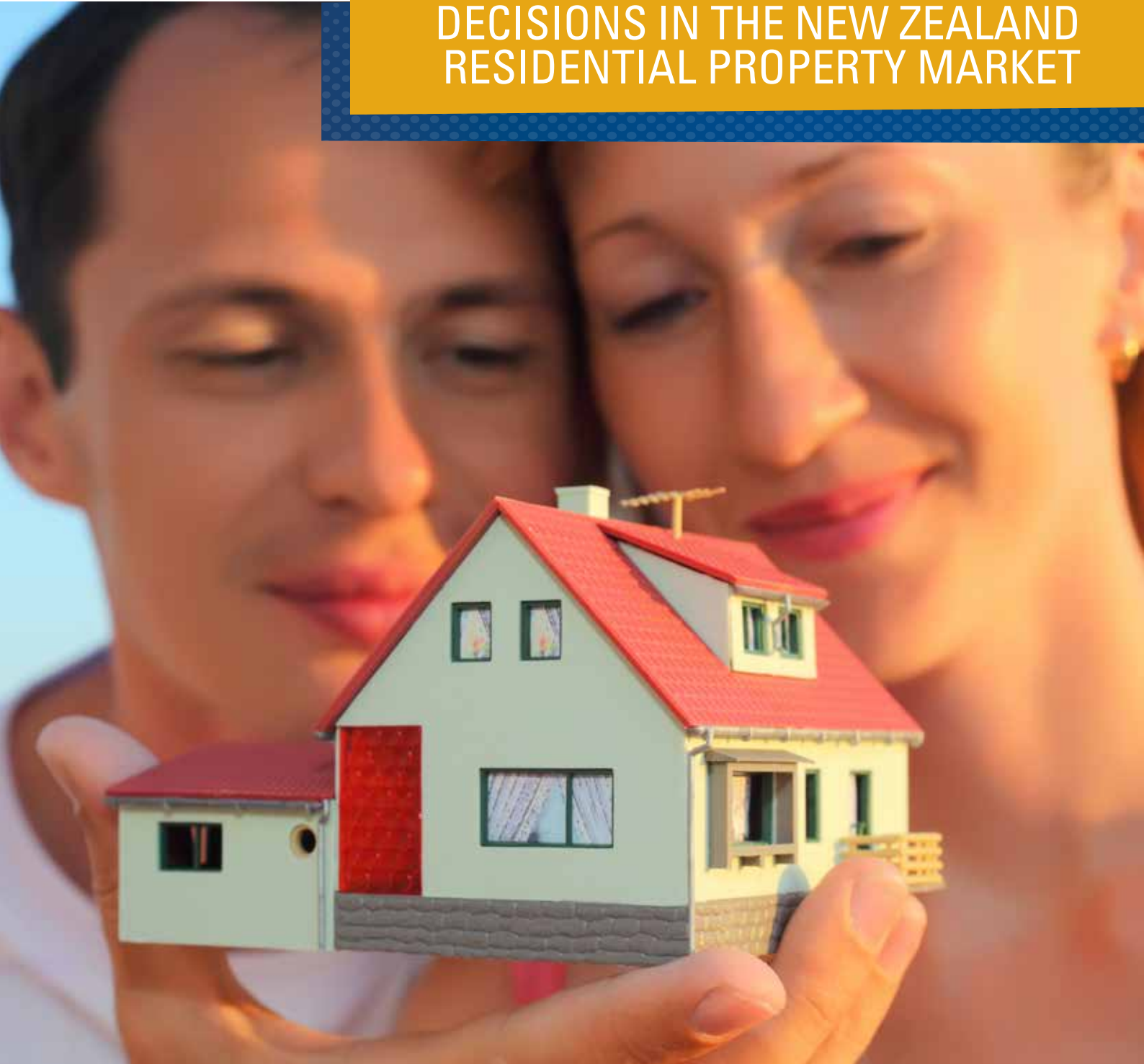




UNDERSTANDING HOUSING DECISIONS IN THE NEW ZEALAND RESIDENTIAL PROPERTY MARKET



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UNDERSTANDING HOUSING DECISIONS IN THE NEW ZEALAND RESIDENTIAL PROPERTY MARKET

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1. EXECUTIVE SUMMARY

New Zealanders have an affinity with home ownership because ownership equates not only with independence, but also with status. In the early 1990s around 73 percent of the population owned their own homes, however, this rate is steadily declining. In 2013 just under 65 percent of New Zealanders were home owners, placing the nation at the 35th position in the world¹, behind Australia, the UK and the USA. There are complex reasons for this fundamental change but the underlying cause is clear. Residential property is becoming increasingly unaffordable in areas where the vast majority of the population lives, especially for first home buyers.

When one considers the outcome of the 2014 International Housing Affordability Survey², that ranks New Zealand (NZ) as the 7th least affordable urban real estate market of nine developed economies examined, the social ramifications are clear. Housing is a fundamental determinant of wellbeing, health, family stability and social cohesion, and is a crucial part of the national economy. The concept of affordability refers to the relationship between income and house prices. Historically, in Australia, New Zealand and the UK, median house price ratios have been in the region of 2.0 to 3.0 times median household incomes. A lack of land supply and urban consolidation have, however, led to a rapid deterioration in this multiple, so that today NZ residential property is rated 'severely unaffordable' at 8 times the median income. Income from wages and salaries grew by 4.8 percent between June 2012 and June 2013 to a weekly average of \$844³. Annual property value change continues to trend upwards by 6.9 percent nationwide, in the Auckland region by 11.4% (average value \$730,000), and in Christchurch by 5.9 percent (average value \$463,000)⁴. Since the beginning of 2014 mortgage interest rates have risen and are currently just under 7 percent.

Within this context there is considerable interest in the property market, the accessibility of ownership, and the level of market and investment understanding amongst a group targeted for examination. This report covers results from a survey conducted in April 2014 amongst a Westpac Bank customer panel. The key findings are highlighted in this summary.

The majority of the sample (56.8%) rent their current home. Over half want to purchase a home, but only a small percentage are currently looking to buy (14.3%). The main reason for remaining in rental accommodation is financial. Saving a sufficient deposit has always been difficult and, since implementation of the loan to value (LVR) restrictions, is even more so. The pressure of managing mortgage payments, rates, insurances and maintenance on current income levels is a concern for many. Renters do find some advantages of renting, listing bond and up front rental payments as manageable and the fact that rental accommodation can be found in an area of choice. Nevertheless, disadvantages tend to outweigh advantages. The inability to build equity, concerns about rental increases and landlord interference are prominent among these. There is also a perceived risk of being progressively priced out of the market as time goes on.

There are multiple benefits associated with home ownership. Capital appreciation, independence and accommodation stability, equity build up and ownership status are important. Ownership costs like maintenance, rates and insurance do, however, increase the burden of servicing the mortgage and there are concerns about rising interest rates and market downturns.

Housing decisions are mostly informed by consulting online mortgage calculators and an assessment of affordability, but buyers also take advice and guidance from family, friends, bankers and mortgage brokers. The most influential source of market knowledge comes from Reserve Bank monetary policy announcements and assistance from significant others, rather than media commentary.

Financial literacy plays an important role in the housing decision. The 2007-2008 Global Financial Crisis has been attributed, in part, to extending homeownership to those lacking both sufficient financial capacity and financial understanding of complex mortgage structures. While research shows that New Zealanders generally have a good basic understanding of financial matters, they appear to struggle with concepts linked to the housing decision, such as investment returns, taxation implications and even the prudent use of borrowed funds. Consequently, greater financial literacy is essential in making informed homeownership decisions.

1 The percentage rate is the ratio of owner occupied units to total residential units

2 10th Annual Demographia International Housing Affordability Survey: 2014 *Ratings for Metropolitan Markets*, Stern School of Business, New York University.

3 NZ Income Survey: June 2013 quarter. Statistics NZ. Retrieved from http://www.stats.govt.nz/browse_for_stats/income-and-work/Income/NZIncomeSurvey_HOTPJun13qtr.aspx

4 Rounded figures Quotable Value NZ Monthly Residential Price Index, August 2014

2. BACKGROUND

The aim of this preliminary study is to examine the housing decisions made by household units, and corresponding levels of financial literacy. For the purposes of this report 'households' are defined as having principal family members living in New Zealand, and aged between 18 and 45. A random sample group consists of those who are currently renting, those who intend to buy in the future and those who currently own their own home. Motivations of the rent or buy decision, including advantages, disadvantages and risks, were gathered and analysed. Individual respondent's motivations are viewed in conjunction with their financial literacy levels. It is anticipated that a quarterly analysis will allow trends in the targeted demographic to be identified and that results generated over time will be useful for policy makers, including Government departments, financial institutions, economists, and organisations assisting rent/buy decisions, as well as general market participants.

