

# Hon Dr Megan Woods

MP for Wigram

Minister of Housing

Minister of Energy and Resources

Minister for Building and Construction

Associate Minister of Finance



Andrew King  
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Dear Andrew,

Thank you for your email dated 12 August 2022 about the recently announced exemption for build-to-rent developments from the interest limitation rules.

I note your view that the in-perpetuity exemption from the interest limitation rules should apply to all rental properties. I appreciate you indicating that there is appetite among investor landlords to provide quality rental housing that is more affordable for New Zealanders.

The Government wants to increase the supply of housing, both for homeowners and new affordable rentals. We want to see more affordable and better-quality rental housing, with improved wellbeing and security for renters. Where there has been increased supply in rental housing, we have started to see rents flattening, for example in Auckland. I am confident that more investment into build-to-rent developments with increased supply of new build housing in the right places will help to improve affordability more generally.

Build-to-rent is a particular type of residential rental model, where the focus is on delivering long-term rental supply at medium to high level density. The build-to-rent model has features that can help to support people in a range of circumstances to live in warm, safe, and dry rental accommodation. I also note that some build-to-rent providers are also looking at delivering quality rentals at more reasonable price points that low- and moderate-income households can afford.

This exemption is focussed on enabling the full potential of the sector to contribute to the delivery of quality rental supply in Aotearoa New Zealand. Applying an exemption to all rentals would undermine the aim of the interest limitation changes, which was to remove the advantage that interest limitation provided to investors over first home buyers. The 20-year new build exemption is in place to ensure other types of new build housing, including rental housing, are not impacted by the changes to the interest limitation rules for existing properties. We also know that on average, multiple property owners hold onto property for around 8 years, meaning most will receive the benefits of this policy without the timeframe needing to be extended.

The legislation containing the build-to-rent asset class exemption (Taxation (Annual Rates for 2022-23, Platform Economy, and Remedial Matters) Bill (No 2)) has been introduced to the House. The public will have the opportunity to provide formal feedback on the aspects of the bill, including the proposal to exempt build-to-rent developments from interest limitation rules when the bill is referred to the Finance and Expenditure Committee. Information on when and how to do this will be made available shortly. I encourage you to make a submission.

I note your proposal to base the security of tenure model on the German system. Since the Residential Tenancies Act (RTA) was introduced in 1986, more tenants and their families are now

renting for longer, or for life. A key focus of the RTA reform was to improve security of tenure for tenants. Security of tenure is linked to positive health, education, and employment outcomes.

We believe security of tenure is critical for people who are renting. That is why to qualify for the exemption, one of the requirements is that build-to-rent developments will need to offer tenants leases of at least 10 years that tenants are able to break with a 56-day notice period. However, tenants can ask for shorter agreements if they wish and the development will still qualify for the exemption. In comparison to the median tenure in the private rental market of only 16 months, the Government agreed 10 years to be a suitable period as it reflects the importance of long-term housing stability. This requirement will enable people to settle and personalise their homes, reduce how often they must find a new place to live and the associated moving costs, and help them to build and maintain connections to their community.

Thank you for writing to me.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Woods', with a large, stylized flourish at the end.

Hon. Dr Megan Woods  
**Minister of Housing**