

NZPIF Feedback

on the

Expert Advisory Group on Child Poverty

Issues and Options Paper

October 2012

Submission prepared by the
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12 October 2012

FEEDBACK ON CHILD POVERTY SOLUTIONS

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Dear Sir/Madam

NZPIF FEEDBACK TO THE EXPERT ADVISORY GROUP ON CHILD POVERTY

Please find following some comments prepared by the New Zealand Property Investors' Federation Inc (the Federation) in response to the Expert Advisory Group on Child Poverty call for feedback on the package of proposals contained in the recently released Issues and Options paper.

The Federation established in 1983, comprises twenty local associations located throughout New Zealand, and is the national body representing the interests of over 7000 property investors.

The Federation represents and promotes its members' views on all matters affecting investment property and rental-housing issues.

The Federation would like to convey its views and general comments to the Expert Advisory Group on its proposed options, including:

Warrant of fitness for rental properties

- Set a basic standard for rental properties (such as houses must have heating and insulation, sanitation, and be safe). Help landlords to meet the standards by introducing tax breaks for renovations and repairs.

Insulation

- Extend the Heat Smart insulation subsidy programme and encourage landlords to insulate their rental properties by giving them tax breaks.

Accommodation Supplement (AS)

- Be reviewed.

Rental Property Quality Regulation not needed

In their report, the Expert Advisory Group state that “a significant proportion of the rental stock – especially the private rental stock – is of low quality, uninsulated, and poorly maintained”. The reference for this statement was a 2010 BRANZ House Condition Survey. This survey included only 108 private sector rental properties or 0.03% of the rental properties in New Zealand.

The survey states that “in the case of rental properties, approximately 80% of the occupants considered the property in good condition, and only 2% believed their property was in poor condition.” The report concluded that the rental properties in the survey were of a lower standard than owner occupied property. This is understandable, as the tenant market in New Zealand mostly prefers to rent lower quality properties than they would choose to own themselves. Tenants in general rate a low rental price far ahead of a quality property. Because of this, the stock of rental properties in New Zealand is likely to be older and more weathered than owner occupied properties.

The BRANZ report also stated that “the trends with insulation were not as conclusive. A slightly higher proportion of rental properties... had full ceiling and floor insulation and more had ceiling insulation over 100mm thick”.

It is difficult to see how the Expert Advisory Group can conclude that the rental stock – especially the private rental stock – is of low quality, uninsulated, and poorly maintained. The BRANZ survey does not appear to back this up.

The NZPIF have conducted research into the level of Private Sector Rental Property Insulation in September this year. The survey covered 5,319 rental properties, nearly 50 times as many as the BRANZ survey, from all over New Zealand.

The NZPIF survey found that 83.1% of the properties were insulated. 75.2% of rental properties were supplied with some source of heating, the two most common forms being heat pumps (38.6%) and energy efficient wood burners (23.6%).

A copy of the survey report is included with this submission.

The NZPIF is a strong supporter of insulating rental properties as this leads to tenants staying longer in their rental properties.

The NZPIF is opposed to suggestions to regulate rental property quality by introducing a Warrant of Fitness mechanism. Research suggests that this form of regulation is unnecessary and expensive and would lead to an increase in rental prices which is not in the tenants best interest.

Proposals have included making it mandatory for rental properties to have insulation and heating. It has also been suggested elsewhere that there be a requirement for drapes, soundproofing, heating, and smoke detectors.

Regulated standards such as those proposed would run the risk of increasing housing unaffordability, through higher rents/costs being passed on to all tenants and affecting especially those on low incomes. Higher rents being charged would not ease child poverty in New Zealand.

The Federation believes that the market should set rental standards, dictating the quality of homes at different price levels.

The Federation does not perceive minimum rental standards as a problematic area warranting government interference.

Government heavy-handedness would limit tenant choice as to the type of accommodation they require and the price they are willing to pay.

The Federation believes that sufficient sanctions are already available via the existing provisions contained in the Building Act and the Health and Safety regulations and the Residential Tenancies Act.

As a recent legal precedent, a West-Auckland landlord was fined over \$40,000 for letting a sub-standard rental property. The court's ruling is a clear indication that tenants are well protected.