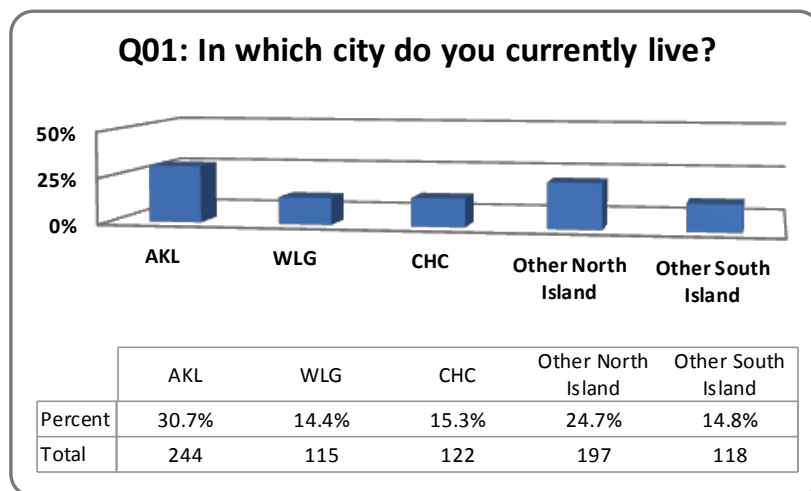
3. CONDUCT OF THE SURVEY

A 36-question questionnaire was launched via email invitation to a hyperlink on 29 April, 2014. The link was open for a two-week period. Respondents were sourced from a customer database held by Westpac Bank and the target demographic was 2,287 New Zealand residents in the 18 to 45 year old category. The questionnaire produced 796 valid responses, which equates to a response rate of 35 percent. The questions were answered either on Likert scales, or by selecting descriptive options. The Likert scale is from 1 to 7, with 4 being the mid-way point. The Likert scale questions results are presented as a mean over all respondents and the option questions are presented as percentages.

The results of each question in the survey are discussed in the survey results section and in the conclusion.

4. SAMPLE DEMOGRAPHICS

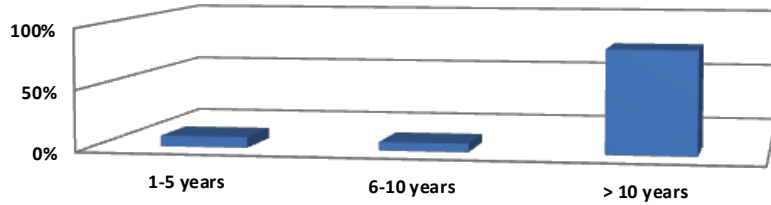
The majority of respondents live in Auckland (30.7%) and other areas of the North Island (24.7%), excluding Wellington (14.4%). South Island respondents total 30.7 percent of the sample with just over half of that number living in Christchurch (15.3%).



796 respondents answered this question

The vast majority of respondents have been living in New Zealand for greater than 10 years.

Q02: How long have you lived in NZ?

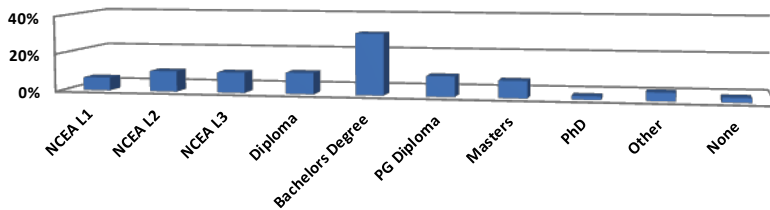


	1-5 years	6-10 years	> 10 years
Percent	8.7%	6.9%	84.4%
Total	69	55	672

796 respondents answered this question

A full 32.2 percent of respondents hold a bachelor's level tertiary education degree. Just under a quarter (21.5%) have a postgraduate qualification and 39.5 percent have achieved NCEA levels 1-3, or an undergraduate diploma. Only 2.5 percent hold no formal educational qualification.

Q21: What level of education have the main decision makers in your household attained?

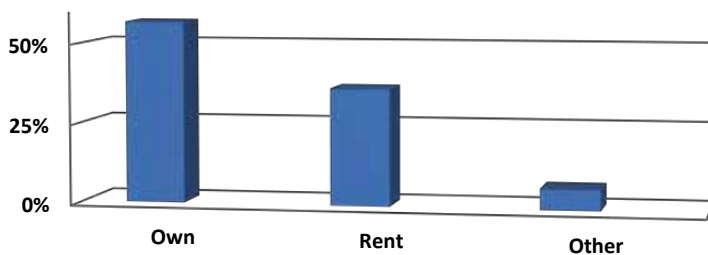


	NCEA L1	NCEA L2	NCEA L3	Diploma	Bachelors Degree	PG Diploma	Masters	PhD	Other	None
Percent	6.8%	10.8%	10.7%	11.2%	32.2%	10.7%	9.0%	1.8%	4.4%	2.5%
Total	72	114	113	118	340	113	95	19	46	26

796 respondents answered this question

Of the total sample of 796, almost 57 percent own their own home, while over 36 percent are currently renting. The small other category of around 7 percent is accounted for by those boarding, living with family, or in accommodation that 'comes with the job'.

Q03: Do you rent or own your home?



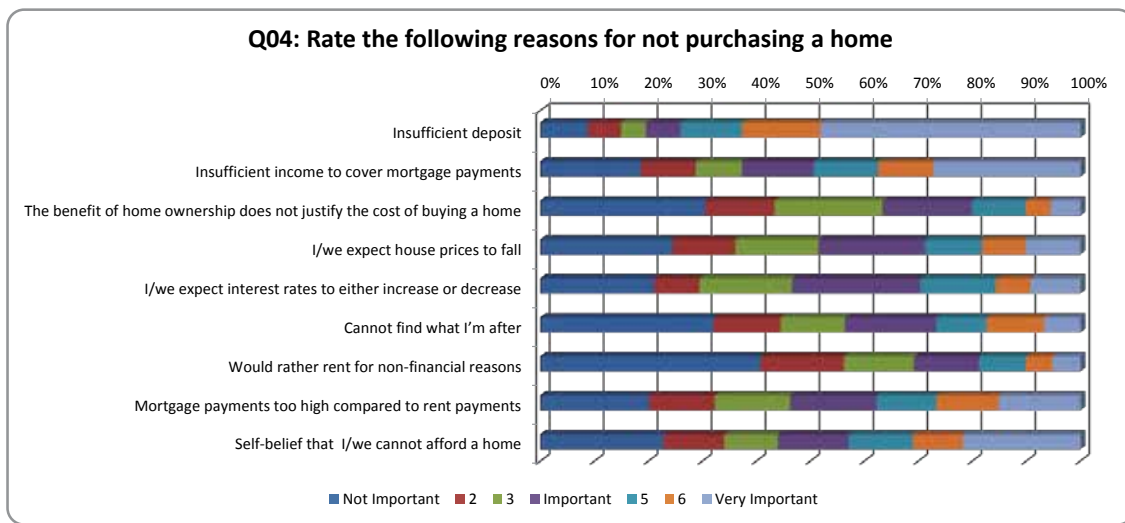
	Own	Rent	Other
Percent	56.8%	36.6%	6.7%
Total	452	291	53

796 respondents answered this question

SURVEY RESULTS

REASONS FOR NOT PURCHASING A HOME

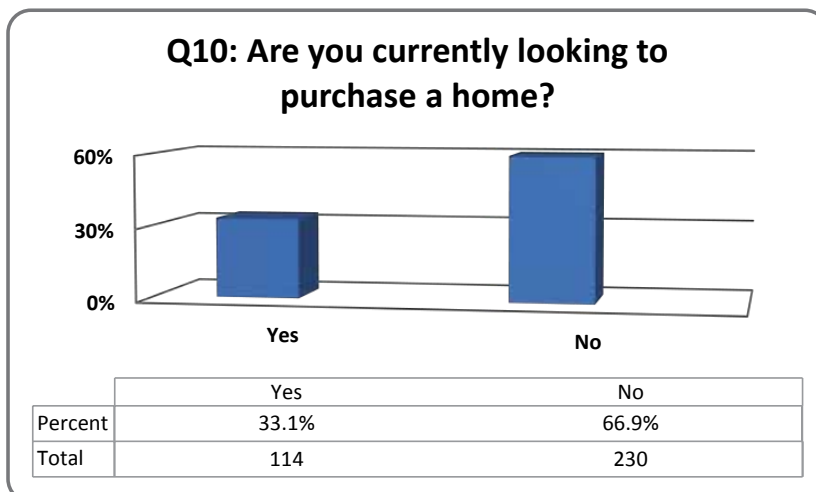
The most important reason for not buying a home is an insufficient deposit, with just under 50% (48.3%) of respondents ranking this reason as *very* important. A full 80 percent ranked difficulties around saving a sufficient deposit as important to very important. Closely linked to this factor is the perceived difficulty of servicing mortgage repayments based on current income levels, with just over 27 percent (27.3%) selecting this as *very* important and just under a two thirds (62.8%) weighting this reason at 4 and above. These two factors add up to an overall perception of not being able to afford to buy a property. Other reasons for not buying a home, perception ('self-belief') of affordability (21.8%), expectation of mortgage rate movement (9.3%), and rental versus mortgage payments (15.1%), are significantly less important to respondents. Interestingly, fewer than three percent (2.9%) feel they cannot find an appropriate property to purchase as *very* important, so for respondents this factor is not significant, despite anecdotal evidence to the contrary. An explanation might lie in the fact that over half (54.0%) of the sample respondents reside outside the current 'hotspots' of Auckland and Christchurch.



