

NZPIF "State of Property Investors" survey



From: Andrew King, Executive Officer

Date: September 2017

Introduction

The NZPIF membership survey was conducted between 7 and 12 September 2017. There were 816 respondents.

Property Investors' Association members from around New Zealand were invited to participate through an email sent to them on the 7th of September and a reminder email on the 10th.

The survey was to gauge rental property owners' thoughts on actual and proposed changes to the industry, how they had been affected by past occurrences and how they are likely to react to proposed industry changes.

Survey results

LVR Restrictions

High loan-to-value ratio (LVR) restrictions were introduced by the Reserve Bank of NZ. They were first introduced in October 2013 and applied to Auckland rental properties only. They were revised and increased in November 2015 and October 2016 so that 40% deposits are now required for 95% of all rental property purchases.

LVR restrictions do not affect all rental property owners. They tend to act as a barrier to buying rental property as they apply to new mortgages. However banks can also apply them when rental property owners are refinancing.

LVR restrictions tend to affect younger investors and those who are just starting out as they often cannot manage to raise the required 40% deposit to buy a rental property.

Our survey showed that LVR restrictions had either a lot or a great deal of impact on 35.5% of respondents. It is likely that LVR restrictions have prevented these rental property owners from being able to buy further rental properties.

LVR restrictions had no impact on 28.4% of respondents either because they were not planning to purchase any further rental properties or they had sufficient equity in their existing properties to cover the 40% deposit requirement.

Minimum Standards

Minimum standards for rental properties came into effect in 2016 and were supported by the NZPIF. The main requirements of the new law is that rental properties must have 10 year photoelectric smoke alarms installed and all rental properties must be insulated by July 2019.

Over the past decade, the NZPIF has negotiated discounted insulation for their members and encouraged them to insulate their rentals.

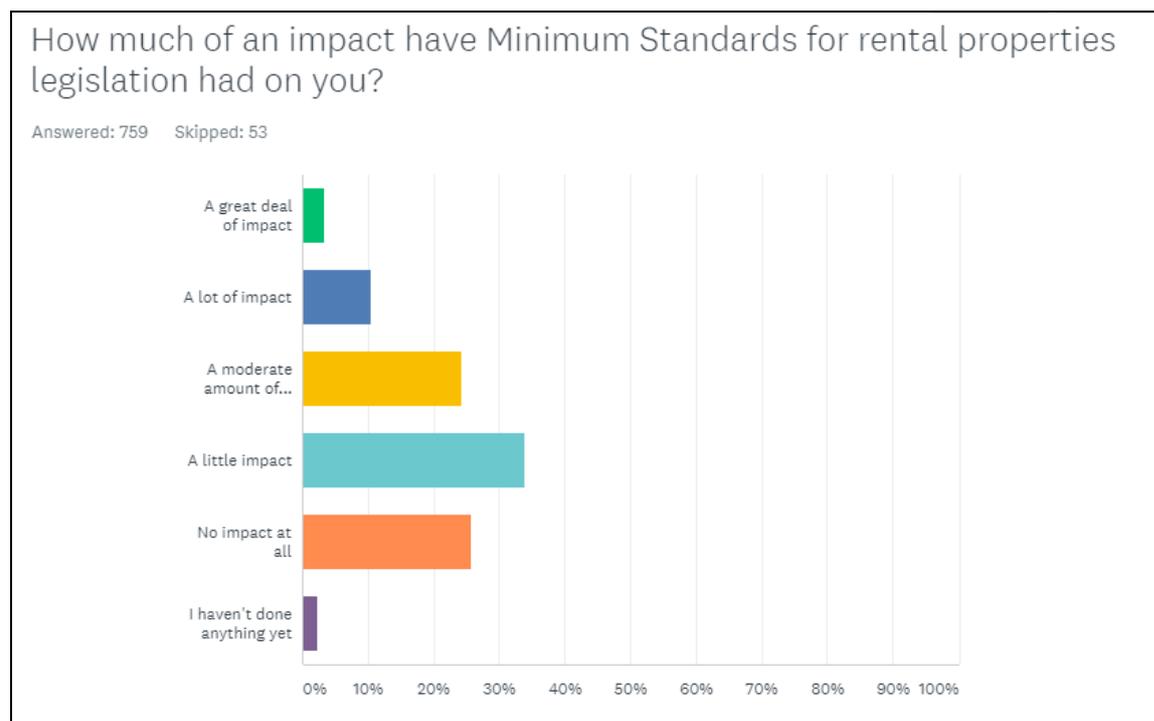
Previous surveys of NZPIF members showed that 92% of their rental properties were already insulated, meaning 8% of rentals required completely new insulation. A survey of members after the requirements were confirmed showed that a further 9% of members' rental properties would require additional insulation, mostly under the house insulation, in order to comply with the new regulations.

The NZPIF also negotiated a 45% discount on smoke alarms recommended by the NZ Fire Service. Since introducing these alarms, members have purchased nearly 20,000 for their rental properties.

Because of these NZPIF policies, the survey shows that Minimum Standards regulation has had a minimal effect on our members. This in turn meant that there has been less pressure on rental prices to increase to compensate for additional costs.

Only 2.2% of respondents have yet to comply with the Minimum Standards, despite them not being required to comply before July of 2019.

In addition, only 13.8% of respondents felt a lot or a great deal of impact from the introduction of Minimum Standards.



