

Submission of the
New Zealand Property Investors' Federation Inc
To the
Social Services Select Committee
Examining the
Social Assistance (Future Focus) Bill
May 2010

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NEW ZEALAND PROPERTY INVESTORS' FEDERATION

This submission has been prepared by the New Zealand Property Investors' Federation Inc (the Federation) in response to the select committee invitation to provide feedback on the Social Assistance (Future Focus) Bill.

Established in 1983, the Federation has twenty affiliated local associations situated throughout New Zealand. It is the national body representing the interests of over 7,000 property investors on all matters affecting rental-housing.

The Federation welcomes this opportunity to participate and comment on the draft legislation.

INDUSTRY BACKGROUND

To assist the Committee to understand the extent of the economic and social importance of the private rental industry in New Zealand and the implications of legislation affecting the sector, the following background points are offered.

What is the extent of the private rental industry?

- According to a recent survey¹ of property investors it was estimated that there are over 300,000 landlords in New Zealand. There are no corporate or institutional residential landlords.
- There are over 464,000 residential rental properties², housing over 600,000 tenants. Private rental property owners have approximately 31 billion invested in rental property with a market value of around \$78 billion.
- Private landlords are the largest providers of rental accommodation in New Zealand.
- 81% of tenants rent from a private landlord or trust³.
- Median weekly rent for all accommodation is \$310⁴. The amount spent on rent each week is \$66 million and annually this is \$3.4 billion.
- Assuming a 20% equity rate on a \$263,000⁵ property, the amount spent on mortgage interest payments, at 8% interest, (\$16,830pa) is \$5.0 billion.
- Most property investors (57%) have been engaged in the business for 10 or more years⁶, which dispels the myth that people are investing in property to make a "quick buck". Instead, property investors are using their rental income business as a mechanism for saving for retirement and are professional and committed long-term service/accommodation providers.

¹ ANZ NZPIF Annual Survey 2007

² "Landlord group's code sets high standards" 5/9/08 NZ Herald

³ Jo Goodhew MP, RTA Bill, First reading, Hansard 26/5/09

⁴ Tenancy Bond Office Statistics, February 2010

⁵ The lower quartile figure from QV's Residential Property Sales Summary, September 2009

⁶ ANZ NZPIF Annual Survey 2006

Who rents?

- Latest census information shows 366,000 New Zealand households pay rent, up from 272,000 in 1996 with an average tenancy of around a year-and-a-half, with the average just 16 months for those with private landlords⁷
- Renting in New Zealand is very low by OECD standards. In Canada 34.2% people rent, France 44%, The Netherlands 45%, Denmark 47%, Sweden 54% and Germany 55%⁸
- There is a growing demand for private rental market places and the number of people living in flats or apartments is likely to increase⁹
- Despite property price falls and reductions in interest rates, the cost of renting the NZ median priced home in May 2009 was \$9255 cheaper per year than the cost of owning the same property¹⁰

What does the private sector offer?

- Private landlords provide rental accommodation to those seeking short or long-term housing options.
- Private rental housing owners are the most flexible and cost effective means of providing housing stock and accommodation to New Zealanders.

Is renting such a bad thing?

Renting is increasing in popularity for a multitude of reasons including:

- Life style choice
- Increasing numbers of young people wanting to travel or study
- The idea of settling down has not appealed
- Burden of student loan debt
- Raising a mortgage and the risk of interest rate rises does not appeal
- Larger deposit requirements are a barrier
- Higher cost of renting over home ownership
- Flexibility to move quickly if required
- No responsibility for maintenance and repair issues

The private rental sector plays a very significant role housing New Zealanders and makes a huge contribution to the overall housing system, the economy, and downstream industries.

⁷ Dept of Building & Housing Annual Report 06/07

⁸ Sunday Star Times 23/3/08

⁹ The Economic Impact of Immigration on Housing in New Zealand 1991 to 2016 At a Glance Published: June 2008 – Economic Impacts of Immigration Working Paper Series (Reported in the NZ Herald 7/6/08)

¹⁰ Survey into the cost difference between owning a renting a home in New Zealand. Andrew King, May 2009

SUBMISSION

The Social Assistance (Future Focus) Bill seeks to improve the way benefits are paid which in our view is a good firm step in the right direction and reinforces the view that welfare should generally be of a temporary nature and assistance, rather than a lifestyle choice.

As a body representing landlords we are in daily interaction with tenants providing an accommodation service to those who maybe in receipt of benefits from the State.