344 respondents answered this question

THOSE LOOKING TO PURCHASE A HOME

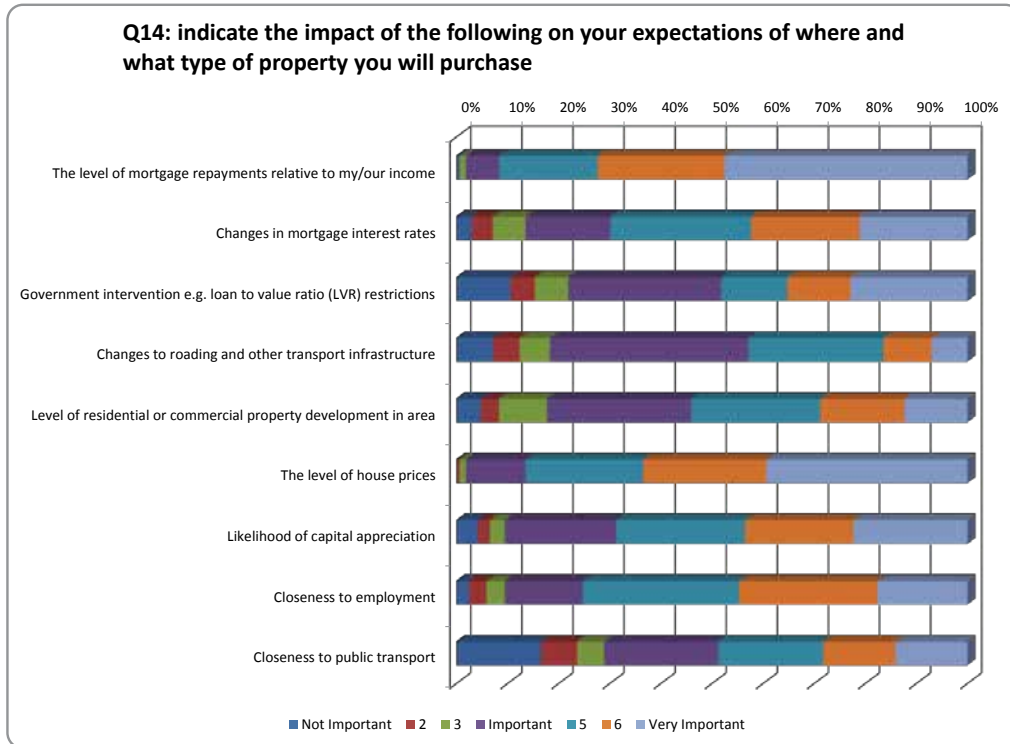
Despite the fact that question 33 reveals over 58 percent of the respondents have a strong preference for owning a property, over two thirds (66.9%) of the renters in the sample group are not looking to purchase a home. Just over 33 percent (33.1%) are looking to purchase and the main area they are looking in is the North Island, particularly Auckland (75.9%).



344 respondents answered this question.

FACTORS THAT IMPACT THE 'BUYING AGAIN' DECISION

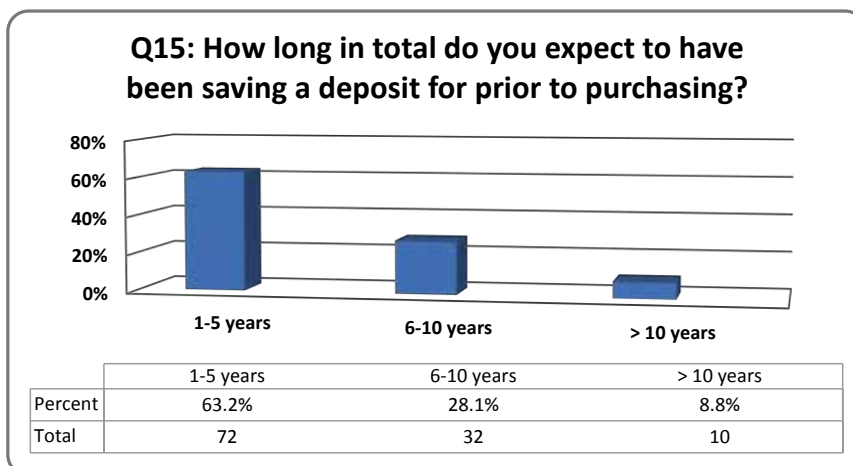
When asked to rate the impact of factors on the 'buying again' decision in relation to what type of property and the location sought, the factor that rates highest is the level of mortgage payments in relation to income. The next most important factor is the current level of house prices. A full 98.2 percent rate these two factors on a continuum of 'important' to 'very important'. Legislative measures, like the recent loan to value ratios, rate third in importance, closely followed by an awareness of entering the market to reap capital appreciation benefits. One of the least important factors for the sample group was closeness to public transport. Interest rate volatility is rated a very important concern by slightly more than 21 percent of respondents.



170 respondents answered this question.

SAVING THE DEPOSIT

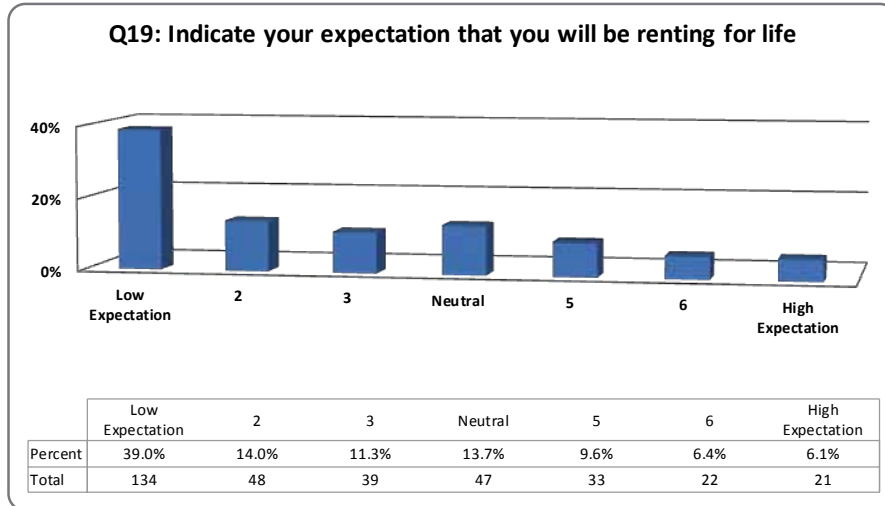
Most respondents looking to buy take on average between 1 and 5 years to get a deposit together (63.2%), while for just over a quarter it takes between 6 and 10 years. For 8.8 percent the period to gather a sufficient deposit is greater than 10 years. The majority of owners (80.3%) used saved earnings to make up a deposit, while 29 percent reached this important goal through financial assistance from family.



114 respondents answered this question

WHAT RENTERS THINK ABOUT ENTERING THE MARKET

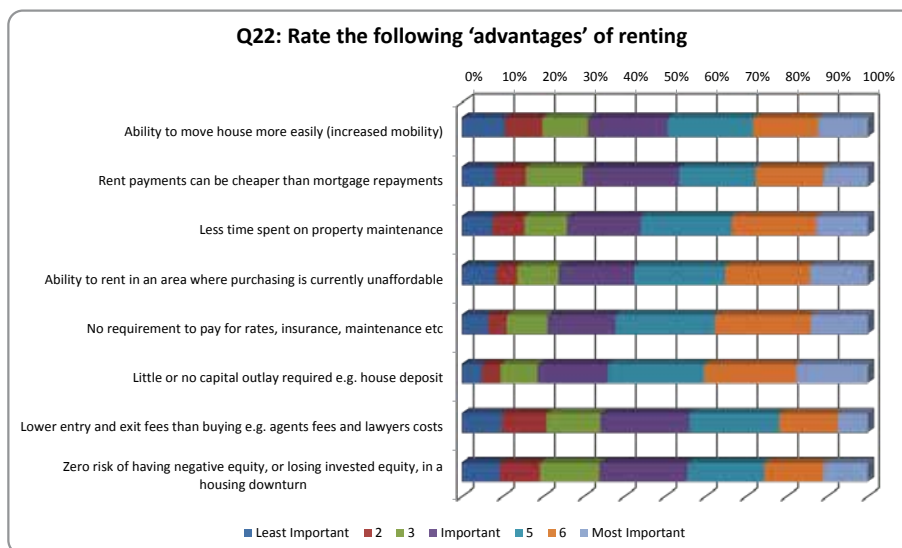
Despite the difficulty of obtaining a sufficient deposit to buy a home, around two-thirds (64.2%) think it is unlikely that they will rent for life. For 22 percent, however, renting for life remains a possibility and for 6.1 percent of respondents, there is a *high* expectation. When asked about the experience of renting, fewer than a quarter (23.8%) of respondents say the experience is positive. More than 43 percent say it is a negative experience, and one-third (32.8%) remain neutral.