Tenant damage to rental property

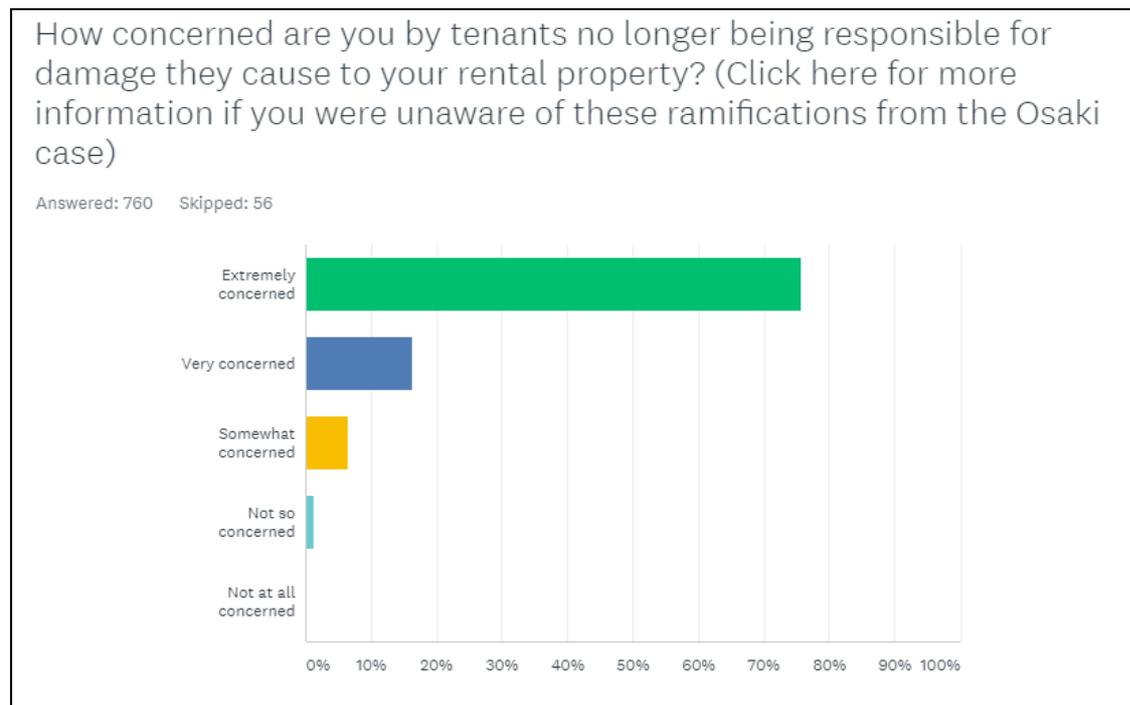
Since a High Court ruling last year, tenants are no longer responsible for any accidental damage that they inflict on their rental property. Rental property owners are required to fix their tenants' damage and either pay the excess, if their insurance company will pay for the repair, or pay for the entire cost if their insurer declines the claim.

The survey showed that this is the most concerning influence of any factor currently affecting rental property.

75.7% of respondents were extremely concerned about facing the liability for their tenants' damage and a further 16.3% were very concerned.

Only 8% were not so concerned. This was the only issue of those surveyed where there were not any respondents who were unconcerned.

This is definitely a problem that needs to be addressed as soon as possible as anecdotal evidence points to a high number of rental property owners considering leaving or already left the industry. Trade Me has reported a sharp drop in the number of lettings available around the country, which would support the view that this is happening.



Unlawful dwellings

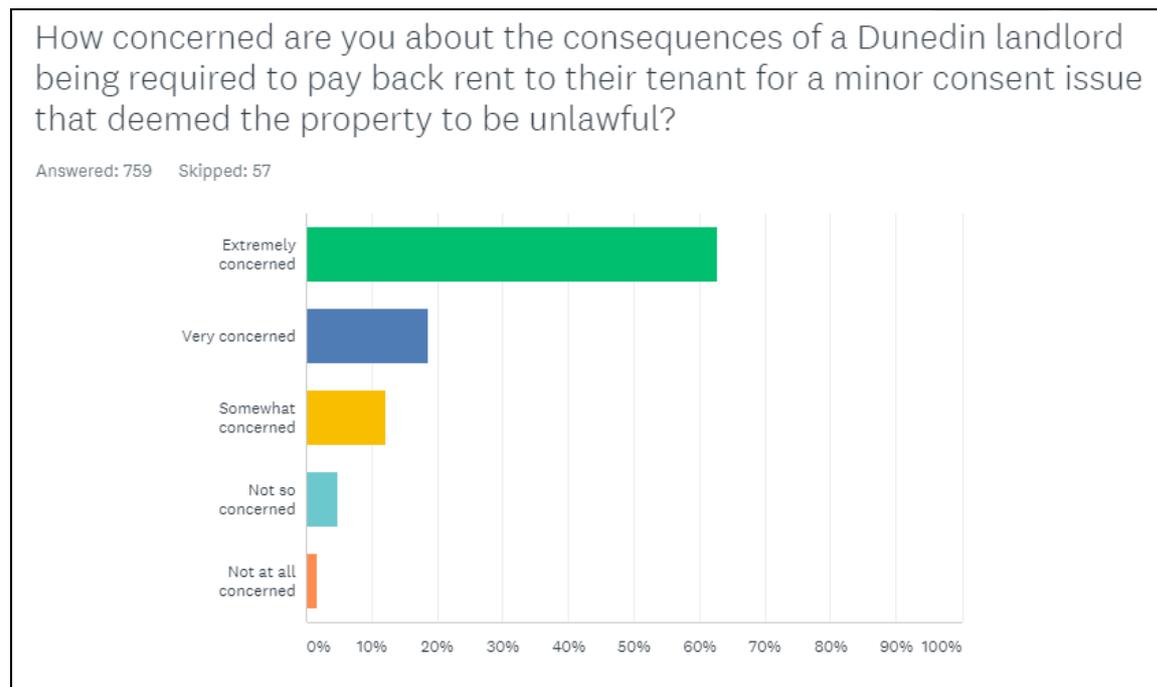
The Otago Daily Times recently drew to attention the case of a Dunedin landlord who was forced to refund to their departed tenant all nine months of rent received from them because of a technical breach of the building consent.

