21 October 2018

Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6140

Attention: Healthy Homes Standards submissions

By email: Healthyhomes @mbie.govt.nz

HEALTHY HOMES STANDARDS

Please find attached the written response of the New Zealand Property Investors' Federation Inc to the Healthy Homes Standards review.

The Federation is happy to provide policy advisors or Members of Parliament with any further information they may require and wishes to be heard in person in support of this submission should verbal submissions be held.

Yours sincerely

Andrew King

Executive Officer

Submission to the

Ministry of Business, Employment and Industry

conducting a review of

Healthy Homes Standards

22 October 2018

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New Zealand Property Investors' Federation

This submission has been prepared by the New Zealand Property Investors' Federation Inc (NZPIF) in response to an invitation to provide feedback on the Residential Tenancies Act Review.

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.

Our philosophy is to be an industry advocate, which means we take a balanced role in considering the rental industry as a whole, which includes the requirements, rights and responsibilities of both tenants and rental property owners.

Industry Background

There are approximately 270,000 landlords in New Zealand. There are no corporate or institutional residential landlords.

There are approximately 546,000 residential rental properties[1], housing over 1,500,000 tenants[1], and worth around $171 billion[2].

Private landlords are the largest providers of rental accommodation in New Zealand. 87% of tenants rent from a private landlord or trust[3]. The average length of tenancy has increased from one year and four months in 1995 to two years and three months in 2017[3].

Median weekly rent for all accommodation is $450[4]. The amount spent on rent each week is $246 million and annually this is $12.75 billion.

Most property investors (57%) have been engaged in the business for 10 or more years[5], 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.

The rental property industry paid tax on net rental income of $1,444,000,000 in the 2016 financial year[6].

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[1] 2013 Census data
[2] NZPIF Calculation. 475,000 private rental properties multiplied by the February 2018 REINZ lower quartile house price.
[3] Regulatory Impact Statement: Prohibiting letting fees under the Residential Tenancies Act 13/04/2018
[4] Tenancy Bond Centre statistics, April 2018
[5] ANZ NZPIF Annual Survey 2006
[6] IRD Data, April 2018

SUMMARY

The NZPIF would like to thank the officials of MBIE (now the Ministry of Housing and Urban Design) for the enormous amount of work they have contributed in carrying out both this review and also the Residential Tenancies Act review. They held a number of workshops around the country that has allowed good discussion from a variety of backgrounds which is appreciated by all participants in the industry.

The five main topics involved in the standards are an extension provisions in the Residential Tenancies (Smoke Alarms and Insulation) Regulations 2016, which made insulation in rental properties compulsory. The NZPIF supported these regulations.

The NZPIF is generally supportive of improved standards for tenants, however these need to be genuine improvements that are cost effective, as tenants will ultimately be paying for them. Rental prices have been increasing at a faster rate than general inflation over the last few years due to cost and regulatory increases. This does not benefit owners or their tenants and we wish to avoid it, by ensuring changes are a genuine benefit for tenants and cost effective. A test for this is to ask if you would make any of these changes for your own home.

It is the NZPIF's view that most aspects of the proposed standards are reasonably acceptable, however those around heating and insulation, arguably the most important to a tenant's accommodation quality, may not provide the benefits that are expected.

The NZIER states that Landlords facing the cumulative cost of complying with several standards may face costs up to around $10,000 for an average sized New Zealand house. This is a considerable amount of money and will have a significant impact on the rental price for these properties.

It is extremely disappointing that Government have decided to U-turn their election promise to provide genuine $2,000 grants to offset the cost of new standards and thereby reduce the impact on increasing rental prices. The NZPIF believes that this decision should be reviewed and the policy reintroduced.

Regarding heating, the NZPIF and associations around the country are supportive of compulsory heating in rentals and have encouraged members to provide heat pumps as a heating source for their tenant customers. While some tenants welcome the provision of a heat pump, some actively reject having one installed while others do not use it once it has been installed.

It appears that heat pumps are provided in high levels around the country where there is strong tenant demand for them due to the local climate of their rental accommodation.

For these reasons we believe encouragement for providing heat pumps will lead to better heating options in rental properties rather than a regulatory requirement for the provision of heat pumps.

Regarding insulation, this matter was fully investigated just two years ago as part of the Minimum Standards legislation. It is a fact that there are diminishing returns with applying extra levels of insulation and that there is less than a 10% increase in efficacy between 1978 insulation standards and current standards.

With this information, it was decided that rental properties without insulation should be required to install new insulation to current standards, but already insulated rentals without a significant degree of degradation would not. We supported this as it was beneficial and cost effective for tenants.

We are concerned that it appears Government has sought out information to discount the current situation and allow the Healthy Homes Standards to require top-up insulation to current standards.