344 respondents answered this question.

PERCEIVED ADVANTAGES OF RENTING

The most important advantages of renting rated by respondents are little or no financial outlay to establish a rental, the ability to rent in an area where they cannot afford to purchase, and the fact that rates, house insurance and maintenance costs can be avoided. The ability to move house more easily is almost ranked equally '*least* important' and '*most* important' across the sample group. Respondents also highly rate freedom from worry about the negative effects of a housing downturn as an advantage of renting.

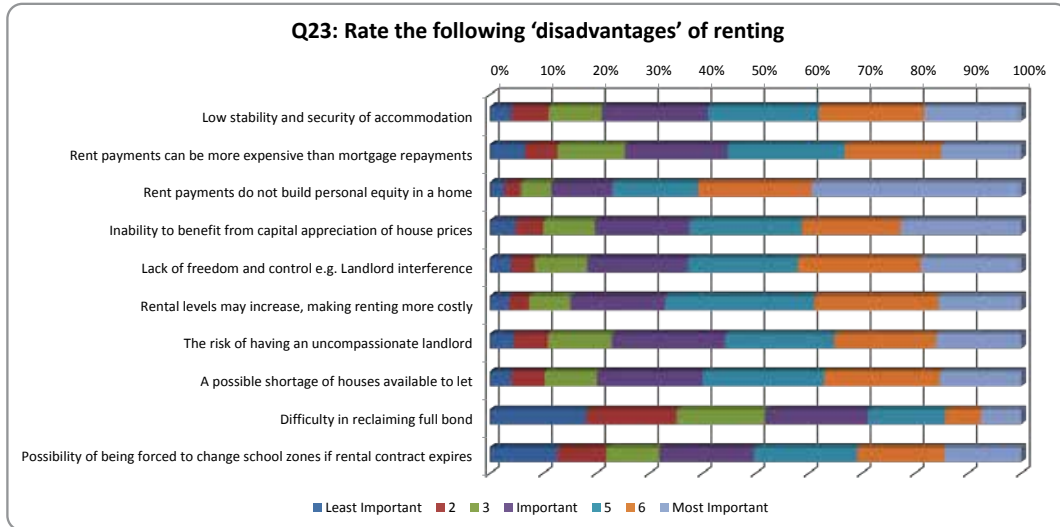


	Least Important	2	3	Important	5	6	Most Important
Ability to move house more easily (increased mobility)	84	73	90	156	168	128	97
Rent payments can be cheaper than mortgage repayments	63	62	111	190	150	134	86
Less time spent on property maintenance	59	63	83	145	179	166	101
Ability to rent in an area where purchasing is currently unaffordable	66	42	81	149	178	166	114
No requirement to pay for rates, insurance, maintenance etc	51	36	80	134	194	189	112
Little or no capital outlay required e.g. house deposit	39	36	73	138	189	181	140
Lower entry and exit fees than buying e.g. agents fees and lawyers costs	78	87	106	175	176	115	59
Zero risk of having negative equity, or losing invested equity, in a housing downturn	73	79	117	173	150	116	88

796 respondents answered this question

PERCEIVED DISADVANTAGES OF RENTING

The most important disadvantage of renting for the respondents is the inability to build equity. This factor is followed by concern about rental increases and possible interference from the landlord. Surprisingly, the inability to benefit from capital appreciation rates as the fourth most important disadvantage. Lack of appropriate property to rent and lack of accommodation stability follow. The least important disadvantage of renting is difficulty in reclaiming the bond.

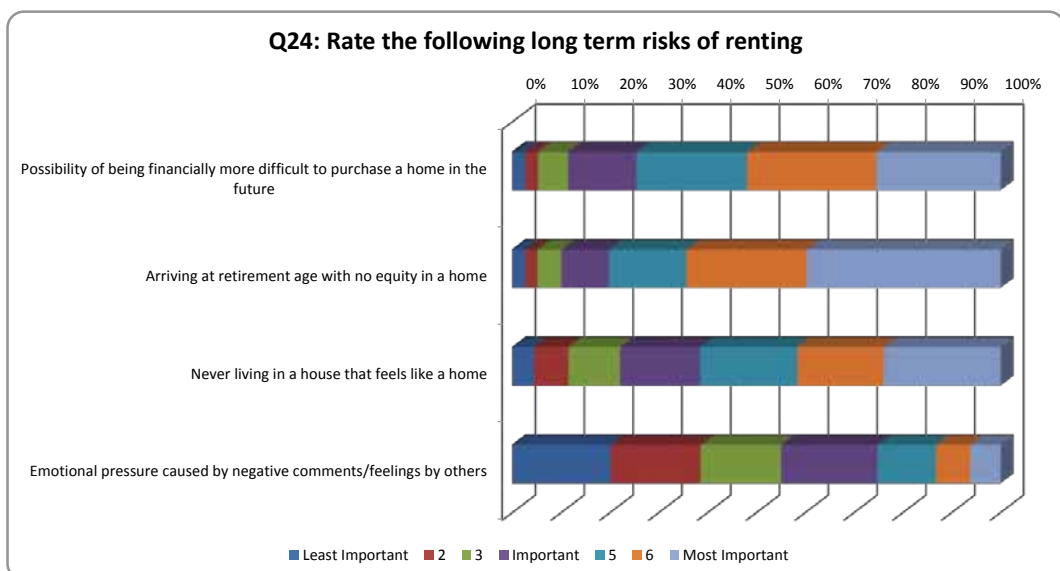


	Least Important	2	3	Important	5	6	Most Important
Low stability and security of accommodation	32	55	80	160	165	158	146
Rent payments can be more expensive than mortgage repayments	52	49	101	154	176	144	120
Rent payments do not build personal equity in a home	21	25	45	92	128	171	314
Inability to benefit from capital appreciation of house prices	38	41	78	141	169	148	181
Lack of freedom and control e.g. Landlord interference	31	35	79	151	165	184	151
Rental levels may increase, making renting more costly	28	30	62	141	225	186	124
The risk of having an uncompassionate landlord	35	51	96	170	164	152	128
A possible shortage of houses available to let	32	49	79	158	182	174	122
Difficulty in reclaiming full bond	144	135	133	154	116	54	60
Possibility of being forced to change school zones if rental contract expires	101	73	79	142	155	130	116

796 respondents answered this question

PERCEIVED LONG TERM RISKS OF RENTING

The most important long-term risk of renting is perceived as arriving at retirement with no equity in a home. This factor is followed by concern about the ability to purchase a home diminishing in the future. Although feelings of inferiority about renting is the least important factor, there is importance attached to personal perceptions that rented accommodation doesn't really feel like a home.