The breach was rectified between the tenant's application to the Tenancy Tribunal asking for their rent to be refunded and the actual hearing. The Code of Acceptance said that the unconsented parts of the property were constructed to an excellent standard.

Despite this, the adjudicator awarded that the landlord should refund over \$10,000 in rent back to the tenant. Unfortunately the owners had to sell their property in order to pay their tenant the rent.

This was widely viewed as an unjust decision and is being appealed to the District Court.

62.7% of respondents were extremely concerned about this decision and the ramifications it has for all rental property owners. A further 18.7% were very concerned.



Extension of the Bright Line Test

The Bright Line Test was introduced by the National Government to create better certainty that property traders and speculators couldn't pass themselves off as property investors (Rental property providers).

The Test says that if you sell a rental property within two years of purchasing it, you have to pay tax on any increase in value at your marginal tax rate.

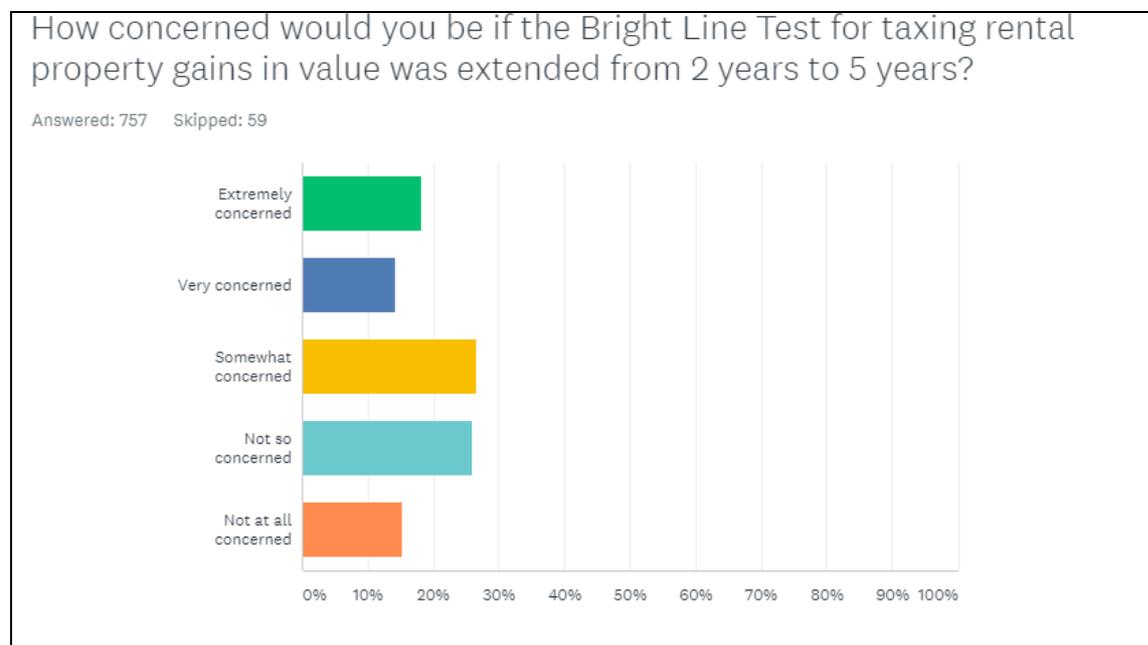
While aimed at property speculators and traders, it has affected rental property owners as well. Despite this, most rental property owners could see what the intention of the law was and didn't object too much.

However Labour has a policy that extends the test to five years. This means that the Bright line Test is no longer aimed at property traders and speculators, who usually sell their properties as soon as possible to obtain their return. The Test would now become a more serious imposition on rental property providers.

The policy now restricts what owners can do with their property and is especially harsh on people who are forced to sell when they would not choose to do so. Cases could include losing their job or suffering from a serious or terminal illness. In such cases, no other investment or business would have to pay such a tax.

Because most rental property owners are in it for the long term, the Bright Line Test is not seen as a major concern to most recipients.

While 32.4% were very or extremely concerned with an extension of the Bright Line Test, the majority are only somewhat or not so concerned. 15.2% were not concerned at all, although they may be assuming that there won't be any future circumstances that will force them to sell their property. This could well be a false assumption.



Ring fencing losses on rental property

A NZPIF study showed that even with a cash deposit of \$55,000 it still costs \$10,200 in the first year to provide the average NZ property as a rental home. As with any other business, this loss can be claimed against other income and reduce the owners tax payment by \$4,084, meaning the actual cost of providing the rental home is \$6,177.

If ring fencing losses is disallowed, the cost of providing the average NZ property as a home would increase by \$4,084 in the first year of ownership. It is already difficult to support a rental property by \$6,177 a year, but \$10,261 will make it impossible for a high number of people.

