

NELSON PROPERTY INVESTORS ASSOCIATION
AUGUST 2024 NEWSLETTER
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Our sixth meeting of the year at the Honest Lawyer Point Road, Monaco is on Tuesday 3rd September 2024 7:30 pm. Yes, we still have the before meeting optional meal at 6 pm.

Note: No bookings are required and no charge for attending. Non-members are welcome, but we do encourage all attendees to subscribe to our free newsletters.

It has been annoying and embarrassing having so many of our prearranged speakers pulling out at the last minute. I think this has mostly been related to political issues, both local and international. Our next speaker is dealing with commercial property investment. Nothing much political and controversial about that so hopefully we should be safe this time!

Gill Ireland from Bayleys Nelson is our speaker for the 3rd September meeting.

She recently did a commercial property presentation to the Nelson Chamber of Commerce which went well.

I'm sure many of you know her but if not link to her page is below:

www.bayleys.co.nz/agents/gill-ireland-3823

Some topics she'll discuss:

- Overview of commercial real estate investment
- Commercial leasing agreement
- Commercial sales
- Hotels as an investment
- General market overview and what cap rates are in the market.

THE POLITICS OF RESIDENTIAL PROPERTY INVESTING

The new government is changing lots of things. Not everyone is happy about the changes and it is hard to keep your seat when we hit bumps at speed. The key to not being hurt is anticipating what is ahead. To do that one needs to listen to the correct information. In our free democracy people opposed to change will publish their side of the story to convince others. Not all that is published is correct or will come to fruition but that does not mean you should put your head in the sand and hope for the best. I have gathered up a selection of recent media articles and thrown them on the pages that follow.

Huge changes to building regulations and urban planning are on the table. Some ideas will stick and others will sink below the waves. Tiny homes, granny flats, multi story chicken coops, and save the productive urban fringe land are swirling around. It is rare for old legislation to be completely forgotten. Usually more complex laws are applied like sticking paper over the half forgotten laws of the past that have a habit of being resurrected to hit landlords in the pockets when pushed into a corner in court. The old Housing Improvement Regulations of 1947 should not be forgotten. The RTA specifies such laws need to be complied with despite their age. If you are going to push the limits it is advisable to understand what the old laws say in order to convince others you know what you are doing.

“People staying in emergency housing have responsibilities they must agree to and meet. If they stay longer than seven nights, they’ll need to complete agreed activities to help meet those responsibilities.

“This includes paying their emergency housing contribution, and activities which will help them get a home. This could include things like meeting with a housing broker, attending a Ready to Rent course, engaging with support services or looking for a private rental.

“At each re-grant appointment, their case manager will check they’ve completed the activities they agreed to and talk with them about any support which may be available. This is an important part of helping to set people up for housing success.

“If people don’t meet their obligations without a good reason, they’ll receive a warning. After two warnings, if they don’t meet their obligations again, they won’t be able to get an Emergency Housing Grant for 13 weeks.

Back in April the *Waikato Times* revealed the cost of placing people in emergency accommodation in Hamilton alone had hit [more than a quarter-of-a-billion dollars](#).

The Ministry of Social Development (MSD) then confirmed to RNZ that from 26 August it would make changes for "strengthening eligibility settings and the introduction of new obligations".

People living in transitional housing pay rent of up to 25 per cent of their income, in line with income-related rents for public housing and Emergency Housing Special Needs Grants. The rest of the costs are paid by Te Tūāpapa Kura Kāinga - Ministry of Housing and Urban Development.

New Zealand’s accommodation supplement scheme is facing scrutiny, with Social Development Minister Louise Upston recently [saying](#) “there is merit in considering whether the current settings are fair and sustainable long-term”.

The [means-tested](#) accommodation supplement is a weekly payment helping households with rent, board, or mortgage costs. Following a NZ Herald Official Information Act request, the government [revealed](#) in the year to January 31 2024, it paid out NZ\$2.34 billion to 364,000 renters and mortgage holders.

Yet despite rising rents and an increase in accommodation supplement recipients, government spending on the supplement actually decreased by \$37 million last year. In fact, the scheme [rarely exceeds](#) its annual budget.

And [my own research](#) shows it’s become an important part of many New Zealanders’ household budgets. Government spending on the supplement directly affects people’s spending on food.