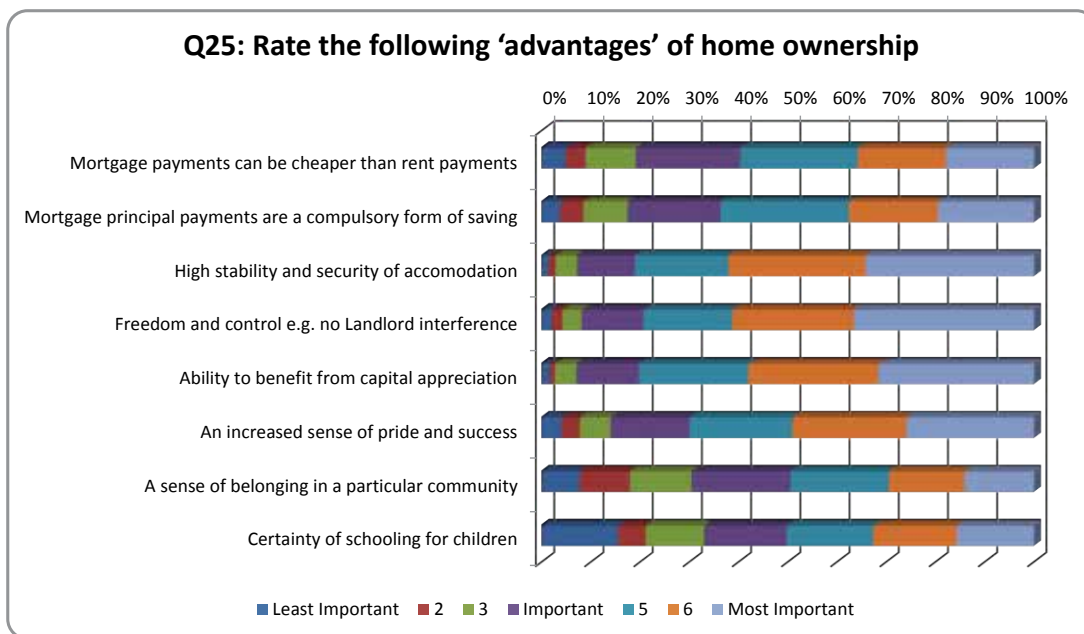


	Least Important	2	3	Important	5	6	Most Important
Possibility of being financially more difficult to purchase a home in the future	21	20	49	112	180	212	202
Arriving at retirement age with no equity in a home	21	19	40	77	126	197	316
Never living in a house that feels like a home	35	56	84	131	158	141	191
Emotional pressure caused by negative comments/feelings by others	160	147	131	157	95	56	50

796 respondents answered this question

PERCEIVED ADVANTAGES OF HOME OWNERSHIP

When asked to rate the advantages of home ownership, the respondents rate stability of accommodation and the ability to benefit from capital appreciation as the two most important factors, followed by freedom from landlord interference. Pride of ownership and mortgage payments, as a kind of saving, are also important factors. The least important factor for the respondents is certainty of schooling for children.



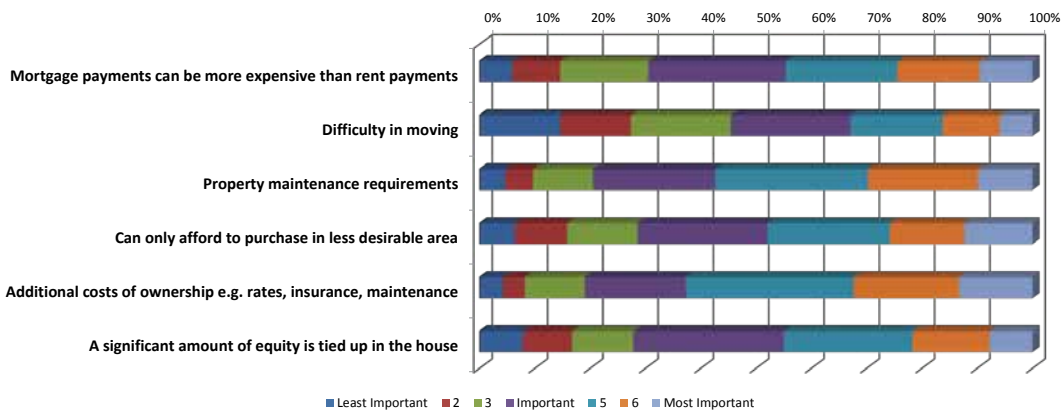
	Least Important	2	3	Important	5	6	Most Important
Mortgage payments can be cheaper than rent payments	38	33	81	169	189	143	143
Mortgage principal payments are a compulsory form of saving	30	38	71	149	208	144	156
High stability and security of accommodation	11	11	34	95	151	222	272
Freedom and control e.g. no Landlord interference	16	17	32	99	144	196	292
Ability to benefit from capital appreciation	13	8	34	102	177	211	251
An increased sense of pride and success	31	31	49	128	166	184	207
A sense of belonging in a particular community	62	81	99	160	159	123	112
Certainty of schooling for children	123	45	94	134	140	134	126

796 respondents answered this question

PERCEIVED DISADVANTAGES OF HOME OWNERSHIP

Just over eighty percent (81.0%) of respondents rate the costs related to maintenance, rates and insurance as being the most important factor. This is closely followed by concern over property maintenance requirements (79.5%) and having equity tied up in a home (72.2%). For around 70 percent, the level of mortgage repayments in comparison to rent and the difficulty in being able to afford their area of choice are important. Difficulties associated with moving house are the least important factor.

Q26: Rate the following 'disadvantages' of home ownership



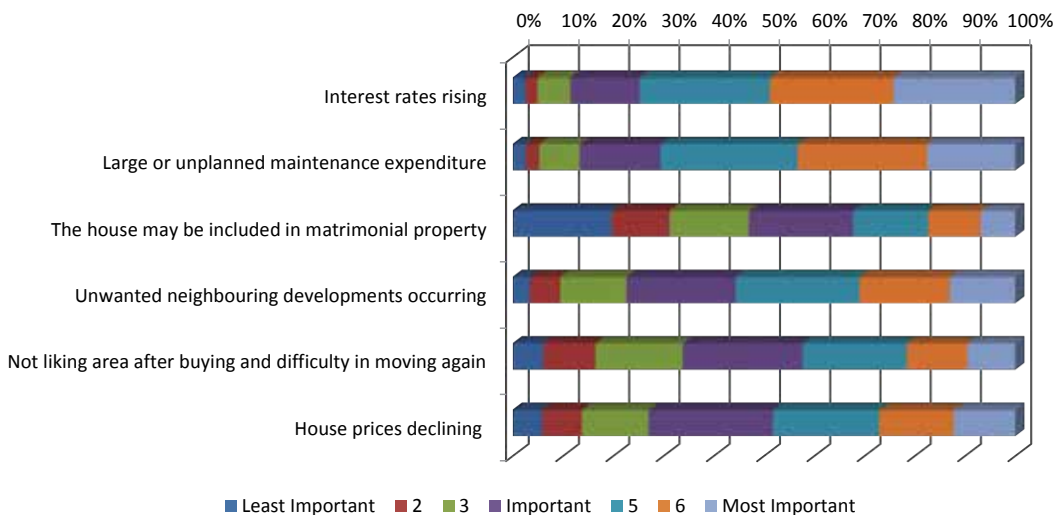
	Least Important	2	3	Important	5	6	Most Important
Mortgage payments can be more expensive than rent payments	47	69	127	197	161	119	76
Difficulty in moving	116	102	143	173	132	83	47
Property maintenance requirements	37	40	86	176	220	158	79
Can only afford to purchase in less desirable area	51	75	101	187	176	108	98
Additional costs of ownership e.g. rates, insurance, maintenance	33	32	86	146	241	152	106
A significant amount of equity is tied up in the house	62	71	88	217	185	111	62

796 respondents answered this question

PERCEIVED RISKS OF HOMEOWNERSHIP

Interest rate rises is seen as the most important risk of homeownership by around 90 percent (88.6%) of respondents, followed by the likelihood of an unexpected maintenance expense (86.6%). Unwanted neighbourhood development is third important and the possibility of a decline in house values is an important issue for around 75 percent of the sample. Immobility and difficulties in moving concern around 67 percent of the group. The least important perceived risk of homeownership is that the house might be included in a matrimonial property settlement.