Examining the research paper that appears to be used to justify such a decision, we have discovered severe limitations with it to such an extent that it cannot be relied on to confirm the benefit of toping up existing insulation.

The following is our discussion of these points and others, followed by our recommendations on what the standards should be to effectively provide healthy homes for New Zealand tenants.

DISCUSSION

Heating

Summary

The purpose of the standard is to ensure that all rental properties can be heated to a certain temperature that will also become part of the standard. They are looking at where and what type of heaters landlords should be required to have in rentals, who should provide them plus what types of heaters are not acceptable.

According to the NZIER, the proposed heating standards are only just cost effective if applied to the living areas of rentals and are not cost effective in bedrooms. Cost effectiveness of heating to 18^0 is also stronger than 20^0.

Cost effectiveness is an extremely important consideration as tenants will ultimately pay the cost of increased rental property standards. This is reasonable as they are getting improved benefits from the standards.

The high cost of operationally efficient heaters increases rental prices which offset the positive aspects of their efficiency.

This could be offset by the Government honouring their election policy to provide a genuine $2,000 grant to reduce the impact of the new standards and limit the effect of higher rental prices. An additional way to achieve this would be to make insulation and energy efficient heating a tax deductible expense rather than the capital expense it is now.

Temperature

What temperature a rental property could be capable of being heated to is the starting point for all other decisions. In addition to the size of the room, insulation, curtains, double glazing and size of windows, this will then help determine what heaters will be required in individual rental properties.

The World Health Organisation states that homes should be 18_0c for the general population, but 200c for vulnerable people such as children, the elderly and sick.

Looking at the cost benefit difference between 18^0c or 20^0c, the NZIER states that "the heating standards results are stronger for the 18^oC temperature level than the 20oC level".

Going from 18^0c to 20^0c could push a smaller property from requiring an inexpensive electric heater and no rent increase, to a heat pump and an increase in rent.

Given that higher standards are more expensive to attain and are not cost effective, they should not be enforced onto the general population. We therefore believe that 18^0c is the appropriate temperature for the standard.

Type of heating

Currently we are regulated by the Home Improvement Act 1947, which states that we should provide a heater in the living area. A power point has previously been considered sufficient to meet this requirement, however the Tenancy Tribunal has recently started to fine landlords for not providing a heater in a living area.

The NZPIF considers it appropriate that some form of heater should be provided in a rental property.

When considering what heating should be standard in rental properties, MBIE are considering the running cost and health effects of different options. We think this is reasonable and the NZPIF encourages members to provide a heat pump when appropriate and wanted by a tenant.

MBIE state that some heaters are efficient and affordable to run, such as heat pumps, wood burners and flued gas heaters and they propose to make these acceptable devices under the heating standard. However, unflued heaters, all electric heaters with a heating capacity of greater than 2.4 kilowatts (except for heat pumps) and open fires are considered unacceptable. While we agree that unflued gas heaters should not be an acceptable form of heating, many tenants desire open fires and electric heaters higher than 2.4 kilowatts.

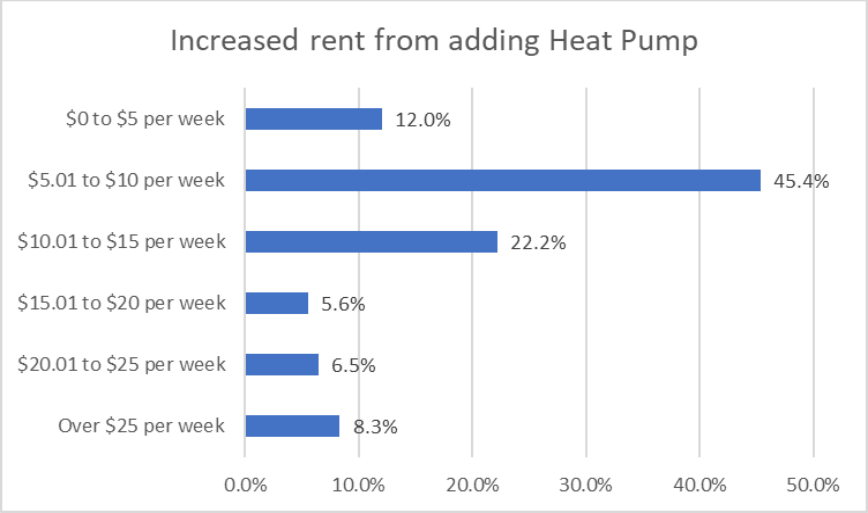
Although the achievable temperature may have a bearing on what type of heater needs to be installed, it appears that the predetermined option is going to be a heat pump in the vast majority of rental property living areas. This is due to heat pumps being the cheapest and potentially easiest to install of the heaters acceptable to MBIE. The standard is essentially saying that every rental must have a heat pump if it doesn't already have a wood burner or flued gas heater.