So before the government makes any significant changes, it is worth understanding how the accommodation supplement works now – and how the government could make it fairer.

How the accommodation supplement works

The accommodation supplement can be traced back to New Zealand's welfare reforms in the early 1970s. In 1975, the Labour government of the day introduced the "additional benefit" – a supplementary allowance for housing costs and special expenses. This evolved into the "accommodation benefit" in 1981, which later became the accommodation supplement in 1993.

The accommodation supplement is calculated with a [negative income tax formula](#). So for eligible taxpayers earning below a specific income threshold, the supplement is a cash payment deposited directly into their bank account, allowing people to spend it as they see fit.

The payment can increase or decrease independently of rent and mortgage costs. If a recipient's income, tax credits, other sources of income, or personal savings increase, supplement payments decrease – and vice versa. Annual revisions of the main benefit can also lower supplement payments. Simply put, the supplement functions as an income maintenance scheme.

Accommodation supplement eligibility is based on income and wealth levels of households, not rents or housing choices.

My own [recent research](#) on the accommodation supplement has shown supplements do not distort the rental market by pushing up prices.

Current policy settings

Maximum payment settings for the accommodation supplement have been revised only twice since being set 1993. That is, clients' payments can not exceed the maximum payment for years on end and essentially remain capped for around 13 years.

Current settings divide New Zealand into four geographical areas for rental payments, ranging from the most expensive (urban centres such as Auckland, for example) to the least expensive (rural communities). Even if the policy was revised to adjust payment settings annually to fairly reflect rent changes, compensation would not take into account local rent variations.

Capped maximum payments mean recipients depend on their income and not the supplement to cushion rent rises, keeping government spending on the supplement to around 0.5% of the gross domestic product.

[Research from the United Kingdom](#) found reducing housing allowances does not lower rents, but may cause overcrowding. Whereas [maintaining the supply of accommodation allowances](#) in the United States helps low-income households stay in their homes despite rent increases.

The flaws in the system

If the government wanted to make accommodation supplement work better to help the 364,000 renters and mortgage holders who rely on it today, there are three key issues it needs to address.

1. The supplement does not provide relief proportionate to market rents and housing affordability. Rents have increased, but the accommodation supplement has not.
2. Means and asset testing disqualifies couples from the supplement if they have cash assets exceeding \$16,200 (for singles, the limit is \$8,100). This is 1.75% of today's median house price, restricting a couple's ability to save for a mortgage deposit while receiving the supplement. This limit was around 17% of the median house price when it was last adjusted in 1988.
3. Finally, the supplement has a mixed impact on recipients. It allows homeowners accessing the supplement to build housing equity, while renters can't accumulate enough for a home deposit, widening wealth disparities. The supplement also benefits banks as they can use supplement eligibility to assess mortgage applicants.

Widely recognised as a measure to address rising rental costs, the accommodation supplement needs to be more responsive to changes in rental expenses.

Rather than scrapping the supplement, or reducing the number of people who receive it, changes can be made to ensure the policy is more effective in helping New Zealanders with housing during the current cost-of-living crisis.

Housing Improvement Regulations 1947

There is a document called the Housing Improvement Regulations 1947 which has the latest version as at 15 November 2021. This document has some very old terminology in it, but some of it is the basis of current rules that have been carried into modern legislation like the NZBC and even Healthy Homes Standards.

Below are some excerpts and my comments.

If 1 room having a floor area of not less than 9 sq m in the case of an existing house or 14 sq m in the case of a new house is used, intended to be used, or capable of being used as a kitchen and living room combined, it shall not be necessary for the house to have a separate living room and a separate kitchen.

So if you have turned the separate lounge into an extra bedroom and made the kitchen / dining room into the kitchen / living then that room needs to be a minimum of 9 sq m.

Every living room shall be fitted with a fireplace and chimney or other approved form of heating.

This aligns with Healthy Homes requiring a heat source (now promoted as a heat pump) in the living room.

There shall be in each kitchen or kitchenette—

(a) an approved sink with a tap connected to an adequate supply of potable water; and

(b) adequate means of preparing food and of cooking food, both by boiling and by baking.

So no mention of an oven. But it says you have to be able to bake. So in today's world does that mean boiling in a microwave and baking a chicken in an air fryer count? Probably not, but the lines are moving as lifestyles change.