Q27: Rate the following 'risks' of home ownership

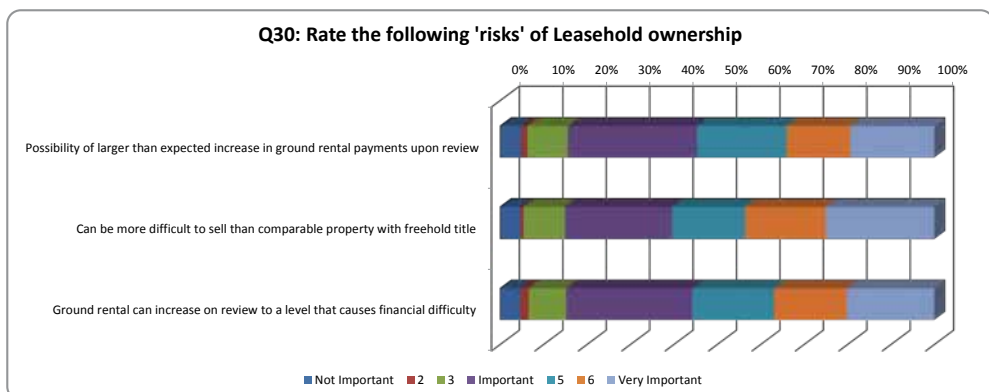
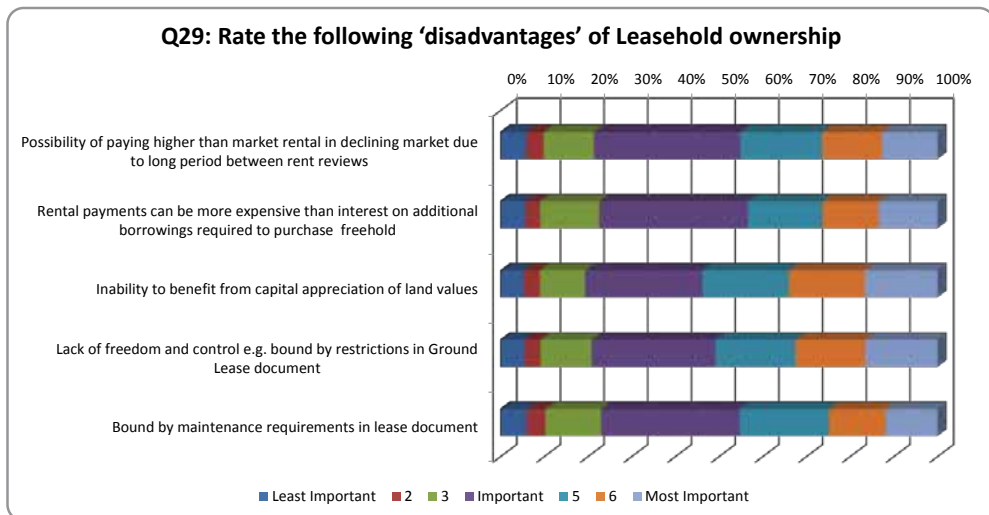
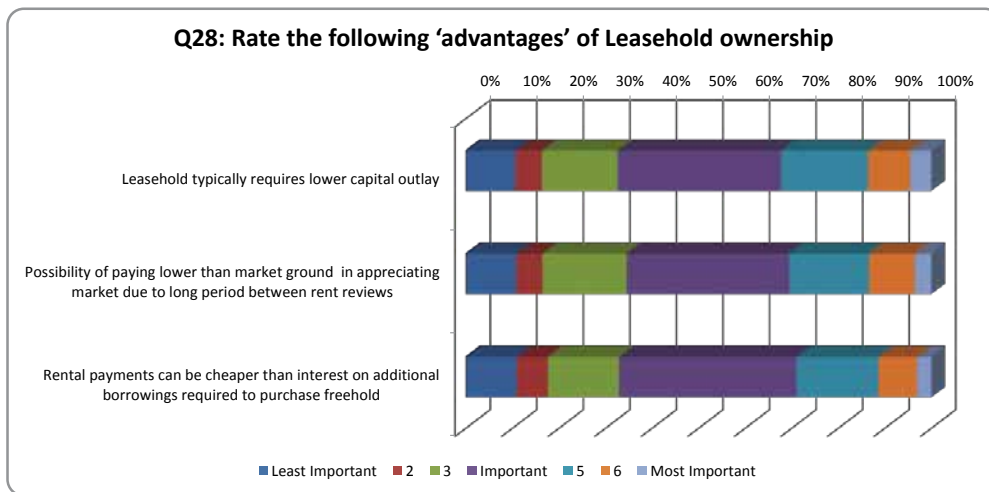


	Least Important	2	3	Important	5	6	Most Important
Interest rates rising	20	19	52	110	206	196	193
Large or unplanned maintenance expenditure	20	22	64	128	217	205	140
The house may be included in matrimonial property	157	91	126	165	119	83	55
Unwanted neighbouring developments occurring	27	48	105	173	196	143	104
Not liking area after buying and difficulty in moving again	48	83	138	190	165	96	76
House prices declining	46	63	106	197	168	118	98

796 respondents answered this question

LEASEHOLD OWNERSHIP

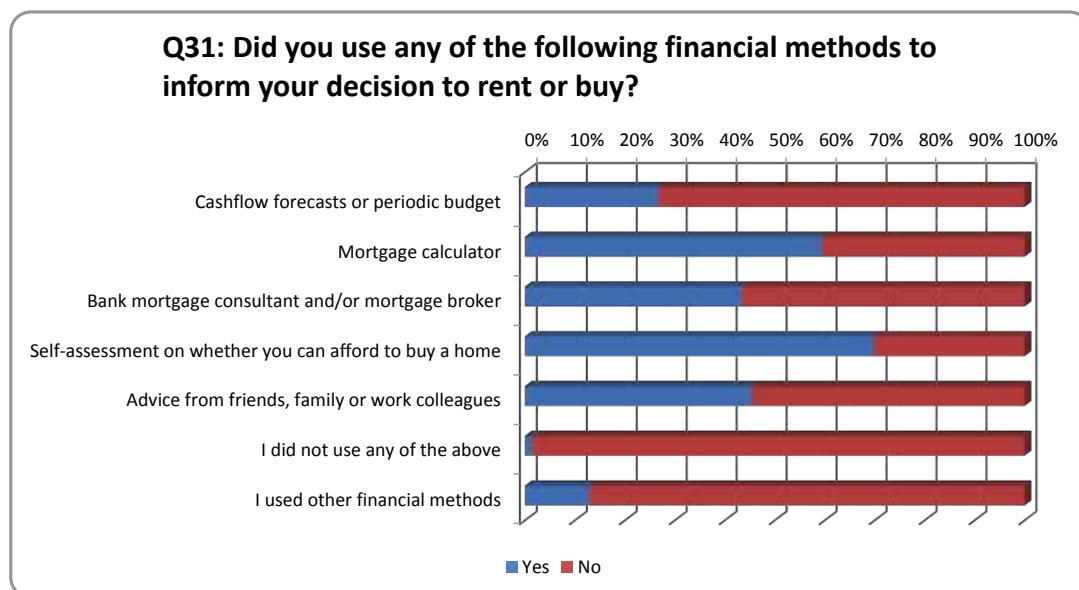
All 796 respondents answered questions 28 to 30 on the perceived advantages, disadvantages and risks of owning a leasehold interest in property. Respondents rate the most advantageous aspect of leasehold ownership as the requirement for lower capital outlay (67.4%). The fact that ground rental rates are often less than current interest rates is considered important by over 67 percent. The possibility of paying low ground rental in an appreciating market between rent review periods rates as important for 65.6 percent of the sample group. The most important disadvantage of leasehold ownership is the inability to benefit from land value increases. All five listed disadvantages are, however, viewed as significant drawbacks by the majority (an average of around 78.5 percent) of respondents. When asked to rate perceived long term risks of leasehold ownership a quarter (25.1%) of respondents rate difficulty in selling leasehold property as *very important*. On balance, however, the majority (almost 85%) feel large ground rental increases and ensuing financial difficulty, together with negative selling perceptions are substantial long-term risks of owning leasehold property.



LEVELS OF FINANCIAL LITERACY RELATED TO INVESTMENT PRODUCTS

Financial Methods

Respondents report that their decision-making is informed by certain financial methods in almost all cases. Most respondents (69.8%) make a self-assessment about their ability to either rent or buy and then gather information on which to base a final decision. Just less than 60 percent of the respondents use a mortgage calculator, around 45 percent take advice from friends, family and work colleagues, and just over 43 percent consult bank consultants or a mortgage broker. Cashflow forecasting is considered important by just over a quarter of the group. The other financial methods nominated include professional guidance from accountants and the 'Sorted' website.



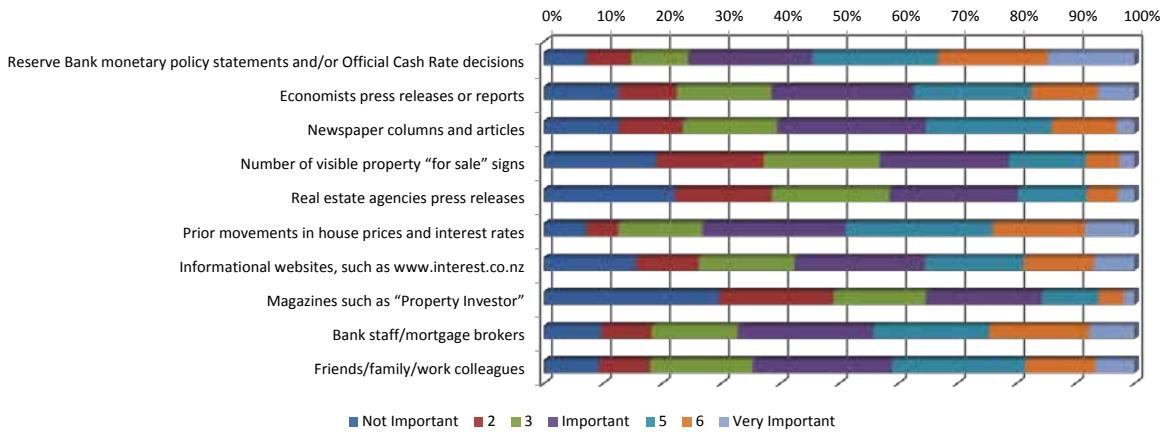
	Yes	No
Cashflow forecasts or periodic budget	213	583
Mortgage calculator	473	323
Bank mortgage consultant and/or mortgage broker	346	450
Self-assessment on whether you can afford to buy a home	556	240
Advice from friends, family or work colleagues	361	435
I did not use any of the above	12	784
I used other financial methods	103	693

796 respondents answered this question

Influences on perceptions of interest rates and house prices

Respondents' perceptions of interest rate movements are mostly influenced by Reserve Bank monetary policy (75.6%), and historical house values and interest rates (73.2%). Another important influence is advice received from friends and family (64.7%), and bank staff and mortgage brokers (67.2%). The least influential sources are property magazine articles, comments from real estate agents and visible real estate agency activity. Almost 60 percent of respondents gather information from websites like www.interest.co.nz.