The NZPIF disagrees with this. Heat pumps are expensive to purchase and maintain and will therefore place the greatest pressure on rental prices to increase. While heat pumps may be more economical then fixed electric heaters, the high cost of buying, installing and replacing them can actually make them less cost effective than electric heaters.

A NZPIF Membership Survey of 810 rental properties conducted in September 2018 showed that 82% of properties had a supplied heater for the living area. Fifty nine percent of these heaters were heat pumps. We believe this is because we encouraged members to supply heat pumps when the tenant wanted them and we provided discount deals on heat pumps to reduce the cost.

Of those owners who installed the heat pump themselves, we asked if they increased the rent to cover the cost and by how much. Some indicated that they installed the heat pump as a thank you to existing tenants and would minimise the increase or not increase the rental price until that tenant left. This is likely to underestimate the actual rental price increase following installing a heat pump.

Despite this, the majority of rental price increases were $10 or $15 per week. If owners are forced to install a heat pump, the NZPIF envisages the average weekly increase in rental prices will be around $15 per week. This increased rental price amounts to approximately $780 a year.



According to energywise.govt.nz, a 6Kw heat pump will cost 37cents per hour to run and a 2.4Kw will cost 60 cents to run.

The cost of running the heat pump for 5 hours a day, three months a year would be $168. The same cost for a fixed electric heater would be $273 (adequate for some tenants) or $546 for two. Scaling the fixed electrical heater up to the same 6Kw power of the heat pump would cost $682.

Despite the heat pump being more efficient, the higher rent due to the higher capital, maintenance and replacement costs means that an equivalent fixed electric heater is around the same cost on an annual basis.

	Cost	Rent increase per week	Running cost	Total
6kw Heat Pump	$ 2,400	$10 to $15	$ 168	$688 to $948
6Kw Heater	$ 800	$ 4	$ 682	$890
4Kw Heater	$ 530	$ 3	$ 455	$611
2Kw Heater	$ 265	$ 0	$ 227	$227

Many tenants choose not to use heat pumps even when they are provided. If they are made compulsory, they will be forced to pay for them through higher rental prices. While many landlords are installing heat pumps, tenants deserve to choose the rental price they want to pay and the type of heating they prefer.

If the standard allowed sufficiently powered and lower cost fixed electric heaters, rental prices for these rentals would not increase to a great degree. This would allow tenants to choose a lower priced rental with a less cost-effective heater or a more expensive rental with a heat pump. Compulsory heat pumps remove this choice.

An NZPIF study into heat pump provision appears to show that rental property owners are providing heat pumps when tenants want them.

To calculate this, we used the Trade Me "to rent" section and selected three bedroom properties in seven areas throughout NZ. For each area we entered "heat pump" in the keywords search function. It was assumed that all properties with a heat pump would promote this as a feature, however we may have underestimated how many rental properties have a heat pump.

From this we were able to calculate how many properties advertised in each area had heat pumps. We also noted down the rental price for each property with a heat pump to calculate the average rental price. This was then compared to bond centre 3 bedroom average rental price data for each area.

The results are shown in the graph below. It shows that at least 29% of rental properties advertised on Trade Me had a heat pump and that they rented for an extra $39 per week. Although interesting, there is no way of isolating how much of this rental price difference was just due to the provision of the heat pump.

It was very interesting to note the percentage of properties advertised that did have heat pumps in the different areas studied. The lowest area was Auckland at around 19%, with arguably the lowest requirement from tenants for a heat pump, up to 60% in Southland.

	% with heat pumps	Average rent	Avg heat pump rent	Weekly cost of heat pump
Auckland	18.6%	$ 583	$ 636	$ 53
Hamilton	29.1%	$ 434	$ 469	$ 35
Tauranga	29.6%	$ 465	$ 513	$ 48
Wellington	34.3%	$ 585	$ 617	$ 32
Christchurch	48.7%	$ 418	$ 446	$ 28
Dunedin	55.7%	$ 387	$ 425	$ 38
Southland	60.0%	$ 297	$ 335	$ 38
NZ average	**29.2%**	**$ 453**	**$ 492**	**$ 39**

This study indicates that Rental property owners are providing heat pumps when the local climate requires it and tenant demand is likely to be high.

Given that the NZPIF has encouraged members to provide heat pumps and provided them with financial incentives to do so, it was interesting that 59% of members provided a heat pump compared with 29% of properties advertised on Trade Me.

This would suggest that encouragement to provide a heat pump would be a better proposal than forcing nearly all rental properties to provide one.