The Federation suggests that there should in fact be a stricter regime for tenants to maintain the property to a reasonable state of repair.

Generally, rental premises are let in a good and tidy condition. However landlords have little control over how a tenant chooses to live in the property.

Insulation and Energy Security

The Expert Advisory Group makes two recommendations:

Recommendation 10:

Further extend and target the current subsidy programme for insulating homes known as Warm Up New Zealand: Heat Smart, with the longer-term aim of ensuring that all remaining uninsulated or poorly insulated homes (estimated at approximately 700,000) are properly insulated and effectively heated. Specific targeting is needed to incentivise landlords to insulate their rental properties.

Recommendation 11:

Provide a range of practical measures to ensure that all households, including low-income households, are able to afford adequate energy to protect their health and well-being.

Regarding insulation and from the Federation's own research, a high number of rental properties are in fact insulated and also have some form of heating supplied with them.

In early 2007, the Federation negotiated an insulation discount for Association Members to help encourage them to insulate their rental properties that were not already insulated.

Around a third of members around the country took up this opportunity. It was such a success that it was expanded to all rental property owners.

At the time, the Federation suggested that uptake would be even higher if there was a subsidy on insulation materials so that people could install it themselves. This scheme operates in England, but has not been introduced in New Zealand.

Rental property owners have been accused of not taking up the offer of subsidised insulation and have been threatened with regulation if they don't. However the research for reaching this conclusion is seriously flawed. Regulation advocates say that only a small portion of landlords have taken up the Heat Smart programme and this is the reason for regulation. But this doesn't take account of all the rental properties that already had insulation. It doesn't take account of all the

rental properties that were insulated under the NZPIF scheme with Energy Efficiency and Conservation Authority (EECA). It also doesn't take into account the fact that installers costs are such that it is often cheaper to pay full price for the insulation materials and DIY install them.

In addition to these points, the Heat Smart Programme was not initially available to rental properties and promotion of its availability to rental property owners was poor.

Government policies have also discouraged rental property owners from insulating their properties. The cost of insulating a rental property is not considered an expense, so it is not tax deductible. Depreciation of the insulation cost was a small benefit, but even that has been removed. These current tax policy settings should be reviewed and reversed.

Another aspect of warm and dry rental properties is how they are used. If tenants don't use heaters, which maybe supplied, or tenants having their own (and being able take this away with them when they leave the property) then insulation will have little effect in keeping a property warm. If curtains are drawn all through the day, then sunlight will not warm up the home. If windows are not left open occasionally to ventilate the property, the condensation and mould will form even when insulation is present.

The NZPIF agrees with the Expert Advisory Groups recommendation that the Warm Up NZ: Heat Smart programme be extended but also that it be modified.

We recommend that subsidies are applied to a wider range of insulation materials so that insulation can be self installed rather than having to go through a certified installer in order to get a subsidy. We believe this would greatly increase the number of properties being insulated.

We also believe that insulation materials should be tax deductible in the year they are purchased. Currently there is no tax incentive to purchase insulation as the cost cannot even be depreciated.

We believe that Government should work with the NZPIF to produce information for tenants on how to keep their rental homes warm and dry to improve their wellbeing.

The NZPIF recommend that EECA reinstate the \$500 subsidy for heat pumps that was part of the Warm Up NZ scheme. Heat pumps are the most energy efficient form of heating but are expensive to install. The cost of heat pumps should also be tax deductible in the year they are purchased.

Accommodation Supplement (AS) - be reviewed

The Federation is aware of recent comments and criticism that the accommodation supplement is a subsidy or benefit to landlords rather than tenants.

Some have suggested that removing or altering the way the accommodation supplement is paid or that it be spent elsewhere but this would not reduce rents and affordability levels nor improve poverty levels. In fact, this tinkering would disadvantage many vulnerable tenants by forcing them out of the private rental market and increase over crowding. It will certainly not lift the quality of rental properties.

The Federation strongly opposes the view that private landlords are in any way taking advantage of tenants who maybe receiving the AS by adding a premium to the level of the rent. As a built-in mechanism the AS is capped, and its maximum rate depends on age, income, dependents and region.