Q32: Rate the importance of the following on influencing your views on the direction of interest rates and house prices

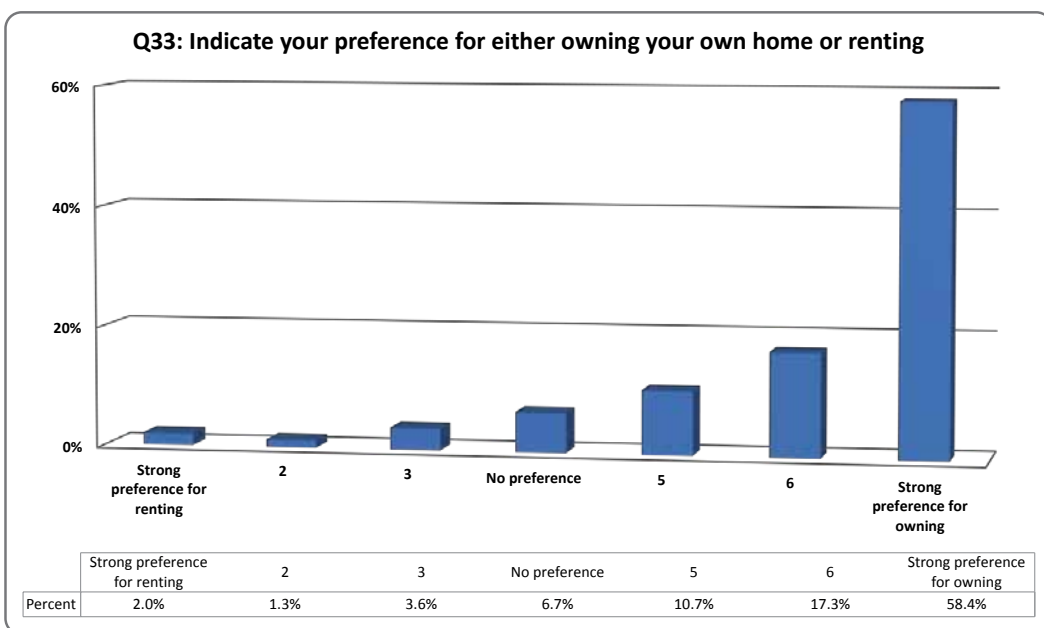


	Not Important	2	3	Important	5	6	Very Important
Reserve Bank monetary policy statements and/or Official Cash Rate decisions	56	61	77	167	170	147	118
Economists press releases or reports	100	78	128	192	159	89	50
Newspaper columns and articles	101	86	127	200	170	87	25
Number of visible property "for sale" signs	151	145	156	175	103	45	21
Real estate agencies press releases	176	131	158	174	92	43	22
Prior movements in house prices and interest rates	56	44	113	194	197	124	68
Informational websites, such as www.interest.co.nz	123	85	129	176	133	95	55
Magazines such as "Property Investor"	236	154	124	157	76	34	15
Bank staff/mortgage brokers	77	68	116	183	155	136	61
Friends/family/work colleagues	74	69	138	188	179	95	53

796 respondents answered this question

Preference for either home ownership or renting

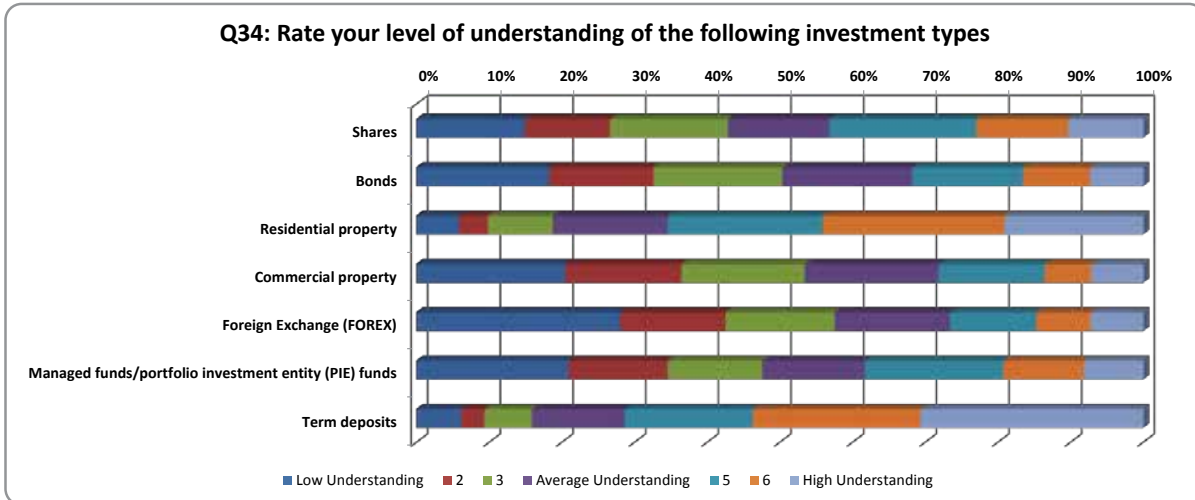
Overall, respondents indicate an overwhelming strong preference for home ownership (58.4%) versus a strong preference for renting (2.0%). While perhaps not surprising on its own, a lack of preference to rent compares with 66.7% of renters who are not presently looking to purchase a home (Q 10) and the percentage of renters (13.37%) who have an above average perception that they will be renters for life (Q 19). Put another way, 11.37 percent of renters would prefer to be home owners but feel home ownership is not an option.



796 respondents answered this question

Understanding of investment types

Respondents were asked to rate their understanding of different investment types. The investment type most highly understood by respondents is bank term deposits (around 31%). Residential property is well understood by around 20 percent of the sample group. The smallest numbers of respondents have a high understanding of managed funds like PIE funds (8.2%), and foreign exchange and bonds (7.3% each) and commercial property (7.2%).

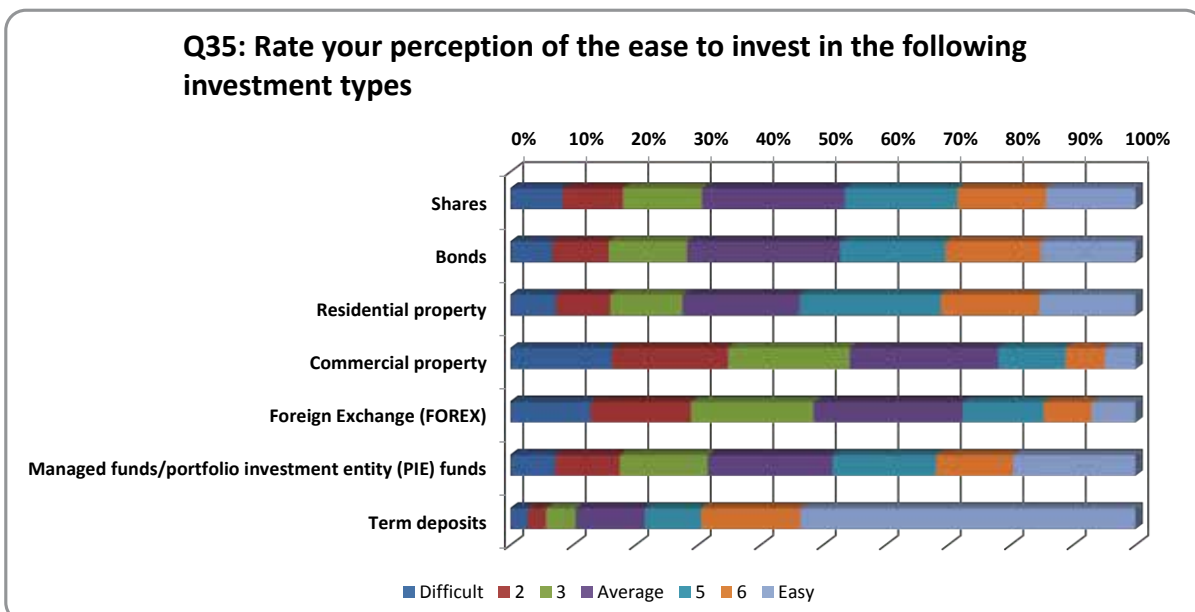


	Low Understanding	2	3	Average Understanding	5	6	High Understanding
Shares	119	93	129	111	161	101	82
Bonds	145	114	142	142	121	74	58
Residential property	46	32	71	126	170	199	152
Commercial property	162	128	135	147	116	51	57
Foreign Exchange (FOREX)	223	115	120	126	95	59	58
Managed funds/portfolio investment entity (PIE) funds	166	109	104	112	152	88	65
Term deposits	49	25	52	102	140	184	244