The following is a summary of our findings on the type of heating that should be provided in rental properties.

- Feedback from members is that many tenants do not want a heat pump
- Installing heat pumps will increase rents by approximately $10 to 15 per week.
- Some tenants do not use heaters even when they are provided, so the $10 to $15 pw rent increase from installing a heat pump would provide them with no benefit at all.
- When rental price increases are included, electric heaters are not dearer for tenants and may be cheaper to operate compared to heat pumps.
- Rental property owners appear to be providing heat pumps in areas where tenants are likely to want them.
- Allowing electric heaters would provide flexibility for tenants and owners to discuss and decide on what type of heating they would prefer.

Where heating should be required

The NZPIF agrees that rental properties should have a fixed heater of some type in the living area. However, MBIE is also asking whether it should be compulsory for landlords to supply a heater in bedrooms as well. MBIE say that most bedrooms will be small enough that a portable heater will be sufficient, however larger bedrooms would also have to have a heat pump installed.

In discussions on having heaters in bedrooms, very few people appear to have them. Policy advisors and politicians should consider their personal situation when determining what these standards should be.

The NZIER point out that "the heating standards are likely to yield net benefits if applied to living rooms only" but "become slightly less net beneficial if extended to cover bedrooms".

The cost of a portable heater is not high, however there is a wide range of options and the NZPIF believes that landlords may not provide the type of heater that a tenant would prefer. Tenants should be able to choose if they want to have a heater in their bedroom and not be forced to have a heater that they do not want. We believe bedrooms should not be required to have a heater.

If because of the size of the bedroom a larger heater is required, landlords should not have to provide a heat pump. Larger, cheaper electric heaters should be allowable to reduce the need for rental price increases.

Similarly, if a living area is such that it doesn't require a fixed heater to reach 18^0c then the landlord should not have to provide a portable one so that the tenant can choose the heater they want and take it with them when they leave.

Insulation

Summary

Compulsory insulation in rental properties was introduced in July 2016, with a compliance date of July 2019. If there was no insulation in a rental prior to July 2016 then insulation to the latest 2008 standards was required. If there was existing insulation then it needed to be to the 1978 standard of R1.9 in ceilings and R0.9 underfloor, plus be in good condition.

The NZPIF agreed with using the older standard for rentals with existing insulation as the improved efficacy was only around 5%, but the cost to top up the insulation to new standards was nearly as much as installing completely new insulation.

MBIE are looking at whether to keep the current requirement, require all rentals to be insulated to the 2001 requirements or require all rentals to be insulated to the 2008 requirements.

Given that this issue was investigated in 2016 and nothing has changed, the NZPIF does not see any new benefit in requiring insulation installed after 1978 to be topped up to 2008 levels.

MBIE have commissioned Otago Medical School, who have been lobbying for a rental property WOF for around 15 years, to see if despite there being only a marginal improvement in insulation efficacy, could topping up insulation still provide health improvements. Asked to find something, Otago Medical School has obliged.

Examining the OMC research paper, we have discovered severe limitations with it to such an extent that it cannot be relied on to confirm the benefit of toping up existing insulation.

One research paper which was designed to find a desired outcome is not sufficient evidence that topping up insulation in rental properties provides health benefits for the occupants.

For these reasons, the NZPIF believes that the insulation requirements investigated and determined just two years ago are still appropriate. To require all rental properties that currently have insulation at the 1978 level to top up to the 2008 level would not be cost effective or of any real benefit to tenants.

Insulation from the 2016 review

The NZPIF agreed with 2016 regulations that made it compulsory for rental properties to be insulated by July 2019.

The determined levels of insulation from 2016 were highly appropriate to provide comfort and health benefits to tenants without involving excess rental price

increases that would not achieve the desired cost/benefit ratio of $1 cost to $1.90 benefit.

The reasons why the 2016 regulations were appropriate and supported by the NZPIF were:

1. they provide a high cost benefit ratio as increasing insulation levels provides a diminishing benefit return. (i.e. a 50% increase in insulation material does not provide a 50% increase in insulation efficacy.)

2. The cost of topping up existing insulation is only marginally cheaper than installing completely new insulation, meaning that the desired cost/benefit ratios would not be achieved.

