2023 NZPIF Survey

Introduction

On 23 March 2021, the Government announced new policies which included removing the ability of rental property owners to deduct mortgage interest as a business expense. This policy is to be brought in gradually over four years from 1 April 2021 to 31 March 2025, with the percentage of mortgage interest that can be claimed as a business expense reducing from 100% to 0% across these four years.

New Zealand Property Investors Federation (NZPIF) conducted a survey of NZPIF members in early 2021 to determine how these legislative changes would affect a sample of rental property owners in New Zealand.

With the percentage of interest that can be claimed reducing to 50% from the 1st of April 2023 as the policy roll out continues, NZPIF have chosen to repeat the same survey in early 2023. The aim of this repeated survey is twofold. This information is beneficial to identify any changes in NZPIF member attitudes as the policy comes into effect alongside recent interest rate rises. It is also useful to provide a 2023 report on New Zealand property investor behaviour.

Survey Respondents and Limitations

Both the 2021 and 2023 surveys were conducted via Survey Monkey. The 2021 survey was undertaken in March 2021 and saw 1741 responses. The 2023 survey was undertaken in February 2023 with a reduced 845 responses.

Whilst NZPIF members were asked to complete the survey on both occasions, the pool of members completing each survey varied. Data collected from the surveys, however, shows that the make-up of the respondents was very similar, with 70.32% of 2021 respondents and 70.44% of 2023 respondents, indicating to own 1-5 rental properties.

Survey respondents were given the option to not answer questions, resulting in many questions not being answered by the full quantity of survey respondents. This reduces the accuracy of the data for the sample group because it isn't indicative of the total number of respondents.

Rising Interest Rates

In February of 2021, the Official Cash Rate (OCR) was set at 0.25%, as it had been throughout the majority of 2020. This time of economic uncertainty meant the Reserve Bank needed to keep the OCR low during this time period to lower interest rates and stimulate spending.

Contrastingly, the OCR in February of 2023 was set at 4.75%. This high value is indicative of high inflation in New Zealand. By setting the OCR at this high value, the Reserve Bank aims to increase interest rates and reduce spending. For mortgage owners, this high OCR is problematic as once any fixed mortgage rates finish, new mortgage interest rates will be significantly higher.

Data from the 2021 survey shows respondent's average interest rate on their rental properties was 3.2%. As expected, this average jumped in data from respondents in 2023, with the new average interest rate sitting at 4.8%. 6.34% of 2023 respondents pay 7% or more in mortgage rate interest, with 49.22% paying between 5-7% interest. This is compared to 2021, where only 2.24% of respondents were paying between 5-7% interest, indicating a significant increase.

Minimal Impact on Rental Prices

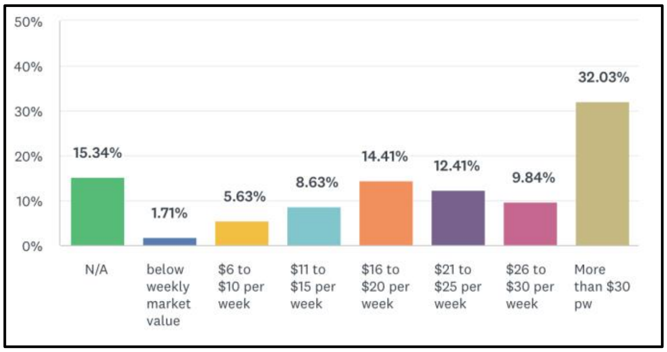
With rising interest rates and new legislation removing the ability of rental property owners to deduct mortgage interest as a business expense, it would be expected that rental prices would increase accordingly in response to this. Whilst the data shows that is the case, there isn't a distinct rise.

2021 survey data showed 70.15% of respondents were charging rent lower than market value, with this number only slightly decreasing to 66.53% in 2023. Interestingly, 29.99% of respondents in 2021 were charging more than $26 a week less than market value, with this percentage increasing slightly to 30.57% in 2023 results.

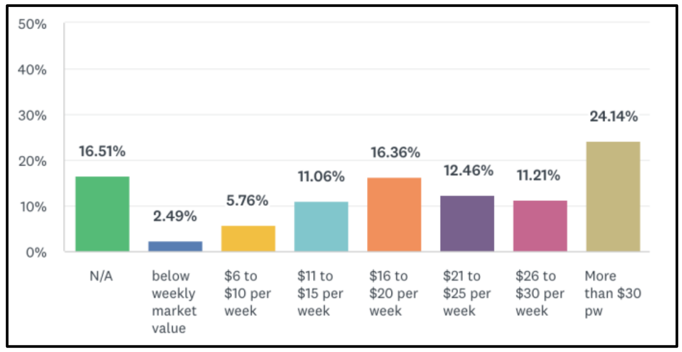
When asked whether rental prices will be increased in response to this new legislation, 76.13% of 2021 respondents answered yes or probably, with a decreased 70.69% response to the same question in the 2023 survey.

