

NZPIF REPORT ON;

# RENTAL PROPERTY WARRANT OF FITNESS

FEBRUARY 2014

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## Background

The latest proposal for a WOF was advanced in 2012 by an expert group that advised the Children's Commissioner on solutions to child poverty.

*We recommend that the government ensure all rental housing (both social and private sector) meets minimum health and safety standards, according to an agreed Warrant of Fitness, such as the Healthy Housing Index. These standards should be monitored periodically and effectively enforced, and **gradually increased over time.***

The prime reason for the recommendation was to reduce the poor health outcomes of children living in cold, damp and overcrowded homes. We agree with the Commissioner that improvements to rental property can help improve the health of tenants, primarily low income families.

Since publication of the Commission's recommendation, other organisations have looked to expand the criteria of any WOF. This includes items such as testing for Methamphetamine and optimal orientation of towards the sun<sup>1</sup>. Previous calls for a rental property WOF have cited the age of rental properties being a problem and recommended a maximum age that a property could be rented out. Minimum bedroom sizes have also been recommended in the past.

A rental property WOF is being developed for Housing NZ properties and consideration is being made to extend this to the private sector.

## Key facts

Analysis of phone calls from tenants to the MBIE Tenancy Help Line show that only 7% are concerning maintenance issues.

The total number of households likely to be in fuel poverty comes to between 65,000 and 89,000, or between 10% and 14% of the total population of the four main centres, which includes just under half (47%) of the total population of New Zealand<sup>3</sup>.

Improvements to the physical quality of housing will go some way to improving health outcomes. However, without also heating the homes, many children will continue to suffer the consequences of a cold, damp domestic environment. A University of Otago study into houses with insulation upgrades found that after the upgrade they were only 0.6C warmer over the winter months. The authors concluded that "the findings were quite surprising as the upgrade program had the goal of making houses warmer and healthier by reducing heat loss through improved thermal insulation. Householders, however, provided very little heating to living areas and even less to bedrooms thus contributing to the less than desirable indoor thermal environment"<sup>5</sup>.

Many PIA members report that even properties where insulation and heating has been installed, mould is still occurring as tenants cannot afford to heat the property. Any regulation that increases rental prices will make it harder for tenants to heat their homes.

A WOF regime would impose extra and regular costs on all rental properties, with owners forced to pass these costs onto tenants through increased rents. A NZPIF study for the December 2013 quarter shows that it is \$138pw cheaper to rent than to own the average NZ property. There is room for rental prices to rise.

A cost-benefit analysis led by Reserve Bank chairman Dr Arthur Grimes found the country gained almost \$5, largely in reduced health costs, for every \$1 spent on the (warm up NZ) subsidy - a net benefit of almost \$1 billion. But the study also found that the health benefits averaged \$854 a year for households with community services cards, but only \$336 a year for other households.

New insulation and smart heating costs are not tax deductible for rental properties.

Government schemes providing grants for Insulation and heating have become unviable through increased costs making it cheaper to buy and pay for non-approved installers to install the insulation. Grants are now restricted to Community Card holders with health problems.

Many tenants do not know methods to maximise the heat and ventilation in their homes.

Sufficient sanctions are already available via the provisions in the RTA, the Housing Improvement Act, Health & Safety regulations. A WOF would duplicate existing laws.

If the safety elements proposed in the rental property WOF are truly beneficial they should be applied to all homes rather than just rental properties.

### **Appropriate aims of rental property regulations**

- Target tenants that have health problems through living in cold, damp and overcrowded conditions.
- Aim to have as minimal effect on rental prices as possible, especially for low income families.
- Seek to reduce the impact on increasing rental prices as much as possible

### **NZPIF analysis**

The NZPIF acknowledges that some tenants live in cold, damp and overcrowded homes, that this has a poor outcome for their health and needs to be addressed.

Tenants in this situation choose low cost rental accommodation which often doesn't have any insulation. The situation is made worse because they are often reluctant to turn on heating and do not know how they can run their homes in a way that makes them warmer and drier. They put up with a poorer standard of home because they do not want to pay more in rent.

Rental property in NZ is cheaper in the short term than home ownership. It is currently \$138pw cheaper to rent than own the average NZ home<sup>4</sup>. Rental property owners are unable to absorb any extra costs made on them to run a rental property.

A WOF scheme is expensive and will add to the cost of providing rental property, ultimately leading to an increase in rental prices. Across the board rental increases will disproportionately affect low income tenants who are currently more likely to suffer health problems from living in cold, damp overcrowded conditions.

To address the problem of tenants health there needs to be more insulation in rental properties, low income tenants need assistance with the cost of power and tenants in general need information on how to help keep their homes warmer, drier and better ventilated.

Landlords are already required to provide and maintain their properties in a reasonable state of repair, and comply with all requirements in respect of the buildings, health and safety acts.

As there are already regulations to cover the safety of rental properties, any extra safety requirements should apply to all properties, not just rentals.

The best solution to helping tenants who have health problems because of their living conditions is focus on heating and insulation.

As the Government makes significant savings in health costs due to improvements in the living conditions, it is reasonable that government contributes financially to addressing any problems.

### **Recommendation**

In order to target tenants in need and avoid increased rental costs to the vast majority of tenants, The NZPIF recommends that:

- Due to the real possibility that rental prices would increase and the disproportionate effect this would have on low income families, a WOF should not be applied to private rental properties.
- The costs of Insulation and smart heating for rental properties should be considered revenue expenses and therefore tax deductible.
- Government grants should be made available, under the health vote, to tenants with Community cards and related health issues so that their rental properties are insulated and have smart heaters installed at no cost.
- An electricity and natural gas voucher system should be developed and made available to low income households over the winter months to encourage better heating of homes.
- A pamphlet should be developed to help educate tenants on methods to keep their homes warmer, drier and better ventilated. This could be distributed through the Tenancy Bond Centre and included in the bond receipt letter for new tenancies.

### **References**

1. *A Warrant of Fitness to Improve Housing Quality for Child Safety.* Bonnie White, Dunedin School of Medicine, University of Otago. March 2013
2. *Working Paper no.18: Housing Policy Recommendations to Address Child Poverty, Experts Advisory Grou.* August 2012
3. *FUEL POVERTY IN NEW ZEALAND.* Bob Lloyd, Director Energy Management, Otago University.
4. *NZPIF study in rental and home ownership costs,* December 2013
5. *The efficacy of an energy efficient upgrade program in New Zealand.* C.R. Lloyd, M.F. Callau, T. Bishop, I.J. Smith. Energy Studies Group, Physics Department, University of Otago, 10 November 2007