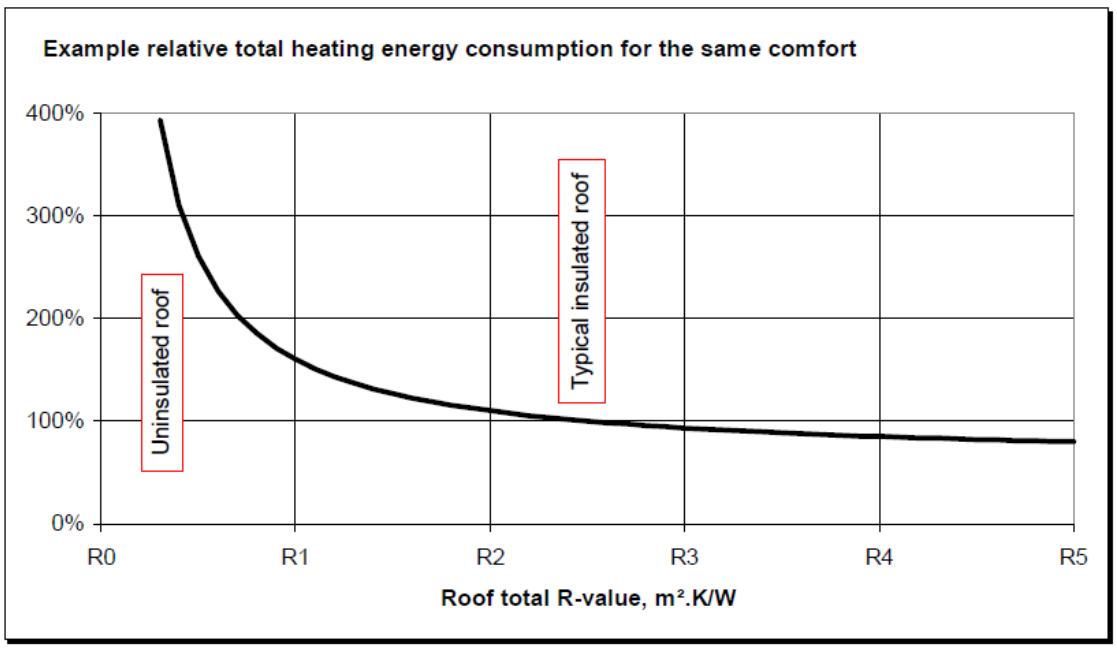
3. The extra cost in topping up insulation in rental properties will result in higher rental prices than are necessary.

4. The cost of providing insulation will be disproportionally higher in low value areas. This is because the cost of insulation is virtually the same throughout the country, so rental price increases will be proportionally higher in lower cost rental areas.

Diminishing returns from extra insulation

diminishing returns for insulation efficacy have been widely reported. An example is the 2002 study by James Fricker, B Mech Eng, CPEng, M.AIRAH, M.IEAus.

Fricker's study shows that the vast majority of insulation benefit occurs at the R2 level, which is why this level was chosen as a minimum for NZ insulation in 1978.



Fricker looked at the cost savings for a typical Melbourne home, through adding different levels of insulation, and concluded that "additional insulation has diminishing advantage". " Adding any insulation to un-insulated homes can save more energy than adding more insulation to already-insulated homes".

"Where the curve is more vertical is where most of the action occurs. The important effect here is that most of the reduction in heat flow happens early on" says Fricker.

Fricker charts the heating costs and savings made through increasing the level of insulation. This shows that by far the highest savings are up to an R rating of 1, and the savings after R2 become minimal. He questions “does it really make sense to double your insulation costs to go from an R2.0 to an R4.0 and only gain an additional 2.5% efficiency? I don't think so. I really don't think you would see a noticeable change in your utility costs and certainly not enough to offset the cost."

Example: MELBOURNE HOME	No roof insulation			Typical Example				
Roof total R-value, m².K/W	**R0.3**	**R1.0**	**R2.0**	**R2.5**	**R3.0**	**R3.5**	**R4.0**	**R5.0**
Home heating cost per year:	**$3,933**	**$1,600**	**$1,100**	**$1,000**	**$933**	**$886**	**$850**	**$800**
Portion due to ceiling losses:	$3,333	$1,000	$500	$400	$333	$286	$250	$200
Assumptions:	Floor, wall & window losses: $300pa; Infiltration losses: $300pa (estimate for home having carpetted slab floor and insulated walls)							

The difference between proposed ceiling insulation levels for rentals with existing insulation and current NZ standards is R1.9 to R2.9. This difference is even less than the doubling of insulation levels that Fricker believes doesn't make sense.

The conclusion is that the 2016 insulation standards for rentals with existing insulation was extremely beneficial while providing an extremely high cost benefit ratio for tenants.

Upgrading insulation is expensive

According to the TradeBox website (www.tradebox.co.nz), insulation installation costs about $15 +gst per sqm.

On the Bunnings website, Earthwool ceiling insulation is $5.88 per sqm for R1.8 and $7.11 per sqm for R3.6.

Using these figures, the cost to upgrade existing 100sqm rental property insulation to current standards would cost $2,088 while installing new insulation to current building standards would cost $2,211. This means it is only 5.6% cheaper to install completely new insulation compared to topping up existing insulation.