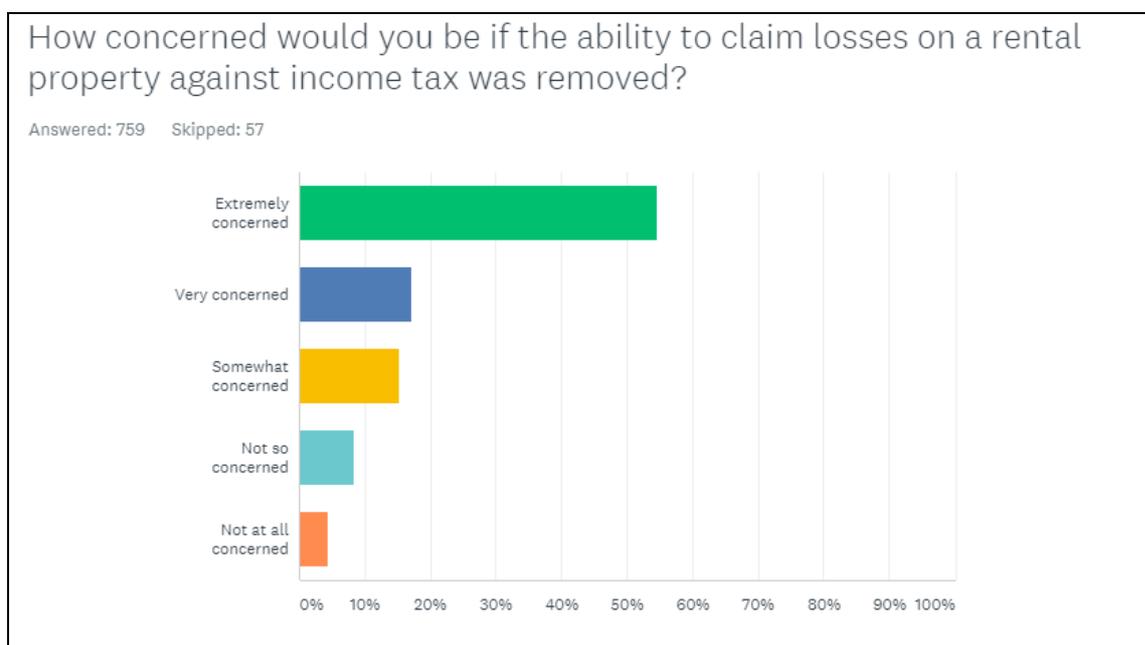
Many businesses make losses in the first few years of operation. However providing rental property is so expensive it is almost essential to make losses in the first few years until rental prices increase.

While 70% of respondent's properties are not negatively geared, this issue is still a major concern for rental property owners.

The key reason for this is that it prevents people from buying more investment properties and consequently expanding the stock of rental properties.

Because of this, 71.8% of respondents are either very or extremely concerned by the possibility of losses being ring fenced. It was one of the top five concerns for policies affecting the ability of people to provide rental property.

This policy would have a major impact on the ability of many people to provide new rental properties. This in turn would see a major fall in rental property supply and, if demand continues at the current level, higher rental prices.



Capital gains tax

Faced with the high costs of providing rental property in NZ, many investors hope for increasing property prices to improve their long term return. With a reduction in this return, many rental property providers may choose not to provide rental property.

Some have said that a reduction in rental property providers would be a good thing, as the properties would still exist but they would be bought by home owners instead, hopefully first home buyers. However this isn't quite true.

Changes to the LVR rules do not apply to new builds, so an increasing proportion of rental properties are new builds. Should a CGT be introduced this could reduce the number of new rental properties being built.

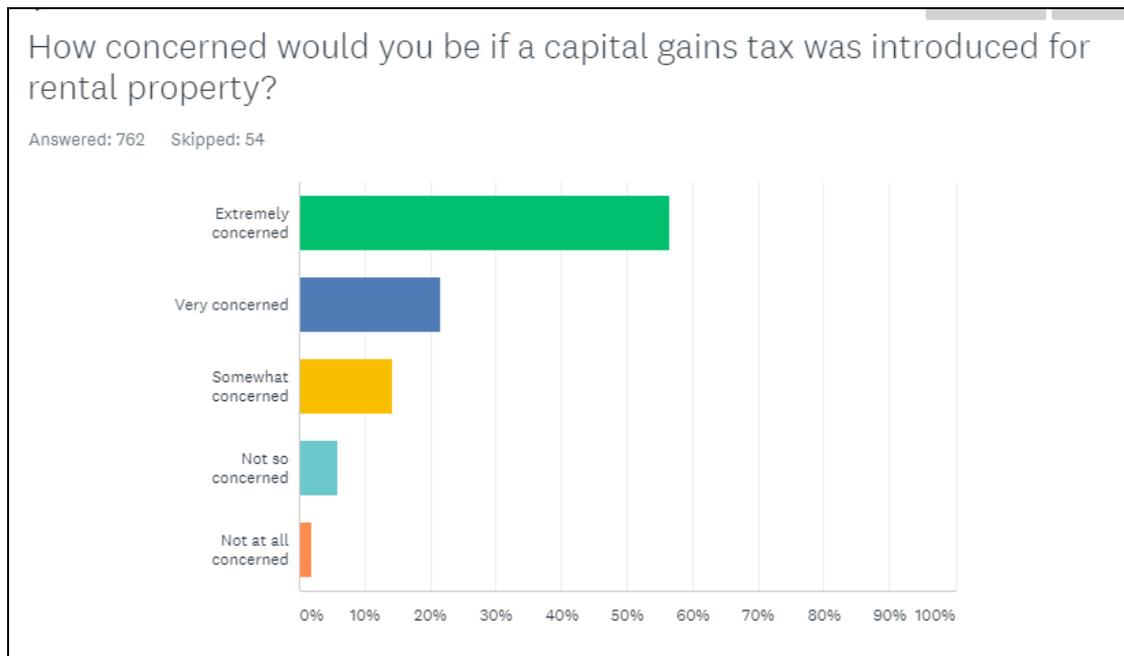
Of greater concern is that the assumption that when a rental property is sold to a first home buyer then there is a fall in supply that is offset by a fall in demand as the tenant is now a home owner.

However Census data shows that the average number of people per rental dwelling is 3.9, compared to 2.1 for owner occupied properties. So on average, an extra 1.8 people live in rental property compared to owner occupied properties.

This means that when a rental property is sold to a home owner, without an increase in rental property supply, an average 1.8 people still need to secure rental accommodation.

Respondents saw a CGT as severely impacting on their overall return, making it even harder to make the provision of rental property stack up.

Respondents ranked a CGT as the third highest concern for providing rental property. 78.0% were either very or extremely concerned at the potential for the introduction of a CGT.



90 Day notice without cause

Labour have announced that they would remove the ability of rental property owners from issuing 90 day notices to end a tenancy without cause. Labour has not explained why they are removing this tool from landlords. However tenant lobbyists have said for many years that it just isn't fair that tenants are not told why their tenancy isn't being renewed. They claim that rental property owners use the provision often, but our survey disproved this.