It is only reasonable that the benefit system assist those who are in need and equally there is an expectation that benefit monies that are provided by taxpayers and earmarked for housing purposes actually ends up with the relevant housing provider, be they the State or private landlords.

We consider the following non regulatory suggestion is within the scope of the Bill and consistent with the Prime Minister's view that the reforms are "focused on improving outcomes for beneficiaries". And: "...help(s) with the sustainability of the welfare system"¹¹.

Federation Suggestion – Redirection of Benefit

The Federation would like to suggest to the Committee a non regulatory approach to assist tenants who are beneficiaries to have their rent paid directly to the landlord through direct debiting from Work and Income New Zealand (WINZ).

The Federation is acutely aware that there needs to be a secure and stable housing environment and the private rental market can, and does, play a major role in this.

Other than lifestyle choice, mobility and employment issues, tenant turnover (generally undesirable for all parties) mainly relates to rent default or damage to the landlord's property.

Failure to meet regular rent commitments, especially by tenants who are state beneficiaries, can be greatly mitigated if private sector landlords were able to access rent directly from Work and Income – just as Housing New Zealand does.

What is the issue?

Tenants who pay their rent in a timely fashion and act in a responsible manner can largely shape or determine stability issues in a tenancy.

It is noted that the biggest call on the Tenancy Tribunal is when there are breaches over non payment and rent arrears. Regrettably this jurisdiction is where many of the Federation's members unfortunately, and reluctantly, have to participate.

Statistics from the Tenancy Tribunal show that there are some 30,000 scheduled hearings annually and over 92% of the applications are from landlords. Seeking orders for unpaid rent is by far the largest occupier of the Tribunal's time.

¹¹ Prime Minister's speech notes on benefit reform, 23/3/10

<http://www.beehive.govt.nz/speech/prime+minister039s+speech+notes+benefit+reform>

What could the Government do about it?

We consider that a non regulatory adjustment to Work and Income procedures could include the targeted redirection of benefits.

Redirection of benefits do occur on a regular basis including WINZ redirected benefits for payment of rent to Housing New Zealand Corporation however, not to private landlords unless there is “good cause”. Moreover, there is much variability in the system and nation-wide due to different frontline staff interpretations. It would be helpful if there were a flexible and consistent departmental policy and practice throughout New Zealand to approve automatic redirection of benefits for rent, if voluntarily agreed to and requested by the beneficiary.

How much difference could it make?

Redirection of benefits to pay rent has many immediate advantages including:

- Alleviating budgeting problems many beneficiaries face when paying rent
- Ensuring more stable tenancies
- Giving private sector landlords more confidence to rent to beneficiary tenants if rent arrears risks could be mitigated
- Encouraging more private sector landlords to enter into longer tenancy agreements for those who want them
- Reducing the incidence of Tenancy Tribunal applications for rent arrears cases
- Reducing tenants’ bank fees
- Reducing discrimination against beneficiaries
- Protecting the vulnerable party in a marriage or de facto relationship who does not have control of the finances
- Minimising the abuse of the welfare system¹² and ensuring assistance for rent, i.e. advances on the benefit and the accommodation supplement, if they get it, not unreasonably and actually goes to paying rent

In summary

The Federation sees the direct debiting of rent monies through WINZ to private sector landlords as an effective method of dealing with the biggest problem beneficiary tenants, rental property owners and the Tenancy Tribunal face. Although this process is automatically available for Housing New Zealand it is not flexible enough or generally available for private sector landlords. Although it appears direct debiting of rent monies does occur in some cases, current provisions require there to be “good cause” for redirection of benefit.

Tenants, budgeting services and the Ministry of Social Development generally support redirection of benefit.

Finally, the Federation would welcome an opportunity to further discuss with the Committee any aspect of our submission.

¹² “Landlords fume over WINZ assistance for fraud accused”, 14/2/10 Sunday Star Times

Yours sincerely

Martin Evans
President

On NZPIF Letterhead

10 May 2010

Committee Secretariat
Social Services Select Committee
Parliament Buildings
Wellington

By fax: 04 499 0486

Social Assistance (Future Focus) Bill

Dear Committee Secretariat

Please find attached a submission from the New Zealand Property Investors' Federation in response to calls for public comment on the Social Assistance (Future Focus) Bill.

The Federation wishes an opportunity to appear before the Committee to speak to its submission.

Yours sincerely

Martin Evans
President