Even if recipients are entitled to the AS, they have to come up with 30% of the rental increase themselves. So if the landlord discovers that a prospective tenant will receive an AS and increases the rent by \$10pw, the tenant will have to find three of those ten dollars themselves.

This is a component of the AS that actually prevents it from influencing rental prices to increase. If the tenant was able to claim any amount of rent and received the entire rental price, then there would be no upper limit to the price they could pay and no disincentive to pay a higher price.

The Federation's view is that the AS is not a subsidy to landlords otherwise the cashflow from rental property would be a lot higher than it is.

The reality is that the AS is a subsidy to assist the tenant with their total living costs, not just accommodation costs. Without it, many tenants would be forced to live in overcrowded situations. Rental property Owners would have fewer tenants which would put downward pressure on rental prices. While this is what some Social Service Associations want, it would only work in the short term. Fewer people would want to provide rental property and supply would eventually fall. With tenants living in overcrowded conditions anyway, rental prices would again rise to previous levels.

The Federation is not opposed to the accommodation supplement being reviewed, to ensure it is being spent wisely, especially where reports have been publicised by the media in which some beneficiaries sharing a house are receiving more than one accommodation supplement.

Summary

The Federation's view is that regulated or enforced rental property standards are not needed. We do not support the proposal for a "warrant of fitness" for rental properties.

The Federation believes that a significantly large proportion of rental properties are already insulated.

There are better measures to achieve warmer, drier rental properties and the Federation's preferred approach would be for government support to assist landlords to insulate their rental properties by introducing tax breaks for renovations and repairs and for EECa to reinstate the \$500 subsidy for heat pumps that was part of the Warm Up NZ scheme.

Regarding calls to alter the Accommodation Supplement, where there is evidence of roting then this should be immediately addressed otherwise the rental subsidy for low income tenants is not, in our opinion, problematic and in need of tinkering with.

Andrew King
President
New Zealand Property Investors Federation

NZPIF Survey on Rental Insulation and heating

Prepared by: Andrew King, President of the NZ Property Investors' Federation

11 September 2012

Introduction

The survey was designed to provide insight into the level of insulation in New Zealand rental property to identify if recent Media reports of poorly insulated rental property had merit.

A questionnaire was developed and placed on the NZ Property Investors Federation website on Tuesday 10 August 2012. Property Investor Association members around the country were also emailed directly and invited to participate in the survey.

Responses were collated on Friday 14 August to form the basis of this report.

There were 852 respondents to the survey which represented a combined 5,319 rental properties.

Summary of findings

- Of the 5,319 properties in the survey, 4,419 (83.1%) were insulated. Nelson was the area with the highest level of insulation at 98.4% while Auckland had the lowest level at 70.8%.
- Of the properties that could have ceiling insulation, 84.9% were insulated. Of the Properties that could have under floor insulation, 53% were insulated.
- 75.2% of rental properties were supplied with some source of heating. (This does not mean that there is no heating in the remaining 24.8% as they are likely to be heated by the tenant with their preferred heating source that they can take with them when they leave)
- The most common source of heating supplied with a rental property was a heat pump at 38.6%, followed by an energy efficient wood burner at 23.6% and an electric heater at 19.7%.
- 9.2% of respondents did not know that there was a Government subsidy available to insulate and heat rental properties. Of those respondents who did, 55.4% had used the subsidy to insulate their rental property and 23.4% to heat their rental property.
- When asked what their preferred way to purchase insulation was, 61.8% said that they wanted a subsidy that combined insulation materials and installation. 55.7% said they would not contemplate DIY insulation installation. 38.2% said that they would prefer a subsidy or discounted price on insulation material that they could install themselves.

- Of those that preferred a subsidy that combined insulation materials and installation, but could be swayed to install it themselves if the price was right, 28.3% said the DIY price would need to be 21% to 40% cheaper than the installed price. Nearly half, 47%, said that it would need to be 41% to 60% cheaper.

Analysis of findings

It appears that the widely publicised view that the vast majority of rental property is poorly insulated has not been confirmed with this study. Rather than the figure of 5% widely quoted, the NZPIF survey found that 83.1% of the 5,319 rental properties in the survey were insulated.