More than half of respondents, 53.4%, had never issued a 90 day notice. Of the landlords that had issued one, 57.7% had only issued one in the last five years. A further 20.7% had only issued two over the past five years.

The survey shows that the 90 day notice is not used lightly, but infrequently and for good reason.

At 33.0% of respondents, the most common reason for using the 90 day notice was because of tenants disturbing their neighbours. In situations like this, many neighbours will not provide a letter explaining what has happened for the landlord to use at the Tenancy Tribunal.

Without evidence, the landlord has no proof to provide at the Tenancy Tribunal hearing and therefore cannot end the tenancy without the 90 day notice. By using this tool, they are protecting their other tenants and neighbours of their tenants from intimidation and reprisal.

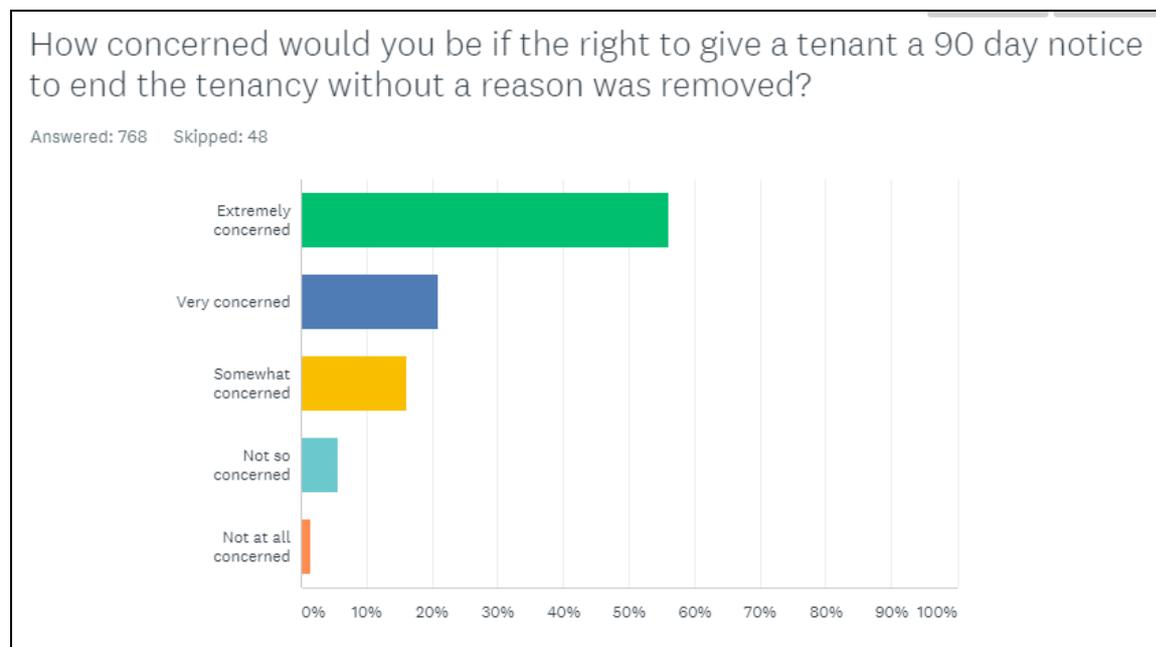
The second most common use of the 90 day notice, at 14.2%, was rent arrears. Most respondents said that in this case they did tell their tenant why they were issuing the notice. Faced with rent owing to them, landlords say that they give a 90 day notice to their tenant as security in case they do not pay back the rental payments they have missed. It also gives the tenant time to organise their finances and have three months to repay their missed rent.

The five top reasons for issuing a 90 day notice were; Disrupting neighbours, unpaid rent, damage to property, general poor behaviour, renovations (frequently resulting from poor tenant behaviour) and selling the property. These five events accounted for 79% of the reasons for why a 9 day notice was issued.

Unpaid rent, damage and selling the property were often stated to the tenant as the reason, rather than using the without cause aspect of the 90 day notice.

In summary, the survey shows that the 90 day notice is not widely used, as has been suggested, and is mostly used to protect good tenants from other tenants' antisocial behaviour. Without the ability to issue a no cause notice, landlords may find it impossible to protect tenants from other tenants' behaviour.

77.0% of respondents are either very or extremely concerned at the potential for the 90 day notice without cause option being removed. The survey shows that it is essential for landlords to retain the ability to issue 90 day notices without cause. This is mostly to protect other tenants from their tenants antisocial behaviour.