It is clear that the cost benefit ratio of requiring all rental properties to be insulated to current standards would be cost prohibitive and place too high a level of upward pressure on rental prices. Higher rental prices will ultimately be borne by tenants.

Otago Medical School study

In 2011 the University of Otago evaluated health benefits from the Governments' Warm Up New Zealand (WUNZ) subsidy programme.

The evaluation found that after installing insulation people had no fewer health events or pharmaceutical costs. There were some health cost reduction from hospitalisation, but the majority of the health cost savings accrued from mortality prevented. The findings were therefore that there was a benefit, but not a convincing benefit.

In addition to the positive results being modest, the study itself was not viewed as completely sound. The 2011 study was examined by Ian Harrison (B.C.A. Hons. V.U.W., Master of Public Policy SAIS Johns Hopkins) Principle consultant with Tail Risk Economics[1]. Harrison came up with numerous faults in the study. Three of these faults are particularly relevant to the 2018 study results.

Firstly, the study only found benefit in occupants over 65 years of age. When the study authors calculated the cost benefit of this finding, they assumed and applied an equal incidence of benefit for renters. However the percentage of private renters over 65 years of age is much lower, so the average mortality benefit per household would also be lower.

Secondly, the study did not report the mortality result of all 65+ occupants, which showed there was little impact from insulation. Instead it focussed on occupants that had been hospitalised for a circulatory illness. The Tail Risk report said of this that "there are a large number of illness categories and there is always a chance that at least one, by chance, will pass the 95 percent confidence level test". In other words, this appears to be a chance finding rather than a real finding.

The third key fault with the study, and potentially the largest, is provided by the NZIER. They point out that "the major health benefit from the WUNZ evaluation comes from reduced winter-time mortality, based on a value of $150,000 per life year gained by averting premature death. This value is derived by a method which differs from that recommended in recent OECD reviews of international practice, which would suggest mortality benefits about 1/3 of those in the WUNZ analysis". The NZIER added that the method used in the WUNZ study is "a practice without sound theoretical or empirical justification."

The 2011 study authors also acknowledged other limitations in their study. They said that "This study is observational, rather than experimental, and this leads to the possibility for confounding where the self-selecting treatment group differs systematically from the matched control group".

The 2018 Otago Medical School study into the health benefits of topping up insulation, used the same data set as the 2011 study. They found that "the primary

cost savings from insulation lay in reduced mortality. Hospitalisation and pharmaceutical costs on their own provide no firm direction on whether it would be worthwhile to top up existing insulation."

They also found that "Insulation top-ups saved at least as much per household in health costs as total fill insulation" while admitting "most of these savings came from reduced mortality."

However to reach this conclusion, the 2018 study also restricted their findings to the 65+ age group with a previous hospital admission for a circulatory illness, which was the only subset to show a benefit of insulation in the 2011 study. They confirm this in their report, saying "as both the 2011 study and Preval 2014 found no significant result for total mortality or mortality among those with a prior respiratory hospitalisation, we have limited this report to mortality among those with a prior circulatory hospitalisation only."

This selective selection is not a sound method to reach a correct conclusion. If they had used the full 65+ age group they would have found that there was no mortality benefit from topping up insulation. logically this is also the most expected finding given that it is a fact that the increased efficacy of topping up insulation is very small as shown above.

This study shows that there are no improvements in hospitalisation and pharmaceutical costs from topping up insulation. Due to the stated limitations of the study, incorrect methodologies and incorrect assessment of the findings, the study does not adequately demonstrate that there are any mortality benefits from topping up insulation as they have stated.

The NZPIF therefore believes that the standards developed in 2016 are the most appropriate and should remain part of the Healthy Homes Guarantee Bill.

Forcing all rental properties with existing insulation to top up the insulation would provide very little or no benefit to the tenant and therefore be a waste of money.

If Government believes that 65+ renters living in properties with some insulation should have that insulation topped up, then they should fully fund the insulation top-ups. This could be a good investment as Government would likely receive the greatest benefit through potential health expenditure savings.

Ventilation

The presence of dampness and mould is a particular problem in areas where high moisture events are caused by everyday activities, such as showering and cooking. It can also be caused by occupants drying clothes inside, not opening windows, keeping curtains closed during the day so sunlight doesn't warm the property and using unflued gas heaters. These activities generate moisture that remains inside if it is not well ventilated.

BRANZ recommends to regularly open windows and doors wide for 10 – 15 minutes and to use extract fans to provide sufficient ventilation after a high moisture event like showering or cooking.

Tenants may be unwilling to leave windows open due to cold air or security concerns. Because of this, many rental properties already have extraction fans installed because owners cannot rely on tenants to adequately ventilate the property without them. They install them to protect the property from tenant actions that exacerbate moisture problems.