(1) Every bedroom shall have a minimum width of 1.8 m: provided that for the purpose of computing such width in a room with a sloping ceiling no regard shall be had to any part of the room the height of which from finished floor to finished ceiling is less than 1.5 m.

There are possibly some long skinny sunrooms out there that are less than 1.8m wide and have been converted into bedrooms. We had one house that we managed that was in that classification and when we measured the room it was only 10mm wider than the 1.8m regulation. The question was raised by the tenant ("is this room big enough to be a bedroom?"). If the room had been any narrower we would have been in the situation of an illegal bedroom.

(2) Every bedroom shall have an area of not less than 6 sq m: provided that in an existing house a room with an area of less than 6 sq m but not less than 4.5 sq m may be occupied as a bedroom by a person under 10 years of age.

I would imagine there are a few people out there that don't know this rule. There are properties out there that have had an extra bedrooms squeezed into the existing house footprint and some of those bedrooms will be close to (maybe even under) the 6 sq m limit.

(3) In computing the area of a bedroom for the purposes of subclause (2) no regard shall be had to any portion of the bedroom the height of which

from finished floor to finished ceiling is less than 1.5 m.

Need to take this into account if you have a small bedroom in the attic with sloping ceilings / walls. It may mean that the bedroom is technically under the 6 sq m limit.

(4) No bedroom shall contain any cooking appliance. Hmm. Again is this an oven, or a rice cooker along with a microwave and an air fryer. I am sure we all see this as meaning an oven as it would have been the intent when it was written (before bench top appliances were available). But does this rule void your insurance if you allow 'any appliances' that can be used for cooking in a bedroom?

Ventilation

In the last article I mentioned some of the sections of the New Zealand Building Code. This time I will focus on Section G4-VENTILATION. I have heard lots of comments from landlords about ventilation. "Tenants don't ventilate anyway so that's why only that window opens". "Gaps around windows are great for natural ventilation". But why do we need rules on ventilation anyway? Well I challenge you to read the provisions of the below and tell me which ones you don't agree with (it is the same for the provisions for every section of the NZBC if you take the time to read them).

Provisions

OBJECTIVE

G4.1 The objective of this provision is to safeguard people from illness or loss of amenity due to lack of fresh air.

FUNCTIONAL REQUIREMENT

G4.2 Spaces within buildings shall be provided with adequate ventilation consistent with their maximum occupancy and their intended use.

PERFORMANCE

G4.3.1 Spaces within buildings shall have means of ventilation with outdoor air that will provide an adequate number of air changes to maintain air purity.

G4.3.2 Mechanical air-handling systems shall be constructed and maintained in a manner that prevents harmful bacteria, pathogens and allergens from multiplying within them.

G4.3.3 Buildings shall have a means of collecting or otherwise removing the following products from the

spaces in which they are generated:

- (a) Cooking fumes and odours,*
- (b) Moisture from laundering, utensil washing, bathing and showering,*
- (c) Odours from sanitary and waste storage spaces,*
- (d) Gaseous by-products and excessive moisture from commercial or industrial processes,*
- (e) Poisonous fumes and gases,*
- (f) Flammable fumes and gases,*
- (g) Airborne particles,*
- (h) Bacteria, viruses or other pathogens, or*
- (i) Products of combustion.*

G4.3.4 Contaminated air shall be disposed of in a way which avoids creating a nuisance or hazard to people and other property.

G4.3.5 The quantities of air supplied for ventilation shall meet the additional demands of any fixed combustion appliances.

Hard to argue with the intent of what is stated in these provisions. The rest of section G4 covers the rules on how this is to be achieved. One of the rules which still confuses people is the 5% rule for opening windows. I still meet people who either don't know this rule exists, or don't understand how it works. So here it is in black and white from G4.

1.2.2 Natural ventilation of occupied spaces must be achieved by providing a net openable area of windows or other openings to the outside of no less than 5% of the floor area.

This means you measure the floor area (Length x Width between the walls) and multiply together to get the square metre area. Then you multiply that square metre area by 0.05 (5%) to work out the combined square metre area of the windows sashes in that room that must open. Note: This is the 'Net openable area' and this is where some people get confused. So let's look at the definition.