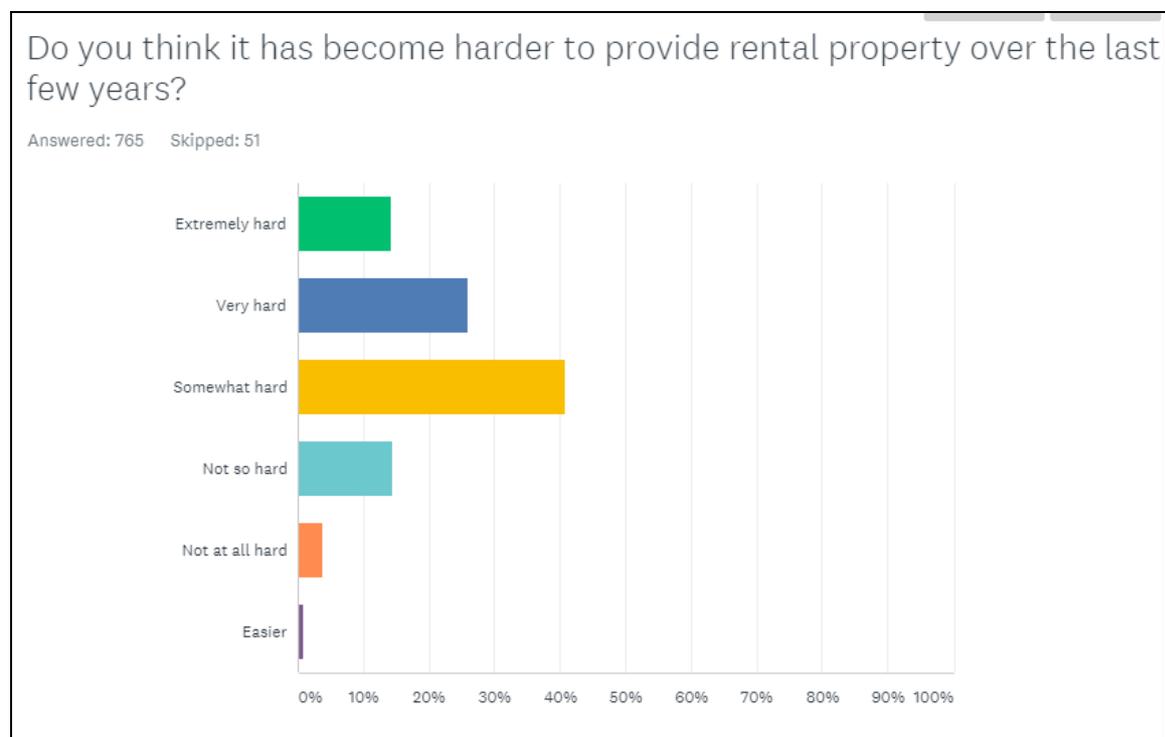
Getting harder to provide rental property in NZ

Respondents were asked if they thought it had become harder to provide rental properties to tenants over the last few years.

81.0% said it had become harder, with 40.2% saying it had become very or extremely hard to provide rental property.

Cost increases and government or government department policies were viewed as making it harder to provide homes to tenants.

Many respondents also said that they have become worn down by the anti landlord rhetoric aimed at them. Many commented that they were finding it so difficult that they were looking at selling and leaving the industry.



An incredible 91.9% of respondents said that the consequences of getting something wrong when renting a property has also increased over the last few years.

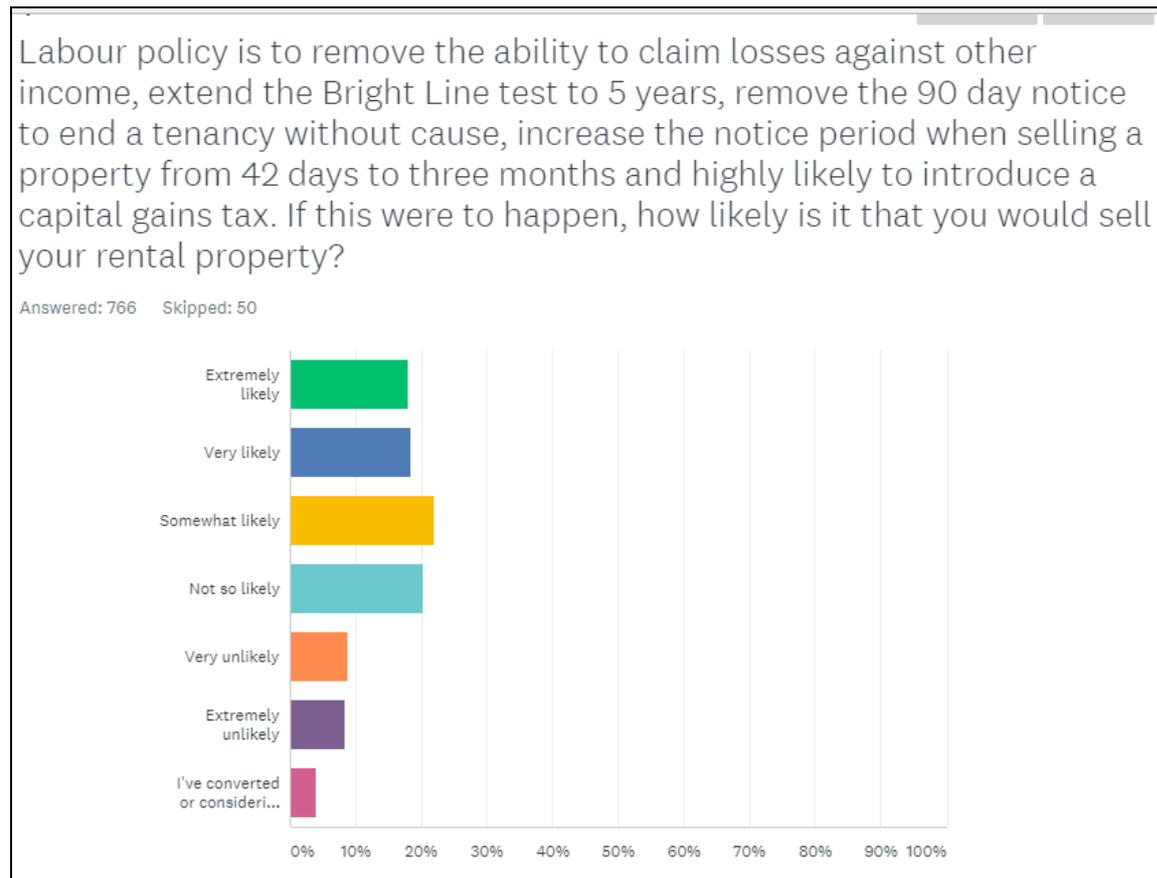
Many respondents said that it was expected that landlords should know ALL the laws involved in providing a rental property. However they said that it was impossible to know all the rules and regulations involved in providing a rental property. These include the Building Act, Building Improvement Act 1947, Health and safety Act and the Residential Tenancies Act.

Small time rental property owners do a lot of work themselves to keep rental prices cheaper than they otherwise would be. There no Corporate providers of Rental property in NZ because they cannot compete with privately owned rental providers and therefore cannot charge enough rent to cover their higher management costs and profit expectations.