Of the respondents who indicated rental price increases were likely, the graphs below highlight how severe these weekly price rises were estimated to be. As can be seen from this data, an increase of more than $30 a week is less common in 2023 data compared to 2021, indicating a less severe response to the legislative change than first thought.

2021 Respondents Proposed Increased Rental Prices in Response to New Legislation



2023 Respondents Proposed Increased Rental Prices in Response to New Legislation

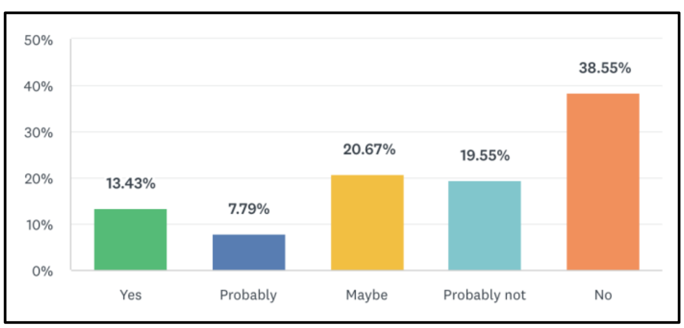


Increased Likelihood of Selling Rental Properties

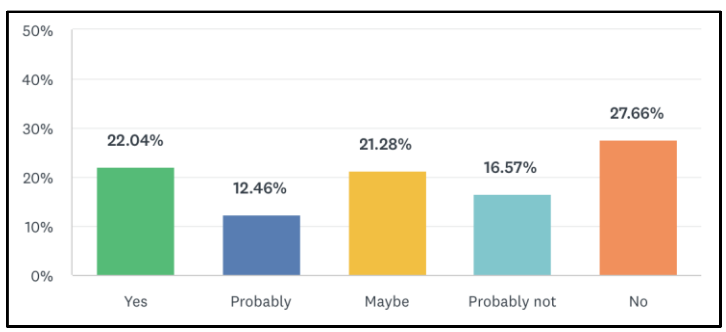
Although previous data shows rental property owners are not intent on passing additional mortgage interest rate costs on to their tenants, the graphs below show the inability for many rental property owners to continue down this path.

The percentage of rental property owners indicating they will, or probably will, sell one or more rental property due to these new rules increased from 21.22% in 2021 to 34.5% in 2023. At the other end of the scale, the percentage of respondents who indicated that they will not, or probably will not, sell one or more rental properties reduced in this time from 58.1% in 2021 to 44.23% in 2023.

2021 Respondents Likelihood of Selling One or More Rental Properties because of New Government Legisaltion



2023 Respondents Likelihood of Selling One or More Rental Properties because of New Government Legisaltion



Further Flow-On Impacts

Additional comments from survey respondents show minimal change in attitudes from 2021 to 2023. Respondents indicate a strong dislike of the new legislation and a need to make some changes in order to stay financially afloat.

A commonly mentioned flow-on effect of this law change is reducing the maintenance on rental properties. Survey respondents highlight an inability to make any cosmetic changes to their rental properties due to the cost of doing so now tied to paying mortgage interest rates.

Some respondents indicated they will purchase no further rental properties due to their lessened profitability. Other respondents mentioned they are planning to sell residential rental properties and shift their focus to commercial properties or other investments.

Conclusion

The 2023 survey data shows that this legislative change is adversely affecting both rental property owners and tenants of these properties. As the policy roll-out continues and the percentage of mortgage interest that can be claimed as a business expense reduces further, these negative impacts will only be further amplified.

Whilst rental property owners are choosing to not pass additional costs on to tenants through significant increased rental prices, tenants are at risk of losing their home if rental property owners are forced to sell. Tenants standard of living will also be negatively impacted due to additional cosmetic maintenance of these properties not a feasible option for many property owners.

This 2023 survey data also highlights the negative attitudes of New Zealand property investors towards the current legislative environment. Comments within the survey show that investors are not happy with the treatment they are receiving from the current Government, with many close to selling all properties and exiting the industry all together.