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## Reserve bank focus on investors misplaced

In an attempt to slow house price growth in Auckland, the Reserve Bank are forcing rental property owners to have a 30% deposit when buying rental property.

It is understandable that the Reserve Bank wants to control house prices and it doesn't have many tools to do so. However rental property buyers are not a prime influence on current house price levels and the new regulations are unlikely to make a large impact on future house price increases.

The real affect is that many rental property owners will not have sufficient capital to afford this and rental property supply will fall at a time when more is needed.

There is always a churn of rental property, and owners exiting the market often sell to new entrant buyers. These new buyers are likely to be impacted by the new regulations so rental properties will increasingly be sold to first home buyers.

It is assumed that when a rental property is sold to a first home buyer then it is a net result outcome, but this often isn't the case. With migration increases at record highs, first home buyers are often new migrants or a kiwis returning home. By buying a rental property the previous tenants need to find a new place to live. This is also the outcome for first home buyers who have been living with their parents to help save their deposit.

Even if a tenant buys a previous rental property as a home, it usually reduces supply as the average number of people living in an owner occupied home is less than a rental. Consider a couple buying their first home. They may have lived in a 1 bedroom flat or lived with other flatmates. If they buy a typical 3 bedroom home to live in, then potentially 3 to 6 former tenants need to find a new home to rent.

There is no mention of how long these restrictions are likely to be kept in place or if they will be permanent. What will happen when the market eventually turns and we have a potential situation of falling house prices and a shortage of rentals? Will the Reserve Bank have sufficient data and experience to interpret the data so their actions don't cause more problems than they cure?

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