The NZIER state that the proposed ventilation options actually produce a net cost rather than any cost benefit.

It is also either extremely difficult or impossible to install extractor fans in some properties.

While the NZPIF encourages the members to install mechanical extractor fans, we feel that for the above reasons, making them compulsory is a step too far.

Security stays on windows encourage tenants to open their windows, however they cannot be attached to all bathroom or kitchen windows.

To allow flexibility and practicality, we believe that the standard would be improved by stating that either security stays or a mechanical extractor fan will meet the requirements of the new standard.

Other measures should also be undertaken, such as banning unflued gas heaters and deeming their use an unlawful act with exemplary damages applied.

Moisture ingress and drainage

The Housing Improvement Regulations state that every house shall be free from dampness to the extent the local authority deems necessary, be provided with efficient drainage for the removal of storm water, surface water and ground water. Every house shall be provided with gutters, downpipes and drains for the removal of roof water to the satisfaction of the local authority.

This is a good basic standard that already allows action against rental properties like the swamp house in Auckland. It is also in the owners best interest to have this basic level of measures to prevent harm to the property.

Many owner occupied and rental houses have had their underfloor ventilation compromised by things such as decks and gardens blocking ventilation grates. Rather than having to go to the expense of employing a qualified building surveyor to show that their rental home complies with the standard, it would be better to have an online calculator to determine if underfloor areas have sufficient ventilation. Owners would undoubtedly want to protect their property if they were aware that there was an issue.

It would seem reasonable to require rental properties to have a ground moisture barrier if they didn't have sufficient underfloor ventilation. This would also provide owners an opportunity to add extra ventilation if they believed this was preferable to a ground moisture barrier.

An additional point is that high levels of infill housing can cause water runoff issues when not properly planned for. It shouldn't be the responsibility of neighbours to these properties to pay for remedial action that they didn't cause. Councils should invoke an obligation on new developments to remedy drainage problems they cause for existing properties.

Draught stopping

The proposals look to increase the current regulations from the Home Improvement regulations so that:

- Gaps in and around windows and doors, walls, ceilings, floors and access hatches are no more than 3 millimetres
- Any decommissioned chimneys and fireplaces are blocked.

This appears reasonable, however there are some practical matters to consider.

The NZPIF assumes that this proposal will not affect internal doors, especially bathroom doors. When bathrooms are fitted with extractor fans, they need gaps at the bottom of the door so that air can flow through, allowing the fan to operate properly.

Homes with wooden windows and doors need at least 3mm tolerance around them for fitting and seasonal movement. These seasonal variations can see gaps in doors and windows vary considerably between seasons.

If the 3mm rule was introduced into law, it could see rental property owners having to plane back windows in winter, so they can open, only to have to fill them again in summer when the wood shrinks a little and the gap increases to being over 3mm. This would be extremely problematic.

Modern aluminium windows have drainage slots built into them which cannot be applied to wooden windows. Gaps along the bottom of wooden window frames allow condensation to drain out so preventing dampness.

As draughts are a winter problem, the 3mm requirement for windows be limited to the say four months over winter.

Date to comply with the standards

Depending on what standards are decided on, there could be an enormous cost in bringing properties up to the new standard. Any compliance date should be

reasonable to give landlords and opportunity to raise at least some of the funds required to comply and also for tenants to get used to the higher rental costs that are likely from the standard.

Option 2, a single compliance date of 1 July 2022 is too restrictive and doesn't allow for a smooth introduction of the standards. It may be that supply and service industries required to implement the standards may not have capacity to do this by 1 July 2022, meaning that some rental providers will be in breach of the regulations through no fault of their own.

Option 3, staggered compliance dates over five years matched to different parts of the standards would be too complicated and likely lead to unintentional breaches of the new standards.

The NZPIF prefers option 1, as it provides a fixed compliance date of 1 July 2024, but with a requirement to adhere to the new standards for new tenancies. However the 90 day requirement to adhere to the new standards should only be after signing up a new tenancy. It should not be after renewing or varying a tenancy.

Many student rentals have leases that finish on the 30th Dec and start again on the 1st of Jan. If renewing tenancies were required to be updated within 90 days, the high number in these circumstances will make it impossible to achieve. There just will not be sufficient trades capability to do it following the new year's holiday period.

Implementation: Enforcing the standards

Most of the proposals, if introduced, are very easy to show tenants when they first see the property as part of the viewing process. They can see extractor fans, they can see the heater (which should have a description label on it) and they can be shown a subfloor ventilation calculation to determine if the property needs a moisture barrier or not. If it does, then they can see the moisture barrier.