In addition to insulation, it also appears from the survey results that a high proportion of rental properties (75.2%) are supplied with a heating source. The two most common forms of rental property heating are Heat Pumps and Energy Efficient Wood Burners. Tenants of the 24.8% of properties that are not supplied with a heating source can still provide their own preferred heating source and take this with them when they move.

The results of these findings into rental property insulation and heating demonstrate that there is no need to implement further regulation the rental property industry through the introduction of a Warrant of Fitness scheme, which is a recommendation from the Children’s Commissioner.

Such a scheme is unnecessary and expensive to administer, with the cost ultimately being born by the tenant, who may have different spending priorities than the advocates of a rental property WOF.

The NZPIF strongly rejects any call for a rental property WOF and is particularly concerned that this is merely a first step. We note that the Commissions recommendation for a WOF states that “these standards should be monitored and effectively enforced, and ***gradually increased over time.***”

Recommendation 10 from the Children’s Commissioner is to “further extend and target the current subsidy programme for insulating homes known as Warm Up New Zealand: Heat Smart, with the longer-term aim of ensuring that all remaining uninsulated or poorly insulated homes (estimated at approximately 700,000) are properly insulated and effectively heated. Specific targeting is needed to incentivise landlords to insulate their rental properties”.

The NZPIF agrees with the Childrens Commissioner that the Warm Up New Zealand: Heat Smart programme should be extended, however our survey indicates that the programme would benefit from some changes.

Although 91% of respondents to the NZPIF survey knew about the Heat Smart programme, only 55% had taken up the offer. Analysis of the respondents comments on the scheme indicate that there are some problems with it. These include;

1. Approved installers of insulation using the Recommended Retail Price for the cost of insulation materials when this does not reflect the true market price that the materials can be obtained for.

2. The cost of using an approved Insulation Installer, even with the Government subsidy, is frequently more expensive than rental property owners buying the materials themselves and employing a non-approved installer to install them.
3. Approved insulation installers are only choosing to insulate properties where the installation is easy, thereby maximising their return.
4. A large percentage of rental property owners, 38.2%, would prefer to have a subsidy on insulation materials that they can install themselves, a situation that has existed in the United Kingdom.

The NZPIF agrees with the Children's Commissioner's recommendation that specific targeting is needed to incentivise landlords to insulate their rental properties. The results of this study indicate that more rental properties in New Zealand would be insulated if this was achieved.

Recommendations

The NZPIF would like to make the following recommendations to help ensure that the maximum number of rental properties are insulated in a cost effective manner without adding too great a burden on tenants through increased rental prices:

1. That a Rental Property Warrant of Fitness is not adopted.
2. That the Heat Smart Programme is extended beyond its current end date
3. That the Heat Smart Programme includes a subsidy on insulation material that can be self installed or installed by an installer of the rental property owners choice.
4. That the cost of insulation is considered a tax claimable expense that can be 100% claimed in the tax year that the cost is incurred.

Results Data

	Number Owned	Number Insulated	Total %	% With Ceiling Insulation	% With Under floor Insulation	% With Heating Supplied
Auckland	788	558	70.8%	76.9%	52.5%	65.6%
Waikato	370	312	84.3%	86.5%	50.5%	85.9%
Tauranga	215	183	85.1%	89.4%	60.3%	72.6%
Hawkes Bay	490	409	83.5%	86.8%	46.0%	85.5%
Taranaki	198	153	77.3%	86.8%	37.6%	71.7%
Manawatu	329	257	78.1%	83.9%	34.4%	84.2%
Wellington	350	319	91.1%	67.5%	45.8%	54.9%
Nelson	124	122	98.4%	98.4%	65.8%	89.5%
Canterbury	736	668	90.8%	89.5%	56.1%	91.0%
Otago	559	509	91.1%	90.3%	43.2%	97.3%
Southland	102	88	86.3%	89.8%	37.0%	95.1%
NZ Total	5319	4419	83.1%	84.9%	49.2%	79.4%