Definitions

Net openable area: is the area of windows or doors or other openings measured on the face dimensions of the openable building element concerned.

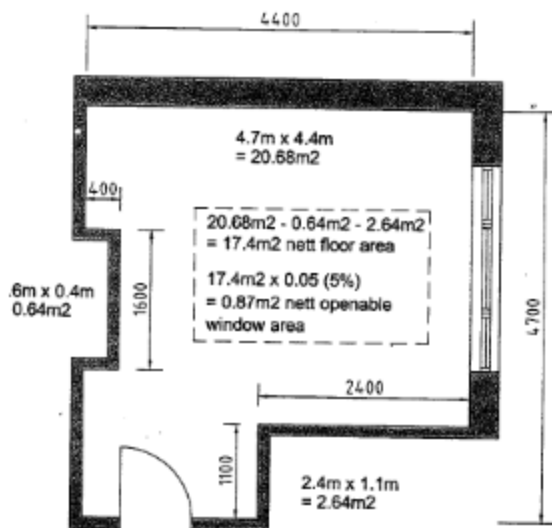
Simply put this means measure the height and width of the window sash (the part that moves). Regardless

of the direction it travels (out if it is a top or side hung sash, or up if it is an older single or double hung sash). It is not the distance it travels, it is the area of the item (window sash, or door) that moves.

This means that a modern top hung awning sash window with security stays that does not open more than say 100mm is still measured by measuring the height and width of the sash and not by how much it opens.

So let's examine a worked example of checking your windows when some of your old single hung (inside sash slides up) sash windows have been nailed shut (like many of them have been in old houses). The floor plan below shows a room that has a full height chimney breast and a section of wall that juts out into the room. First calculate the three areas. Total area as if the room was a rectangle. Then subtract the two areas that jut into the room. This leaves a total floor area of 17.4m². By multiplying the total floor area by 0.05 you get the total required openable window area for that room of 0.87m² (5% of the net floor area).

Note that the height of the ceiling has nothing to do with any of these measurements. Residential building natural ventilation requirements are calculated by the floor area (square metres) not the volume of the room (cubic metres). A cubic metre (volume) measurement would be more sensible to more accurately calculate required opening area for the required number of air changes, but this rule has been in so long now that it possibly won't ever change from the less accurate square metre area calculation.

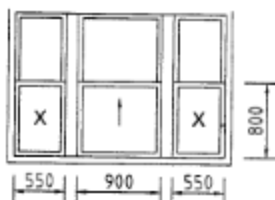


FLOOR PLAN

For this example room there used to be three opening single hung sash windows (the inside sashes slide up). At some stage the two side sashes have been nailed

and painted closed. When you calculate the square metre area of the remaining opening window it is 0.72 sq m (0.9m wide x 0.8m high). 0.72 sq m is less than the required openable ventilation area of 0.87 sq m for the room. Therefore the single remaining opening centre window does not comply as it is not big enough. For this room to comply one of the side windows would have to be re-opened to increase the openable area. Making one of these side windows work again is usually not too difficult (may require a builder to sort it) but legally to comply with healthy homes it will have to be made to work again. It has always had to open, but people just didn't know. Healthy Homes Regulations has brought this rule back to the surface and everyone should again know about it.

Remember there is nothing to say that these opening windows (like these single hung vertical sliding windows) have to open all the way up though. It should be able to open as far as it can, but some of them don't open fully due to the way they have been constructed. This is no different to a modern awning window with security stays on it that can only open a small amount. It seems wrong, but this is the way it is measured. Again refer above to how 'net openable area' is measured. I have personally seen Healthy Homes reports made by people who have calculated the net openable area as the 'size of the opening you can put your hand through' when the window is opened. This is wrong according to the definition.



0.9m x 0.8m = 0.72m²
0.72m² is less than 0.87m²
Does not comply

WINDOW ELEVATION AND AREA CALCULATION

Finally a recap on what a 'habitable space' is. This relates to many areas building codes / standards so below is a reminder of the definition of a habitable space and examples of rooms that are not 'habitable spaces'.

HABITABLE SPACE

A space used for activities normally associated with domestic living, but excludes any bathroom, laundry, water closet, pantry, walk-in wardrobe, corridor, hallway, lobby, clothes-drying room, or other space of a specialised nature occupied neither frequently nor for extended periods.