The only exception would be insulation which already has a requirement to be included in a tenancy agreement under the Minimum Standards legislation from 2016.

Conclusion

The NZPIF has always approached policy changes by considering the impact on both rental providers and tenants. Because of this, we are generally in agreement with standards that provide a genuine improvement to a tenants accommodation if tenants want the improvement and it is done in a cost effective way. Cost effectiveness is important as tenants will ultimately be paying the cost of these improvements.

Tenant advocates saying they want the best of everything need to realise that not all tenants want this and they are restricting a significant proportion of tenants from being able to obtain the accommodation they want.

While most people accept that cost increases for businesses will lead to price increases for consumers, many tenant groups seem to believe that rental property is or should be different. Rental prices have increased at a faster rate than general inflation for the past seven years, primarily because of operational and regulatory cost increases plus risk premiums. If standards are introduced that are not cost effective, rental prices for tenants will rise unnecessarily. This isn't in anyone's best interest.

Some tenants do not want a heat pump and will not use one if it is provided. However the high cost of providing, maintaining and replacing a heat pump at the end of its life will still be reflected in higher rental prices for these tenants.

The high capital cost of heat pumps mean that even though they are more economical to run, the higher rental price they require reduces this benefit.

While tenant advocates may believe that all tenants want the best and that landlords should be required to pay for it, this is not a reflection of reality.

While the NZPIF agrees with providing heaters in the living areas of rental properties, we do not agree that these heaters should be heat pumps in the majority of rental properties. This removes the element of choice for many tenants.

The NZPIF believes that electrical heaters should be an option for rental property living areas. Enforcing the provision of heaters in rental properties will allow rental providers and tenants to have a conversation about what type of heater would be best for their circumstances. This is far better than an inflexible single solution blanket enforcement.

The provision of more expensive heat pumps could be better encouraged by the Government honouring their policy to provide a genuine $2,000 grant to reduce the impact of the new standards and limit the effect of higher rental prices. An additional way to achieve this would be to make insulation and energy efficient heating a tax deductible expense rather than the capital expense it is now.

While the IRD has previously been against this proposal, there is precedent in using the tax system to both encourage and discourage certain behaviour such as alcohol and cigarette consumption and lately sugar based foods.

Compulsory insulation in rental properties was introduced just two years ago in 2016. The NZPIF supported this move and the decision not to require existing insulation to be topped up to current standards as it wasn't cost effective.

This is because it is a fact that extra insulation provides diminishing returns and the cost of topping up existing insulation is almost the same as completely installing new insulation.

A research study by Otago Medical school, which was not conducted by specialist health researchers, claims that despite an extremely low increase in efficacy from topping up insulation, there is somehow a health benefit in doing so. The design of the study, the selective nature of interpreting the results and plain common sense shows that such a conclusion cannot be drawn.

Using this study as evidence to pursue a political promise would be an extremely poor decision. Government obviously have the welfare of tenants at heart and should have the confidence to say that they will not introduce policy that hasn't been proven beneficial and will instead lead to unnecessary cost increases for many tenants. This would be the best decision for these tenants.

Based on sound evidence, the decisions on insulation made in 2016 should remain in place.

Regarding ventilation, the NZIER state that the proposed ventilation options actually produce a net cost rather than any cost benefit. A proportion of properties would find it very difficult or potentially impossible to install them

Security stays provide a good option to include in the standard so that flexibility can be provided as a solution to the problem.

Likewise the proposed moisture ingress options also produce a net cost rather than any cost benefit. Despite this, if an easy to apply online calculator could be provided to asses underfloor ventilation, it appears reasonable to require either sufficient ventilation vents to be added or a moisture barrier to be installed.

Recommendations

The NZPIF recommends that:

1. The required temperature capacity for rental property living areas is 18^{0}.

2. The 2016 insulation requirements be retained and rental properties with adequate insulation at the 1978 level not be required to top up to current standards.

3. Heaters are a requirement in rental property living rooms, but electric heaters over 2400w are acceptable.

4. Heaters in bedrooms are not required despite the size of the bedroom.

5. Either window stays or mechanical extractor fans should be required in rental property bathrooms and kitchens.

6. An online calculator is developed to assess the underfloor ventilation capabilities of the rental. If insufficient, there should be a requirement to add extra vents or install a moisture barrier.

7. Implement option 2 for draught stopping, but make an allowance for wooden windows and doors that expand and contract during winter and summer. A possible solution is to make the 3mm a requirement for winter months only.

8. Implement option 1 for complying with the standards except limiting the 90 day adherence requirement to new tenancies, not renewing or reviewing tenancies. To clarify, after 1 July 2021 landlords would have to comply with the standards 90 days after they sign a new tenancy and all rental homes would need to comply with the standards by 1 July 2024