Sorted by region with highest percentage of insulation

	Number Owned	Number Insulated	Total %
Nelson	124	122	98.40%
Wellington	350	319	91.10%
Otago	559	509	91.10%
Canterbury	736	668	90.80%
Southland	102	88	86.30%
Tauranga	215	183	85.10%
Waikato	370	312	84.30%
Hawkes Bay	490	409	83.50%
NZ Total	5319	4419	83.10%
Manawatu	329	257	78.10%
Taranaki	198	153	77.30%
Auckland	788	558	70.80%

3. Considering ceiling insulation, how many of your properties:

	Number of Properties	Percentage Response	Response Count
Have ceiling insulation	4,711	85%	851
Could have ceiling insulation, but doesn't	841	15%	459
Can't or do not need ceiling insulation, because they are a flat or apartment on a lower floor	553		426
<i>answered question</i>			868
<i>skipped question</i>			7

5. Considering underfloor insulation, how many of your properties:

	Number of Properties	Percentage Response	Response Count
Have underfloor insulation	2,145	53%	756
Could have underfloor insulation, but doesn't	1,868	47%	610
Can't or does not need underfloor insulation, for instance because it has a concrete floor	1,734		621
<i>answered question</i>			865
<i>skipped question</i>			10

6. Considering heating, how many of your properties:

Answer Options	Response Total	Percentage Response	Response Count
Have no source of heating	1,317	24.8%	547
Have a heat pump	2,051	38.6%	714
Have an open fire place	406	7.6%	505
Have an energy efficient wood burner?	1,254	23.6%	589
Have an electric heater	1,048	19.7%	549
Have some other form of heating	639	12.0%	490
<i>answered question</i>			869
<i>skipped question</i>			6

7. Did you know that a Government subsidy was available to insulate and heat rental properties?

Answer Options	Response Percent	Response Count
Yes	90.8%	792
No	9.2%	80
<i>answered question</i>		872
<i>skipped question</i>		3

8. Have you taken advantage of any subsidy to INSULATE your rental property?

Answer Options	Response Percent	Response Count
Yes	55.4%	438
No	44.6%	352
<i>answered question</i>		790
<i>skipped question</i>		2

9. Have you taken advantage of any subsidy to HEAT your rental property?

Answer Options	Response Percent	Response Count
Yes	23.4%	178
No	76.6%	582
<i>answered question</i>		760
<i>skipped question</i>		32

10. What is your preferred way to purchase INSULATION

Answer Options	Response Percent	Response Count
A subsidy on insulation material combined with installation	61.8%	534
A subsidy on the insulation materials so you could install the insulation yourself	13.7%	118
A NZPIF contracted insulation purchase price that provides materials at competitive values so you can install yourself	24.5%	212
<i>answered question</i>		864
<i>skipped question</i>		11

how much cheaper would the DIY install price need to be (below the installed price) for you to prefer this option?

Answer Options	Response Percent	Response Count	% of those who may DIY if the price was right
Would not contemplate DIY Installation	55.7%	294	
0 to 20% cheaper	1.1%	6	3%
21% to 40% cheaper	12.3%	65	28%
41% to 60% cheaper	20.6%	109	47%
61% to 80% cheaper	7.2%	38	16%
81% to 100% cheaper	3.0%	16	7%
<i>answered question</i>			528
<i>skipped question</i>			347

Which area do you live in?

Answer Options	Response Percent	Response Count
Auckland	18.2%	140
Canterbury	17.7%	136
Hawkes Bay	9.7%	75

Manawatu	6.0%	46
Marlborough	1.2%	9
Nelson	3.0%	23
Northland	1.3%	10
Otago	12.2%	94
Rotorua	2.5%	19
Southland	2.3%	18
Taranaki	3.0%	23
Tauranga	4.7%	36
Waikato	6.9%	53
Wairarapa	1.3%	10
Wellington	7.5%	58
Whanganui	1.0%	8
<i>answered question</i>		770
<i>skipped question</i>		105

Are you a member of a Property Investors Association?		
Answer Options	Response Percent	Response Count
Yes	81.9%	407
No	18.1%	90
<i>answered question</i>		497
<i>skipped question</i>		378

References:

1. NZ Herald 26 August 2012: "Of the 230,000 houses insulated with a Warm Up New Zealand subsidy, just 25,000 have been rentals. That's only 5 per cent of the country's rental stock - leaving an estimated 1,000,000 rental properties uninsulated".