Labours housing policies

Respondents were advised that Labour policy is to remove the ability to claim losses against other income, extend the Bright Line Test to 5 years, remove the 90 day notice to end a tenancy without cause, increase the notice period when selling a property from 42 days to three months and is highly likely to introduce a capital gains tax. They were then asked how likely it would be for them to sell their rental property.

A very solid 36.4% said that it was very or extremely likely that they would sell their rental if Labour introduced their policies. A further 22.1% said that it was likely they would sell their rental property.



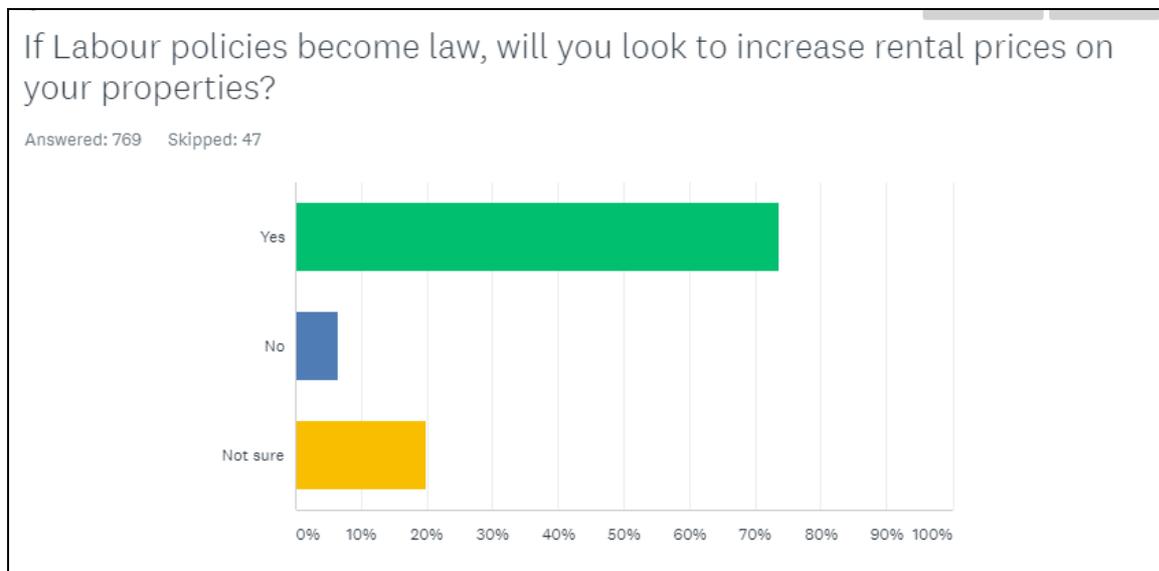
However adverse investment conditions for some rental property owners may provide buying opportunities for others. With this in mind we asked respondents how likely they would be to buy more rental property if Labour were elected to be Government.

Only 7.4% said they would be very or extremely likely to buy more rental property. The implications of these two results are that the high number of labour policies aimed at removing private landlords from providing rental properties to tenants will have an effect on rental property supply.

As previously discussed, even if these rental property owners sell to first home buyers, this still creates an imbalance between demand for and supply of rental property.

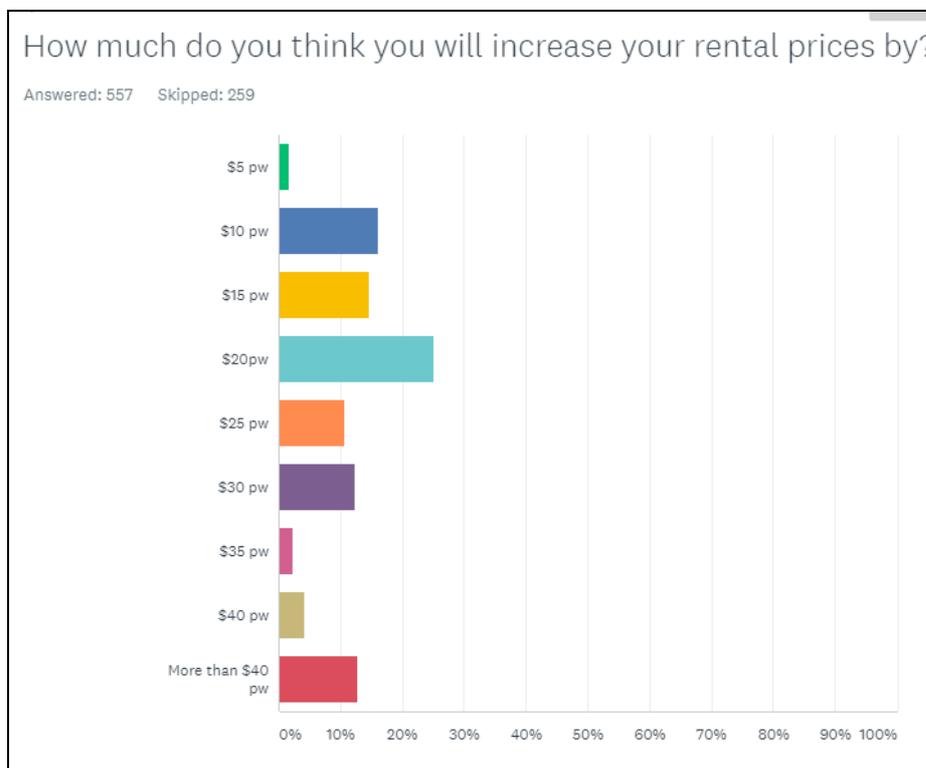
Respondents were also asked if they would increase rental prices if Labour were to be in Government. A significant 73.6% said that they would. Only 6.5% said that they wouldn't and 19.9

were unsure. This demonstrates that rental property owners are reasonably reluctant to increase rental prices for existing tenants, even at a cost to themselves.