796 respondents answered this question

Perceptions of the ease of investment

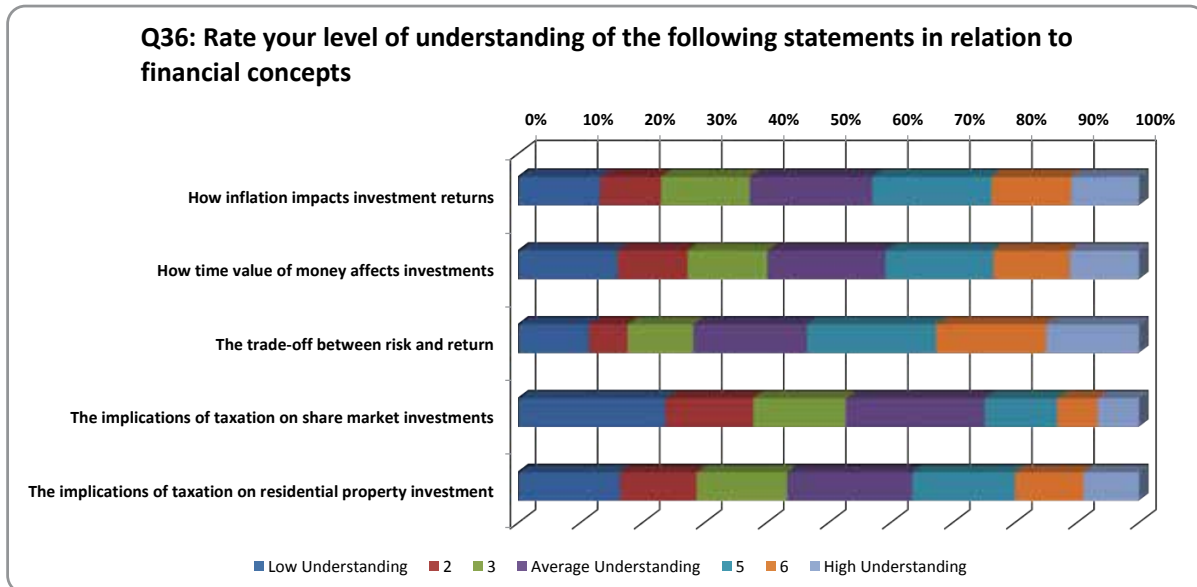
When asked about the ease of investing in the above products, respondents overwhelmingly chose term deposits (78.5%). Over half the respondents (53.8%) perceive that it is easy to invest in residential real estate, however, only around 15 percent (15.5%) rate it as very easy. Fewer than half of the respondents rate shares, bonds and portfolio investment as easy. Fewer than 5 percent think that investment in commercial property is very easy.



796 respondents answered this question

Understanding of financial concepts

On average, respondents understand most about the trade-off between risk and return (53.5%). Around 43 percent feel they understand the impact of inflation on investment return and 41 percent understand well how time value of money effects investments. The least understood financial concepts are the implication of taxation on share market investments (52.7%), and property (43.4%).



	Low Understanding	2	3	Average Understanding	5	6	High Understanding
How inflation impacts investment returns	105	78	114	157	153	102	87
How time value of money affects investments	127	90	102	152	138	98	89
The trade-off between risk and return	90	50	84	146	166	141	119
The implications of taxation on share market investments	189	112	119	178	93	52	53
The implications of taxation on residential property investment	131	98	116	160	132	88	71

796 respondents answered this question

5. CONCLUDING COMMENT

Only a small number of respondents own property. The majority rent independently or, in a small number of cases, rent employer-supplied accommodation, board, or live with family. As the majority of respondents live in Auckland and Wellington (45.1%), where property values are highest, and only 14.5 percent live in Christchurch, with 30 percent in the entire South Island, this is not surprising. Affordability is the central problem. The factors that most severely limit respondents' ability to own property is difficulty in saving a deposit (most feel it will take up to five years to accrue a sufficient amount), closely associated with low income levels, the cost of mortgage funds, LVR restrictions and high property values. There is awareness amongst the sample group of interest rate volatility and recent upward trends, but this is seen as an inevitable challenge inherent within the market, as is the problem of finding a suitable affordable property to purchase in an acceptable location.

Just over half of respondents currently renting have a strong preference for property ownership, but only a small number are actively looking to buy. Respondents rent for financial reasons, finding entry into rental property less expensive. Rental bonds cost less than the rates, ongoing maintenance and insurance premiums facing owners. They perceive rental payments as being less than the cost of mortgage repayments, although there is concern over rental increases. Despite difficulty in sourcing good rental property, renters can generally afford to rent in an area where they would not necessarily be able to buy. Renters in the sample, however, consider the inability to build personal equity in an appreciating property asset, and possible interference from landlords as key disadvantages of renting. For some respondents being locked into renting at retirement age and having no equity is a concerning long-term risk. Other perceived risks are never feeling like a rental is 'home' and anxiety about the ever increasing difficulty of being able to afford property as time goes on.

Those who own property feel that rental payments are often higher than mortgage payments and there are few accrued benefits. Ownership delivers stability, freedom from landlord interference, and the ability to build equity through loan amortisation and capital appreciation. Pride of ownership is important for the majority of this group, however, it is not always possible to live in an area of first choice and high mortgage repayments pose significant risk. Unexpected maintenance issues, possible downward value movements and the 'not in my neighbourhood' syndrome associated with unwanted development concern a majority of home owners. In light of the predominance in the sample of Auckland property owners, uncertainty about the effect of residential intensification (outlined in the new Auckland Unitary Plan) is, perhaps, not unexpected.

Perceptions of leasehold property ownership reveal significant negativity. Respondents feel that despite the fact that leasehold property involves less financial outlay at the outset, on-selling might later prove to be a problem. The ground rental percentage payable can be cheaper than a mortgage, based on the underlying land value, and there is some acknowledgement of benefits to be gained in paying ground rental at a rate that is fixed between rent reviews. Despite this, perhaps because of well-publicised problems related to massive ground rent increases at review, leasehold ownership is seen as having the potential to cause financial distress.

Part of this study examines the financial literacy of the respondent group in relation to property decisions and general background awareness of the property market. It also investigates ways in which a wider range of investment decisions are both understood and informed. When making the decision whether to rent or buy, respondents self-assess their position and most support their conclusion by using one or more financial tools. Many respondents use online mortgage calculators to assess what they can afford. Under half, but nevertheless an important number, consult their bank or a mortgage broker, and a similar number seek input from family, friends and work colleagues. This latter point could underline the importance of acceptance of 'significant others' in the decision making process, especially the buying decision.

The main influences on the awareness of important indicators in the property market, like interest rates and property values are Reserve Bank announcements on the official cash rate and the consequent impact on the cost of borrowed funds and house value movement. Websites that provide analysis of these impacts are often referenced, but market commentary from real estate agents and agencies is not considered particularly persuasive. This is perhaps not unexpected due to the clear conflict of interest.

In relation to wider investment options, bank term deposits are most widely understood and are easy to arrange. Residential property is not generally well understood by those in the sample, although the majority feel comfortable with the prospect of becoming involved, despite the affordability hurdle. One reason for inadequate understanding might be that purchasing a property to live in is not necessarily seen as an investment in the same way as purchasing a rental property is. The sample

group focused on personal property housing decisions rather than property investment decisions, and most would have no personal experience in this realm. Likewise, other investment options like managed funds, foreign exchange, bonds and commercial property are not well understood.

There is a surprisingly low indication of understanding of common financial concepts. The relationship between risk and return is understood by over half of the sample group. Fewer fully appreciate the time value of money, or the impact of inflation on investment return, and a significant number of people do not fully comprehend taxation effects on share market and property investments.

The results clearly point to the need for raising levels of financial literacy specifically related to the homeownership decision. Purchasing a home is, for most, the biggest investment decision they will face. Getting on the property ladder requires, in the first instance, the financial capability to plan and save for homeownership. It then requires a full understanding of the impact of basic financial considerations, such as interest rates, in making an informed decision. Improved levels of financial literacy will greatly assist New Zealanders when deciding when, where and how to enter the housing market.

CONTRIBUTORS

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