

# NZPIF discussion document for registration of landlords



**February 2022**

## **Introduction**

This paper is to provide the NZPIF view on what might be a suitable design for how a register of landlords could work. It is a discussion paper and not current NZPIF policy.

This information was requested by Green Party MP, Chloe Swarbrick, following a meeting with the NZPIF on 3 December 2021 to discuss the matter.

## **Background**

In 2008, Real Estate Agents registration was moved from the Real Estate Institute of NZ (REINZ) to the Real Estate Agents Authority. Consideration was given to regulate Property Managers at the same time.

Property Managers did not have to be registered, however there were two organisations that Property Management could belong to. The Real Estate Institute of NZ (for Property Managers operating out of Real Estate Offices) and the Independent Property Managers Association.

Tenants and property owners are the two consumer groups affected by the actions of Property Managers.

A 2008 survey of NZPIF members who used Property Managers found that the problems they were experiencing were primarily due to a lack of property managers' knowledge of the rental market, the RTA and property management systems rather than fraudulent activities or the risk of theft. The survey found that:

- 45% of respondents who have used a Property Manager have had a problem, with 75% of those respondents having had more than one problem and 25% having more than five problems.
- 75% of people experiencing problems have lost money through the actions of their Property Manager.
- Key problems concerned competence rather than dishonesty. Problems included; Rent Arrears (24%), Bad inspections (13%), Poor communication (13%), Poor management systems (13%), Lack of knowledge (11%), Poor Tenant screening (9%)

The proposals of registering Property Managers and making audited trust funds compulsory did not address members problems. Because of this they were not in favour of the proposed regulations.

The Independent Property Managers Association has renamed itself the Property Managers Institute of NZ or PROMINZ.

There are now three organisations representing Property Managers in NZ. The REINZ, PROMINZ and Leading Property Managers Association.

All three organisations are advocating for some form of registration for Property Managers.

Both the Government, Greens and National are in favour of a registration system for Property Managers. The question of whether owner managers should also need to be registered does not have the universal agreement that Property Manager registration has.

Owner managers have very different requirements for education and support to make them effective and professional managers of their rental properties for both their benefit and the benefit of their tenants.

### **Key elements to good registration of landlords**

The NZPIF believe there are six key elements to good registration for landlords in New Zealand:

- Separate registration for property managers and owner managers.
- Registration should be based around education, with the NZPIF online education course for owner managers being compulsory.
- If owner managers do not want to be registered, they cannot manage their own rentals and must use a registered property manager.
- The system must have clear benefits for owner managers, be cost effective and with registration fees being minimal so as not to put people off wanting to become registered and manage their rental property.
- The NZPIF should manage the registration system for owner managers including education and an online information system to help them with specific issues.

### **Separate registration for owner managers**

Property Managers typically manage 80 to 120 properties and therefore an individual PM can have a high level of influence over the lives of many tenants and landlords. Owner managers mostly have one or two rentals and as they are the owner, only affect the tenants in their rental property.

Property Managers require much larger systems to manage larger numbers of properties and handle far larger amounts of money on behalf of tenants and landlords.

If Owner Managers were required to meet the registration requirements and costs of Property Managers, it is likely that many would choose not to. This would be unfortunate as studies have shown that tenants prefer the closer relationship they have with and service they receive from owner managers. In 2018 Consumer conducted a survey and found that 35% of respondents rated their property managers' service highly compared to 54% of those who had a private landlord.

Because property managers have a larger number of properties and tenants, they have more experience in dealing with different tenancy types, different tenants and different tenancy issues. Because of this, any education program for owner managers would need to be different than for property managers. There would also need to be an information database that owner managers could access to quickly identify correct procedures that they may not have come across before and appropriate solutions for problems that they may not have experienced before. While this would be good for the owner managers themselves, it would also be beneficial to their tenants.

### **Registration should be based around education**

The NZPIF has always believed that good education is essential for owner managers, for their benefit and the benefit of their tenants.