Those who would increase rental prices were asked by how much, with the largest response of 25.1% stating \$20pw. More than half of all respondents (54.8%) would increase weekly rental prices between \$20 and \$40 per week. 12.8% would increase rents by more than \$40 per week.

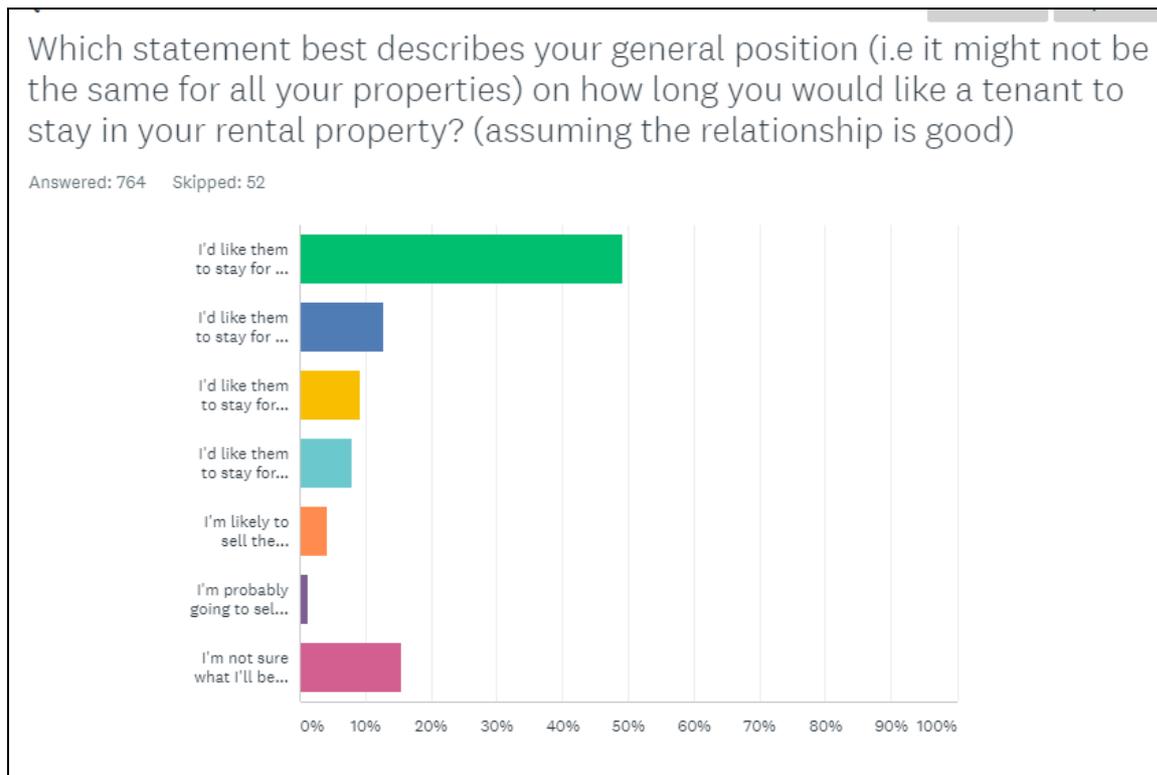
This gives an indication of the rental price increases tenants are likely to see if Labours rental property policies are introduced.



Security of tenure

To gauge whether respondents would be against policies to increase security of tenure, respondents were asked how long they would like as tenant to stay in their rental property. Nearly half (49.2%) said "I'd like them to stay for a very long time as I have no intention of selling."

A further 12.7% said that they would like their tenants to stay for at least 10 years before they would possibly consider selling.



The results show that a majority of rental property providers (61.9%) would currently be happy to offer long term security of tenure for tenants.

It also indicates that if individual tenants want security of tenure, they should be able to find a landlord willing to let them stay in their rental for a very long time. Rather than landlords preventing long term tenancies, it may be that tenants don't want to forgo the flexibility of giving three weeks' notice if they want to move in exchange for security of tenure.

The survey shows that there are likely to be sufficient landlords willing to provide security of tenure for tenants. However it cannot be a one sided arrangement, and landlords are likely to want to see some form of recognition for giving up their right to sell their rental property.

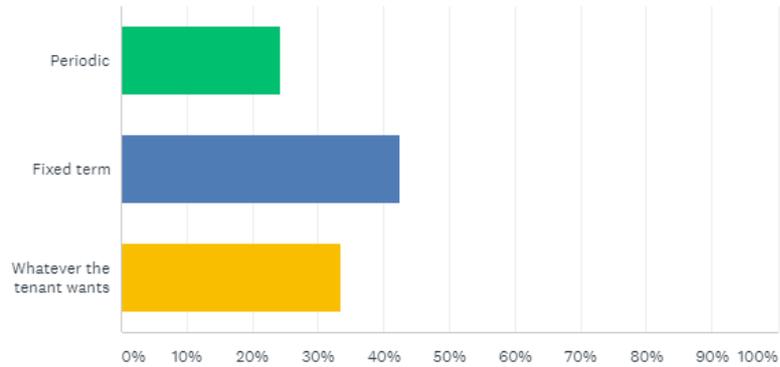
Tenancy types

Currently there are two forms of tenancies offered in New Zealand. Fixed term and periodic.

Respondents reported that at 42.4%, fixed term tenancies were the most offered form of tenancy, followed by 33.4% leaving the choice to the tenant and 24.2% offering periodic tenancies.

Do you offer periodic or fixed term tenancies?

Answered: 764 Skipped: 52



Of the 42.4% that offer a fixed term tenancy, the vast majority, 70.9%, offer a one year term. 15.0% negotiate the term with what the tenant wants.

When a fixed term tenancy ends, most respondents, 33.3%, re-fix for the same period and 29.9% re-fix for a one year period.