The NZPIF have researched different systems of registration from around the world and believe that the Welsh model is good and appropriate for the New Zealand tenancy situation.

The Welsh system has an online education component that people must complete before they can become registered. Without becoming registered, they cannot manage any rental property.

Based on the Welsh system, the NZPIF have developed their own online education system aimed specifically at owner managers.

The NZPIF Education Program for Self-Managing Landlords enables landlords to learn the important basics, confirm their competency and become recognised as a knowledgeable landlord. It consists of 13 modules with 12 online tests, all of which can be completed on line in approximately one month. A certificate of completion is issued when the last module has been completed and submitted. This certificate would be a requirement before owner managers can apply for registration.

Although there are benefits from having owner managers of rental property, a downside is that they mostly only manage one or two properties. A MBIE study established that just 5.1% of rental property providers own more than 3 rentals.

While this small level of management allows for a higher degree of personal attention and service towards tenants, it means that owner managers do not routinely experience different tenancy situations or issues. Because of this, they may not know the contents of the RTA as completely as property managers, are not familiar with a variety of procedures and therefore may not be as timely with managing tenancy matters. This can be sub-optimal for tenants.

To address this issue, the NZPIF believes that an online information database should be provided for owner managers as an ongoing part of registration. This would be valuable for both the owner manager plus their current and future tenants.

The establishment of the information database would ideally be funded by a government grant to enable it to be developed quickly and professionally. Ongoing management, updates and support would be provided for through registration fees.

While the registration system needs to be extremely cost effective, it must also be seen as providing help and support to owner managers so that they can see value in the system.

### **Compulsory registration**

If registration is not compulsory then it is unlikely most owner managers will undertake it, even if there are clearly established benefits and a low registration fee.

As with the Welsh model, if owner managers do not want to be registered, then they should not be able to manage their own rentals and must use the services of a registered property manager.

### **Clear benefits and low registration fees**

There is currently a shortage of rental properties and because of this and a variety of cost increases, rental prices are likely rising faster than they normally would. While there may be industry benefits provided by a suitable registration system, ultimately it is consumers who bear the costs of extra regulation. Because of this, it is in tenants' best interest that the cost of registration is kept as low as possible.

Even if registration is compulsory, there will be a greater acceptance and less dissonance from owner managers if the system has clear benefits while being cost effective with low registration fees.

Owner managers will also be more accepting of the education and registration system if it is developed by landlords for landlords.

As the NZPIF has already developed an online education course, there will be minimal extra cost in establishing it for a larger amount of usage. While wanting to be professional, the NZPIF will be motivated to establish a system that meets certain requirements but is also beneficial for owner managers and cost effective.

When looking at how costs can affect rental prices, we need to look at the number of properties under management. A \$750 annual registration fee for Property managers looking after 100 rental properties equates to \$7.50 per rental per year. However, a \$750 annual registration fee for an owner manager looking after 2 rental properties equates to \$375 per rental per year.

To keep the inflationary effect of registration to a minimum, annual fees for owner managers should be kept to less than \$100 per year. If the registration system included tangible benefits for the owner manager, then this could even be seen as a good investment rather than a cost.

### **Registration developed and managed by NZPIF**

Many landlords would be sceptical of a government managed registration system. A system designed and managed by landlords for landlords would have much greater acceptability.

The NZPIF has already developed an online education program and along with its nationwide associations would be best placed to develop an online information database to assist owner managers to establish procedures and answers to infrequent tenancy situations.

### **Optimal system for landlord registration**

If registration of landlords was to be introduced, the following are factors that the NZPIF would deem essential if it was to provide the benefits of increasing landlord professionalism, improving living conditions for tenants, maintaining the number of owner managers and not impacting on rental prices.

- Separate registration systems for property managers and owner managers
- Registration to have a focus on education
- Registration to be cost effective
- An online database of information and procedures be established to help owner managers operate their rentals, especially with factors that may not occur frequently.
- Registration of Owner Managers to be undertaken by the NZPIF